Annual Report 2012

people's choice
CREDIT UNION

We're as Australian as you are.

Giving you a fairer deal.

Isn't it nice to have choice?

Your money, your choice.

Now there's a better choice in banking.

Australian Central Credit Union Ltd (trading as People's Choice Credit Union) and its Controlled Entities

Content

Chair's and Managing Director's Report

Consolidation, solid financial performance and controlled growth were the hallmarks of a year where our full focus moved towards achieving our vision of being acknowledged as the most trusted financial services provider in Australia for people and their communities.

The launch of our new brand – People's Choice Credit Union – on 18 July 2011 marked one of the final steps in our merger journey which began in December 2009 and enabled us to move ahead with the implementation of key strategic initiatives.

Despite continuing uncertainty in the wider economy and consumer confidence remaining subdued, we were able to achieve sound financial performance with a net profit of $22.2 million recorded for 2011/12. This profit will be reinvested back into benefits for our members including the creation of better products and improved fees and services. Demand for loans remained subdued, with loan balances falling slightly to $5.4 billion, deposits grew to $3.5 billion and total assets under management and advice remained relatively steady at $6.5 billion.

People's Choice Credit Union comes alive

Launching the new brand represented a significant milestone for the Credit Union given the complexity of integrating two of the country's strongest and most respected member-owned financial institutions.

Following approval of the new trading name in June 2011, we commenced an extensive marketing and advertising campaign the following month which featured a number of creative elements unique to the new brand. Our challenge was to build the awareness of the new name and brand quickly to levels that the long-established brands that came together to form People's Choice Credit Union had established previously.

Pleasingly, research we conducted in June 2012 confirmed that our marketing activities had caught the imagination of the general public, with the results demonstrating that People's Choice had become one of the most recognisable finance brands in the South Australian and the Northern Territory markets within 12 months of launching.

Our strategy steps forward

Our new corporate strategy is focussed on improving the quality of experience and depth of relationship with our existing members, maintaining and building on our strong contribution to the community and attracting new members both in foundation areas and new markets.

At the beginning of the financial year, we launched our new home loan proposition based on providing superior advice based member experience, including helping members find the home loan product that's right for them using a panel of lenders. This home loan choice allows us to access a range of products that include both the Credit Union's products and those of six external specialist lenders.

Our growth position has been reinforced by the opportunity to acquire eight branches from ME Bank - six in Melbourne and two in Canberra - following ME Bank's decision to exit from these sites. The opportunity to expand our national presence rapidly was a bold move but one which is very good for our business and will allow us to continue to execute our growth strategy.

Being larger will allow us to meet further the needs of our members through an enhanced product and services offering and we will also be able to increase our level of commitment to giving back to the communities in which we operate.

It's not only our branch footprint which is expanding. Increasingly, Australians are using the internet to seek out financial products. With close to a quarter of personal loans now being obtained online, a key element of our growth strategy has been our online personal loans initiative.

Using the developing tools of search engine marketing we have attracted new members to our Credit Union from throughout Australia. During the year we have enhanced our online application calculator and developed a significantly improved application process together with a dedicated online team within our contact centre. With strong growth in this channel to date, we expect to deliver further improvements for new and existing members and continued success in this area in 2012/13.

We have also extended our community support through the launch of a new Corporate Social Responsibility program which will see us partner with five not-for-profit organisations, working closely with them and assisting them financially moving forward. The portfolio, which was determined after an extensive review of hundreds of charities and organisations, will be rolled out gradually throughout 2012/13.

Behind the scenes we have strengthened our systems to understand our members' needs better and we are continually reviewing our processes to improve the quality of service we deliver to our members.

New head-office site identified

In November 2011, we announced an exclusive arrangement with developer, Commercial & General, to sell the property currently owned by People's Choice at 50 Flinders Street, Adelaide for a development. A range of options within the Adelaide CBD for the location of a new head office were considered. During this process, a decision was taken that the Flinders Street site to be developed by Commercial & General was the preferred new head office location as the new building promises to create a great environment for staff to work in a location that is centrally located in the CBD.

The development is still reliant on other businesses committing to sharing the building before the project can commence. In the interim, all head office staff have moved to the Credit Union's Light Square location and the Flinders Street branch is still operating as usual. Once we receive confirmation of additional tenants, planning and development will progress. If this is successful it is expected that the building construction will

Chair's and Managing Director's Report

commence in late 2013. During the building phase, the Flinders Street branch will be relocated temporarily to a site within the same precinct and on completion of the new building it will return to its existing site.

We are currently targeting a program that should see the Credit Union occupying this new space in late 2015.

Corporate credit rating

In June 2012, People's Choice received a BBB+ corporate credit rating with a 'Stable' outlook by Standard & Poor's (S&P) credit ratings agency. This rating was assigned following a thorough review of our business strategy, risk and operational management practices and financial position.

Obtaining a credit rating, although not compulsory, was an important step in our continued growth, and will enhance our ability to access wholesale funding markets in the future. Additionally, it places us at the upper end of comparison with our peers.

Products and fees

In order that we continually improve our offering to members, we conduct a regular review of our products and fees each year. The outcome of this year's review was the reduction and abolition of some common fees, including the direct debit dishonour fee and member cheque dishonour fee. In total, we'll pass on more than $100,000 in fee savings to members each year as a result of these fee changes, which came into effect on 1 July 2012.

The 2011-12 year also saw the introduction of our new youth saver account, the Activate Account. This account is targeted at 13-25 year-olds and features no monthly account keeping fees and was designed to compete with similar products in the market offered by other financial institutions. Already, there has been strong uptake on this product which demonstrates we've been able to fill a need among our membership as well as attract new members.

It was also an award winning year for one of our products, with the Club 55 account taking out a Financial Review Smart Investor Blue Ribbon Award in the deeming account category. The Club 55 account was recognised for its high interest rates and generous fee benefits, as well as the additional discounts and benefits it offers on services such as insurance.

During the year, we also committed to undertaking a review of the structure and features of our cards including our rediCARD and Visa offerings, as well as a review of our transaction accounts. The majority of this work will be undertaken in 2012-13.

The card review will investigate how we can encourage members to use our cards in a way which will maximise the benefits available, as well as minimising the fees our members pay. Likewise, the transaction account strategy will aim to simplify the product range and improve understanding to ensure our members are using the products most suited to their lifestyles and circumstances.

Insurance partner transition

The transition to a single insurance provider, which followed on from a comprehensive review of our insurance arrangements in the year prior, ran smoothly and concluded in August 2012.

The transition from CUNA to CGU took place over a 12 month period and involved careful planning and communication with approximately 30% of our members impacted by the change. We're extremely pleased with the outcome of the transition and CGU have provided strong support throughout the process.

Protecting members from fraud

One of the less visible, but highly important activities within our organisation is the action we take to protect our members' funds from fraud. Fraud is a multi billion dollar, global enterprise and the finance industry is one of the most heavily targeted sectors.

Fraud can take numerous forms including activities such as phishing (acquiring personal details through methods such as false websites, emails or scams), skimming (capturing card data at ATMs & Point of Sale devices), malware (viruses that gain access to personal information on your computer or mobile device) or taking over ID or providing false personal details leading to various forms of fraud.

In order to keep our members' money safe and limit losses from fraud, we have in place a comprehensive approach to minimise the risk of individual members, or the organisation, falling victim to fraud.

This approach begins with controls embedded in our internal policies and procedures, including comprehensive training of staff to recognise and report fraudulent activity. The next layer of protection we have in place involves security measures, such as Internet Banking controls and Verified by Visa and chip technology on our cards, which act as a barrier against fraudulent activity. Another important element is the education of members to ensure they implement the correct behaviours to prevent falling victim to fraud or scams. Finally, we have in place sophisticated detection methods including 24/7 monitoring of card activity which enables us to recognise and react to suspicious transaction behaviour.

Chair's and Managing Director's Report

Listening to our most valuable asset

The value we place on listening to our members is just as important within our workplace. We are proud to promote and support an environment that encourages staff participation and honest feedback.

We conducted our first merged 'Values Survey' in April 2012 and it was very pleasing to see that 77% of our staff responded that they feel the Credit Union is living up to our stated values.

The survey also helped us gauge how engaged staff feel with our Credit Union. Again, we received a positive response with high ratings across all factors measured. On average, we scored much higher than both the general finance sector and the mutual sector with our staff indicating that they are happy to work for our Credit Union and are inspired to do their best every day.

Following a highly supportive staff vote, we implemented a new People's Choice Enterprise Agreement (EA) in February 2012 to replace the existing Australian Central and Savings & Loans collective agreements. The new EA, executed through the work of the elected Enterprise Agreement Bargaining Committee, represented a significant milestone in the merger integration process. It also resulted in the achievement of a key organisational objective being the creation of a combined set of terms and conditions for all staff to support an integrated organisational culture.

An unpredictable economic landscape

The Australian economy during 2011-12 was highlighted by solid growth, low unemployment, contained inflation and low interest rates. The continuation of the 'two speed economy' is supported by very strong growth in mining and related sectors from the resources boom. However, conditions in other sectors, including retail, remain weak due to subdued household spending and the high exchange rate.

Global economic growth slowed late in 2011 but that has not developed into a major downturn and a number of indicators suggest that outside of Europe, conditions have stabilised over recent months.

These unpredictable economic conditions continued to provide challenges in managing our business, but we've been able to adapt and respond to this environment as required.

During the year, we adopted a new approach to setting rates to ensure we retain a competitive position in the market. The new approach takes into account a range of important factors, not solely Reserve Bank of Australia (RBA) official cash rate movements. As well as official RBA movements, we consider the interest rates we need to pay for our members' deposits, the cost of funding we borrow from other institutions, our competitive position for both home loans and deposits and current economic conditions. We believe this change will ensure we remain competitive and provide our members with the best possible interest rates.

Industry wide we saw several mergers occur in the mutual sector throughout the year – a common trend in recent times. We would expect this to continue in the coming years and there to be a reduction in the number of credit unions and building societies. As one of the Australia's largest mutuals, we see consolidation as a necessary step to strengthen the sector as it can fast-track growth and offer the scale and infrastructure required to provide greater competition to the major banks ensuring a more balanced finance industry. Growth through mergers and acquisitions is something the People's Choice Board of Directors is open to considering, but just like the coming together of Australian Central and Savings & Loans to form People's Choice, it would need to be identified as the right opportunity.

One of the Federal Government's reforms announced in December 2010 in a bid to increase competition in the banking sector was to allow credit unions and building societies to adopt the term 'bank' in their name as a way of potentially enhancing their competitive position. A number of credit unions and building societies have taken this opportunity and we now have six mutual banks that have been formed including Bankmecu, Heritage Bank and Teachers Mutual Bank. We carefully considered this position but dismissed the possibility of changing our form to a mutual bank structure as we strongly believe that proudly being a credit union and therefore different from a bank enhances our opportunities.

Chair's and Managing Director's Report

Board re-elections

At our Annual General Meeting in October 2011, our first under the trading name of People's Choice Credit Union, members voted to re-elect Dr Rosemary Brooks and Mr Bill Cossey, as Directors of the Credit Union.

We pay tribute to the effort and dedication of the Board throughout the year. It has guided a number of key elements which will shape the fabric of the Credit Union now and well into the future, including our Corporate Social Responsibility activities and corporate strategy.

Finally, we acknowledge with great appreciation the commitment and professionalism of all of our staff. Led by an extremely capable Executive Group, our staff have been outstanding in the way they have met and responded to the challenges of the year.

People's Choice Credit Union has an exciting future ahead of it and we look forward to meeting the challenges and opportunities of the new year.

W L Cossey

Bill Cossey
Chair

Peter Evers
Managing Director

Year in Review

The 2011-12 year saw the focus for the Credit Union shift from intensive merger-related activities to those more centred on raising awareness of our new brand and implementing our corporate strategy. As always, our commitment to maintaining a strong business, providing value for our members and giving back to the wider community remained stronger than ever.

Financially, we experienced another solid year with a net profit of $22.2 million. Loan demand slowed, with balances falling slightly to $5.4 billion and deposits grew to $3.5 billion. Total assets under management and advice now sit at $6.5 billion. These results were recorded against a backdrop of a global economy which remained inconsistent.

The launch of People's Choice

The launch of the People's Choice Credit Union brand was an exciting and challenging process, as we undertook a number of attention grabbing marketing activities which closely aligned with the personality of our new Credit Union.

The showpiece of our launch was a new advertising campaign, which included a humorous and eye-catching suite of television advertisements as well as newspaper ads, bus shelters and online advertising all centred around the theme of 'choice'.

For two weeks, we had a grandmother named 'Bev' roaming on various trains, trams and buses in Adelaide and Melbourne rewarding people with $50 People's Choice accounts if they made the right choice to give up their seat. This activity was a fun way of highlighting the fact there was now a 'better choice' in banking.

We also rolled out new brochureware, stationery, uniforms and merchandise which saw the new brand officially brought to life.

The official launch of the new brand was 18 July 2011 – a historic day for our Credit Union as we finally came together under a new name of which we could all take ownership and feel proud. With our technology integrated and new branding in place, we could continue to move forward with our strategy and delivering on our promise of offering a genuine, member-owned alternative to the major banks.

New look branches

We launched more innovative branch designs in a number of locations throughout South Australia. The new state-of-the-art designs were created to challenge the norm of standard banking, featuring a number of elements rarely seen in the financial sector such as coffee machines, borrowing facilities, communal relaxing and kids play areas and locker access. These new branch designs will be extended across our entire network over the coming years.

Expanding our footprint

In June 2012 we announced that we were launching eight new branches – six in Melbourne and two in Canberra - following ME Bank's decision to exit from these sites. We viewed this as an opportunity to expand our national presence rapidly and it demonstrated our intention to grow our business in new and existing markets.

The ME Bank Branch acquisitions mean we now have a total of 14 branches in Victoria and two in Canberra – a new geographic market for the Credit Union. Having a much larger presence in Victoria, particularly in Melbourne, will allow us to meet the needs of our existing members better and assist our push to attract members.

From the beginning, we made it very clear that growth was a key driver behind the merger, and this opportunity merely accelerates plans we had in place to push further into the eastern states. Additionally, each of the eight sites is already operating as a financial centre so there's no need for expensive redesigns and fit-outs, which will save considerable time and money.

New Enterprise Agreement

In February 2012, a new People's Choice Enterprise Agreement (EA) was implemented to replace the existing Australian Central and Savings & Loans collective agreements. The new EA, executed through the work of the elected Enterprise Agreement Bargaining Committee represented a significant milestone in the merger integration process. It also resulted in the achievement of a key organisational objective – being the creation of a combined set of terms and conditions for all staff to support an integrated organisational culture.

Developing our Leaders

We believe that our people are the most important asset we have as an organisation, and that's why we have partnered with Insight International Consulting and selected a number of leadership development programs for our leaders. In total, more than 180 staff members have been involved in these programs. A key objective is to ensure there is alignment with our purpose, vision and values and to ensure a consistent approach to leadership behaviours is taken within the Credit Union.

Promoting the brand through partnerships

As part of the marketing activities for the new brand, we undertook some exciting new sponsorship partnerships to promote our new look, feel and personality, but also to demonstrate our support of the community very clearly.

Year in Review

Over the summer period, we partnered with Moonlight Cinema to sponsor the 2011-12 Adelaide season. The sponsorship allowed us to run a number of activation nights with merchandise giveaways in the Adelaide Botanic Park location. This partnership created significant positive exposure for the brand given the thousands of people who attended Moonlight Cinema during the season.

Another new and exciting partnership during the summer period was our sponsorship of the Adelaide Strikers in the T20 Big Bash League (BBL). The BBL competition, formed by Cricket Australia, is based on the fastest growing sport in the world, Twenty20 but designed to attract a wider demographic to the sport including kids, teenagers and females in general.

The two year partnership provides an excellent opportunity for us to promote our brand to a large national audience with a strong branding presence at each home game and at media appearances.

We maintained our naming rights sponsorship of the annual People's Choice BASSINTHEGRASS Music Festival in Darwin, one of the biggest events in the Northern Territory. The festival is a hub for Territorians of all ages, who can enjoy quality Australian live music in a safe environment. For the first time this year, we ran a 'People's Choice Sound Lounge' in the Casuarina Shopping Centre which provided shoppers with the opportunity to sit back and listen to a number of tunes, meet one of the festival performers, Reece Mastin and collect a pair of People's Choice BASSINTHEGRASS sunglasses.

Another iconic event we support in the Northern Territory is the People's Choice Teddy Bears' Picnic, held at the George Brown Botanical Gardens as part of the Darwin Festival. This free public event attracts more than 6000 children and parents for a fun-filled day of entertainment, face painting, crafts and a barbeque lunch.

We maintained our support of Adelaide's Credit Union Christmas Pageant as well as the Mount Barker and Naracoorte Christmas Pageants as we have done for many years. These community events provide an opportunity for our staff members to get involved and help spread Christmas Joy.

Community – The heart of our organisation

As a credit union, supporting the community is at the core of what we do and during the past year, this commitment remained stronger than ever.

The 2011 Community Lottery concluded with an impressive record number of $1,246,698 returned to the 627 not-for-profit groups involved. The 2012 Community Lottery is shaping up to be our biggest ever with one million tickets available, potential returns of up to $2 million back to the community and more than $400,000 worth of prizes on offer. Additionally, this year we launched online ticket sales and expanded the lottery into Victoria.

We're extremely grateful for the support of our Platinum Business and Media Partners - Adrian Brien Hyundai, Harvey Norman, CGU, Channel 10 and SAFM & Triple M with whom we've been working on various promotions for the lottery. We're also thankful for the contributions of our Gold and Silver Business supporters.

Giving back to the community is also important to our staff and we have a number of initiatives and activities to encourage them to get involved in building strong and healthy communities.

Over the past year, our staff have given more than 855 hours of volunteer service to charity groups such as the Salvation Army, RSPCA, The Smith Family and other local smaller community organisations through our volunteering leave initiative, where staff receive paid leave to volunteer in the community.

Our annual Christmas Appeal was another outstanding success with staff and members donating many toys, food and pet items that were distributed to those in need in our communities by our community partners.

From a financial perspective, our Workplace Giving program, where staff can make donations direct from their pay each fortnight, saw more than $12,000 forwarded to a wide variety of charitable and community organisations. Our monthly Positive Impact Days raised a further $12,000 during the year with funds supporting charities and community initiatives nominated by our staff.

One of the key areas of focus for the credit union in the last 12 months has been the formation of our new Corporate Social Responsibility (CSR) program. The Board undertook a rigorous process of reviewing hundreds of not-for-profit organisations and charities and narrowed down the selection based on feedback received from both staff and members as to what areas are important for our community. These areas were health and medical research, reducing homelessness and supporting children's charities and those with disabilities.

The partners we selected to form our new CSR program are The Big Issue, Heartkids SA, Riding for the Disabled SA & NT, Life Without Barriers and the Cancer Council SA. We're extremely proud of the work that these organisations and charities do and the programs and partnerships will begin to be rolled out to members and the general public in the coming months. Underpinning these new partnerships will be our long-standing community support activity, the People's Choice Community Lottery, which will remain a foundation component of our new program and continue to provide assistance at a grassroots level where it is most required.

Directors' Report

The Directors present their report together with the financial report of Australian Central Credit Union Ltd (the "Holding Entity"), (trading as People's Choice Credit Union) and the consolidated financial report of the Consolidated Entity, being the Holding Entity and its controlled entities, for the year ended 30 June 2012 and the auditor's report thereon.

DIRECTORS

The Directors of the Holding Entity at any time during or since the end of the financial year are:

William Raymond Cossey AM
NON-EXECUTIVE CHAIR
B.Sc., FAICD

John Leonard Cossons
NON-EXECUTIVE DEPUTY CHAIR
FAMI, MAICD

Peter Hans Torsten Evers
EXECUTIVE DIRECTOR
BA (Acc), FCPA, FAICD, SF Fin

Dr Rosemary Helen Simon Brooks
NON-EXECUTIVE DIRECTOR
PhD, MBA, MA, BA (Hons), LLB (Hons), GDLP, FAICD, FAMI, JP

Stephen Mark Day
NON-EXECUTIVE DIRECTOR
B.Bus, Grad Dip (Applied Finance and Investment), FAICD, SA Fin

Edward Terrence McGuirk
NON-EXECUTIVE DIRECTOR
BA (Hons), FAICD, AFAMI, SA Fin

Jan McMahon
NON-EXECUTIVE DIRECTOR
BA (Hons.), FAICD, AFAMI

Kathryn Anne Skipper AM
NON-EXECUTIVE DIRECTOR
Dip. Nursing, FAICD, FAIM

Details of Directors, their experience and any special responsibilities, are set out in the Online Annual Report, which is available from our website at www.peopleschoicecu.com.au. Organisations with which certain Directors have associations, also set out in the Online Annual Report, conduct business with the Holding Entity on standard terms and conditions.

Directors were in office from the beginning of the financial year until the date of this report.

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors during the financial year is shown in the Corporate Governance Statement commencing on page 14.

CORPORATE SECRETARY

Mr Peter Evers is the sole Corporate Secretary upon the resignation of Mr Ross Mallett JD GDLP BBus MAICD FCIS FCPA effective 13 March 2012.

Directors' Report (continued)

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year were the provision of loans to members and customers (including "Choice of Home Loans" via a panel of lenders), savings and investment facilities, the sale of insurance policies, Mutual Aid, financial planning and corporate superannuation services. There was no significant change in the nature of these activities during the year.

DIVIDENDS

The Holding Entity's Constitution prohibits the payment of dividends on member shares.

REVIEW OF OPERATIONS

The Consolidated Entity recorded a profit after tax for the year ended 30 June 2012 of $22.235 million (2011: $33.039 million). Total consolidated on balance sheet assets were $5.825 billion (2011: $6.063 billion), representing a decrease of $239.214 million (3.94%) from 30 June 2011. On balance sheet personal and residential disbursements for the twelve months ended 30 June 2012 were $778.113 million (2011: $786.118 million) and mortgages under advice off balance sheet decreased by 8.12% to $628.041 million during the year (2011: $683.558 million). For a further analysis of the financial year performance refer to the Chair's and Managing Director's report commencing on page 4.

STATE OF AFFAIRS

In the opinion of the Directors, there have been no significant changes in the state of affairs of the Consolidated Entity that occurred during the financial year under review not otherwise disclosed in this report or the consolidated financial statements.

DIRECTORS' INTERESTS

None of the above Directors has declared any interest in existing or proposed contracts with the Holding Entity since 1 July 2011.

EVENTS SUBSEQUENT TO THE REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Holding Entity, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

LIKELY DEVELOPMENTS

Further information as to likely developments in the operations of the Consolidated Entity and the expected results of those operations in subsequent financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the period, the Holding Entity paid a premium in relation to a Directors and Officers liability insurance policy indemnifying the Directors and its Executives against certain liabilities.

The insurance contract prohibits the disclosure of the nature of the liabilities insured against and the premium paid in respect of that insurance.

Directors' Report (continued)

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT

The Lead Auditor's Independence Declaration is set out on page 13 and forms part of the Directors' Report for the year ended 30 June 2012.

ROUNDING OFF

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

Signed at Adelaide this 27th day of August, 2012
in accordance with a resolution of the Board of Directors of the Holding Entity.

W. R. COSSEY AM
Chair

P.H.T. EVERS
Managing Director

Lead Auditor's Independence Declaration

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

To: the Directors of Australian Central Credit Union Ltd

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

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

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

KPMG

KPMG

Darren Scammell

Darren Scammell
Partner

Melbourne

27 August 2012

Corporate Governance Statement

HOW WE DO BUSINESS

The Credit Union's Board and Management are committed to acting responsibly, ethically and with the highest standards of integrity to ensure that the Credit Union's activities are continually structured and delivered in a manner that allows us to meet the needs of our members.

A principles based approach is taken to achieve sound corporate governance and business practices. To achieve this, policies have been adopted by the Board and cascaded throughout all levels of the Credit Union. We strive to ensure that our governance "in action" is of the highest standard, consistent with our mutual underpinnings, while at the same time practical and transparent to our members.

The Board has committed to following the Australian Securities Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" to the extent that they are applicable to Australian Central, as a mutual organisation. Further the Board has carefully considered and implemented a "fit and proper" framework in accordance with relevant legislation, that endeavours to ensure that Directors and Senior Management of Australian Central are appropriate persons to lead the Credit Union. The "fit and proper" framework deals with matters such as minimum competencies, Director development, independence, Director refreshment and renewal and performance.

ROLE OF THE BOARD

The Board comprises a majority of Non-Executive Directors, who together with the Managing Director have extensive business acumen and bring accountability and judgement to the Board's deliberations to ensure optimum benefit to members, employees and the wider community. The role and responsibilities of the Board are set out in Board Charter, a copy of which is published on our website.

In particular, the Board:

- Provides strategic direction to the Credit Union;
- Provides leadership in terms of corporate governance;
- Appoints and manages the performance of the Managing Director;
- Reports to members and monitors compliance with regulatory requirements;
- Approves the remuneration of the Managing Director, executive managers and other designated persons in accordance with the Board Remuneration Policy and APRA's Prudential Standards;
- Oversees the Credit Union's financial performance and position and monitors its business and affairs on behalf of all members;
- Oversees internal controls and processes for identifying areas of significant business risk;
- Makes decisions in relation to major expenditures, acquisitions or merger opportunities;
- Ensures that the Credit Union's business is conducted ethically and transparently.

Responsibility for day-to-day activities is delegated to the Managing Director by the Board.

STRUCTURE OF THE BOARD

The size and composition of the Board is determined by the Board subject to the limits set out in the Credit Union's constitution, which requires a minimum of four member elected Non-Executive Directors. The constitution also allows for Board and merger appointed Non-Executive Directors, or a Managing Director. At all times, member elected Directors must constitute a majority of Directors, a requirement which protects our mutuality.

The Corporate Governance Committee reviews the independence of each Non-executive Director on an annual basis. All Non-executive Directors have been determined to be independent.

The Board currently comprises seven Non-Executive Directors, six of whom are member elected and one Board appointed Director (Mr Day) and one Managing Director (Mr Evers), ensuring independence and objectivity. All Directors are shareholding members of the Credit Union. Board members are elected by the members or appointed in accordance with the constitution. The Chair of the Board is a member elected Non-Executive Director. Generally all elected Directors are appointed for a term of three years upon election. However, as part of the merger with Savings & Loans, transitional amendments to the constitution were made to specify Directors who were deemed elected and the end date of their term.

Corporate Governance Statement (continued)

STRUCTURE OF THE BOARD (continued)

The above framework operates to ensure that the Board is able to function independently of Executive Management.

Refer to Page 10 of this financial report for the names of Directors who held office during or since the end of the financial year.

Minimum Competencies

Board policy sets out the minimum competencies regarding personal attributes, skills and knowledge that each Director should bring to the Credit Union. The Nominations Committee in forming its view assesses all election nominees with regard to these minimum competencies. During the year the Board commenced a review of the skills, experience and diversity of Directors to determine if there were any gaps that needed to be filled either through Director development, additional appointments or by bringing in the expertise as and when required. No material gaps were identified.

As a behavioural principle, Directors are required to be independent in both judgement and action. Each Director is required to maintain and demonstrate this independence of thought and action at all times while acting in the role of Director. Board policy also addresses issues relating to Director benefits and conflicts of interest. Directors generally are not permitted to offer, seek or accept benefits in the performance of their duties and any unsolicited benefits received are to be disclosed at the following Board meeting. Where a Director has a material personal interest in a matter, that Director is required to disclose the interest and leave the meeting during the consideration of, or voting on, that matter.

Director Development

Relevant Board policy outlines the knowledge requirements for Directors and provides the high level guidelines for new Director induction, new committee member induction as well as the standards for ongoing Director development. As part of the development program each Director is expected to attend at least one industry related conference annually.

Refreshment and Renewal

Individual Directors are required on a regular basis to refresh and renew their knowledge generally and specific to the Credit Union and the environment in which it operates. Board policy requires that each Director must be able to demonstrate his/her own refreshment and renewal process to the Board and relevant third parties as needed. Refreshment and renewal are also included as part of an individual Director's performance assessment. In accordance with Board policy the Corporate Governance Committee is required to undertake a review of the Board's refreshment and renewal where effective change in the composition of the Board has not occurred over a three year period.

Performance

The Board conducts an annual review of the performance of itself, its committees and individual Directors including the Chair. The performance reviews are undertaken via a survey of relevant questions completed by Directors and where appropriate Executive Managers. Whole of Board review findings are then discussed by Directors and development plans formulated at a subsequent meeting as are committee findings at the next committee meeting. Findings from individual Director surveys are discussed on a confidential basis between each Director and the Chair and findings from the Chair's review are discussed between the Chair and the Audit Committee Chair. Performance reviews of the Board as a whole, Board Committees, the Chair and individual Directors were conducted during the year.

COMMITTEES OF THE BOARD

The Board has established three standing committees as described below to consider detailed matters. Generally committees consider the various matters and make recommendations to the Board, however some decisions, within the parameters of Board policy, have been delegated to committees. Each committee's authority and responsibilities are set out in their individual terms of reference, as approved by the Board. Other committees may be established from time to time to consider matters of particular importance. Committee members are chosen for the skills, experience and other relevant qualities they bring to the committee.

Corporate Governance Statement (continued)

COMMITTEES OF THE BOARD (continued)

The committees generally meet to consider and make recommendations or decisions on matters within their terms of reference. Committee Chairs give verbal reports to the Board at the next Board meeting, and minutes of all committee meetings are reviewed by the Board. All information prepared for the consideration of committees is also available to the Board.

Standing committees in operation during or since the end of the financial year were:

Audit Committee – the Committee meets at least quarterly and assists the Board in fulfilling its responsibilities relating to the audit, accounting, and reporting obligations, monitoring compliance with the established policies of the Credit Union, monitoring internal and external auditors (including the independence of the internal and external auditors). This committee has a number of particular requirements which include that the Chair of the committee cannot be the Chair of the Board and that the committee can and did meet with the Internal and/or External Auditors without the presence of the Managing Director or Management.

Corporate Governance Committee – the Committee meets bi-monthly and assists the Board in adopting and implementing good corporate governance in the areas of the Managing Director's appointment, Non-Executive Director appointment, remuneration, recommending to the Board management remuneration levels in accordance with the Board Remuneration Policy, Director elections, Board performance reviews, oversight of the "fit and proper" framework, monitoring the size and composition of the Board and reviewing Executive and Director succession plans. A Nominations Committee is established in association with Director elections, and operates under the guidance of the Corporate Governance Committee.

Risk Committee – the Risk Committee meets bi-monthly and ensures that the Credit Union adopts an integrated approach to risk management including treasury risk management and capital management dealing with all risks of the portfolio including those to do with the balance sheet and interest rates, credit risk that arises in the credit portfolio, operational risk management including regulatory risk management as part of the day to day conduct of the business and alignment with prudential standards.

STANDARDS

The Board acknowledges the need for, and continued maintenance of the highest standards of corporate governance and therefore adopts practices including:

- A Code of Conduct that applies to all staff, Management and Directors;
- An annual review of Board performance;
- Active participation by all Directors at all meetings and open access to information;
- Regular Executive Management presentations;
- The Managing Director, General Manager Risk and General Manager Finance and Treasury provide an assurance statement on the accuracy and completeness of financial information and risk management processes;
- The Executive Managers provide assurance to the Board that the business of the Credit Union has been conducted ethically and all dealings have been conducted transparently with the Board;
- The transparency of information to members through publication of regulatory notices on the Credit Union's website at www.peopleschoicecu.com.au;
- The gearing of Board Policies towards risk management to safeguard the assets and interests of the Credit Union;
- Non-Executive Director remuneration approved by members at the Annual General Meeting. The Board undertakes benchmarking and/or seeks independent advice to determine recommended Non-Executive Director remuneration levels;
- Allowing non-executive Directors to seek independent professional advice at the expense of the Credit Union.

Corporate Governance Statement (continued)

DIVERSITY

The Board is committed to diversity and the promotion of an environment conducive to the appointment of well qualified employees, senior managers and Directors. Australian Central is in the process of updating its diversity policy and is considering the merits of adopting the ASX Corporate Governance recommendations on diversity. At present the gender breakdown in the organisation is as follows:

	Male	%	Female	%	Total
Board Members	5	63	3	37	8
Executive Managers	3	50	3	50	6
Other Managers	69	47	78	53	147
Other Employees	219	23	731	77	950
Total Workforce	296	27	815	73	1111

INTERNAL AUDIT

Australian Central's Internal Audit Services department assists the Board via the Audit Committee in reviewing, reporting and making recommendations on the existence, effectiveness and efficiency of internal controls and compliance with internal controls and regulatory requirements. The Audit Committee is responsible for approving the program and scope of internal and external audit services activities each financial year.

INTERNAL AND EXTERNAL AUDIT INDEPENDENCE

The Audit Committee oversees, and makes recommendations to the Board on, the appointment of Australian Central's External Auditors. In addition, the appointment or dismissal of the head of Internal Audit is subject to endorsement by the Audit Committee Chair.

The External Auditors were appointed in 1997. The current lead External Audit engagement partner was appointed in June 2008 and is due for rotation at the conclusion of the 2012 AGM. The rotation of the lead External Audit engagement partner is overseen by the Audit Committee.

The Audit Committee closely monitors the independence of the External Auditors and regularly reviews the independence safeguards put in place by the External Auditors.

During the course of the financial year the Audit Committee meets with the Internal Auditor without the External Auditors or other members of management being present and with the External Auditors without the Internal Auditor or members of management being present.

REMUNERATION OF THE BOARD

The Corporate Governance Committee reviews and recommends the level of the Managing Director's remuneration for approval by the Board. The Corporate Governance Committee assists the Board in determining the aggregate level of remuneration of Non-Executive Directors to be recommended for approval by members at the Annual General Meeting following benchmarking and/or receipt of independent advice.

Corporate Governance Statement (continued)

MEETINGS OF THE BOARD AND BOARD COMMITTEES

The membership and details of attendances at meetings of the Credit Union's Board and Committees are outlined below:

Director	Director Type	Board		Audit		Corporate Governance		Risk	
		A*	B	A	B	A	B	A	B
W. R. Cossey AM (Chair)	M	13	12			7	7		
J.L. Cossons (Deputy Chair)	M	13	13			7	7	6	6
P.H.T. Evers (Managing Director)	E	13	13						
Dr R.H.S. Brooks	M	13	13	6	6				
S.M. Day	B	13	12					6	6
E.T. McGuirk	M	13	10	6	6				
J. McMahon	M	13	11	6	6			6	6
K.A. Skipper AM	M	13	12			7	6		

* Twelve scheduled Board meetings and one special Board meetings were held during the year.

A - The number of meetings held during the period the Director was a member of the Board or Board Committee.

B - The number of meetings attended by the Director.

M - Member elected Directors.

E - Executive Director.

B - Board appointed Directors.

The following leaves of absence were granted by the Board:

Director	Number of Board and Committee Meetings
K.A. Skipper	2
W.R Cossey	1
E.T. McGuirk	3
J. McMahon	2
S.M. Day	1

Independent Auditor's Report

KPMG

Independent auditor's report to the members of Australian Central Credit Union Ltd

Report on the financial report

We have audited the accompanying financial report of Australian Central Credit Union Ltd (the Credit Union), which comprises the Statement of Financial Position as at 30 June 2012, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, notes 1 to 42 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Credit Union and the Group comprising the Credit Union 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

Independent Auditor's Report

KPMG

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

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

Independence

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

Auditor's opinion

In our opinion:

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

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

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

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

KPMG

Darren Scammell
Partner

Melbourne

27 August 2012

Directors' Declaration

In the opinion of the Directors of the Holding Entity:

a) the financial statements and notes of the Holding Entity and of the Consolidated Entity, set out on pages 22 to 76 are in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the Holding Entity's and the Consolidated Entity's financial position as at 30 June 2012 and of their performance, for the financial year ended on that date;

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

b) the financial statements also comply with the International Financial Reporting Standards as disclosed in Note 1;

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

Signed at Adelaide this 27th day of August, 2012
in accordance with a resolution of the Board of Directors of the Holding Entity.

W. R. COSSEY AM
Chair

P.H.T. EVERS
Managing Director

Statements of Financial Position

	Note	Credit Union		Consolidated	
		2012	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000
Assets					
Cash and cash equivalents	10	**138,900**	149,968	**148,162**	162,775
Trade and other receivables	11	**20,930**	21,771	**20,848**	22,026
Loans and advances	12	**4,812,466**	4,945,994	**4,812,466**	4,945,994
Investments:					
Available-for-Sale investment securities	14	**747,705**	831,899	**754,705**	842,149
Other investments	14	**46,131**	48,930	**13,333**	13,082
Property, plant and equipment	15	**31,758**	32,225	**31,758**	32,227
Current tax receivable	16	**1,736**	-	**1,346**	-
Deferred tax assets	17	**18,136**	16,439	**16,299**	15,522
Intangible assets	18	**10,882**	16,257	**19,217**	24,592
Other financial assets	19	**6,297**	949	**3,070**	324
Other assets	20	**3,358**	5,054	**3,361**	5,088
Total Assets		**5,838,299**	6,069,486	**5,824,565**	6,063,779
Liabilities					
Deposits	21	**3,979,118**	4,003,242	**3,978,476**	4,002,816
Other financial liabilities	22	**14,141**	10,876	**17,211**	11,085
Trade and other payables	23	**621,045**	782,722	**93,473**	101,086
Borrowings	24	**798,598**	861,211	**798,598**	861,211
Notes payable	25	**-**	-	**509,025**	673,400
Current tax payable	26	**-**	5,952	**-**	6,307
Deferred tax liabilities	27	**7,170**	7,629	**5,282**	6,672
Employee benefits	28	**14,693**	13,502	**14,862**	13,614
Total Liabilities		**5,434,765**	5,685,134	**5,416,927**	5,676,191
Net Assets		**403,534**	384,352	**407,638**	387,588
Equity					
Redeemed preference share capital	29	**537**	507	**537**	507
General reserve for credit losses		**8,193**	8,193	**8,193**	8,193
Hedging reserve - cash flow hedges		**(5,185)**	(2,536)	**(5,185)**	(2,536)
Asset revaluation reserve		**122**	122	**128**	128
Fair value reserve - Available For Sale financial assets		**1,114**	650	**1,114**	650
Other equity reserves		**171,745**	171,745	**171,745**	171,745
Retained earnings		**227,008**	205,671	**231,106**	208,901
Total Equity attributable to members of the Holding Entity		**403,534**	384,352	**407,638**	387,588
Total Equity		**403,534**	384,352	**407,638**	387,588

The Statements of Financial Position are to be read in conjunction with the accompanying notes to the financial statements.

Statements of Comprehensive Income

	Note	Credit Union		Consolidated	
		2012	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000
Interest income	2	**396,349**	422,578	**395,317**	421,998
Interest expense	2	**(267,083)**	(291,076)	**(263,965)**	(288,402)
Net interest income		**129,266**	131,502	**131,352**	133,596
Net change in fair value of financial assets/liabilities at fair value through profit or loss	3	**404**	6,861	**404**	6,861
Non-interest income	4	**67,182**	71,876	**68,319**	73,126
Non-interest income		**67,586**	78,737	**68,723**	79,987
Impairment losses on loans and advances	5	**(3,354)**	(2,848)	**(3,354)**	(2,848)
Other expenses	6	**(163,948)**	(163,650)	**(165,924)**	(165,862)
Profit before tax		**29,550**	43,741	**30,797**	44,873
Income tax expense	8	**(8,183)**	(11,493)	**(8,562)**	(11,834)
Profit for the year		**21,367**	32,248	**22,235**	33,039
Other comprehensive income					
Cash flow hedges:					
Net change in fair value of cash flow hedges transferred to profit or loss		**970**	13,452	**970**	13,452
Effective portion of changes in fair value of cash flow hedges		**(4,754)**	(8,559)	**(4,754)**	(8,559)
Changes in fair value of Available-for-Sale financial assets		**663**	(1,354)	**663**	(1,367)
Revaluation of property, plant and equipment		**-**	-	**-**	-
Income tax (expense)/benefit on items of other comprehensive income		**936**	(1,062)	**936**	(1,058)
Other comprehensive income for the year, net of tax	8(d)	**(2,185)**	2,477	**(2,185)**	2,468
Total comprehensive income for the year		**19,182**	34,725	**20,050**	35,507
Profit attributable to:					
Members of the Holding Entity		**21,367**	32,248	**22,235**	33,039
Total comprehensive income attributable to:					
Members of the Holding Entity		**19,182**	34,725	**20,050**	35,507

The Statements of Comprehensive Income are to be read in conjunction with the accompanying notes to the financial statements.

Statements of Changes in Equity

	Note	Redeemed preference share capital $'000	General reserve for credit losses $'000	Hedging reserve - cash flow hedges $'000	Asset revaluation reserve $'000	Fair value reserve - Available For Sale financial assets $'000	Other equity reserves $'000	Retained earnings $'000	Total $'000
Holding Entity 2012									
Opening balance at 1 July 2011		507	8,193	(2,536)	122	650	171,745	205,671	384,352
Total comprehensive income for the period									
Profit or loss		-	-	-	-	-	-	21,367	21,367
Other comprehensive income									
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	(3,328)	-	-	-	-	(3,328)
Change in fair value of cash flow hedges transferred to profit or loss, net of tax		-	-	679	-	-	-	-	679
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	464	-	-	464
Total other comprehensive income		-	-	(2,649)	-	464	-	-	(2,185)
Total comprehensive income for the period		-	-	(2,649)	-	464	-	21,367	19,182
Transactions with members recorded directly in equity									
Transfer to reserves		30	-	-	-	-	-	(30)	-
Closing balance at 30 June 2012		537	8,193	(5,185)	122	1,114	171,745	227,008	403,534
Consolidated Entity 2012									
Opening balance at 1 July 2011		507	8,193	(2,536)	128	650	171,745	208,901	387,588
Total comprehensive income for the period									
Profit or loss		-	-	-	-	-	-	22,235	22,235
Other comprehensive income									
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	(3,328)	-	-	-	-	(3,328)
Change in fair value of cash flow hedges transferred to profit or loss, net of tax		-	-	679	-	-	-	-	679
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	464	-	-	464
Total other comprehensive income		-	-	(2,649)	-	464	-	-	(2,185)
Total comprehensive income for the period		-	-	(2,649)	-	464	-	22,235	20,050
Transactions with members recorded directly in equity									
Transfer to reserves		30	-	-	-	-	-	(30)	-
Closing balance at 30 June 2012		537	8,193	(5,185)	128	1,114	171,745	231,106	407,638

The Statements of Changes in Equity are to be read in conjunction with the accompanying notes to the financial statements.

Statements of Changes in Equity

	Note	Redeemed preference share capital $'000	General reserve for credit losses $'000	Hedging reserve - cash flow hedges $'000	Asset revaluation reserve $'000	Fair value reserve - Available For Sale financial assets $'000	Other equity reserves $'000	Retained earnings $'000	Total $'000
Holding Entity 2011									
Opening balance at 1 July 2010		489	8,193	(5,961)	287	1,433	171,745	173,441	349,627
Total comprehensive income for the period									
Profit or loss		-	-	-	-	-	-	32,248	32,248
Other comprehensive income									
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	(5,991)	-	-	-	-	(5,991)
Change in fair value of cash flow hedges transferred to profit or loss, net of tax		-	-	9,416	-	-	-	-	9,416
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(948)	-	-	(948)
Total other comprehensive income		-	-	3,425	-	(948)	-	-	2,477
Total comprehensive income for the period		-	-	3,425	-	(948)	-	32,248	34,725
Transactions with members recorded directly in equity									
Transfer to reserves		18	-	-	(165)	165	-	(18)	-
Closing balance at 30 June 2011		507	8,193	(2,536)	122	650	171,745	205,671	384,352
Consolidated Entity 2011									
Opening balance at 1 July 2010		489	8,193	(5,961)	293	1,442	171,745	175,880	352,081
Total comprehensive income for the period									
Profit or loss		-	-	-	-	-	-	33,039	33,039
Other comprehensive income									
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	(5,991)	-	-	-	-	(5,991)
Change in fair value of cash flow hedges transferred to profit or loss, net of tax		-	-	9,416	-	-	-	-	9,416
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(957)	-	-	(957)
Total other comprehensive income		-	-	3,425	-	(957)	-	-	2,468
Total comprehensive income for the period		-	-	3,425	-	(957)	-	33,039	35,507
Transactions with members recorded directly in equity									
Transfer to reserves		18	-	-	(165)	165	-	(18)	-
Closing balance at 30 June 2011		507	8,193	(2,536)	128	650	171,745	208,901	387,588

The Statements of Changes in Equity are to be read in conjunction with the accompanying notes to the financial statements.

Statements of Cash Flows

	Note	Credit Union		Consolidated	
		2012	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000
Cash from operating activities					
Interest received		**397,242**	426,076	**396,926**	425,496
Interest paid		**(292,181)**	(279,923)	**(265,989)**	(285,987)
Fee and commission received		**40,663**	34,873	**35,781**	37,939
Other income received		**23,093**	30,328	**29,237**	28,609
Recoveries on loans and advances previously written off		**622**	629	**622**	629
New loans disbursed		**(787,908)**	(790,072)	**(787,908)**	(790,072)
Principal collected on loans		**957,036**	834,639	**957,036**	834,639
Net decrease in revolving credit loans		**(37,072)**	(14,176)	**(37,072)**	(14,176)
Cash payments to employees and suppliers		**(123,564)**	(156,961)	**(156,925)**	(140,260)
Income taxes paid		**(16,915)**	(10,466)	**(17,272)**	(10,810)
Net cash from operating activities	39b	**161,016**	74,947	**154,436**	86,007
Cash from investing activities					
Net decrease/(increase) in Available-for-Sale investment securities		**(66,277)**	391,685	**(66,277)**	391,685
Proceeds from sale of non-tradeable investments		**3,049**	5	**-**	5
Acquisition of property plant and equipment		**(7,882)**	(13,865)	**(7,882)**	(13,865)
Acquisition of non-tradeable investments		**(251)**	(17,652)	**(251)**	(152)
Proceeds from sale of property, plant and equipment		**(436)**	74	**(436)**	74
Dividends and distributions received		**2,939**	5,648	**2,939**	5,648
Net increase in Held-to-Maturity investment securities		**-**	20,000	**-**	20,000
Net cash used in investing activities		**(68,858)**	385,895	**(71,907)**	403,395
Cash from financing activities					
Net increase in deposits and withdrawable share capital		**(24,124)**	68,192	**(24,339)**	68,088
New borrowings		**248,289**	844,954	**248,289**	504,084
Proceeds from residential backed securities issue		**-**	-	**-**	530,000
Repayment of borrowings		**(478,327)**	(865,838)	**(310,903)**	(865,838)
Payment to Noteholders		**-**	-	**(164,375)**	(206,630)
Subordinated debt repayment		**-**	(5,000)	**-**	(5,000)
Net cash from financing activities		**(254,162)**	42,308	**(251,328)**	24,704
Net (decrease)/increase in cash and cash equivalents		**(162,004)**	503,150	**(168,799)**	514,106
Cash and cash equivalents at 1 July		**869,868**	366,718	**892,924**	378,818
Cash and cash equivalents at 30 June	39a	**707,864**	869,868	**724,125**	892,924

The Statements of Cash Flows are to be read in conjunction with the accompanying notes to the financial statements.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

a) Reporting Entity

Australian Central Credit Union Ltd (the "Holding Entity"), (trading as People's Choice Credit Union) is a Company domiciled in Australia. The consolidated financial report of the Holding Entity for the financial year ended 30 June 2012 comprises the Holding Entity and its controlled entities (together referred to as the "Consolidated Entity"). The Consolidated Entity is a for-profit entity and primarily involved in the provision of loans to members and customers (including "Choice of Home Loans" via a panel of lenders), savings and investment facilities, the sale of insurance policies, Mutual Aid, financial planning and corporate superannuation services.

b) Basis of preparation

Statement of compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial reports of the Group and of the Holding Entity comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

The consolidated financial report was authorised for issue by the Directors on 27 August 2012.

Basis of measurement

The consolidated financial report has been prepared on the historical cost basis except for the following material assets and liabilities in the Statement of Financial Position:

- Derivative financial instruments are measured at fair value;
- Available-for-Sale financial assets are measured at fair value;
- Land and buildings are measured at fair value; and
- Loans are measured at amortised cost.

The financial report has been prepared on a going concern basis.

Functional and presentation currency

The financial report is presented in Australian dollars, which is the Holding Entity's functional currency.

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

Use of estimates and judgements

The preparation of a financial report in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable when making the judgement about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Basis of preparation (continued)

Use of estimates and judgements (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 13 - provision for impairment of loans and advances
- Note 18(a) - measurement of the recoverable amounts of cash-generating units
- Note 41(i) - valuation of financial instruments

Issued standards early adopted

The Consolidated Entity has not early adopted any issued standards in the financial year.

The accounting policies set out below have been consistently applied by each entity in the Consolidated Entity.

c) Basis of consolidation

(i) Controlled entities

Controlled entities are entities controlled by the Holding Entity. Control exists when the Holding Entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The controlled entities are fully consolidated from the date on which control is transferred to the Holding Entity and they are de-consolidated from the date that control ceases.

In the financial report, investments in controlled entities are carried at cost.

(ii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial report. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) Special purpose entities

The Group has established a number of special purpose entities ("SPEs") for the purpose of the issuance of Residential Mortgage Backed Securities ("RMBS"). The SPEs have been consolidated as the Group is exposed to the majority of the residual risks and rewards of the SPEs. For the accounting policy on securitisation refer to Note 1(t).

d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows.

e) Trade and other receivables

Trade and other receivables comprising of non-interest bearing sundry debtors are stated at their cost less impairment losses (see Note 1(g)).

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Loans and advances

Loans and advances comprise term and revolving credit facilities provided to members and members' overdrawn savings accounts. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method, less impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan or advance to the carrying amount of the loan or advance. When estimating the future cash flows, the Holding Entity considers all contractual terms of the loan or advance excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract.

Loans and advances are reviewed and graded according to the assessed level of credit risk. Classifications adopted are as follows:

- **Past-due loans** - are loans and advances where the borrower has failed to make a repayment when contractually due.
- **Restructured loans** - arise when the borrower is granted concessional terms or conditions due to difficulties in meeting the original contractual terms, and the revised terms are more favourable than comparable new facilities.
- **Impaired loans** - are loans and advances where the full recovery of outstanding principal and interest is considered doubtful.
- **Assets acquired through the enforcement of security** - are assets (usually residential property or motor vehicles) acquired in full or partial settlement of an advance through the enforcement of security arrangements. The recoverable value of such assets forms part of the net value of loans and advances as part of the estimated future cash flows.

Provision for impairment

All loans are subject to a continuous management review process to assess whether there is any objective evidence that any loan or group of loans is impaired.

Impairment of loans and advances is recognised when objective evidence is available that a loss event has occurred.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

Impairment losses are recognised in profit or loss.

- **Specific Provision**

Loans and advances, that meet significant delinquency and loan size criteria, are individually assessed for impairment to estimate the likely loss on the loan.

- **Collective Provision**

Loans and advances that do not meet significant delinquency criteria are not individually assessed but are placed into portfolios of assets with similar risk profiles and a collective assessment of impairment is performed based on objective evidence from historical experience.

The quantitative effect is disclosed in Note 13.

- **General Reserve for Credit Losses**

The difference between the impairment provisions calculated under IFRS and those required by APRA is represented by a General Reserve for Credit Losses within Equity. Transfers to and from the General Reserve for Credit Losses are made from retained earnings.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Impairment

The carrying amount of the Consolidated Entity's assets, other than deferred tax assets (see Note 1(o)) and loans and advances (see Note 1(f)), are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated (see Note 1(f)) for signs of objective evidence indicating that impairment may have occurred. Where objective evidence of impairment exists the asset's recoverable amount is determined.

For goodwill and other intangible assets that have an indefinite life, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset (either in its own right or as part of a cash generating unit) exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an Available-for-Sale financial asset has been recognised in other comprehensive income, and presented in the fair value reserve in Equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is transferred to profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

For the accounting policy on impairment of loans and advances, refer to Note 1(f).

The recoverable amount is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short term duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(i) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as Available-for-Sale is not reversed through profit or loss. If the fair value of a debt instrument classified as Available-for-Sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the reversal recognised in profit or loss.

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Impairment (continued)

(ii) Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

a) the right to receive cash flows from the asset has expired,

b) the Consolidated Entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them without material delay to a third party; or

c) the Consolidated Entity has transferred its rights to receive cash flows from the asset and either:

(i) has transferred substantially all the risks and rewards of the asset, or

(ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

h) Financial instruments - Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. Investments in controlled entities are carried at cost.

(i) Available-for-Sale investment securities

Financial instruments held by the Consolidated Entity classified as being Available-for-Sale are non-derivative financial assets and are stated at fair value, with any resultant gain or loss recognised in other comprehensive income and presented within Equity in the fair value reserve, except for impairment losses. Where the financial instruments are derecognised, the cumulative gain and loss previously recognised in other comprehensive income, and presented in the fair value reserve in Equity, is transferred to profit or loss. Where these investments are interest-bearing, interest calculated using the Effective Interest Rate method is recognised in profit or loss.

The fair value of financial instruments classified as Available-for-Sale is estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

Financial instruments classified as Available-for-Sale investment securities are recognised/derecognised by the Consolidated Entity on the date it commits to purchase/sell the investments.

(ii) Liabilities

The Holding Entity initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Holding Entity becomes a party to the contractual provisions of the instrument. The Holding Entity derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the Effective Interest Rate method.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Financial instruments - Non-derivative financial instruments (continued)

(iii) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

i) Acquisition of assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being their fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the Consolidated Entity if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

The costs of assets constructed or internally generated by the Consolidated Entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

j) Property, plant and equipment

Owned assets

Land and Buildings

Land and buildings are held at their fair value. Independent valuations of land and buildings are performed on a regular basis to ensure the carrying amount of each asset is stated at its fair value at reporting date.

If the revaluation results in a net revaluation increment, the net increment is credited directly to an asset revaluation reserve, except that, to the extent that the increment reverses a decrement previously recognised as an expense in the statement of comprehensive income, in which case it is recognised as revenue in the statement of comprehensive income. A net revaluation decrement is recognised as an expense in the statement of comprehensive income, except that, to the extent that a credit balance exists in the asset revaluation reserve, the decrement is debited directly to the reserve.

Property, plant and equipment

Plant and equipment of the Consolidated Entity are brought to account at cost, less any accumulated depreciation and impairment losses.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Property, plant and equipment (continued)

Depreciation

With the exception of freehold land, items of property, plant and equipment are depreciated on a straight line basis so as to write off the net cost of each non-current asset over their expected useful lives. The depreciation rates used for each class of asset in the current and comparative periods are as follows:

Property, plant and equipment	**2012**	2011
Leasehold improvements	**10% to 67%**	10% to 67%
Information technology	**7.5% to 40%**	7.5% to 40%
Office equipment	**7.5% to 25%**	7.5% to 25%
Fixtures and fittings	**7.5% to 25%**	7.5% to 25%
Motor vehicles	**20%**	20%

Land and buildings are not depreciated.

The expected useful life and the depreciation method applied to an asset are reassessed at least annually.

Leased assets

Leases of plant and equipment under which the Consolidated Entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases and not recognised in the Consolidated Entity's Statement of Financial Position. The Consolidated Entity is not currently engaged in any finance leases.

Payments made under operating leases are expensed over the term of the lease.

k) Intangible assets

(i) Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (refer Note 18a).

Negative goodwill arising on acquisition is recognised directly in profit or loss.

(ii) Acquired Contractual Rights

The amount relating to acquired contractual rights to future cash flows is measured at cost less accumulated amortisation and accumulated impairment losses. Acquired Contractual Rights are amortised to profit or loss over the expected useful life of the asset. The amortisation rates for intangible assets for the current and comparative periods are outlined in the table at k (v).

(iii) Software

Software assets that are not integral to the operation of hardware are recognised as intangible assets with a finite life. Where the expenditure is of a significant amount and there are related benefits which are expected to be realised over the medium to long term, it is deferred and amortised on a straight line basis over the period in which the benefits are expected to be realised. The amortisation rates for the current and comparative periods are outlined in the table at k (v).

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Intangible assets (continued)

(iv) Core deposit intangible

A core deposit intangible was recognised following the merger with Savings & Loans Credit Union (S.A.) Limited and represents the value of having a deposit base from customer and business transaction accounts, savings accounts and term deposits, providing a more favourable source of funding than alternative sources of funding such as in wholesale and securitisation markets. The core deposit intangible is amortised over a period of nine years and is stated at cost less accumulated amortisation and accumulated impairment losses. The amortisation period is based on the underlying expected life of the deposit portfolio. The core deposit intangible is assessed for any indication of impairment at each reporting date.

(v) Amortisation

Items of intangible assets are amortised on a straight line basis so as to write off the net cost of each non-current asset over their expected useful lives. The amortisation rates used for each class of intangible asset in the current and comparative periods are as follows:

Intangibles	**2012**	2011
Acquired contractual rights	**20%**	20%
Software	**14% - 54.5%**	14% - 40%
Core deposit intangibles	**11%**	11%

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

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Employee entitlements

Wages, salaries and annual leave

The provision for employee benefits for wages, salaries and annual leave represents the amount which the Consolidated Entity has a present obligation to pay resulting from employees' services up to balance date. The provision has been calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on costs, such as workers compensation insurance and payroll tax.

Long service leave

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted to determine its present value.

Rostered days off

The provision for rostered days off represents the amount, measured at current rates that the Consolidated Entity expects to pay as at reporting date. Rostered days off, are a form of flexible working arrangements for non-packaged staff that provides many of the advantages of traditional flexi-time and rostered days off with the added advantage of being able to be tailored to both the individuals' and organisational requirements. Staff are able to draw down on their entitlements during the year to meet their personal needs whilst ensuring operational requirements are satisfied or in certain circumstances convert provisions to normal remuneration payments during the year.

Sick leave

Sick leave entitlements of employees of the Consolidated Entity are non-vesting. No provision has been raised for unused entitlements to non-vesting sick leave as it is not probable that sick leave to be taken in the future will exceed entitlements to be accrued in the future.

Defined contribution plans

All employees, upon satisfying eligibility tests, may participate in an accumulation superannuation scheme. The Holding Entity's contributions to defined contribution plans are recognised as an expense in profit or loss as incurred. The Holding Entity has no legal obligation to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

m) Interest-bearing borrowings

Interest-bearing borrowings (inclusive of member deposits) are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest rate basis.

n) Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on thirty day terms.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Revenue recognition

(i) Loan interest

Interest on loans and advances is recognised on an amortised cost basis using the Effective Interest Rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan or advance to the net carrying amount of the loan or advance. When estimating the future cash flows the Holding Entity considers all contractual terms of the loan or advance excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract (refer Note 1(f)). All interest is recognised on an accruals basis.

(ii) Revenue from services rendered

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or the costs incurred or to be incurred cannot be measured reliably.

(iii) Dividends

Dividends from other investments are recognised when the right to receive the dividend has been established.

(iv) Commissions

Revenue is recognised on an accrual basis upon the provision of services from acting in the capacity of an agent rather than as the principal in a transaction.

(v) Other non-interest income

Mutual Aid income is recognised over the average life of the associated loans.

p) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be utilised.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Income tax (continued)

Tax consolidation

The Holding Entity and its Australian wholly-owned controlled entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the consolidated group is Australian Central Credit Union Ltd., trading as People's Choice Credit Union.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the separate taxpayer within group approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

q) Deferred borrowing costs

Deferred borrowing costs include costs associated with the establishment of a number of separate securitisation facilities. These costs are amortised over the expected life of the facilities.

r) Financial instruments - derivative financial instruments

The Consolidated Entity uses interest rate swaps to hedge its exposure to interest rate risks arising from operational and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However derivatives that do not qualify for hedge accounting are accounted for at fair value through profit and loss.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (refer Note 1(r)(i)).

The fair value of interest rate swaps is the present value of the future cash flows that the Consolidated Entity would receive or pay to terminate the swap at the balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Where a financial asset does not qualify for derecognition the associated basis swaps are recognised on an accrual basis in accordance with AASB139 Financial Instruments Recognition and Measurement.

Further details of derivative financial instruments are disclosed in Note 41.

(i) Hedging

On entering into a hedging relationship, the Consolidated Entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period as designated.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Financial instruments - derivative financial instruments (continued)

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from other comprehensive income and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, then the associated gains and losses that were recognised directly in other comprehensive income are reclassified into profit in the same period or periods during which the asset acquired or liability assumed affects the Statement of Comprehensive Income (i.e. when the interest income is recognised).

Effectiveness tests are performed on derivative financial instruments to determine if they are still providing the protection originally intended when entered into by the Consolidated Entity. Where a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria any gain or loss on the instrument previously recognised in other comprehensive income is reversed through profit or loss with all subsequent gains or losses recognised through profit or loss.

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes to its fair value are recognised directly in profit or loss.

s) Goods and services tax

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

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

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

t) Securitisation

The Holding Entity through its loan securitisation program securitises mortgage loans to SPEs, which in turn issue rated securities to investors. Fees are received for various services provided to the SPEs on an arms-length basis, including servicing fees and management fees and are reported in profit or loss. The Holding Entity also provides arms-length interest rate swaps and loan facilities to the SPEs.

Costs incurred in the establishment of a securitisation issue are amortised over the expected life of the issue.

Details of the transfer of financial assets to third parties and/or special purpose entities during the year are disclosed in Note 35.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) New Standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Consolidated Entity in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Holding Entity's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2013 or earlier. The Holding Entity has not yet determined the potential effect of the standard.

v) Comparatives

Where appropriate, amounts shown for prior periods have been reclassified to facilitate comparison.

Notes to the Financial Statements

2. INTEREST REVENUE AND INTEREST EXPENSE

The following tables show the interest of each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate.

	Credit Union		Consolidated	
	Interest $'000	Average Interest Rate %	Interest $'000	Average Interest Rate %
Interest Income 2012				
Cash and cash equivalents	**2,911**	**3.86%**	**3,346**	**3.96%**
Loans and advances	**353,545**	**7.30%**	**353,569**	**7.30%**
Investments				
Available-for-Sale investment securities	**37,938**	**5.11%**	**38,402**	**5.11%**
Other investments	**1,955**	**6.96%**	**-**	**-**
	396,349	**7.06%**	**395,317**	**7.05%**
Interest Expense 2012				
Deposits	**177,456**	**4.47%**	**177,449**	**4.47%**
Borrowings	**84,608**	**5.80%**	**42,697**	**5.92%**
Interest rate hedges	**5,019**	**-**	**9,747**	**-**
Notes payable	**-**	**-**	**34,072**	**5.66%**
	267,083	**5.23%**	**263,965**	**4.70%**
Net Interest Income 2012	**129,266**		**131,352**	
Interest Income 2011				
Cash and cash equivalents	5,549	1.99%	7,818	1.69%
Loans and advances	372,511	7.54%	372,547	7.54%
Investments				
Available-for-Sale investment securities	41,633	5.61%	41,633	5.61%
Other investments	1,614	3.90%	-	-
	422,578	7.08%	421,998	7.06%
Interest Expense 2011				
Deposits	181,179	4.67%	181,173	4.67%
Borrowings	101,222	6.11%	59,019	6.11%
Interest rate hedges	8,636	-	13,452	-
Notes payable	-	-	34,720	5.79%
Subordinated debt	38	9.51%	38	9.51%
	291,076	4.95%	288,402	4.94%
Net Interest Income 2011	131,502		133,596	

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
3. NET CHANGE IN FAIR VALUES OF FINANCIAL ASSETS/ LIABILTIES				
Net change in fair value of financial assets/liabilities at fair value through profit or loss	**404**	6,861	**404**	6,861
	404	6,861	**404**	6,861
4. NON - INTEREST INCOME				
Fee and commission income				
Loan fee income	**2,463**	3,007	**2,463**	3,007
Transactional fee income	**11,481**	12,878	**11,481**	12,878
Insurance fees and commissions	**12,506**	12,375	**12,506**	12,375
Financial planning fees and commissions	**7,375**	6,996	**10,267**	9,965
Other commissions	**6,232**	6,355	**6,232**	6,355
Superannuation income	**50**	371	**50**	371
Other fees	**15,352**	16,543	**13,597**	14,824
Total fee and commission income	**55,459**	58,525	**56,596**	59,775
Other income				
Bad debts recovered	**622**	629	**622**	629
Dividends received	**2,939**	5,648	**2,939**	5,648
Profit on sale of property, plant and equipment	**135**	16	**135**	16
Property rental income	**126**	97	**126**	97
Mutual Aid Income	**7,901**	6,961	**7,901**	6,961
Total non-interest income	**67,182**	71,876	**68,319**	73,126
5. IMPAIRMENT LOSSES ON LOANS AND ADVANCES				
Bad debts written off to profit or loss	**3,710**	2,290	**3,710**	2,290
(Decrease)/increase in provision for impairment	**(356)**	558	**(356)**	558
Total impairment on loans and advances	**3,354**	2,848	**3,354**	2,848

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000

6. OTHER EXPENSES

Staff costs (Note 7)	**79,461**	75,763	**80,660**	76,913
Provision for impairment on other investments	**-**	(328)	**-**	(328)
Administrative expenses	**19,303**	19,798	**19,830**	20,413
Depreciation:				
Property, plant and equipment	**7,825**	8,761	**7,827**	8,899
Amortisation:				
Computer software	**182**	149	**182**	178
Intangible assets				
- computer software	**2,308**	1,791	**2,308**	1,791
- acquired contractual rights	**2,316**	3,052	**2,316**	3,052
- core deposit intangible	**1,630**	2,398	**1,630**	2,398
Marketing costs	**9,326**	9,491	**9,266**	9,491
Operating lease:				
Rentals	**12,333**	11,592	**12,508**	11,784
Other occupancy expenses	**4,654**	4,454	**4,738**	4,542
Distribution channel costs	**15,373**	15,752	**15,373**	15,752
Information technology costs	**9,203**	10,977	**9,252**	10,977
Loss on disposal of property, plant and equipment	**34**	-	**34**	-
	163,948	163,650	**165,924**	165,862

7. STAFF COSTS

Wages and salaries	**67,485**	63,950	**68,429**	64,922
Employee on costs	**3,620**	3,695	**3,701**	3,747
Superannuation contributions	**5,673**	5,784	**5,777**	5,868
Increase in liability for annual leave	**917**	1,640	**954**	1,661
Increase in liability for long service leave	**1,884**	513	**1,916**	534
(Decrease)/increase in liability for banked leave	**(119)**	181	**(118)**	181
	79,461	75,763	**80,660**	76,913

8. INCOME TAX EXPENSE

(a) Income tax expense				
Current tax	**9,086**	10,872	**9,475**	11,228
Deferred tax	**(1,219)**	532	**(1,230)**	517
Under /(over) provided in prior years	**316**	89	**317**	89
	8,183	11,493	**8,562**	11,834
Deferred income tax/(revenue) expense included in income tax expense comprises:				
(Increase)/decrease in deferred tax assets (Note 17)	**(596)**	3,829	**324**	2,337
Increase /(decrease) in deferred tax liabilities (Note 27)	**(623)**	(3,297)	**(1,554)**	(1,820)
	(1,219)	532	**(1,230)**	517

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000

8. INCOME TAX EXPENSE (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payale				
Profit before tax	**29,550**	43,741	**30,797**	44,873
Tax at the tax rate of 30% (2011: 30%)	**8,865**	13,122	**9,239**	13,462
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Fully franked dividends received	**(882)**	(1,694)	**(882)**	(1,694)
Sundry items	**(116)**	(24)	**(112)**	(23)
	7,867	11,404	**8,245**	11,745
Under/(over) provision in prior years	**316**	89	**317**	89
Income tax expense	**8,183**	11,493	**8,562**	11,834

(c) Amounts recognised directly in Equity				
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to Equity:				
Net deferred tax debited/(credited) directly to Equity (Notes 17 and 27)	**937**	(1,676)	**937**	(1,676)
	937	(1,676)	**937**	(1,676)

(d) Income tax recognised in other comprehensive income				
Before Tax				
Cash flow hedges	**(3,784)**	4,893	**(3,784)**	4,893
Available-for-Sale investment securities	**663**	(1,354)	**663**	(1,367)
	(3,121)	3,539	**(3,121)**	3,526
Tax (expense)/benefit				
Cash flow hedges	**1,135**	(1,468)	**1,135**	(1,468)
Available-for-Sale investment securities	**(199)**	406	**(199)**	410
	936	(1,062)	**936**	(1,058)
Net of tax				
Cash flow hedges	**(2,649)**	3,425	**(2,649)**	3,425
Available-for-Sale investment securities	**464**	(948)	**464**	(957)
	(2,185)	2,477	**(2,185)**	2,468

9. FRANKING ACCOUNT

The Consolidated Entity has generated franking credits through paying income tax with a total of $91,254,536 (@ 30%) (2011: $71,684,775 (@ 30%)) worth of franking credits having been accumulated. This includes credits which will arise from the payment of income tax provided for in the financial statements.

The ability to use these franking credits is restricted by the Constitution of the Holding Entity which does not currently permit dividend payments. The balance of the franking account is adjusted for franking credits that the Holding Entity is currently prevented from distributing in the subsequent financial year.

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
10. CASH AND CASH EQUIVALENTS				
Cash on hand and at bank	**11,395**	15,784	**20,657**	28,591
Deposits at call	**103,650**	121,550	**103,650**	121,550
Deposits with Cuscal Ltd	**23,855**	12,634	**23,855**	12,634
	138,900	149,968	**148,162**	162,775
11. TRADE AND OTHER RECEIVABLES				
Other receivables	**14,519**	14,112	**14,567**	14,360
	14,519	14,112	**14,567**	14,360
Interest receivable	**6,268**	7,644	**6,281**	7,666
Amounts receivable from controlled entities (Note 40)	**143**	15	**-**	-
	20,930	21,771	**20,848**	22,026
Maturity analysis				
Not longer than 3 months	**20,787**	21,721	**20,848**	21,739
No maturity specified	**143**	50	**-**	287
	20,930	21,771	**20,848**	22,026
12. LOANS AND ADVANCES				
Revolving credit facilities	**496,136**	534,203	**496,136**	534,203
Term loans	**4,324,411**	4,420,971	**4,324,411**	4,420,971
Gross Loans and advances	**4,820,547**	4,955,174	**4,820,547**	4,955,174
Provision for impairment (Note 13)	**(4,321)**	(4,677)	**(4,321)**	(4,677)
Loan origination and processing costs	**1,096**	684	**1,096**	684
Unearned loan fees	**(4,856)**	(5,187)	**(4,856)**	(5,187)
Net loans and advances	**4,812,466**	4,945,994	**4,812,466**	4,945,994
(a) Maturity analysis:				
Scheduled for repayment:				
Overdrafts and line of credit facilities	**496,136**	534,203	**496,136**	534,203
Not longer than 3 months	**5,097**	5,145	**5,097**	5,145
Longer than 3 and not longer than 12 months	**6,156**	7,057	**6,156**	7,057
Longer than 1 and not longer than 5 years	**349,351**	334,911	**349,351**	334,911
Longer than 5 years	**3,963,807**	4,073,858	**3,963,807**	4,073,858
	4,820,547	4,955,174	**4,820,547**	4,955,174
(b) Loans by security				
Secured by mortgage	**4,233,776**	4,354,598	**4,233,776**	4,354,598
Secured other	**462,483**	467,483	**462,483**	467,483
Unsecured	**124,288**	133,093	**124,288**	133,093
	4,820,547	4,955,174	**4,820,547**	4,955,174

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
12. LOANS AND ADVANCES (Continued)				
(c) Loans by purpose				
Residential loans	**3,522,874**	3,637,321	**3,522,874**	3,637,321
Consumer loans	**542,859**	557,258	**542,859**	557,258
Residential investment loans	**714,375**	720,035	**714,375**	720,035
Commercial	**40,439**	40,560	**40,439**	40,560
	4,820,547	4,955,174	**4,820,547**	4,955,174
(d) Aggregate amounts receivable from related parties				
Key management personnel	**4,452**	4,029	**4,452**	4,029
	4,452	4,029	**4,452**	4,029

Details of loans to Directors and key management personnel are set out in Note 40 (d).

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
13. IMPAIRMENT OF LOANS AND ADVANCES				
(a) Provision for impairment				
Total provisions:				
Balance at beginning of year	**4,677**	4,119	**4,677**	4,119
(Decrease)/Increase in provision for loan impairment	**(356)**	558	**(356)**	558
Balance at end of year	**4,321**	4,677	**4,321**	4,677
Specific provision for impairment:				
Balance at beginning of year	**2,479**	850	**2,479**	850
Increase in provision	**1**	1,629	**1**	1,629
Balance at end of year	**2,480**	2,479	**2,480**	2,479
Collective provision for impairment:				
Balance at beginning of year	**2,198**	3,269	**2,198**	3,269
Decrease in provision	**(357)**	(1,071)	**(357)**	(1,071)
Balance at end of year	**1,841**	2,198	**1,841**	2,198
Charge to profit or loss comprises:				
Provision for loan impairment (Note 5)	**(356)**	558	**(356)**	558
Loans written off during the year as uncollectible (Note 5)	**3,710**	2,290	**3,710**	2,290
Total charge to profit or loss	**3,354**	2,848	**3,354**	2,848
(b) Impaired loans				
Gross impaired loans	**2,480**	2,857	**2,480**	2,857
Specific provision for impairment	**(2,480)**	(2,479)	**(2,480)**	(2,479)
Net impaired loans	**-**	378	**-**	378
(c) Restructured loans	**7,653**	8,259	**7,653**	8,259

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000

13. IMPAIRMENT OF LOANS AND ADVANCES (Continued)

	Credit Union 2012 $'000	Credit Union 2011 $'000	Consolidated 2012 $'000	Consolidated 2011 $'000
(d) Assets acquired through the enforcement of security				
Real estate assets acquired through enforcement of security:				
Value of real estate assets acquired	**717**	964	**717**	964
Other assets acquired through enforcement of security:				
Value of other assets acquired	**221**	14	**221**	14
Total assets acquired through the enforcement of security	**938**	978	**938**	978

14. INVESTMENTS

	Credit Union 2012 $'000	Credit Union 2011 $'000	Consolidated 2012 $'000	Consolidated 2011 $'000
a) Available-for-Sale investment securities				
(i) At the beginning of year	**831,899**	817,368	**842,149**	822,627
Additions/(disposals) (sale and redemption)	**(84,858)**	15,036	**(88,108)**	20,036
Fair value adjustments	**664**	(505)	**664**	(514)
At end of year	**747,705**	831,899	**754,705**	842,149
(ii) Classification:				
Interest-bearing deposits	**349,705**	453,899	**356,705**	464,149
Negotiable certificates of deposit	**398,000**	378,000	**398,000**	378,000
	747,705	831,899	**754,705**	842,149
b) Other investments				
Shares in unlisted entities (at cost)	**12,279**	12,580	**12,279**	12,580
Capital notes	**27,650**	30,700	**-**	-
Other investments	**1,054**	502	**1,054**	502
Shares in controlled entities (Note 37)	**5,148**	5,148	**-**	-
	46,131	48,930	**13,333**	13,082
Total Investments	**793,836**	880,829	**768,038**	855,231
Maturity of investments:				
No fixed maturity	**46,131**	48,930	**13,333**	13,082
Not longer than 3 months	**567,500**	659,500	**574,500**	669,750
Longer than 3 and not longer than 12 months	**148,500**	172,000	**148,500**	172,000
Longer than 12 months	**31,705**	399	**31,705**	399
	793,836	880,829	**768,038**	855,231

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
15. PROPERTY, PLANT AND EQUIPMENT				
Land and buildings - at fair value	**13,325**	13,325	**13,325**	13,325
Fair value adjustments	**-**	-	**-**	-
	13,325	13,325	**13,325**	13,325
Leasehold and freehold improvements - at cost	**27,543**	23,199	**27,551**	23,207
Accumulated depreciation	**(17,835)**	(14,096)	**(17,843)**	(14,103)
	9,708	9,103	**9,708**	9,104
Information technology - at cost	**26,773**	24,222	**27,013**	24,462
Accumulated depreciation	**(21,853)**	(18,453)	**(22,093)**	(18,693)
	4,920	5,769	**4,920**	5,769
Plant and equipment - at cost	**11,424**	10,668	**12,165**	11,409
Accumulated depreciation	**(7,945)**	(7,126)	**(8,686)**	(7,866)
	3,479	3,542	**3,479**	3,543
Computer software - at cost	**2,004**	1,982	**2,180**	2,158
Accumulated depreciation	**(1,678)**	(1,496)	**(1,854)**	(1,672)
	326	486	**326**	486
Total property, plant and equipment - at cost or fair value	**81,069**	73,396	**82,234**	74,561
Total accumulated depreciation	**(49,311)**	(41,171)	**(50,476)**	(42,334)
Fair value adjustments	**-**	-	**-**	-
	31,758	32,225	**31,758**	32,227

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Credit Union 2012	Credit Union 2011	Consolidated 2012	Consolidated 2011
Buildings				
Carrying amount at beginning of year	**13,325**	13,325	**13,325**	13,325
Fair value adjustments	**-**	-	**-**	-
Carrying amount at end of year	**13,325**	13,325	**13,325**	13,325
Leasehold and freehold improvements				
Carrying amount at beginning of year	**9,103**	10,699	**9,104**	10,701
Additions	**3,356**	1,689	**3,356**	1,689
Work in progress	**931**	552	**931**	552
Disposals	**(30)**	-	**(30)**	-
Depreciation	**(3,652)**	(3,837)	**(3,653)**	(3,838)
Carrying amount at end of year	**9,708**	9,103	**9,708**	9,104

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
15. PLANT, PROPERTY AND EQUIPMENT (Continued)				
Information technology				
Carrying amount at beginning of year	**5,769**	7,872	**5,769**	7,888
Additions	**871**	1,363	**871**	1,363
Work in progress	**1,271**	866	**1,271**	866
Transfers	**-**	(458)	**-**	(458)
Disposals	**-**	-	**-**	-
Depreciation	**(2,991)**	(3,874)	**(2,991)**	(3,890)
Carrying amount at end of year	**4,920**	5,769	**4,920**	5,769
Plant and equipment				
Carrying amount at beginning of year	**3,542**	4,076	**3,543**	4,198
Additions	**989**	434	**989**	434
Work in progress	**293**	139	**293**	139
Disposals	**(163)**	(57)	**(163)**	(57)
Depreciation	**(1,182)**	(1,050)	**(1,183)**	(1,171)
Carrying amount at end of year	**3,479**	3,542	**3,479**	3,543
Computer software				
Carrying amount at beginning of year	**486**	364	**486**	393
Additions	**23**	155	**23**	155
Work in progress	**-**	116	**-**	116
Disposals	**(1)**	-	**(1)**	-
Amortisation	**(182)**	(149)	**(182)**	(178)
Carrying amount at end of year	**326**	486	**326**	486

The Holding Entity's properties were independently valued as at 31 May 2010 by Mr A Harry, AAPI MRICS, Certified Practising Valuer B.Bus.Prop of Colliers International Consultancy and Valuation Pty Limited in accordance with the Holding Entity's policy of obtaining independent valuations. These independent valuations were performed on the basis of the fair value of the properties in their existing use.

16. CURRENT TAX RECEIVABLE

Current income tax receivable	**1,736**	-	**1,346**	-

Notes to the Financial Statements

17. DEFERRED TAX ASSETS

	Credit Union 2012 $'000	Credit Union 2011 $'000	Consolidated 2012 $'000	Consolidated 2011 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Loans and advances impairment	**1,296**	1,402	**1,296**	1,402
Accrued superannuation	**130**	163	**131**	166
Unearned fee income	**3,399**	3,859	**3,399**	3,859
Depreciation	**2,532**	2,008	**2,532**	2,010
Provisions	**4,482**	4,238	**4,532**	4,272
Financial liabilities at fair value through profit or loss	**3,909**	3,098	**2,020**	2,141
Intangible assets	**56**	284	**56**	284
Other items	**110**	266	**111**	267
	15,914	15,318	**14,077**	14,401
Amounts recognised directly in Equity				
Cash flow hedges	**2,222**	1,121	**2,222**	1,121
Net deferred tax assets	**18,136**	16,439	**16,299**	15,522
Movements:				
Opening Balance	**16,439**	21,734	**15,522**	19,325
Credited/(charged) to the profit or loss (Note 8)	**596**	(3,829)	**(324)**	(2,337)
(Charged)/credited to Equity	**1,101**	(1,466)	**1,101**	(1,466)
Closing balance	**18,136**	16,439	**16,299**	15,522
Deferred tax assets to be recovered after more than 12 months	**11,592**	10,663	**11,614**	10,678
Deferred tax assets to be recovered within 12 months	**6,544**	5,776	**4,685**	4,844
	18,136	16,439	**16,299**	15,522

18. INTANGIBLE ASSETS

	Credit Union 2012 $'000	Credit Union 2011 $'000	Consolidated 2012 $'000	Consolidated 2011 $'000
Goodwill - at cost	**202**	202	**9,174**	9,174
Accumulated impairment	**(60)**	(60)	**(697)**	(697)
	142	142	**8,477**	8,477
Computer software - at cost	**27,182**	26,304	**27,182**	26,304
Accumulated amortisation	**(19,810)**	(17,502)	**(19,810)**	(17,502)
	7,372	8,802	**7,372**	8,802
Core deposit intangible - at fair value	**6,884**	6,884	**6,884**	6,884
Accumulated amortisation	**(4,695)**	(3,065)	**(4,695)**	(3,065)
	2,189	3,819	**2,189**	3,819
Acquired contractual rights - at cost	**9,178**	9,177	**9,178**	9,177
Accumulated amortisation	**(7,999)**	(5,683)	**(7,999)**	(5,683)
	1,179	3,494	**1,179**	3,494
Total intangible assets - at cost or fair value	**43,446**	42,567	**52,418**	51,539
Total accumulated impairment and amortisation	**(32,564)**	(26,310)	**(33,201)**	(26,947)
	10,882	16,257	**19,217**	24,592

Notes to the Financial Statements

18. INTANGIBLE ASSETS (Continued)

Reconciliations

Reconciliations of the carrying amounts for each class of intangible assets are set out below:

	Credit Union 2012 $'000	Credit Union 2011 $'000	Consolidated 2012 $'000	Consolidated 2011 $'000
Goodwill				
Carrying amount at beginning of year	**142**	142	**8,477**	8,477
Impairment charge	**-**	-	**-**	-
Carrying amount at end of year	**142**	142	**8,477**	8,477
Computer software				
Carrying amount at beginning of year	**8,802**	1,584	**8,802**	1,584
Additions	**476**	8,522	**476**	8,522
Work in progress	**402**	29	**402**	29
Transfers	**-**	458	**-**	458
Amortisation	**(2,308)**	(1,791)	**(2,308)**	(1,791)
Carrying amount at end of year	**7,372**	8,802	**7,372**	8,802
Core deposit intangible				
Carrying amount at beginning of year	**3,819**	6,217	**3,819**	6,217
Amortisation	**(1,630)**	(2,398)	**(1,630)**	(2,398)
Carrying amount at end of year	**2,189**	3,819	**2,189**	3,819
Acquired contractual rights				
Carrying amount at beginning of year	**3,494**	6,546	**3,494**	6,546
Amortisation	**(2,315)**	(3,052)	**(2,315)**	(3,052)
Carrying amount at end of year	**1,179**	3,494	**1,179**	3,494

(a) Impairment tests for goodwill

Goodwill is allocated to the Consolidated Entity's cash generating units (CGUs) identified according to business segment and region of operation.

A segment level summary of the goodwill allocation is presented below:

	Consolidated 2012 $'000	Consolidated 2011 $'000
Financial Planning	**8,477**	8,477

The recoverable amount has been calculated in accordance with Note 1 (g) and no impairment has been identified.

Notes to the Financial Statements

18. INTANGIBLE ASSETS (Continued)

(a) Impairment tests for goodwill (continued)

Key assumptions used in value in use calculations:

The recoverable amount of a CGU is determined on either a fair value less costs to sell or a "Value in Use" methodology. The net present value (NPV) of the relevant CGU's anticipated cash flows is used as a basis for determining whether any impairment exists.

- Cash flows were projected using the budgeted operating results for the next financial year as a base level, with cash flows extrapolated over a further two years applying primarily a revenue and overhead growth rates of 3.0% and a final terminal value calculation with no further growth rate applied.

- A discount rate of 13.746% was applied in determining the recoverable amounts for the CGUs. These discount rates were estimated based on the weighted average cost of debt and capital allocated by the Consolidated Entity to these CGUs, reflecting the market assessment of any risks specific to a financial planning business.

- Management has undertaken sensitivity analysis and believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGUs to exceed their recoverable amount.

Acquired contractual rights includes the value of financial planning and general insurance relationships recognised following the merger with Savings & Loans Credit Union (S.A.) Limited and represents a value attributable to future revenue generation from these relationships.

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
19. OTHER FINANCIAL ASSETS				
Interest rate swaps used for hedging	**-**	114	**-**	114
Interest rate swaps at fair value through profit or loss	**6,297**	835	**3,070**	210
	6,297	949	**3,070**	324
20. OTHER ASSETS				
Deferred borrowing costs	**4,870**	4,662	**4,870**	4,662
Accumulated amortisation	**(2,411)**	(1,628)	**(2,411)**	(1,628)
Prepayments	**899**	2,018	**902**	2,053
	3,358	5,052	**3,361**	5,088
21. DEPOSITS				
Members' deposits	**3,978,430**	4,002,557	**3,977,788**	4,002,131
Withdrawable shares (issued and paid up shares at $2.00 per share)	**688**	685	**688**	685
	3,979,118	4,003,242	**3,978,476**	4,002,816

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000

21. DEPOSITS (Continued)

(a) Maturity analysis:				
At call	**1,947,757**	1,890,693	**1,947,115**	1,890,267
Not longer than 3 months	**1,179,041**	1,105,786	**1,179,041**	1,105,786
Longer than 3 and not longer than 12 months	**748,777**	892,362	**748,777**	892,362
Longer than 1 and not longer than 5 years	**103,487**	114,233	**103,487**	114,233
Longer than 5 years	**56**	168	**56**	168
	3,979,118	4,003,242	**3,978,476**	4,002,816

Withdrawable shares are included as part of at call deposits.

22. OTHER FINANCIAL LIABILITIES

Interest rate swaps used for hedging	**7,408**	3,737	**7,408**	3,737
Interest rate swaps at fair value through profit or loss	**6,733**	7,139	**9,803**	7,348
	14,141	10,876	**17,211**	11,085

23. TRADE AND OTHER PAYABLES

Accounts payable	**48,942**	41,159	**59,999**	65,013
Loan from SPE's	**536,676**	704,100	**-**	-
Accrued interest payable	**34,688**	37,375	**33,474**	36,073
Amounts payable to controlled entities (Note 40)	**739**	88	**-**	-
	621,045	782,722	**93,473**	101,086

24. BORROWINGS

Wholesale funding facilities				
National Australia Bank Ltd	**200,000**	200,000	**200,000**	200,000
Westpac Banking Corporation Ltd	**400,000**	400,000	**400,000**	400,000
Waratah Finance Pty Ltd	**400,000**	400,000	**400,000**	400,000
Other	**1,579**	1,900	**1,579**	1,900
	1,001,579	1,001,900	**1,001,579**	1,001,900
Wholesale funding facilities utilised				
National Australia Bank Ltd	**165,384**	159,995	**165,384**	159,995
Westpac Banking Corporation Ltd	**270,000**	365,000	**270,000**	365,000
Waratah Finance Pty Ltd	**361,635**	334,316	**361,635**	334,316
Other	**1,579**	1,900	**1,579**	1,900
	798,598	861,211	**798,598**	861,211
Wholesale funding facilities unutilised				
National Australia Bank Ltd	**34,616**	40,005	**34,616**	40,005
Westpac Banking Corporation Ltd	**130,000**	35,000	**130,000**	35,000
Waratah Finance Pty Ltd	**38,365**	65,684	**38,365**	65,684
Other	**-**	-	**-**	-
	202,981	140,689	**202,981**	140,689

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000

24. BORROWINGS (Continued)

The Consolidated Entity has access to the following funding facilities:

	Credit Union 2012 $'000	Credit Union 2011 $'000	Consolidated 2012 $'000	Consolidated 2011 $'000
Wholesale funding facilities maturity analysis				
Longer than 3 and not longer than 12 months	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Longer than 1 and not longer than 5 years	**1,579**	1,900	**1,579**	1,900
	1,001,579	1,001,900	**1,001,579**	1,001,900

Wholesale funding (National Australia Bank Ltd, Westpac Banking Corporation Ltd and Waratah Finance Pty Ltd) represents amounts drawn by the Consolidated Entity, at balance date, from three separate warehouse facilities whereby the equitable ownership of qualifying mortgage receivables are sold whilst their legal ownership is retained. As the majority of the benefits associated with the sold receivables remains with the Holding Entity, the transactions have been accounted for as a borrowing facility in these financial statements.

25. NOTES PAYABLE

	Credit Union 2012 $'000	Credit Union 2011 $'000	Consolidated 2012 $'000	Consolidated 2011 $'000
SPE Noteholders	**-**	-	**509,025**	673,400

26. CURRENT TAX PAYABLE

	Credit Union 2012 $'000	Credit Union 2011 $'000	Consolidated 2012 $'000	Consolidated 2011 $'000
Current income tax payable	**-**	5,952	**-**	6,307

27. DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

	Credit Union 2012 $'000	Credit Union 2011 $'000	Consolidated 2012 $'000	Consolidated 2011 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Prepayments	**756**	1,001	**756**	1,001
Depreciation	**2,251**	2,083	**2,251**	2,083
Intangibles	**1,797**	3,275	**1,798**	3,275
Financial assets at fair value through profit or loss	**1,889**	957	**-**	-
	6,693	7,316	**4,805**	6,359
Amounts recognised directly in equity				
Cash flow hedges	**-**	34	**-**	34
Fair value reserve - Available for Sale financial assets	**477**	279	**477**	279
Total deferred tax liabilities	**7,170**	7,629	**5,282**	6,672

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000

27. DEFERRED TAX LIABILITIES (Continued)

Movements:				
Opening balance	**7,629**	10,716	**6,672**	8,282
Charged/(credited) to profit or loss (Note 8)	**(623)**	(3,297)	**(1,554)**	(1,820)
Charged/(credited) to Equity	**164**	210	**164**	210
Closing balance	**7,170**	7,629	**5,282**	6,672

Deferred tax liabilities to be settled after more than 12 months	**4,804**	6,393	**4,804**	6,393
Deferred tax liabilities to be settled within 12 months	**2,366**	1,236	**478**	279
	7,170	7,629	**5,282**	6,672

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

28. EMPLOYEE BENEFITS

Provision for annual leave	**5,734**	5,464	**5,828**	5,534
Provision for long service leave	**8,813**	7,712	**8,887**	7,754
Provision for rostered days off	**146**	326	**147**	326
	14,693	13,502	**14,862**	13,614

a) Superannuation commitments

The Holding Entity has established superannuation funds for employees of the Consolidated Entity, which existed for the full financial year. The benefit is the provision of retirement lump sums via accumulation type funds.

The basis of contributions to the funds is by way of employer and employee contributions. The obligation to contribute to the funds is to ensure compliance with the superannuation guarantee charge

b) Number of employees at year end

Equivalent full time	**962**	938	**971**	947

Notes to the Financial Statements

29. REDEMEED PREFERENCE SHARE CAPITAL

	Credit Union	
	2012	2011
	$'000	$'000
Redeemed member shares		
Opening Balance	**507**	489
Transfer from retained earnings	**30**	18
Closing Balance	**537**	507

Under the Corporations Act 2001 (S 254K), redeemable preference shares (Members $2 Shares) may only be redeemed out of the Credit Union's profit or through a new issue of shares for the purpose of the redemption. The Holding Entity therefore has transferred the value of member shares redeemed since 1 July 1999 (the date that the Corporations Act 2001 applied to the Holding Entity), from retained earnings to the redeemed preference share capital account. The value of members' shares for existing members is disclosed in Note 21.

30. RESERVES

(i) General reserve for credit losses

The Australian Prudential Regulatory Authority ("APRA") requires Authorised Deposit-Taking Institutions ("ADI's") to maintain a prescribed level of provision for regulatory purposes. The difference between the impairment provisions calculated under IFRS and those required by APRA is represented by the General reserve for credit losses. The reserve has been appropriated from retained earnings.

(ii) Hedging reserve - cash flow hedges

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred.

(iii) Asset revaluation reserve

The revaluation reserve relates to property, plant and equipment, and investment in controlled entities measured at fair value in accordance with applicable Australian Accounting Standards.

(v) Fair value reserve - available-for-sale financial assets

The fair value reserve is the difference in the carrying amount and the fair value of the Available-for-Sale financial assets held by the Consolidated Entity.

(vi) Other equity reserves

The other equity reserves represent the retained earnings of Savings & Loans Credit Union (S.A.) Limited recognised upon the merger with the Holding Entity.

(iv) Retained earnings

Retained earnings is the proportion of after-tax profit that is held by the Consolidated Entity.

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000

31. CONCENTRATION OF ASSETS

(a) Cash and Available-for-Sale financial assets

	2012	2011	2012	2011
Cash held with Credit Union Services Corporation (Australia) Ltd	**23,855**	12,634	**23,855**	12,634
Deposits with Credit Union Services Corporation (Australia) Ltd	**44,000**	42,000	**44,000**	42,000
	67,855	54,634	**67,855**	54,634

(b) Loans and advances

As at 30 June 2012, the Holding Entity has no loan assets which represent 10% or more of capital (2011: $Nil).

The Holding Entity has an exposure to groupings of individual loans which concentrate risk and create exposure to particular geographic segments as follows:

	2012	2011	2012	2011
South Australia	**3,724,290**	3,836,251	**3,724,290**	3,836,251
Northern Territory	**511,900**	540,223	**511,900**	540,223
Victoria	**292,256**	295,539	**292,256**	295,539
New South Wales	**151,918**	154,276	**151,918**	154,276
Western Australia	**63,165**	59,402	**63,165**	59,402
Queensland	**61,488**	56,894	**61,488**	56,894
Australian Capital Territory	**9,023**	7,602	**9,023**	7,602
Tasmania	**6,507**	4,987	**6,507**	4,987
	4,820,547	4,955,174	**4,820,547**	4,955,174

(c) Member deposits

As at 30 June 2012, the Holding Entity has no deposit liabilities with an outstanding balance in excess of 10% or more of its total liabilities (2011: $Nil).

The Holding Entity has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular geographic segments as follows:

	2012	2011	2012	2011
South Australia	**3,089,890**	3,008,837	**3,089,248**	3,008,411
Northern Territory	**305,266**	285,148	**305,266**	285,148
Victoria	**195,876**	211,138	**195,876**	211,138
New South Wales	**273,201**	343,707	**273,201**	343,707
Western Australia	**25,573**	29,919	**25,573**	29,919
Queensland	**72,556**	101,770	**72,556**	101,770
Australian Capital Territory	**7,793**	12,625	**7,793**	12,625
Tasmania	**8,963**	10,098	**8,963**	10,098
	3,979,118	4,003,242	**3,978,476**	4,002,816

(d) Borrowings

	2012	2011	2012	2011
National Australia Bank Ltd	**165,384**	159,995	**165,384**	159,995
Westpac Banking Corporation Ltd	**270,000**	365,000	**270,000**	365,000
Waratah Finance Pty Ltd	**361,635**	334,316	**361,635**	334,316
Other	**1,579**	1,900	**1,579**	1,900
	798,598	861,211	**798,598**	861,211

Notes to the Financial Statements

32. COMMITMENTS

	Credit Union		Consolidated	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
a) Capital expenditure commitments				
Property, plant & equipment	-	305	-	305
Estimated capital expenditure contracted for at balance date but not provided for:				
Payable not later than 1 year	-	305	-	305
b) Lease expenditure commitments				
Non-cancellable operating leases				
not later than 1 year	**10,230**	11,566	**10,501**	11,821
later than 1 and not later than 2 years	**8,648**	8,337	**8,925**	8,602
later than 2 and not later than 5 years	**17,995**	18,081	**18,468**	18,854
later than 5 years	**2,272**	421	**2,283**	421
Aggregate lease expenditure contracted for at 30 June	**39,145**	38,405	**40,177**	39,698

The Consolidated Entity leases various office and branch premises under non-cancellable leases expiring within one to ten years. The leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.

	Credit Union		Consolidated	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
(c) Credit commitments				
Loans approved not disbursed	**98,451**	98,825	**98,451**	98,825
Members unused credit facility	**454,060**	397,977	**454,060**	397,977
	552,511	496,802	**552,511**	496,802

33. CONTINGENCIES

Details of contingent liabilities and contingent assets where the probability of further payments/receipts is not considered remote are set out below, as well as details of contingent liabilities and contingent assets, which although considered remote, the Directors consider should be disclosed.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that the future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	Credit Union		Consolidated	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
(a) Guarantees				
The Consolidated Entity has issued guarantees as follows:				
Guarantee issued for members	**2,337**	1,694	**2,337**	1,694

Notes to the Financial Statements

33. CONTINGENCIES (Continued)

(b) Credit Union Financial Support System Limited

With effect from 1 July 1999, the Holding Entity is a party to the Credit Union Financial Support System ("CUFSS"). CUFSS is a voluntary scheme that all Credit Unions which are affiliated with Credit Unions Services Corporation (Australia) Limited ("Cuscal") have agreed to participate in. CUFSS is a company limited by guarantee, each Credit Union's guarantee being $100. As a member of CUFSS, the Holding Entity:

- May be required to advance funds of up to 3% (excluding permanent loans) of total assets to another Credit Union requiring financial support;
- May be required to advance permanent loans of up to 0.2% of total assets per financial year to another Credit Union requiring financial support;
- Agrees, in conjunction with other members, to fund the operating costs of CUFSS.

	Credit Union		**Consolidated**	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000

34. STANDBY BORROWING FACILITIES

The Holding Entity has the following borrowing facilities:

	Credit Union 2012 $'000	Credit Union 2011 $'000	**Consolidated 2012 $'000**	Consolidated 2011 $'000
(a) Overdraft facility				
Gross facility amount	**5,000**	5,000	**5,000**	5,000
Less: current borrowing	**-**	-	**-**	-
Net available	**5,000**	5,000	**5,000**	5,000
(b) Wholesale funding facilities (Note 24)				
Gross facility amount	**1,001,579**	1,001,900	**1,001,579**	1,001,900
Less: current borrowing	**(798,598)**	(861,211)	**(798,598)**	(861,211)
Net undrawn	**202,981**	140,689	**202,981**	140,689

35. SECURITISATION

In the ordinary course of business, the Consolidated Entity enters into transactions that result in the transfer of financial assets to third parties or special purpose entities on an arms length basis. The Holding Entity transferred loans totalling $248.289 million (2011: $844.954 million) during the financial year. The total value of transferred loans as at 30 June 2012 was $1,403.990 million (2011: $1,383.218 million). The Consolidated Entity does invest in some of its own securitisation programs where the Holding Entity holds A and B notes equivalent to $27.651 million as at 30 June 2012 (2011: $27.651 million).

Notes to the Financial Statements

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000

36. AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for service provided by the auditor of the Consolidated Entity:

	Credit Union 2012	Credit Union 2011	Consolidated 2012	Consolidated 2011
(a) Audit services				
KPMG				
Audit and review of the financial reports	**195**	184	**212**	210
Other regulatory audit services	**27**	28	**32**	31
	222	212	**244**	241
(b) Taxation services				
KPMG	**201**	125	**201**	125
(c) Other assurance services				
KPMG	**75**	93	**75**	93
(d) Other services				
KPMG	**16**	-	**16**	-
	16	-	**16**	-

37. INVESTMENTS IN CONTROLLED ENTITIES

Name of entity	% held by Holding Entity 2012 %	% held by Holding Entity 2011 %	Book value of shares/units 2012 $	Book value of shares/units 2011 $
Australian Central Credit Union Ltd (trading as People's Choice Credit Union)				
Controlled entities				
Australian Central Services Pty Ltd	**100**	100	**-**	-
Australian Central Travel Pty Ltd	**100**	100	**2**	2
Financial Solutions Australasia Pty Ltd	**100**	100	**4,987,793**	4,987,973
70 Light Square Pty Ltd	**100**	100	**-**	-
Flinders Finance Pty Ltd	**100**	100	**160,000**	160,000
Let's Talk Home Loans Group Pty Ltd	**100**	100	**1**	1
Austral Financial Planning Pty Ltd	**100**	100	**1**	1
People's Choice Communtiy Foundation Ltd*	**100**	**-**	**-**	-
Special purpose entities				
Light Trust No. 1				
Light Trust No. 2				
Light Trust No. 3				

Notes to the Financial Statements

37. INVESTMENTS IN CONTROLLED ENTITIES (continued)

* Date of incorporation was the 9th day of December 2011.

All controlled entities and special purpose entities are incorporated in Australia. All shares held are ordinary shares. The amounts disclosed in relation to investments in controlled entities in this note have not been rounded to the nearest one thousand dollars in order to disclose amounts which would otherwise have been rounded down to zero.

Australian Central Travel Pty Ltd, 70 Light Square Pty Ltd, Flinders Finance Pty Ltd, Let's Talk Home Loans Group Pty Ltd and Austral Financial Planning Pty Ltd are small proprietary companies and have not been audited.

People's Choice Community Foundation Ltd is a company limited by guarantee. The date of incorporation was the 9th December 2011 and will be audited. The foundation was set up to operate the Holding Entity's Community Lottery.

38. ECONOMIC DEPENDENCY

The Holding Entity has an economic dependency on the following suppliers of services:

(a) Credit Union Services Corporation (Australia) Ltd

This company provides the Holding Entity with the rights to and the production of members cheques, ATM management services, Redicards and Visa cards, provides finance facilities, settlement with bankers, electronic funds deposit, central banking and money market services.

(b) First Data Resources Australia Ltd

This company operates the switching system that links rediATM's, other approved EFT suppliers, Visa acquirers and merchants to the Holding Entity's computer systems.

(c) Datacom Systems

This company has been engaged to host a communication service for the Holding Entity

(d) Fiserv ASPAC Pte. Ltd

This company is a member of an international group which owns core computer software which the Holding Entity operates.

(e) CU Technology Development Ltd

This company holds the Australian Credit Union licence for the Fiserv computer software and sub-licenses the software, and provides ongoing support to the Holding Entity.

(f) Data Action Pty Ltd

This company operates a computer bureau which operates a processing system of the Holding Entity.

Notes to the Financial Statements

39. NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For purposes of the Statements of Cash Flows, cash and cash equivalents comprise the following:

	Credit Union		Consolidated	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Cash and cash equivalents	**138,900**	149,969	**148,162**	162,775
Available-for-Sale investment securities with maturity < 3 months	**568,964**	719,899	**575,963**	730,149
	707,864	869,868	**724,125**	892,924

(b) Reconciliation of profit after income tax to net cash from operating activities

	Credit Union		Consolidated	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Profit for the period	**21,367**	32,248	**22,235**	33,039
Adjustments for:				
Depreciation and amortisation	**10,587**	10,972	**10,588**	11,139
(Increase)/decrease in provision for impairment	**(356)**	558	**(356)**	558
Increase/(decrease) in provision for impairment on other investments	**-**	(328)	**-**	(328)
Amortisation of fair value adjustments upon merger	**3,674**	5,179	**3,674**	5,179
Net change in fair value of financial assets/liabilities at fair value through profit or loss	**(404)**	861	**(404)**	(6,861)
Bad debts written off	**3,710**	2,290	**3,710**	2,290
Dividend income classified as investing cash flow	**(2,939)**	(5,648)	**(2,939)**	(5,648)
Increase/(decrease) in provision for employee benefits	**1,192**	1,374	**1,248**	1,415
Increase in provision for income tax	**(7,688)**	1,026	**(7,653)**	1,041
Increase in current tax assets	**(7,033)**	5,295	**(7,045)**	3,803
Decrease in provision for deferred tax	**4,878**	(3,087)	**4,878**	(1,610)
Net (profit)/loss on sale of property, plant & equipment	**(101)**	(16)	**(101)**	(16)
Change in assets and liabilities:				
Increase in interest payable	**(2,687)**	4,552	**(2,599)**	3,536
Increase/(decrease) in payables and other liabilities	**(3,681)**	(15,926)	**(11,017)**	4,652
Decrease in net loans and advances	**133,527**	33,929	**133,527**	33,929
(Increase)/decrease in interest receivable	**1,376**	2,809	**1,386**	2,809
Increase/(decrease) in other financial assets/liabilities	**3,784**	(4,893)	**3,784**	(4,893)
(Increase)/decrease in other assets	**1,810**	3,752	**1,520**	1,973
Net cash from operating activities	**161,016**	74,947	**154,436**	86,007

Notes to the Financial Statements

40. RELATED PARTIES

(a) Directors

The following were Directors of the Consolidated Entity from the beginning of the financial year to the date of this report.

(i) Chair - Non-Executive
W. R. Cossey AM

(ii) Deputy Chair - Non-Executive
J.L. Cossons

(iii) Executive Director
P.H.T. Evers (Managing Director)

(iv) Non-Executive Directors
Dr R. H. S. Brooks
S. M. Day
E. T. McGuirk
J. McMahon
K. A. Skipper AM

(b) Other key management personnel

The following persons, employed by the Holding Company, also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity, directly or indirectly, during the financial year:

Name	Position
D. Bateman	General Manager Advice and Relationships
A. Hamilton	General Manager Marketing and Product Management
T. Hampton	General Manager Technology
D. Lewis	General Manager Retail Banking
D. Mattiske-Wood	General Manager Organisational Development
G. Strawbridge	General Manager Finance and Treasury (resigned 30 March 2012)
L. Wilkinson	General Manager Risk

(c) Key management personnel compensation

Key management personnel compensation is comprised of:

	Credit Union		Consolidated	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Short-term employee benefits	**3,516**	3,081	**3,516**	3,081
Post-employment benefits - superannuation	**261**	188	**261**	188
Other long term benefits	**833**	149	**833**	149
	4,610	3,418	**4,610**	3,418

Notes to the Financial Statements

40. RELATED PARTIES (Continued)

(d) Loans to key management personnel

Loans

Loans to Directors and key management personnel are either unsecured or secured by registered mortgage over eligible security in accordance with standard lending policies.

(i) Aggregates for key management personnel

Consolidated	Opening Balance $'000	Closing Balance $'000
2012	**4,029**	**4,452**
2011	3,973	4,029

All loans to Directors including their related parties are made on normal member terms and conditions which apply to each class of loan.

All loans to management personnel are made on normal staff terms and conditions that are applicable to normal staff benefit packages.

The key management personnel who conducted loan accounts with the Holding Entity during the year were W.R. Cossey AM, J.L. Cossons, K.A. Skipper AM, P.H.T. Evers, A. Hamilton, G. Strawbridge, D. Lewis, T. Hampton and L. Wilkinson.

(e) Other transactions with key management personnel

Apart from the details disclosed in this note, no key management personnel has entered into a material contract with the Holding Entity or the Consolidated Entity since the end of the previous year and there were no material contracts involving key management personnel interests existing at year end.

Financial transactions (other than loans disclosed within this report) of Directors (including the Managing Director) occur in the ordinary course of business on an arm's length basis. For other key management personnel, financial transactions (other than loans disclosed within this report) are made on normal staff terms and conditions that are applicable to normal staff benefit packages. Disclosure of financial transactions regularly made as part of normal banking operations is limited to disclosure of such transactions with key management personnel and entities controlled or significantly influenced by them. All such financial transactions that have occurred between entities within the Group and their key management personnel have been trivial or domestic in nature and were in the nature of normal personal banking and deposit transactions.

As required to be a member of the Holding Entity, each key management person holds one $2 share.

(f) Non-key management personnel disclosures

(i) The Holding Entity has related party transactions with its subsidiaries with the transactions set out below.

Controlled entities

Interests in controlled entities are set out in Note 37.

Notes to the Financial Statements

40. RELATED PARTIES (Continued)

(f) Non-key management personnel disclosures (continued)

(ii) Transactions with related parties

	Credit Union	
	2012	2011
	$'000	$'000
Financial Solutions Australasia Pty Ltd		
Aggregate amounts included in the Holding Entity accounts that resulted from transactions with Financial Solutions Australasia Pty Ltd:		
Management fee income	**214**	210
Receivable	**652**	-
Payable	**-**	17
Australian Central Services Pty Ltd		
Aggregate amounts included in the Holding Entity accounts that resulted from transactions with Australian Central Services Pty Ltd:		
Management fee income	**94**	96
Payable	**87**	70
Light Trust No. 1		
Aggregate amounts included in the Holding Entity accounts that resulted from transactions with Light Trust No. 1:		
Residual unitholder income received	**769**	1,023
Loan	**110,979**	141,966
Net Swap Income/(Expense)	**(1,884)**	(2,279)
Light Trust No. 2		
Aggregate amounts included in the Holding Entity accounts that resulted from transactions with Light Trust No. 2:		
Residual unitholder income received	**308**	423
Loan	**99,203**	129,599
Net Swap Income/(Expense)	**(802)**	(873)
Light Trust No. 3		
Aggregate amounts included in the Holding Entity accounts that resulted from transactions with Light Trust No. 3:		
Residual unitholder income received	**1,596**	1,149
Loan	**326,494**	432,535
Net Swap Income/(Expense)	**(2,042)**	(1,664)

Notes to the Financial Statements

40. RELATED PARTIES (Continued)

(f) Non-key management personnel disclosures (continued)

(ii) Transactions with related parties (continued)

	Credit Union	
	2012	2011
	$'000	$'000
Flinders Finance Pty Ltd		
Aggregate amounts included in the Holding Entity accounts that resulted from transactions with Flinders Finance Pty Ltd:		
Interest Paid by the Holding Entity	**7**	7
Payable	**2**	-
Flinders Finance Pty Ltd has funds on deposit with the Holding Entity of $194,072 (2011: $238,416) for which it is paid a commercial interest rate.		
Let's Talk Home Loans Group Pty Ltd		
Aggregate amounts included in the Holding Entity accounts that resulted from transactions with Let's Talk Home Loans Group Pty Ltd:		
Other Revenue received by the Holding Entity	**20**	28
Commission Paid by the Holding Entity	**4**	8
Payable	**69**	-
Let's Talk Home Loans Group Pty Ltd has funds on deposit with the Holding Entity of $342,397 (2011: $187,560) for which is non interest bearing.		
People's Choice Community Foundation Ltd		
Aggregate amounts included in the Holding Entity accounts that resulted from transactions with People's Choice Community Foundation Ltd:		
Payable	**72**	-
Contribution towards operating expense	**(415)**	-
People's Choice Community Foundation Ltd has funds on deposit with the Holding Entity of $104,984 which is non interest bearing.		

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS

a) Financial risk management objectives

The Holding Entity and the Consolidated Entity as part of its daily operations is exposed to a range of risks. The management of these risk exposures involves a number of activities including the identification of particular risks, quantifying the risk exposure, implementing procedures to control and mitigate the risks, and risk reporting.

The Holding Entity and the Consolidated Entity have in place an enterprise wide risk management process. The process is managed through the Risk Committee, and is supported by a documented risk management plan, risk policies and strategies, internal controls and procedures and a Business Risk and Continuity Plan.

The risk management process involves establishing the context and the identification, analysis, treatment, communication and ongoing monitoring of risks. A risk register has been established as part of the risk management process that enables a structured and logical assessment and reporting of identified risks including their consequences and likelihood, and the assessment of established risk mitigation controls.

b) Terms, conditions and accounting policies

The Consolidated Entity's accounting policies, including terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are disclosed in Note 1.

c) Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Consolidated Entity has in place information systems and a structured process to monitor and manage liquidity risk. The management process incorporates specific liquidity management strategies and liquidity contingency plans that manage liquidity on a daily basis under normal situations and assumed adverse scenarios. The liquidity strategy requires the holding of surplus funds in high quality liquid assets ("HQLA"), the availability of appropriate standby lines of funding, maintenance of reliable sources of funding (retail and wholesale) and daily liquidity projections.

APRA Prudential standards place specific management and reporting requirements on credit unions in relation to liquidity risk. The Prudential Standards provide that liquidity strategies and liquidity holdings can be based on either a scenario analysis or on a minimum liquidity holdings basis. APRA has approved the adoption by the Holding Entity of a minimum liquidity holding basis whereby the Holding Entity is required to maintain a minimum holding in specified HQLA at all times. The Holding Entity and the Consolidated Entity complied with all APRA liquidity requirements throughout the year. The Holding Entity's HQLA liquidity ratio as at the end of the reporting period (30 June) and the comparative period were as follows:

	Credit Union	
	2012	2011
Liquidity holdings	**15.46%**	15.03%

Contractual undiscounted cash flows

The tables below summarise the maturity profile of the Consolidated Entity's and the Holding Entity's financial liabilities as at 30 June 2012 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as notice where given immediately. However, the Consolidated Entity or the Holding Entity expect that many members will not request repayment on the earliest date the Consolidated Entity or the Holding Entity could be required to pay and the tables do not reflect the cash flows indicated by the Consolidated Entity's or the Holding Entity's deposit retention history. Derivatives designated in a hedging relationship are based on their contractual maturity.

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS (Continued)

c) Liquidity risk management (continued)

Contractual undiscounted cash flows (continued)

Holding Entity

	Carrying Amount		Contractual Cashflows		On demand		Less than 3 months		3-12 months		1-5 years		Over 5 years	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000
Non Derivative Financial liabilities														
Deposits	**3,979,118**	4,003,242	**4,022,230**	4,056,057	**1,952,148**	1,896,687	**1,197,395**	1,127,852	**760,848**	907,176	**111,782**	124,154	**57**	188
Trade and other payables	**621,045**	782,722	**741,615**	996,843	**-**	-	**113,389**	173,867	**73,347**	148,572	**196,076**	297,237	**358,803**	377,167
Borrowings	**798,598**	861,211	**951,419**	1,123,212	**-**	-	**72,626**	72,353	**878,793**	1,050,859	**-**	-	**-**	-
Notes Payable	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Derivative Financial Instruments														
Interest rate swaps	**7,844**	9,927	**(9,569)**	10,800	**-**	-	**1,941**	2,061	**2,705**	6,221	**(7,744)**	2,980	**(6,471)**	(462)
Total cash flows	**5,406,605**	5,657,102	**5,705,695**	6,186,912	**1,952,148**	1,896,687	**1,385,351**	1,376,133	**1,715,693**	2,112,828	**300,114**	424,371	**352,389**	376,893

Consolidated Entity

	Carrying Amount		Contractual Cashflows		On demand		Less than 3 months		3-12 months		1-5 years		Over 5 years	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000
Non Derivative Financial liabilities														
Deposits	**3,978,476**	4,002,816	**4,021,588**	4,055,632	**1,951,506**	1,896,261	**1,197,395**	1,127,853	**760,848**	907,176	**111,782**	124,154	**57**	188
Trade and other payables	**93,473**	101,086	**93,473**	100,995	**-**	-	**93,473**	100,995	**-**	-	**-**	-	**-**	-
Borrowings	**798,598**	861,211	**951,419**	1,123,212	**-**	-	**72,626**	72,353	**878,793**	1,050,859	**-**	-	**-**	-
Notes Payable	**509,025**	673,400	**630,426**	865,056	**-**	-	**29,851**	59,313	**70,119**	133,417	**187,446**	295,163	**343,010**	377,163
Derivative Financial Instruments														
Interest rate swaps	**14,141**	10,761	**14,513**	11,191	**-**	-	**3,436**	2,035	**6,836**	6,148	**4,241**	3,007	**-**	1
Total cash flows	**5,393,713**	5,649,274	**5,711,419**	6,156,086	**1,951,506**	1,896,261	**1,396,781**	1,362,549	**1,716,596**	2,097,600	**303,469**	422,324	**343,067**	377,352

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS (Continued)

d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Consolidated Entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question. Collateral takes the form of mortgage interests over real property. The value of collateral held against individual exposures is generally only assessed at the time of borrowing or when a specific review of that exposure is undertaken in accordance with policy.

The Group holds collateral against loans and advances to members in the form of mortgage interests over real property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

The Consolidated Entity's maximum exposure to credit risk at the reporting date was:

Exposure to credit risk	Note	Consolidated	
		2012	2011
		$'000	$'000
Cash and cash equivalents	10	**148,162**	162,775
Trade and other receivables	11	**20,848**	22,026
Loans and advances	12	**4,812,466**	4,945,994
Available-for-Sale investment securities	14	**754,705**	842,149
Financial assets at fair value through profit or loss	19	**3,070**	324
Interest rate swaps used for hedging	22	**17,211**	11,085
		5,756,462	5,984,353

Exposure to credit risk	Loans and advances to members		Investment Securities	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Individually impaired				
- Mortgage secured	**-**	403	-	-
- Other loans	**2,480**	2,454	-	-
Gross amount	**2,480**	2,857	-	-
Less: Allowance for impairment	**(2,480)**	(2,479)	-	-
Carrying amount	**-**	378	-	-
Past due but not impaired				
1 - 30 days	**112,142**	117,730	-	-
31 - 60 days	**15,733**	19,587	-	-
61 - 90 days	**7,576**	7,641	-	-
90 days +	**9,482**	6,201	-	-
Gross amount	**144,933**	151,159	-	-
Less: Allowance for impairment	**(1,841)**	(2,198)	-	-
Carrying Amount	**143,092**	148,961	-	-
Neither past due nor impaired	**4,673,134**	4,801,158	**46,498**	48,930
Includes accounts with renegotiated terms	**7,653**	8,259	**-**	-
Total Carrying Amount	**4,816,226**	4,950,497	**46,498**	48,930

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS (Continued)

e) Capital adequacy

The management of the capital of a financial institution is a fundamental part of its risk management process as an essential element of capital is its availability to absorb future, unexpected and unidentified losses.

APRA Prudential Standards require ADI's to maintain at all times a minimum ratio of capital to risk weighted assets. As part of its risk management process, the Holding Entity has developed a methodology with financial modelling to assist in determining the optimum level of capital that is consistent with assessed risk exposure and business activity. The optimum capital is managed within a range well above the minimum required by APRA and incorporates an assessment of the combined risk exposure for operations, market, credit and strategic risk.

The capital management plan ensures the ongoing capital management of the Holding Entity is maintained with the level and extent of the risks the Holding Entity is exposed to from its activities. The Holding Entity and Consolidated Entity complied with all APRA capital adequacy requirements throughout the year.

	Consolidated	
	2012	2011
Total qualifying capital	**383,760**	346,991
Risk Weighted Assets	**2,652,489**	2,633,891
Capital Adequacy Ratio	**14.47%**	13.17%

f) Market risk management

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Holding Entity as part of its normal trading activities. As the Holding Entity does not deal in foreign exchange contracts or commodities, market risk for the Consolidated Entity consists solely of interest rate risk.

The management of interest rate risk is explained in more detail at Note (h) below.

g) Market risk sensitivity analysis

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Holding Entity and the Consolidated Entity's net interest revenue and net financial assets or "market value of equity" to standard interest rate scenarios. Standard interest rate scenarios include 50 and 100 basis point (bp) parallel falls and rises in all yield curves. Sensitivity outcomes are assessed relative to either a 12 month forecast net interest margin sensitivity, or the Consolidated Entity's current capital base, for market value of equity sensitivity.

	30 June 2012				30 June 2011			
	50 bp rise	**50 bp fall**	**100 bp rise**	**100 bp fall**	50 bp rise	50 bp fall	100 bp rise	100 bp fall
Holding Entity								
Equity Sensitivity	**0.07%**	**(0.07%)**	**0.13%**	**(0.14%)**	0.11%	(0.10%)	0.01%	(0.21%)
Net Revenue Sensitivity	**2.20%**	**(1.71%)**	**4.41%**	**(3.43%)**	2.49%	(1.97%)	4.97%	(3.94%)
Consolidated								
Equity Sensitivity	**0.28%**	**(0.28%)**	**0.55%**	**(0.57%)**	0.21%	(0.42%)	0.62%	(0.84%)
Net Revenue Sensitivity	**1.63%**	**(1.14%)**	**3.25%**	**(2.28%)**	1.73%	(1.22%)	3.46%	(2.44%)

h) Interest rate risk management

Both the Holding Entity's and the Consolidated Entity's activities primarily expose them to the financial risks of changes in interest rates. The Holding Entity utilises extensive modelling techniques to identify the value at risk to net interest income and the market value of equity, given a number of assumed changes in market interest rates. The Board has in place a market risk policy which sets risk limits above which the Holding Entity is required to actively hedge its exposure through the use of on-balance sheet methods or through financial instruments such as interest rate swaps.

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS (Continued)

h) Interest rate risk management (continued)

The Holding Entity and the Consolidated Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at the balance date are as follows:

Holding Entity

Financial instruments	Floating interest rate		Fixed interest rate maturing in : 1 year or less		Over 1 to 5 years		More than 5 years		Non interest bearing		Total carrying amount as per Statement of Financial Position		Weighted average effective interest rate	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	**2011 $'000**	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 %**	2011 %
(i) Financial assets														
Cash and cash equivalents	**127,505**	121,550	**-**	**-**	**-**	-	**-**	-	**11,395**	28,418	**138,900**	149,968	**2.92%**	3.85%
Trade and other receivables	**-**	-	**-**	-	**-**	-	**-**	-	**20,930**	21,771	**20,930**	21,771	**-**	-
Loans and advances	**3,244,957**	3,269,653	**413,273**	421,230	**1,122,238**	1,185,013	**31,998**	70,098	**-**	-	**4,812,466**	4,945,994	**6.93%**	7.61%
Investments :														
Available-for-Sale investment securities	**-**	-	**747,705**	771,500	**-**	60,000	**-**	-	**-**	399	**747,705**	831,899	**4.48%**	5.48%
Other investments	**-**	-	**28,704**	30,700	**-**	-	**-**	-	**17,427**	18,230	**46,131**	48,930	**3.42%**	4.31%
Total financial assets	**3,372,462**	3,391,203	**1,189,682**	1,223,430	**1,122,238**	1,245,013	**31,998**	70,098	**49,752**	68,818	**5,766,132**	5,998,562	**6.46%**	7.15%
(ii) Financial liabilities														
Deposits	**1,947,757**	1,890,693	**1,927,818**	1,998,148	**103,487**	114,233	**56**	168	**-**	-	**3,979,118**	4,003,242	**4.16%**	4.82%
Other financial liabilities			**-**	-	**-**	-	**-**	-						
Trade and other payables	**-**	-	**536,676**	704,100	**-**	-	**-**	-	**84,369**	78,622	**621,045**	782,722	**4.12%**	5.36%
Borrowings	**-**	-	**798,598**	861,211	**-**	-	**-**	-	**-**	-	**798,598**	861,211	**4.45%**	6.12%
Notes Payable	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total financial liabilities	**1,947,757**	1,890,693	**3,263,092**	3,563,459	**103,487**	114,233	**56**	**168**	**84,369**	78,622	**5,398,761**	5,647,175	**4.20%**	5.09%
(iii) Interest rate swaps	**1,228,037**	1,488,666	**(431,312)**	(406,963)	**(673,506)**	(896,200)	**(123,219)**	(185,503)	**-**	**-**	**(7,844)**	(9,927)	**(0.40%)**	(1.18%)

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS (Continued)

h) Interest rate risk management (continued)

Consolidated Entity

Financial instruments	Floating interest rate		Fixed interest rate maturing in : 1 year or less		Over 1 to 5 years		More than 5 years		Non interest bearing		Total carrying amount as per Statement of Financial Position		Weighted average effective interest rate	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 %**	2011 %
(i) Financial assets														
Cash and cash equivalents	**136,454**	121,550	**-**	-	**-**	-	**-**	-	**11,708**	41,225	**148,162**	162,775	**2.93%**	3.55%
	-	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Trade and other receivables	**-**	-	**-**	-	**-**	-	**-**	-	**20,848**	22,026	**20,848**	22,026	**-**	-
Loans and advances	**3,244,957**	3,269,653	**413,273**	421,230	**1,122,238**	1,185,013	**31,998**	70,098	**-**	-	**4,812,466**	4,945,994	**6.93%**	7.61%
Investments :	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Available-for-Sale investment securities	**-**	-	**754,705**	781,759	**-**	60,000	**-**	-	**-**	390	**754,705**	842,149	**4.48%**	5.48%
Other investments	**-**	-	**1,053**	-	**-**	-	**-**	-	**12,280**	13,082	**13,333**	13,082	**0.24%**	-
Total financial assets	**3,381,411**	3,391,203	**1,169,031**	1,202,989	**1,122,238**	1,245,013	**31,998**	70,098	**44,836**	76,723	**5,749,514**	5,986,026	**6.46%**	7.14%
(ii) Financial liabilities														
Deposits	**1,947,115**	1,890,693	**1,927,818**	1,997,722	**103,487**	114,233	**56**	168	**-**	-	**3,978,476**	4,002,816	**4.16%**	4.82%
Other financial liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Trade and other payables	**-**	-	**-**	-	**-**	-	**-**	-	**93,473**	101,086	**93,473**	101,086	**-**	-
Borrowings	**-**	-	**798,598**	861,211	**-**	-	**-**	-	**-**	-	**798,598**	861,211	**4.45%**	6.12%
Notes Payable	**-**	-	**509,025**	673,400	**-**	-	**-**	-	**-**	-	**509,025**	673,400	**4.61%**	5.93%
Total financial liabilities	**1,947,115**	1,890,693	**3,235,441**	3,532,333	**103,487**	114,233	**56**	**168**	**93,473**	101,086	**5,379,572**	5,638,513	**4.17%**	5.06%
(iii) Interest rate swaps	**752,563**	775,619	**(308,236)**	(216,000)	**(444,327)**	(557,619)	**-**	**(2,000)**	**-**	**-**	**(14,141)**	**(10,761)**	**(1.79%)**	(1.18%)

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS (Continued)

i) Net fair values

The fair values of financial assets and financial liabilities, together with the carrying amounts shown in the Statement of Financial Position are as follows:

		30 June 2012		30 June 2011		
Holding Entity	**Note**	**Carrying $'000**	**Fair value $'000**	Carrying $'000	Fair value $'000	**Methods and assumptions used to determine net fair values**
Assets carried at fair value						
Available-for-Sale investment securities	14	**747,705**	**747,705**	831,899	831,899	Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.
Other investments	14	**46,131**	**46,197**	48,930	48,930	Other investments represents shares in unlisted companies for which fair value cannot be reliably measured as no active market exists for these assets. There are no current intentions to dispose of these investment. Market value of the interest bearing assets in the Holding Entity are calculated on a discounted cash flow basis.
		793,836	**793,901**	880,829	880,829	
Assets carried at amortised cost						
Cash and cash equivalents	10	**138,900**	**138,900**	149,968	149,968	Being cash at call deposits, the carrying amount is the net fair value.
Trade and other receivables	11	**20,191**	**20,191**	21,771	21,771	Carrying amount has been assumed for net fair value as there are no markets for these assets but, should they be redeemed, it is expected that their carrying amount would be recovered.
Loans and advances	12	**4,812,466**	**4,824,785**	4,945,994	4,950,087	The net fair value of impaired loans has been estimated by their carrying amount net of the aggregate provision for impairment. The net fair value of other loans has been estimated using discounted cash flow analysis, based on current rates offered by the Consolidated Entity for loans with similar terms.
		4,971,557	**4,983,876**	5,117,733	5,121,826	
Liabilities carried at fair value						
Interest rate swaps	19,22	**7,844**	**7,844**	9,927	9,927	Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.
		7,844	**7,844**	9,927	9,927	
Liabilities carried at amortised cost						
Deposits	21	**3,979,118**	**3,973,593**	4,003,242	3,980,223	The net fair value of deposits has been estimated using discounted cash flow analysis, based on current rates offered by the Consolidated Entity for deposits with similar terms.
Trade and other payables	23	**621,045**	**615,956**	782,722	782,722	Carrying amount approximates net fair value because of the short term to settlement of the amounts due.
Borrowings	24	**798,598**	**801,773**	861,211	865,573	Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.
Notes Payable	25	**-**	**-**	-	-	Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.
		5,398,761	**5,391,322**	5,647,175	5,628,518	

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS (Continued)

i) Net fair values (continued)

Consolidated Entity	Note	30 June 2012 Carrying amount $'000	30 June 2012 Fair value $'000	30 June 2011 Carrying amount $'000	30 June 2011 Fair value $'000	Methods and assumptions used to determine net fair values
Assets carried at fair value						
Available-for-Sale investment securities	14	**754,705**	**754,705**	842,149	842,149	Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.
Other investments	14	**13,333**	**13,333**	13,082	13,082	Other investments represents shares in unlisted companies for which fair value cannot be reliably measured as no active market exists for these assets. There are no current intentions to dispose of these investment. Market value of the interest bearing assets in the Holding Entity are calculated on a discounted cash flow basis.
		768,038	**768,038**	855,231	855,231	
Assets carried at amortised cost						
Cash and cash equivalents	10	**148,162**	**148,162**	162,775	162,775	Being cash at call deposits, the carrying amount is the net fair value.
Trade and other receivables	11	**20,848**	**20,848**	22,026	22,026	Carrying amount has been assumed for net fair value as there are no markets for these assets but, should they be redeemed, it is expected that their carrying amount would be recovered.
Loans and advances	12	**4,812,466**	**4,824,785**	4,945,994	4,950,087	The net fair value of impaired loans has been estimated by their carrying amount net of the aggregate provision for impairment. The net fair value of other loans has been estimated using discounted cash flow analysis,
		4,981,476	**4,993,795**	5,130,795	5,134,888	
Liabilities carried at fair value						
Interest rate swaps	19,22	**14,141**	**14,141**	10,761	10,761	Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.
		14,141	**14,141**	10,761	10,761	
Liabilities carried at amortised cost						
Deposits	21	**3,978,476**	**3,972,952**	4,002,816	3,980,223	The net fair value of deposits has been estimated using discounted cash flow analysis, based on current rates offered by the Consolidated Entity for deposits with similar terms.
Trade and other payables	23	**93,473**	**93,473**	101,086	101,086	Carrying amount approximates net fair value because of the short term to settlement of the amounts due.
Borrowings	24	**798,598**	**801,773**	861,211	865,273	Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.
Notes Payable	25	**509,025**	**503,936**	673,400	676,811	Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.
		5,379,572	**5,372,134**	5,638,513	5,623,393	

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS (Continued)

i) Net fair values (continued)

Interest rates used for determining fair values

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2012 %	2011 %
Loans and advances	**5.89%- 15.45%**	6.89% - 15.9%
Investment securities	**3.50%- 7.33%**	4.7% - 7.0%
Deposits	**3.04%- 5.36%**	4.91% - 6.0%
Borrowings	**4.58%- 4.88%**	6.0% - 6.3%
Notes Payable	**3.75%- 5.38%**	4.9% - 6.2%
Derivatives	**3.04%- 3.91%**	4.75% - 5.92%

j) Interest rate swap contracts

The Consolidated Entity uses interest rate contracts in managing interest rate exposure, including interest rate swap contracts. Under interest rate swap contracts, the Consolidated Entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of changing interest rates. The Consolidated Entity enters into interest rate swap agreements for the sole purpose of managing interest rate exposures in the Statement of Financial Position and not for speculative purposes.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

			Fair Value		Notional principal amount	
	2012 %	2011 %	**2012** $'000	2011 $'000	**2012** $'000	2011 $'000
Holding Entity						
Less than 1 year	**6.38%**	6.65%	**(8,241)**	(7,854)	**431,312**	406,963
1 to 2 years	**5.96%**	6.42%	**(1,969)**	(2,300)	**227,753**	407,272
2 to 5 years	**5.74%**	6.17%	**1,241**	52	**445,753**	488,928
> 5 years	**6.44%**	7.19%	**1,125**	175	**123,219**	185,503
	6.07%	6.50%	**(7,844)**	(9,927)	**1,228,037**	1,488,666
Consolidated						
Less than 1 year	**6.15%**	6.02%	**(10,114)**	(7,966)	**308,236**	216,000
1 to 2 years	**5.32%**	6.15%	**(3,248)**	(2,518)	**135,558**	287,000
2 to 5 years	**5.28%**	5.98%	**(779)**	(276)	**308,769**	270,619
> 5 years	**-**	6.25%	**-**	(1)	**-**	2,000
	5.65%	**6.05%**	**(14,141)**	(10,761)	**752,563**	775,619

Interest rate swap contracts exchanging fixed rate interest are designed and assessed as effective cash flow hedges.

Notes to the Financial Statements

41. FINANCIAL INSTRUMENTS (Continued)

k) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method for the Consolidated Entity. The different levels have been identified as follows:

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2**: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- **Level 3**: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Holding Entity	**$'000**	**$'000**	**$'000**	**$'000**
Available-for-Sale financial assets	**-**	**747,705**	**-**	**747,705**
Derivative financial assets	**-**	**6,297**	**-**	**6,297**
	-	**754,002**	**-**	**754,002**
Derivative financial liabilities	**-**	**(14,141)**	**-**	**(14,141)**
	-	**739,861**	**-**	**739,861**

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Consolidated Entity	**$'000**	**$'000**	**$'000**	**$'000**
Available-for-Sale financial assets	**-**	**754,705**	**-**	**754,705**
Derivative financial assets	**-**	**3,070**	**-**	**3,070**
	-	**757,775**	**-**	**757,775**
Derivative financial liabilities	**-**	**(17,211)**	**-**	**(17,211)**
	-	**740,564**	**-**	**740,564**

	2011			
	Level 1	Level 2	Level 3	Total
Holding Entity	$'000	$'000	$'000	$'000
Available-for-Sale financial assets	-	831,899	-	831,899
Derivative financial assets	-	949	-	949
	-	832,848	-	832,848
Derivative financial liabilities	-	(10,876)	-	(10,876)
	-	821,972	-	821,972

	2011			
	Level 1	Level 2	Level 3	Total
Consolidated Entity	$'000	$'000	$'000	$'000
Available-for-Sale financial assets	-	842,149	-	842,149
Derivative financial assets	-	324	-	324
	-	842,473	-	842,473
Derivative financial liabilities	-	(11,085)	-	(11,085)
	-	831,388	-	831,388

Notes to the Financial Statements

42. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Holding Entity, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

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Annual General Meeting

Monday, 29 October 2012
Commencing 11.00am, Central Daylight Saving Time
Sebel Playford Adelaide, 120 North Terrace, Adelaide

Bankers

Cuscal Ltd
National Australia Bank Limited

Auditors

KPMG

Tax Agent

KPMG

Solicitors

Fisher Jeffries
Langes+