Annual Report 2014

Australian Central Credit Union Ltd (trading as People's Choice Credit Union)
and its Controlled Entities for the Year Ended 30 June 2014

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Chair's and Managing Director's Report

Mutuals at the crossroads

The mutual banking sector, which has long been an important part of Australia's financial system, is at a critical point. We have seen considerable changes over the past few years, such as the advent of mutual banks. The sector's 5% market share has deteriorated as the major banks have enjoyed a significant boost to their competitive position since the global financial crisis thanks to Government-supported legislation and regulatory bias.

Despite this, our sector has the opportunity, and the responsibility to ourselves and our members, to grow in relevance to become the genuine alternative to the Big Four banks with a thriving and sustainable business model.

People's Choice Credit Union and our larger mutual banking peers have been encouraging our industry body, the Customer Owned Banking Organisation (COBA), to take a leadership role and develop an industry vision to which we can all be held to account.

As a result, COBA's Board has begun working with its member organisations to develop a compelling strategic vision for our sector with a roadmap for growth, as a collaborative, forward-looking approach to improving the sector's relevance, market share and growth prospects.

Through this work, our sector will develop key areas for differentiation, sector capacity and collaboration, and set targets and benchmarks for performance. This strategic vision will be launched during the first half of 2014/15, then progressed and promoted through the coming years.

People's Choice is playing a pivotal role in the revitalisation of the mutual sector. Our Director Terry McGuirk, who was elected to the COBA Board in 2013, has been championing this need for an industry vision through the COBA Board and through his participation in its strategic vision sub-committee.

Managing Director Peter Evers was re-elected to the Cuscal Board during the year, and People's Choice continues to have considerable influence as its second-largest shareholder. Cuscal provides access to payment systems, card schemes, inter-institutional settlement arrangements and one of the nation's largest ATM networks, rediATM, to People's Choice and many of our mutual banking peers. Cuscal, which is a key strategic partner for People's Choice, is undergoing an exciting period of innovation and change, and has signed off on its next five-year plan with a strategic focus on the future of payments.

Solid results in challenging times

People's Choice achieved solid results during 2013/14 despite another year of subdued consumer confidence and challenging economic conditions.

In last year's Annual Report, we forecast a 'slow and steady' improvement in business conditions in the coming year, particularly after the Federal Election. Disappointingly, our expectations of a boost in consumer sentiment and business investment did not eventuate.

Australians have remained cautious about their financial commitments following the election of the new Federal Government, contrary to the usual trend of increased economic activity. The austerity focus of the Federal and State budgets also contributed to conservative consumer sentiment.

Despite this, we achieved year-on-year sales growth across our portfolio, demonstrating a resilient trend of sustainable business growth.

This year's net profit after tax of $25.5 million represents a solid result during a period of lower-than-expected economic activity. Prudent cost management and careful investment in our strategic priorities have helped us maintain our profitability while positioning us well for the future.

We will reinvest these profits into improving our products, services and pricing, broadening access for our 345,000 members, and making a difference to the communities in which we live and work.

People's Choice ended the 2013/14 financial year with total assets of $5.871 billion plus $802 million of third party loans under management and more than $1.223 billion in funds under advice.

Financial System Inquiry must deliver improved competition

People's Choice welcomed the announcement of the Federal Government's Financial System Inquiry during the year; the direct result of pressure from the mutual sector and others in the finance industry.

We have been an active participant in the working committee that provided detailed input into COBA's submission to the Inquiry, to ensure our interests are promoted and that we achieve more competition in banking to benefit our members.

We have also been vocal in the media about the need for reforms that will make banking clearer and more competitive for consumers, based on the findings of in-depth research commissioned by People's Choice.

If the Financial System Inquiry is to increase competition and lower financial costs for all Australians, it must address the unfair advantage enjoyed by the Big Four. People's Choice believes this shouldn't be through penalties to the big banks, but rather by delivering equality at all levels – funding, regulation and prudential standards – to give healthy competition every chance.

Better, tougher competition will benefit everyone in Australia because it will offer more choice and drive down fees and charges.

Strategy reaffirmed for 2015-18

During the year, the Board reviewed and reaffirmed our Purpose, Vision, Values and Strategy, and signed off on a four-year strategic plan driven by our existing strategic drivers to be the preferred banking alternative, grow our membership, build a stronger credit union and make a difference in the community.

Chair's and Managing Director's Report (continued)

The coming years will see us focus on delivering a simpler, more seamless experience for our members by making the most of new technologies that will give members better access to information and support – be that via mobile, online, telephone or in person. Our new website launched in September 2014, with further improvements to come over the following months.

We are also investing in financial coaching to help our members be better informed about how to grow their financial independence. We'll continue to improve our data analysis to better understand our members' needs, which in turn will help us make the right offers at the right time. This will also help our members feel that they can actively help their family members to reach their goals so we support them as a family unit.

Looking ahead to the next 12 months, we're expecting consumer caution to continue, with a slight uplift towards the end of the year. At the same time, as we develop our business and invest in the things that make us different – our people, our products and our technology – we believe we can outperform the market in a material way.

Board and our people

Our members voted to re-elect Jan McMahon and John Cossons as Directors of People's Choice at our Annual General Meeting in October 2013.

At the same time our Chair Bill Cossey announced that he intended to retire as Chair and not seek re-election to the Board at the end of his current term. Bill stepped down as Chair effective 31 May 2014 but will remain as a Director until the close of the 2014 AGM. Bill has been dedicated to the values of the mutual banking industry and was instrumental in the transformational merger between Savings & Loans and Australian Central in 2009 to create People's Choice.

Former Deputy Chair John Cossons succeeded Bill as Chair from 1 June 2014. John has a long history with our organisation. He joined the Northern Territory Credit Union's Board in 1981 and was elected Chairman of Australian Central in 2003 until the merger with Savings & Loans where he became Deputy Chair.

The Board has once again played an integral part in the success of People's Choice throughout the year. Their commitment and dedication has enabled us to advance as a leading financial services provider despite challenging economic conditions and during a period of change for our sector.

Finally, we would like to pay tribute to our executive team and all of our staff who provide an outstanding level of service and professionalism. Their leadership of the opportunities and challenges throughout the year has ensured we maintain a strong position in the industry.

We are excited about the future and remain dedicated to working together to strengthen our credit union, serve our members better and invest in our people and communities.

John Cossons, Chair

Peter Evers, Managing Director

Year in Review

Sales growth across products and services

People's Choice increased sales across its key product lines in 2013/14: a pleasing result in a year in which consumer confidence remained low and competition among financial institutions was intense. Year on year, residential lending settlements increased by 15%, personal lending settlements grew by 3%, member retail deposits were up 30%, general insurance sales increased by 10%, risk insurance sales grew by 38% and our financial planning sales were up 38%.

These increases in insurance and financial planning sales are significant as they demonstrate our ability to meet our members' needs with complementary products in addition to our core banking products.

Our ongoing challenge is to engage with our members and identify their needs through a relationship for life, to ensure we provide strong, proactive advice to protect and help them be more confident about their security and future.

Good progress with strategic initiatives

We made good progress during 2013/14 in delivering our strategy to be the preferred banking alternative, grow our membership, build a stronger credit union and make a difference in the community.

Be the preferred banking alternative

We continued to invest in our business to help us understand our members better and give them better products and advice. This has been supported by investing in our infrastructure – both physical and digital, including our data analytic capability – and in the development of our staff.

We refined our product lines and fee structures to ensure members continue to receive the best value while maintaining a competitive position in the market. The introduction of our Zip account provides a more compelling transaction account for members aged 25-55, filling the position between our Activate and Club 55 accounts and resulting in a strong suite of transaction products for all stages of our members' lives.

We also announced a new strategic alliance with BT as our new wealth management partner. Members, advised by People's Choice financial planners, can now better secure their financial futures by accessing Australia's leading investment platform which can be tailored to their individual needs. With $1.223 billion in funds under advice, we secured an extremely competitive fee structure for our members with investment, superannuation and insurance needs.

Grow our membership

Our strategy to grow and rejuvenate our membership to ensure we remain a strong competitor in the market resulted in 19,653 new members joining People's Choice during the year. We continue to lead the mutual banking sector in membership growth and in attracting younger members, with nearly half our new members under 30 years of age. We also had a strong focus on retaining and deepening our relationships with members, resulting in increased active product penetration during the year.

Our brand salience remained very strong during the year, with People's Choice maintaining its position among the leading recognisable banking organisations in our core markets of South Australia and Northern Territory. Brand salience is a measure of whether we are 'on the shopping list' for someone's next financial purchase, so is an important lead indicator of new business and member growth. Research during 2013/14 showed people continue to associate us with strong brand attributes such as loans, low fees and community minded. It was also pleasing to note our growing level of awareness in Victoria.

A highlight of the past year has been the development of our digital strategy. It's essential that we continue to invest in our digital platforms to remain relevant in the market and respond to our members' needs. In fact, digital is already our dominant transaction channel, with our members completing more than 1.6 million online transactions every quarter. Members are also seeking greater flexibility with payments, so we've laid the foundations during the year to be one of first mutual banking organisations to introduce the next wave of mobile banking technology with Pay Easy, VISA PayTag and redi2PAY.

In addition to improvements made through the year to our online banking, online personal and home loans, account services and mobile banking app, we are investing in a complete overhaul of our website. Our objective is to make it easy for our members to do business with us anytime and anywhere, through a seamless experience across whichever channel suits them at that time – be that a branch, over the telephone, online or via a mobile device. Our new website launched in September 2014, with additional functionality appearing in November and into 2015.

Build a stronger credit union

While we're not in the business of making excessive profits, maintaining a sound level of profitability is essential to ensure we are building a stronger credit union that people want to join and know is here to stay. Our profit before tax of $35.4 million and return on equity of 5.70% exceeded targets for the year.

Standard & Poor's Ratings Services reaffirmed our credit rating as BBB+ / Stable / A2, the highest ranking attainable by a mutual banking organisation. We take great pride in maintaining this ranking, as S&P also takes into consideration our sector-leading risk management and their confidence in the sustainability of our business in determining this rating.

Construction of the new People's Choice headquarters is progressing well and we are on track to move into our new premises at 50 Flinders Street Adelaide by the end of 2015. Set to be a shining example of innovative workplace design, more than 12 months have been spent working on the plans which have now been finalised. We have been consulting with our staff at all levels to ensure the internal design reflects and supports the strong culture at People's Choice.

Year in Review (continued)

The sustained engagement and loyalty of our staff is demonstrated by our low staff turnover rate of 10% – considerably lower than industry benchmarks – and the results from our 2014 Values Survey which place us among the top employers. The survey results in 2014 were outstanding, with 87% employee engagement and 90% of staff agreeing we are living up to our values – again, well above industry benchmarks.

We continued to invest in training and developing our people to provide rewarding careers and outstanding service to our members. We invested approximately $1 million and provided 38,465 hours of training this year which includes 6,260 hours of leadership development programs, including providing Diploma and Certificate IV management qualifications to many staff, all with the aim of developing a qualified, talented team that delivers a better experience for our members. Some 40 employees graduated with formal qualifications from these programs during the year.

Make a difference to the community

The past year has seen People's Choice deepen its commitment to strengthening the economic and social wellbeing of our members and the community. People's Choice contributed 5% of pre-tax profit to corporate community investment during 2013/14. This is 8.5 times the 0.59% average contribution made by major Australian and New Zealand companies (source: LBG Australia). Including funds raised through the Community Lottery and other programs, we generated $3.6 million for the community during the year and made a difference to more than one million Australians.

The 2013 Community Lottery concluded with a record $1,573,130 returned to 996 participating charities, community groups, schools and sporting clubs. The Lottery rewrote the record books in 2014, with 1,062 not-for-profit groups across Australia raising a record $1,577,182.

The impact of the People's Choice Undies Run for Bowel Cancer increased in its second year with 1,433 participants (up 14%) raising $156,000 (up 30%), including 160 staff who got involved as runners or volunteers. This event has now raised more than $280,000 for our partner Cancer Council SA. We also increased our support of HeartKids through Community Lottery ticket sales and the introduction of the People's Choice PJs Run to our Run Melbourne sponsorship in July 2014.

During the year we doubled our subscriptions to The Big Issue's Women's Subscription Enterprise, making us its largest supporter in South Australia and one of the largest nationally. We now fund the safe employment of two disadvantaged women in Victoria and two in South Australia through our 400 subscriptions.

Our partnership with Riding for the Disabled achieved significant milestones during the year, as the construction of the O'Halloran Hill riding centre's covered arena and the interior fit-out of the administration building nears completion in South Australia. We donated a people mover to the Darwin riding centre, and sold more than 4,700 Pony Banks through our branches, raising $13,000 for Riding for the Disabled in South Australia, the Northern Territory and Victoria.

We completed the rollout of our corporate social responsibility program with the launch of our innovative New Horizons program with Life Without Barriers. Through this program, we have funded a Coordinator to work with disadvantaged young people in care to help them make the transition to adulthood.

Our staff exceeded last year's fundraising and volunteering efforts, raising $36,519 through workplace donations and contributing 1277 hours in volunteering. This is a fantastic reflection of the strength of our culture, evidenced by the Values Survey result for 'staff perception of community' increasing from an already high 95% last year to 96% this year.

In our brand salience survey, People's Choice was once again associated with being community-minded in the top cluster in South Australia and the Northern Territory, supported by our sponsorship of major community events including the Credit Union Christmas Pageant, People's Choice Classic at the Santos Tour Down Under, The Age Run Melbourne presented by People's Choice, People's Choice BASSINTHEGRASS concert and the People's Choice Teddy Bear's Picnic.

Directors' Report

The Directors present their report together with the financial report of Australian Central Credit Union Ltd (trading as People's Choice Credit Union) (the "Credit Union"), and its controlled entities (together referred to as the "Group"), for the year ended 30 June 2014 and the Auditor's Report thereon.

DIRECTORS

The Directors of the Credit Union at any time during or since the end of the financial year are:

John Leonard Cossons
Non-Executive Chair (Appointed Chair effective 1st June 2014)
FAMI, MAICD

Peter Hans Torsten Evers
Managing Director
BA (Acc), FCPA, FAICD, SF Fin

William Raymond Cossey AM
Non-Executive Director (Retired from Chair effective 31st May 2014)
B.Sc, FAICD

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, FAMI, SA Fin

Jan McMahon
Non-Executive Director
BA (Hons), FAICD, FAIST

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.

Certain Directors have associations with other organisations. Some of these organisations conduct business with the Credit Union. This business is conducted 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 12.

CORPORATE SECRETARY

Mr Peter Evers is the sole Corporate Secretary upon resignation of Mrs Rosie Bolingbroke effective 2 July 2014.

Directors' Report (continued)

PRINCIPAL ACTIVITIES

The principal activities of Australian Central Credit Union Ltd (trading as People's Choice Credit Union) (the "Credit Union"), and its controlled entities (together referred to as the "Group") 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 Credit Union's Constitution prohibits the payment of dividends on member shares.

REVIEW OF OPERATIONS

The Group recorded a profit after tax for the year ended 30 June 2014 of $25.497 million (2013: $28.825 million).

The total on balance sheet assets for the Group were $5.871 billion (2013: $5.797 billion), representing an increase of $73.372 million from 30 June 2013. On balance sheet lending settlements for the twelve months ended 30 June 2014 were $1,302.998 million (2013: $1,059.718 million) an increase of 22.96% and member retail deposits grew by $254.105 million (2013: $194.379 million) representing an increase of 30.73%. Mortgages under advice off balance sheet increased by 5.85% to $802.148 million during the year (2013: $757.846 million). For 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 Group that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

DIRECTORS' INTERESTS

None of the above Directors has declared any interest in existing or proposed contracts with the Credit Union since 1 July 2013.

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 Credit Union, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS

Further information as to likely developments in the operations of the Group 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 Group.

REGULATORY DISCLOSURES

Prudential Standard *APS 330 Public Disclosure* requires the Group to meet minimum requirements for the public disclosure of information on its risk profile, risk management, capital adequacy, capital instruments and remuneration practices to contribute to the transparency of the financial markets and to enhance market discipline. This information is published on the Credit Union's public website under Regulatory Disclosures.

Directors' Report (continued)

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the period, the Credit Union 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.

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

The Lead Auditor's Independence Declaration is set out on page 11 and forms part of the Directors' Report for the year ended 30 June 2014.

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 1st day of September, 2014
in accordance with a resolution of the Board of Directors of the Credit Union.

J. L. COSSONS
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 2014 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

MV Hinchliffe

Michelle Hinchliffe
Partner

Melbourne

1 September 2014

Corporate Governance Statement

HOW WE DO BUSINESS

Australian Central Credit Union Ltd trades as People's Choice Credit Union ("People's Choice"). The People's Choice Board and Management are committed to acting responsibly, ethically and with the highest standards of integrity to ensure that People's Choice'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 People's Choice. 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. Further information can be found in the People's Choice Corporate Governance section on our website: www.peopleschoicecu.com.au.

The Board has committed to following the Australian Securities Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations, 3rd Edition" to the extent that they are applicable to People's Choice, as a mutual organisation. Further, the Board has carefully considered and implemented a "fit and proper" framework in accordance with relevant regulation which endeavours to ensure that Directors and senior management of People's Choice 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 the Board Charter, a copy of which is published in the Corporate Governance section of our website.

In particular, the Board:

- Provides strategic direction to People's Choice;
- 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 General Managers and other designated persons in accordance with the Board Remuneration Policy and Australian Prudential Regulation Authority ("APRA") Prudential Standards;
- Oversees People's Choice'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 People's Choice business is conducted ethically and transparently.

Responsibility for day-to-day activities in relation to the operation of People's Choice is delegated to the Managing Director by the Board.

The framework for delegations of authority to Executive Management is documented in People's Choice's policies and approved by the Board.

Corporate Governance Statement (continued)

STRUCTURE OF THE BOARD

The size and composition of the Board is determined by the Board subject to the limits set out in People's Choice'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 People's Choice. 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. The above framework operates to ensure that the Board is able to function independently of Executive Management.

Directors who held office during or since the end of the financial year and the year in which each was appointed to the Board (including the Board of the pre-merged entities) are set out below:

Directors – Non-Executive	**Year First Elected/Appointed**
R.H.S. Brooks	1995
W.R. Cossey	1999
J.L. Cossons (Chair)	1981
S.M. Day (Appointed)	2006
E.T. McGuirk	1996
J. McMahon	1989
K.A. Skipper	2002
Directors – Executive	**Year First Appointed**
P.H.T. Evers (Managing Director)	2003

Further details on the Directors can be found on page 8 of the Annual Report and on our website.

Minimum Competencies

Board policy sets out the minimum competencies regarding personal attributes, skills and knowledge that each Director will bring to People's Choice. The Nominations Committee in forming its view assesses all election nominees with regard to these minimum competencies. During the year the Board completed 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, however the Board is mindful of the changing and competitive environment in which People's Choice operates and continues to monitor its current competencies in line with increasing regulatory requirements and consumer expectation particularly around new and emerging digital technologies.

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.

Corporate Governance Statement (continued)

STRUCTURE OF THE BOARD (Continued)

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 People's Choice 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 and this is also tested externally as part of the Nominations Committee process where Directors offer themselves for re-election. 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. To ensure objectivity, an independent Board and Director Assessment process was undertaken during the first half of 2013/14 using an external facilitator. The outcome of this process will provide a benchmark against which the Board can assess its collective and individual progress and performance over time. In other years 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.

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.

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 Audit 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 People's Choice, 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 Statement (continued)

COMMITTEES OF THE BOARD (Continued)

Corporate Governance Committee – the Corporate Governance Committee meets at least three times a year 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, 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. The committee is also responsible for the oversight and conduct of the Director elections and the Annual General Meeting. A Nominations Committee is established in association with Director elections, and operates under the guidance of the Corporate Governance Committee. The Nominations Committee comprises the Chair of the Board (except when standing for re-election); and two external members with suitable skills and knowledge who are not Directors, staff or members of People's Choice. The Nominations Committee assists the Board to manage the process for nomination of Directors, including conducting interviews with nominees and preparing statements to assist Members to make an informed voting decision.

Risk Committee – the Risk Committee meets bi-monthly and ensures that People's Choice 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. The Risk Committee is also responsible for ensuring work health and safety risks are properly identified and effectively managed and that the work health and safety performance of People's Choice is monitored and the relevant policies reviewed regularly. This committee has a particular requirement that the Chair of the committee cannot be the Chair of the Board.

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, Executive General Manager Risk and Executive General Manager Corporate Services provide an assurance statement on the accuracy and completeness of financial information and risk management processes, in accordance with relevant standards and regulatory legislation;
- The Managing Director and Executive General Managers provide assurance to the Board that the business of People's Choice has been conducted ethically and all dealings have been conducted transparently with the Board;
- Annual performance evaluations are undertaken for all executive management;
- The transparency of information to members through publication of regulatory notices on the People's Choice website;
- The gearing of Board Policies towards risk management to safeguard the assets and interests of People's Choice whilst maintaining a balanced view of its operating environment;
- Non-Executive Director remuneration approved by members at the Annual General Meeting. The Board regularly 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 People's Choice.

REMUNERATION REPORT

In accordance with APRA standard *APS330*, the People's Choice remuneration report can be found under About Us in the Regulatory Disclosures section on our website.

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, Executive Management and Directors. A diversity policy has been developed and is in place to assist People's Choice maintain a workplace which values and respects individual differences. This policy recognises the diversity of People's Choice's workforce and has established measurable targets that support achieving diversity in the workplace. These targets will be reported to, and monitored by the Board on an annual basis.

People's Choice has achieved gender diversity at all levels. The gender breakdown at People's Choice is as follows:

	Male	%	Female	%	Total
Board Members	5	63	3	37	8
Executive Managers	2	40	3	60	5
Other Managers	76	45	93	55	169
Other Employees	237	25	698	75	935
Total Workforce	320	29	797	71	1117

INTERNAL AUDIT

The People's Choice Internal Audit 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 activities each financial year.

INTERNAL AND EXTERNAL AUDIT INDEPENDENCE

The Audit Committee oversees, and makes recommendations to the Board on the appointment of People's Choice'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 at the conclusion of the 2013 AGM as a result of normal rotation procedures. The Audit Committee oversees the procedure for rotation of the lead External Audit engagement partner.

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)

BOARD POLICIES

People's Choice maintains policies relating to its operational, compliance, legal and regulatory reporting requirements which are reviewed on a regular basis. These policies are supported by procedures to ensure compliance and effective monitoring of People's Choice's business. Further details can be found on the Corporate Governance Section of our website.

MEETINGS OF THE BOARD AND BOARD COMMITTEES

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

Director	Director Type	Board		Audit		Corporate Governance		Risk	
		A [1]	B	A	B	A	B	A	B
J.L. Cossons (Chair) [3]	M	10	10			5	5	6	6
P.H.T. Evers (Managing Director)	E	10	10						
Dr R.H.S. Brooks [2]	M	10	9	4	4				
W. R. Cossey [3]	M	10	10			5	5		
S.M. Day	D	10	10					6	6
E.T. McGuirk	M	10	10	4	4				
J. McMahon [2]	M	10	9	4	4			6	5
K.A. Skipper [2]	M	10	10			5	4		

(1) *Ten scheduled Board meetings were held during the year.*
(2) *All absences from Board and Committee meetings were approved leaves of absence.*
(3) *Director Cossey stepped down as Chair effective 31 May 2014 and Director Cossons was appointed as Chair effective 1 June 2014.*

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 Directors
D Board appointed Directors

Independent Auditor's Report

KPMG

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

We have audited the accompanying financial report of Australian Central Credit Union Ltd (the Credit Union), which comprises the Statements of Financial Position as at 30 June 2014, and the Statements of Profit and Loss and Other Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year ended on that date, notes 1 to 32 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 2, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independent Auditor's Report (continued)

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's and the Group's financial position as at 30 June 2014 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 2.

KPMG

KPMG

MV Hinchliffe

Michelle Hinchliffe
Partner

Melbourne

1 September 2014

Directors' Declaration

In the opinion of the Directors of the Credit Union:

a) the financial statements and notes of the Credit Union and of the Group, set out on pages 21 to 70 are in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the Credit Union's and the Group's financial position as at 30 June 2014 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 2;

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

Signed at Adelaide this 1st day of September, 2014
in accordance with a resolution of the Board of Directors of the Credit Union.

J. L. COSSONS	**P.H.T. EVERS**
Chair	**Managing Director**

Statements of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated		Credit Union	
		2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Interest income	4	**316,947**	347,926	**320,458**	349,113
Interest expense	4	**(173,926)**	(214,402)	**(179,834)**	(218,096)
Net interest income		**143,021**	133,524	**140,624**	131,017
Net change in fair value of financial assets/liabilities at fair value through profit or loss		**830**	1,971	**830**	1,971
Share in net profit of associates	14	**753**	-	**-**	-
Other income	4	**66,529**	73,396	**65,886**	72,839
Non-interest income		**68,112**	75,367	**66,716**	74,810
Impairment losses on loans and advances	9	**(4,451)**	(2,297)	**(4,451)**	(2,297)
Other expenses	5	**(171,309)**	(170,740)	**(169,394)**	(169,004)
Profit before tax		**35,373**	35,854	**33,495**	34,526
Income tax expense	6	**(9,876)**	(7,029)	**(9,207)**	(6,629)
Profit for the year		**25,497**	28,825	**24,288**	27,897
Profit attributable to:					
Members of the parent		**25,497**	28,825	**24,288**	27,897
Other comprehensive income					
Cash flow hedges:					
Net change in fair value of cash flow hedges transferred to profit or loss		**1,596**	2,195	**1,596**	2,195
Effective portion of changes in fair value of cash flow hedges		**(826)**	1,938	**(826)**	1,938
Equity-accounting fair values		**3,257**	-	**-**	-
Changes in fair value of available-for-sale financial assets		**(585)**	(465)	**(585)**	(465)
Income tax on items of other comprehensive income		**(1,033)**	(1,100)	**(56)**	(1,100)
Other comprehensive income for the year, net of income tax		**2,409**	2,568	**129**	2,568
Total comprehensive income for the year		**27,906**	31,393	**24,417**	30,465

The Statements of Profit or Loss and Other Comprehensive Income are to be read in conjunction with the accompanying notes to the financial statements.

Statements of Financial Position

FOR THE YEAR ENDED 30 JUNE 2014

		Consolidated		Credit Union	
	Note	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
Assets					
Cash and cash equivalents	7	**130,012**	151,592	**118,058**	144,826
Loans and advances	8	**5,024,310**	4,891,855	**5,024,310**	4,891,855
Available-for-sale investment securities	10	**636,921**	674,823	**626,041**	661,543
Other investments	10	**1,809**	1,701	**40,789**	45,011
Property, plant and equipment	11	**23,426**	21,661	**23,426**	21,661
Intangible assets	12	**12,335**	14,641	**4,000**	6,306
Assets held-for-sale	13	**-**	951	**-**	951
Investments in associates	14	**5,184**	1,492	**1,492**	1,492
Current tax receivable	6	**-**	-	**-**	295
Deferred tax assets	6	**14,500**	13,686	**15,150**	15,458
Derivative assets	30	**1,578**	4,468	**2,362**	6,188
Other assets	15	**20,718**	20,551	**22,826**	20,559
Total Assets		**5,870,793**	5,797,421	**5,878,454**	5,816,145
Liabilities					
Deposits	16	**4,335,835**	4,004,950	**4,336,480**	4,006,107
Derivative liabilities	30	**5,220**	9,710	**3,642**	5,361
Other payables	17	**56,713**	82,021	**60,910**	86,889
Borrowings	18	**979,253**	1,241,523	**993,287**	1,262,027
Current tax payable	6	**5,575**	101	**5,029**	-
Deferred tax liabilities	6	**1,792**	1,630	**1,393**	3,451
Provisions	19	**19,338**	18,325	**19,167**	18,181
Total Liabilities		**5,403,726**	5,358,260	**5,419,908**	5,382,016
Net Assets		**467,067**	439,161	**458,546**	434,129
Equity					
Reserves	20	**178,168**	177,976	**178,162**	177,970
Retained earnings		**288,899**	261,185	**280,384**	256,159
Total Equity		**467,067**	439,161	**458,546**	434,129

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

Statements of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2014

Consolidated Entity	Note	Reserves $'000	Retained earnings $'000	Total $'000
Opening balance at 1 July 2013		**177,976**	**261,185**	**439,161**
Profit for the year after tax		**-**	**25,497**	**25,497**
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes	20	**1,117**	**-**	**1,117**
Taken to profit or loss	20	**(578)**	**-**	**(578)**
Equity-accounting fair value	14	**-**	**2,280**	**2,280**
Change in fair value of available-for-sale financial assets	20	**(410)**	**-**	**(410)**
Total comprehensive income for the period		**129**	**2,280**	**2,409**
Transactions recorded directly in equity				
Redeemed member shares	20	**47**	**(47)**	**-**
General reserve for credit losses	20	**163**	**(163)**	**-**
Sale of assets held-for-sale	20	**(147)**	**147**	**-**
Total transfer to reserves		**63**	**(63)**	**-**
Closing balance at 30 June 2014		**178,168**	**288,899**	**467,067**

Opening balance at 1 July 2012		176,532	231,106	407,638
Profit for the year after tax		-	28,825	28,825
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes	20	1,357	-	1,357
Taken to profit or loss	20	1,536	-	1,536
Change in fair value of available-for-sale financial assets	20	(325)	-	(325)
Total comprehensive income for the period		2,568	-	2,568
Transactions recorded directly in equity				
Redeemed member shares	20	56	(56)	-
General reserve for credit losses	20	(1,205)	1,205	-
Transfer of revaluation on disposal of land and buildings	20	(105)	105	-
Revaluation of assets held-for-sale	13	130	-	130
Total transfer to reserves		(1,124)	1,254	130
Closing balance at 30 June 2013		177,976	261,185	439,161

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

FOR THE YEAR ENDED 30 JUNE 2014

Credit Union	**Note**	**Reserves** $'000	**Retained earnings** $'000	**Total** $'000
Opening balance at 1 July 2013		**177,970**	**256,159**	**434,129**
Profit for the year after tax		**-**	**24,288**	**24,288**
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes	20	**1,117**	**-**	**1,117**
Taken to profit or loss	20	**(578)**	**-**	**(578)**
Change in fair value of available-for-sale financial assets	20	**(410)**	**-**	**(410)**
Total comprehensive income for the period		**129**	**-**	**129**
Transactions recorded directly in equity				
Redeemed member shares	20	**47**	**(47)**	**-**
General reserve for credit losses	20	**163**	**(163)**	**-**
Sale of assets held-for-sale	20	**(147)**	**147**	**-**
Total transfer to reserves		**63**	**(63)**	**-**
Closing balance at 30 June 2014		**178,162**	**280,384**	**458,546**
Opening balance at 1 July 2012		176,526	227,008	403,534
Profit for the year after tax		-	27,897	27,897
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes	20	1,357	-	1,357
Taken to profit or loss	20	1,536	-	1,536
Change in fair value of available-for-sale financial assets	20	(325)	-	(325)
Total comprehensive income for the period		2,568	-	2,568
Transactions recorded directly in equity				
Redeemed member shares	20	56	(56)	-
General reserve for credit losses	20	(1,205)	1205	-
Transfer of revaluation on disposal of land and buildings	20	(105)	105	-
Revaluation of assets held-for-sale	13	130	-	130
Total transfer to reserves		(1,124)	1,254	130
Closing balance at 30 June 2013		177,970	256,159	434,129

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

Statements of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated		Credit Union	
		2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Cash from operating activities					
Interest received		**317,250**	351,516	**317,659**	351,718
Interest paid		**(183,026)**	(223,310)	**(183,309)**	(225,566)
Fee and commission received		**41,037**	34,723	**35,886**	40,943
Other income received		**26,172**	26,586	**28,219**	19,834
Net (increase)/decrease in loans and advances		**(135,741)**	(78,995)	**(135,741)**	(78,995)
Net increase in deposits and withdrawable share capital		**330,886**	26,474	**330,374**	26,989
Payments to employees and suppliers		**(181,491)**	(159,968)	**(179,077)**	(144,414)
Income taxes paid		**(6,260)**	(7,860)	**(5,865)**	(7,469)
Net cash from operating activities	21	**208,827**	(30,834)	**208,146**	(16,960)
Cash from investing activities					
Net decrease/(increase) in available-for-sale investment securities		**37,493**	88,460	**35,091**	94,740
Acquisition of non-tradeable investments		**(108)**	(800)	**(108)**	(14,150)
Proceeds from sale of non-tradeable investments		**-**	153	**4,330**	2,992
Acquisition of property plant and equipment		**(8,803)**	(10,578)	**(8,803)**	(10,578)
Proceeds from sale of property, plant and equipment		**951**	20,858	**951**	20,858
Dividends from equity accounted investees		**317**	-	**-**	-
Dividends and distributions received		**2,013**	2,271	**2,364**	2,271
Net cash from investing activities		**31,863**	100,364	**33,825**	96,133
Cash from financing activities					
New borrowings		**64,080**	181,975	**64,080**	181,975
Proceeds from residential backed securities issue		**-**	450,000	**-**	-
Repayment of borrowings		**(127,392)**	(515,406)	**(332,819)**	(255,222)
Payment to Noteholders		**(198,958)**	(182,669)	**-**	-
Net cash from financing activities		**(262,270)**	(66,100)	**(268,739)**	(73,247)
Net (decrease)/increase in cash and cash equivalents		**(21,580)**	3,430	**(26,768)**	5,926
Cash and cash equivalents at 1 July		**151,592**	148,162	**144,826**	138,900
Cash and cash equivalents at 30 June	7	**130,012**	151,592	**118,058**	144,826

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. CORPORATE INFORMATION

The financial report of Australian Central Credit Union Ltd (trading as People's Choice Credit Union) (the "Credit Union"), and its controlled entities (together referred to as the "Group") for the year ended 30 June 2014 was authorised for issue in accordance with a resolution by the Directors on 1 September 2014.

The Credit Union is a for-profit entity and domiciled in Australia.

The Group is 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. There was no significant change in the nature of these activities during the year.

The controlling entity in the Group is Australian Central Credit Union Ltd. The registered office and principal place of business is:

Australian Central Credit Union Ltd, (trading as "People's Choice Credit Union")
60 Light Square,
Adelaide, SA, Australia 5000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

a) Statement of compliance

The 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 financial reports of the Group and of the Credit Union comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

b) Basis of measurement

The financial report has been prepared in accordance with the historical cost convention, except for derivative financial assets and liabilities, available-for-sale financial investments, land and buildings and assets held-for-sale which are measured at their fair value. Loans and advances and financial liabilities are carried at amortised cost.

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

c) Functional and presentation currency

The financial report is presented in Australian dollars and all values have been rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the group under ASIC Class Order 98/100.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (continued)

d) Use of judgements and estimates

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.

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 2.3 b) and 9 Provision for impairment of loans and advances
- Note 12 Measurement of the recoverable amounts of cash generating units
- Note 31 Fair value of financial instruments

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.

2.2 Basis of consolidation

Controlled entities

The Credit Union 'controls' a controlled entity if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the controlled entity. The financial statements of controlled entities are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

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

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 2.11.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the Profit or Loss and Other Comprehensive Income ("OCI") of equity-accounted investees, until the date on which significant influence ceases.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets and liabilities

a) Cash and cash equivalents

Cash and cash equivalents comprise notes and coins on hand and deposits at call with Approved Deposit-Taking Institutions (“ADIs”) and are stated at their gross value of the outstanding balance. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows.

b) 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 Credit Union 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.

Impairment of loans and advances

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.

(i) 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.

(ii) 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 evaluation process is subject to a series of estimates and judgements. In the risk rated exposure, the risk rating system, including the frequency of default and loss given default rates, loss history, and the size, structure and diversity of individual borrowers are considered. Current developments in portfolios (industry, geographic and term) are reviewed.

In the statistically managed retail exposures, the history of defaults and losses, and the size, structure and diversity of portfolios are considered.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets and liabilities (continued)

b) Loans and advances (continued)

In addition, management considers overall indicators of portfolio performance, quality and economic conditions. Changes in these estimates could have a direct impact on the level of provision determined.

The amount required to bring the collective provision to the level assessed is recognised in the Statements of Profit or Loss and Other Comprehensive Income as set out in Note 9.

(iii) General Reserve for Credit Losses

The difference between the impairment provisions calculated under IFRS and those required by the Australian Prudential Regulation Authority (“APRA”) is represented by a General Reserve for Credit Losses within equity. Transfers to and from the General Reserve for Credit Losses are made as an appropriation of retained earnings.

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.

c) 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 Group 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 or 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 Group on the date it commits to purchase/sell the investments.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets and liabilities (continued)

c) Financial instruments - non-derivative financial instruments (continued)

(ii) Liabilities

The Credit Union initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument. The Credit Union derecognises a financial 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.

(iii) Other

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

d) 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 using an effective interest rate method.

e) Financial instruments - derivative financial instruments

The Group 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 Group 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 2.3 e) (i)).

The fair value of interest rate swaps is the present value of the future cash flows that the Group 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 30.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets and liabilities (continued)

e) Financial instruments - derivative financial instruments (continued)

Sale of a security with a total return swap

The Group sells debt securities that are subject to a concurrent total return swap. In all cases, the Group retains substantially all of the risks and rewards of ownership resulting in the Group continuing to recognise the transferred securities in its Statements of Financial Position. The cash received is recognised as a financial asset and a corresponding liability is recognised.

The Group does not separately recognise the total return swap that prevents derecognition of the security as a derivative because doing so would result in recognising the same rights and obligations twice. Because the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

(i) Hedging

On entering into a hedging relationship, the Group 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.

(ii) 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 or 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 Statements of Profit or Loss and Other 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 Group. 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets and liabilities (continued)

f) Other receivables

Other assets include non-interest bearing receivables that are stated at their cost less impairment losses (see Note 2.5).

g) Other payables

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

2.4 Non-financial assets and liabilities

a) 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 Group 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 Group (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.

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.

Property, plant and equipment

Property, plant and equipment are measured at cost, less any accumulated depreciation and impairment losses.

Depreciation

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

Land and buildings	**Held at fair value**
Leasehold and freehold improvements	**5 – 10 years**
Furniture, equipment and technology	**4 – 13 1/3 years**

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

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Non-financial assets and liabilities (continued)

a) Acquisition of assets (continued)

Leased assets

Leases of plant and equipment under which the Group 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 Group's Statements of Financial Position. The Group is not currently engaged in any finance leases.

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

b) Assets held-for-sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through the sale or distribution rather than their continuing use in the next twelve months.

Assets classified as held-for-sale are measured at the lower of their carrying amount and fair value less cost to sell, unless the nature of the asset requires it to be measured in line with another accounting standard.

Once classified as held-for-sale, assets held for sale are no longer amortised or depreciated.

c) 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 12).

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.

(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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Non-financial assets and liabilities (continued)

c) 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 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:

Acquired contractual rights	**5 years**
Software	**2 – 7 years**
Core deposit intangibles	**9 years**

Amortisation methods, useful lives and residual values are reviewed at least annually and adjusted where appropriate.

(vi) Impairment

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.

d) Provisions

Employee entitlements

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Non-financial assets and liabilities (continued)

d) Provisions (continued)

(ii) Defined contribution plans

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

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Make good

A provision is made for the anticipated costs of restoring leased premises to their original condition at the end of the lease term in current dollar values. The provision is assessed at each balance date for expired leases.

2.5 Impairment

The carrying amount of the Group's assets, other than deferred tax assets (see Note 2.8) and loans and advances (see Note 2.3 b)), 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 2.3 b)) for signs of objective evidence indicating that impairment may have occurred. Where objective evidence of impairment exists the asset's recoverable amount is determined.

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with details in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Impairment (continued)

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.

The recoverable amount of financial assets 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 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 Group 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 Group 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.

2.7 Revenue recognition

(i) Loan interest

Interest on loans and advances is recognised as it accrues 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 Credit Union 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 2.3 b)). 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) Fees and commissions

Revenue is recognised on an accruals 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Tax consolidation

The Credit Union 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.

Franking account

The Group has generated franking credits through paying income tax, including 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 Credit Union which does not currently permit dividend payments. The balance of the franking account is adjusted for franking credits that the Credit Union is currently prevented from distributing in the subsequent financial year.

2.9 Goods and services tax (GST)

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 an asset or liability in the Statements 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.

2.10 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Securitisation

The Credit Union 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 Credit Union 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 SPEs during the year are disclosed in Note 24.

2.12 Reclassification of comparatives

Certain items have been reclassified from the Group's prior year financial report to conform to the current period's presentation. The items that have been reclassified in the Statements of Financial Position and accompanying notes are:

- Trade and other receivables is now included in other assets (2013: Consolidated $15.288 million, Credit Union $15.318 million);
- Shares in unlisted entities has been reallocated from other investments to available-for-sale investment securities (2013: Consolidated $10.787 million, Credit Union $10.787 million);
- Shares in unlisted entities (Data Action Pty Ltd) reallocated from available-for-sale investment securities to investments in associates (2013: Consolidated $1.492 million, Credit Union $1.492 million); and
- Provision for make good has been reallocated from payables to provisions (2013: Consolidated $1.753 million, Credit Union $1.753 million).

2.13 Changes in accounting policy

AASB2012-2 Amendments to Australian Accounting Standards – Disclosures - Offsetting Financial Assets and Financial Liabilities requires disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set off associated with an entity's recognised financial assets and recognised financial liabilities, on the Statements of Financial Position. The amendments do not have any impact on the Group's financial position or performance, however have resulted in additional disclosures in the notes to the financial statements.

Notes to the Financial Statements

3. COMPLIANCE WITH IFRS

a) Recently issued or amended standards not yet effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2014, but have not been applied in preparing this financial report:

Reference	Title	Nature of change to accounting policy	Impact to the Group	Application date of Standard	Application date for Group
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities.	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132.	The amendments are not expected to have a material impact on the Group.	1 January 2014	1 July 2014
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets.	The Group is not expecting this change in standard to have a material impact Quantification will be finalised upon the issuance of the final standard.	1 January 2015	1 July 2015
A number of other AASB standards are also available for early adoption, but have not been applied by the Group in these financial statements. These relate to standards that have limited / no application to the Group.					

b) Recently adopted standards

The Group has adopted *AASB 136 Impairment of Assets* for the first time for the year ended 30 June 2014.

Notes to the Financial Statements

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
4. REVENUE				
Interest income				
Cash and cash equivalents	**3,450**	4,530	**3,189**	4,194
Loans and advances	**290,733**	315,123	**290,720**	315,105
Available-for-sale investment securities	**22,720**	28,235	**22,356**	27,849
Interest rate derivatives	**-**	-	**2,262**	-
Other investments	**44**	38	**1,931**	1,965
Total interest income	**316,947**	347,926	**320,458**	349,113
Interest expense				
Deposits	**122,757**	147,288	**122,757**	147,293
Borrowings	**46,656**	58,840	**57,077**	70,699
Interest rate derivatives	**4,513**	8,274	**-**	104
Total interest expense	**173,926**	214,402	**179,834**	218,096
Net interest income	**143,021**	133,524	**140,624**	131,017
Other income				
Loan fee income	**3,508**	2,926	**3,508**	2,926
Transactional fee income	**11,898**	14,741	**11,898**	14,741
Insurance fees and commissions	**13,620**	12,810	**13,620**	12,810
Financial planning fees and commissions	**12,114**	10,887	**9,073**	8,085
Other fee income	**11,864**	11,637	**13,909**	13,882
Bad debts recovered	**1,166**	883	**1,166**	883
Dividends received	**2,011**	2,271	**2,364**	2,271
Mutual Aid income	**10,314**	8,997	**10,314**	8,997
Gain on sale of property, plant and equipment	**5**	8,191	**5**	8,191
Other income	**29**	53	**29**	53
Total other income	**66,529**	73,396	**65,886**	72,839
5. EXPENSES				
Salary and wages	**81,644**	80,255	**80,667**	79,306
Superannuation	**6,697**	6,277	**6,597**	6,209
Administrative expenses	**17,789**	18,392	**17,144**	17,787
Depreciation on property, plant and equipment	**6,766**	6,842	**6,766**	6,841
Amortisation on intangible computer software	**2,025**	2,324	**2,025**	2,324
Amortisation on acquired intangible assets	**546**	2,128	**546**	2,128
Marketing costs	**10,751**	9,472	**10,859**	9,642
Rental operating leases	**12,764**	11,400	**12,580**	11,219
Other occupancy expenses	**4,641**	7,063	**4,528**	6,963
Distribution channel costs	**15,947**	15,906	**15,947**	15,906
Information technology costs	**11,727**	10,210	**11,723**	10,208
Loss on sale of property, plant and equipment	**12**	471	**12**	471
Total other expenses	**171,309**	170,740	**169,394**	169,004

Notes to the Financial Statements

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
6. INCOME TAX				
Profit before tax	**35,373**	35,854	**33,495**	34,526
Tax at the tax rate of 30% (2013: 30%)	**10,612**	10,756	**10,049**	10,358
Adjust for tax effect of:				
Fully franked dividends received	**(581)**	(973)	**(687)**	(973)
Research and development tax concession	**-**	(920)	**-**	(920)
Sale of land and buildings	**-**	(2,163)	**-**	(2,163)
Sundry items	**63**	146	**63**	146
(Over)/under provision in prior years	**(218)**	183	**(218)**	181
Income tax expense	**9,876**	7,029	**9,207**	6,629
The components of tax expense comprise:				
Current tax	**11,560**	9,169	**11,013**	8,771
Deferred tax	**(1,684)**	(2,140)	**(1,806)**	(2,142)
	9,876	7,029	**9,207**	6,629
Income tax recognised in other comprehensive income				
Net gain on cash flow hedges	**232**	1,240	**232**	1,240
Net loss on available-for-sale investment securities	**(176)**	(140)	**(176)**	(140)
Net gain on equity accounting fair values	**977**	-	**-**	-
	1,033	1,100	**56**	1,100
Current tax (payable)/receivable	**(5,575)**	(101)	**(5,029)**	295
Deferred tax assets comprise:				
Amounts recognised in profit or loss				
Loans and advances impairment	**1,098**	982	**1,098**	982
Accrued superannuation	**172**	158	**166**	152
Unearned fee income	**3,790**	3,606	**3,790**	3,606
Depreciation	**2,046**	1,579	**2,046**	1,579
Provisions	**6,233**	5,551	**6,181**	5,508
Derivative liabilities at fair value through profit or loss	**341**	590	**1,049**	2,411
Intangible assets	**10**	12	**10**	12
Other items	**59**	190	**59**	190
	13,749	12,668	**14,399**	14,440
Amounts recognised directly in Equity				
Cash flow hedges	**751**	1,018	**751**	1,018
Total deferred tax assets	**14,500**	13,686	**15,150**	15,458
Deferred tax liabilities comprise:				
Amounts recognised in profit or loss				
Prepayments	**195**	205	**195**	205
Depreciation	**-**	256	**-**	256
Intangibles	**326**	795	**326**	795
Equity accounted associates	**131**	-	**-**	-
Derivative assets at fair value through profit or loss	**-**	-	**709**	1,821
	652	1,256	**1,230**	3,077
Amounts recognised directly in Equity				
Equity-accounted associates	**977**	-	**-**	-
Cash flow hedges	**-**	36	**-**	36
Fair value reserve - available-for-sale financial assets	**163**	338	**163**	338
Total deferred tax liabilities	**1,792**	1,630	**1,393**	3,451
Franking Account balance (tax provision basis)	**108,745**	99,141		

Notes to the Financial Statements

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
7. CASH AND CASH EQUIVALENTS				
Cash on hand and at bank	**18,390**	16,070	**18,389**	9,304
Deposits at call	**111,622**	135,522	**99,669**	135,522
	130,012	151,592	**118,058**	144,826
8. LOANS AND ADVANCES				
Revolving credit facilities	**400,601**	451,963	**400,601**	451,963
Term loans	**4,630,502**	4,446,670	**4,630,502**	4,446,670
Gross loans and advances	**5,031,103**	4,898,633	**5,031,103**	4,898,633
Provision for impairment (Note 9)	**(3,660)**	(3,273)	**(3,660)**	(3,273)
Loan origination and processing costs	**2,033**	1,624	**2,033**	1,624
Unearned income	**(5,166)**	(5,129)	**(5,166)**	(5,129)
Net loans and advances	**5,024,310**	4,891,855	**5,024,310**	4,891,855

The loan portfolio of the Group does not include any loans or groups of related loans which represent 10 % or more of capital (2013: $Nil).

	Consolidated		Credit Union	
9. IMPAIRMENT OF LOANS AND ADVANCES				
Specific provision:				
Balance at beginning of year	**2,255**	2,480	**2,255**	2,480
Decrease in provision	**(753)**	(225)	**(753)**	(225)
Balance at end of year	**1,502**	2,255	**1,502**	2,255
Collective provision:				
Balance at beginning of year	**1,018**	1,841	**1,018**	1,841
Increase/(decrease) in provision	**1,140**	(823)	**1,140**	(823)
Balance at end of year	**2,158**	1,018	**2,158**	1,018
Total provision for impairment	**3,660**	3,273	**3,660**	3,273
Charge to profit or loss comprises:				
Provision for loan impairment	**387**	(1,048)	**387**	(1,048)
Loans written off during the year as uncollectible	**4,064**	3,345	**4,064**	3,345
Total charge to profit or loss	**4,451**	2,297	**4,451**	2,297
Impaired Loans				
Gross impaired loans	**4,381**	2,322	**4,381**	2,322
Specific provision for impairment	**(1,502)**	(2,255)	**(1,502)**	(2,255)
	2,879	67	**2,879**	67
Restructured loans	**5,367**	7,717	**5,367**	7,717
Assets acquired through the enforcement of security	**4,108**	2,259	**4,108**	2,259

Notes to the Financial Statements

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
10. INVESTMENTS				
a) Available-for-sale investment securities				
Interest-bearing deposits	**65,876**	133,420	**54,996**	120,140
Negotiable certificates of deposit	**460,049**	450,812	**460,049**	450,812
Floating rate notes	**97,176**	76,736	**97,176**	76,736
Bonds	**3,033**	3,068	**3,033**	3,068
Shares in unlisted entities	**10,787**	10,787	**10,787**	10,787
Total available-for-sale investment securities	**636,921**	674,823	**626,041**	661,543
b) Other investments				
Capital notes	**-**	-	**33,992**	38,162
Other investments	**1,809**	1,701	**1,809**	1,701
Shares in controlled entities	**-**	-	**4,988**	5,148
Total other investments	**1,809**	1,701	**40,789**	45,011
Total Investments	**638,730**	676,524	**666,830**	706,554

c) Shares in controlled entities	Book value of shares/units held		% held by Holding Entity	
	2014	2013	**2014**	2013
	$	$	**%**	%
Australian Central Credit Union Ltd (trading as People's Choice Credit Union)				
Controlled entities				
70 Light Square Pty Ltd *	**-**	-	**-**	100
Austral Financial Planning Pty Ltd*	**-**	1	**-**	100
Australian Central Services Pty Ltd	**-**	-	**100**	100
Australian Central Travel Pty Ltd*	**-**	2	**-**	100
Financial Solutions Australasia Pty Ltd	**4,987,973**	4,987,973	**100**	100
Flinders Finance Pty Ltd**	**-**	160,000	**100**	100
Let's Talk Home Loans Group Pty Ltd	**1**	1	**100**	100
People's Choice Community Foundation Limited	**-**	-	**100**	100
	4,987,974	5,147,977		

Special purpose entities

Light Trust No. 1
Light Trust No. 2
Light Trust No. 3
Light Trust No. 4
Light Trust No. 5R (registered in February 2014 however not yet trading)

* Dormant entities were deregistered during the 2013-14 financial year.

** Ceased trading as at 31 May 2014. All capital has been returned to the Credit Union. Flinders Finance Pty Ltd is in the process of deregistration with the official deregistration to take place during the year ended 30 June 2015.

Notes to the Financial Statements

11. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Land and Buildings $,000	Leasehold and Freehold Improvements $,000	Furniture, Equipment and Technology $,000	Capital Works in Progress (WIP) $,000	Total $,000
At 1 July 2013, net of accumulated depreciation	**-**	**10,242**	**9,026**	**2,393**	**21,661**
Additions	**-**	**2,795**	**5,415**	**-**	**8,210**
Fair value adjustments	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**(4)**	**(8)**	**-**	**(12)**
Net movement in WIP	**-**	**-**	**-**	**333**	**333**
Depreciation expense	**-**	**(3,347)**	**(3,419)**	**-**	**(6,766)**
Balance at 30 June 2014	**-**	**9,686**	**11,014**	**2,726**	**23,426**
At 30 June 2014					
Cost	**-**	**34,945**	**51,381**	**2,726**	**89,052**
Accumulated depreciation	**-**	**(25,259)**	**(40,367)**	**-**	**(65,626)**
Net carrying amount	**-**	**9,686**	**11,014**	**2,726**	**23,426**

At 1 July 2012, net of accumulated depreciation	13,325	8,777	7,162	2,702	31,966
Additions	-	5,117	5,624	-	10,741
Fair value adjustments	130	-	-	-	130
Disposals	(12,650)	(219)	(205)	-	(13,074)
Net movement in WIP	-	-	-	(309)	(309)
Depreciation expense	-	(3,299)	(3,543)	-	(6,842)
Reclassification to held-for-sale (Note 13)	(805)	(134)	(12)	-	(951)
Balance at 30 June 2013	-	10,242	9,026	2,393	21,661
At 30 June 2013					
Cost	-	34,170	48,195	2,393	84,758
Accumulated depreciation	-	(23,928)	(39,169)	-	(63,097)
Net carrying amount	-	10,242	9,026	2,393	21,661

Notes to the Financial Statements

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Credit Union	Land and Buildings $,000	Leasehold and Freehold Improvements $,000	Furniture, Equipment and Technology $,000	Capital Works in Progress (WIP) $,000	Total $,000
At 1 July 2013, net of accumulated depreciation	**-**	**10,242**	**9,026**	**2,393**	**21,661**
Additions	**-**	**2,795**	**5,415**	**-**	**8,210**
Fair value adjustments	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**(4)**	**(8)**	**-**	**(12)**
Net movement in WIP	**-**	**-**	**-**	**333**	**333**
Depreciation expense	**-**	**(3,347)**	**(3,419)**	**-**	**(6,766)**
Balance at 30 June 2014	**-**	**9,686**	**11,014**	**2,726**	**23,426**
At 30 June 2014					
Cost	**-**	**34,938**	**50,439**	**2,726**	**88,103**
Accumulated depreciation	**-**	**(25,252)**	**(39,425)**	**-**	**(64,677)**
Net carrying amount	**-**	**9,686**	**11,014**	**2,726**	**23,426**

At 1 July 2012, net of accumulated depreciation	13,325	8,777	7,162	2,702	31,966
Additions	-	5,117	5,624	-	10,741
Fair value adjustments	130	-	-	-	130
Disposals	(12,650)	(219)	(205)	-	(13,074)
Net movement in WIP	-	-	-	(309)	(309)
Depreciation expense	-	(3,299)	(3,543)	-	(6,842)
Reclassification to held-for-sale (Note 13)	(805)	(134)	(12)	-	(951)
Balance at 30 June 2013	-	10,242	9,026	2,393	21,661
At 30 June 2013					
Cost	-	34,163	48,118	2,393	84,674
Accumulated depreciation	-	(23,921)	(39,092)	-	(63,013)
Net carrying amount	**-**	10,242	9,026	2,393	21,661

Notes to the Financial Statements

12. INTANGIBLE ASSETS

Consolidated	Goodwill	Computer Software	Core Deposit Intangible	Acquired Contractual Rights	Total
	$,000	$,000	$,000	$,000	$,000
At 1 July 2013, net of accumulated amortisation/ impairment	**8,477**	**4,924**	**1,022**	**218**	**14,641**
Additions	**-**	**265**	**-**	**-**	**265**
Amortisation/impairment expense	**-**	**(2,025)**	**(491)**	**(55)**	**(2,571)**
Balance at 30 June 2014	**8,477**	**3,164**	**531**	**163**	**12,335**
At 30 June 2014					
Cost	**9,174**	**27,300**	**6,884**	**9,178**	**52,536**
Accumulated amortisation/impairment	**(697)**	**(24,136)**	**(6,353)**	**(9,015)**	**(40,201)**
Net carrying amount	**8,477**	**3,164**	**531**	**163**	**12,335**
At 1 July 2012, net of accumulated amortisation/ impairment	8,477	6,970	2,189	1,179	18,815
Additions	-	278	-	-	278
Amortisation/impairment expense	-	(2,324)	(1,167)	(961)	(4,452)
Balance at 30 June 2013	8,477	4,924	1,022	218	14,641
At 30 June 2013					
Cost	9,174	27,048	6,884	9,178	52,284
Accumulated amortisation/impairment	(697)	(22,124)	(5,862)	(8,960)	(37,643)
Net carrying amount	8,477	4,924	1,022	218	14,641

Credit Union	Goodwill	Computer Software	Core Deposit Intangible	Acquired Contractual Rights	Total
	$,000	$,000	$,000	$,000	$,000
At 1 July 2013, net of accumulated amortisation/ impairment	**142**	**4,924**	**1,022**	**218**	**6,306**
Additions	**-**	**265**	**-**	**-**	**265**
Amortisation/impairment expense	**-**	**(2,025)**	**(491)**	**(55)**	**(2,571)**
Balance at 30 June 2014	**142**	**3,164**	**531**	**163**	**4,000**
At 30 June 2014					
Cost	**202**	**27,300**	**6,884**	**9,178**	**43,564**
Accumulated amortisation/impairment	**(60)**	**(24,136)**	**(6,353)**	**(9,015)**	**(39,564)**
Net carrying amount	**142**	**3,164**	**531**	**163**	**4,000**
At 1 July 2012, net of accumulated amortisation/ impairment	142	6,970	2,189	1,179	10,480
Additions	-	278	-	-	278
Amortisation/impairment expense	-	(2,324)	(1,167)	(961)	(4,452)
Balance at 30 June 2013	142	4,924	1,022	218	6,306
At 30 June 2013					
Cost	202	27,048	6,884	9,178	43,312
Accumulated amortisation/impairment	(60)	(22,124)	(5,862)	(8,960)	(37,006)
Net carrying amount	142	4,924	1,022	218	6,306

Notes to the Financial Statements

12. INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's Cash Generating Units ("CGUs") identified according to business segment.

A segment level summary of the goodwill allocation is:

	Consolidated	
	2014	2013
	$'000	$'000
Financial planning	**8,477**	8,477

The recoverable amount has been calculated in accordance with Note 2.5, with no impairment having been identified.

Key assumptions used in Value in Use

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 growth rate of 12%, an overhead growth rate of 3% and a final terminal value calculation with no further growth rate applied.

- A pre-tax discount rate of 13.732% was applied in determining the recoverable amounts for the CGUs. The discount rate was estimated based on the weighted average cost of debt and capital allocated by the Group to this CGU, 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.

Notes to the Financial Statements

13. ASSETS HELD-FOR-SALE

The Group entered into a contract on the 16 May 2013 to sell its building and certain plant, property and equipment at its Mitcham, Victoria site. Settlement on the property occurred on 16 September 2013.

The assets included under the sale transaction that were reclassified as assets held for sale comprised of the following:

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Land and buildings	**-**	805	**-**	805
Property, plant and equipment	**-**	146	**-**	146
	-	951	**-**	951

There are no cumulative income or expenses included in other comprehensive income related to the sale of these assets.

14. INVESTMENTS IN ASSOCIATES

The Group has an interest in Data Action Pty Ltd ("Data Action") and owns 24.67% of the equity interests and holds 25% of the voting rights.

Management has reassessed the Group's relationship with Data Action following changes in Data Action's shareholdings during the year. The Group has determined that it exercises significant influence over Data Action and accordingly, the investment is now classified as an associate and accounted for under the equity method. Prior to classification as an associate the investment was classified as an available-for-sale asset with changes in fair value, where able to be determined, accounted for through reserves.

The following table analyses, in aggregate, the carrying amount and share of profit and other comprehensive income of this associate:

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'002**	$'000
Carrying amount of investment in associates	**5,184**	1,492	**1,492**	1,492
Share of associate's balance sheet as at 1 July 2013				
Current assets	**3,992**	-		
Non-current assets	**1,830**	-		
Current liabilities	**898**	-		
Non-current liabilities	**176**	-		
Share of net assets	**4,748**	-		
Add: share of associate's profit or loss				
Revenue	**8,358**	-		
Expenses	**7,318**	-		
Profit/(loss) before income tax	**1,040**	-		
Income tax expense	**287**	-		
Profit/(loss) after income tax	**753**	-		
Less: dividend received	**317**	-		

Notes to the Financial Statements

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
15. OTHER ASSETS				
Accrued interest	**946**	1,250	**936**	1,235
Deferred borrowing costs	**1,647**	2,707	**1,647**	2,708
Prepayments	**2,871**	2,556	**2,835**	2,534
Other receivables	**15,254**	14,038	**17,408**	14,082
	20,718	20,551	**22,826**	20,559
16. DEPOSITS				
Retail deposits	**3,983,737**	3,729,632	**3,984,382**	3,730,789
Non-retail deposits	**351,429**	274,643	**351,429**	274,643
Withdrawable shares (issued and paid up shares at $2.00 per share)	**669**	675	**669**	675
	4,335,835	4,004,950	**4,336,480**	4,006,107

The deposit portfolio of the Group does not include any deposits or groups of related deposits which represent 10% or more of liabilities (2013: $Nil).

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
17. OTHER PAYABLES				
Accounts payable	**39,263**	54,412	**43,202**	57,843
Accrued interest payable	**17,450**	27,609	**17,708**	29,046
	56,713	82,021	**60,910**	86,889
18. BORROWINGS				
Wholesale funding facilities	**401,854**	465,166	**401,854**	465,166
Loans payable to securitisation trusts	**-**	-	**591,433**	796,861
Notes payable	**577,399**	776,357	**-**	-
	979,253	1,241,523	**993,287**	1,262,027
Wholesale funding facility utilisation				
Wholesale funding facilities - utilised	**401,854**	465,166	**401,854**	465,166
Wholesale funding facilities - unutilised	**249,093**	186,161	**249,093**	186,161
Wholesale funding available facilities	**650,947**	651,327	**650,947**	651,327
19. PROVISIONS				
Provision for make good	**1,854**	1,753	**1,854**	1,753
Provision for annual leave	**6,094**	6,080	**6,009**	6,005
Provision for long service leave	**11,189**	10,310	**11,104**	10,242
Provision for rostered days off	**201**	182	**200**	181
	19,338	18,325	**19,167**	18,181

Superannuation commitments

The Credit Union has established a superannuation fund for employees of the Group, 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 fund is by way of employer and employee contributions. The obligation to contribute to the fund is to ensure compliance with the superannuation guarantee charge.

Notes to the Financial Statements

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
20. RESERVES				
Redeemed member shares	**640**	593	**640**	593
Fair value reserve - available-for-sale financial assets	**379**	789	**379**	789
General reserve for credit losses	**7,151**	6,988	**7,151**	6,988
Hedging reserve - cash flow hedges	**(1,753)**	(2,292)	**(1,753)**	(2,292)
Asset revaluation reserve	**6**	153	**-**	147
Other equity reserves	**171,745**	171,745	**171,745**	171,745
	178,168	177,976	**178,162**	177,970

Redeemed member shares

Nature and purpose:
Under the Corporations Act 2001 (s254K), 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 Credit Union therefore has transferred the value of member shares redeemed since 1 July 1999 (the date that the Corporations Act 2001 applied to the Credit Union), from retained earnings to the redeemed preference share capital account. The value of members' shares for existing members is disclosed in Note 16.

Opening balance 1 July	**593**	537	**593**	537
Transfers to retained earnings	**47**	56	**47**	56
Balance	**640**	593	**640**	593

Fair value reserve - available-for-sale financial assets

Nature and purpose:
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 Group.

Opening balance 1 July	**789**	1114	**789**	1114
Net unrealised gains/(losses)	**1,870**	(325)	**(410)**	(325)
Equity-accounting fair value adjustment transfer to retained earnings	**(2,280)**	-	**-**	-
Balance	**379**	789	**379**	789

General reserve for credit losses

Nature and purpose:
APRA requires 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.

Opening balance 1 July	**6,988**	8,193	**6,988**	8,193
Increase/(decrease) in general reserve for credit losses	**163**	(1,205)	**163**	(1,205)
Balance	**7,151**	6,988	**7,151**	6,988

Notes to the Financial Statements

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
20. RESERVES (Continued)				
Hedging reserve - cash flow hedges				
Nature and purpose: 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.				
Opening balance 1 July	**(2,292)**	(5,185)	**(2,292)**	(5,185)
Effective portion of changes in fair values	**1,117**	1,357	**1,117**	1,357
Net change in fair value taken to profit or loss	**(578)**	1,536	**(578)**	1,536
Balance	**(1,753)**	(2,292)	**(1,753)**	(2,292)
Asset revaluation reserve				
Nature and purpose: The asset revaluation reserve relates to property, plant and equipment, measured at fair value in accordance with applicable AASB's.				
Opening balance 1 July	**153**	128	**147**	122
Transfer of revaluation on disposal of land and buildings	**-**	(105)	**-**	(105)
Revaluation of assets held-for-sale	**-**	130	**-**	130
Disposal of assets held-for-sale	**(147)**	-	**(147)**	-
Balance	**6**	153	**-**	147
Other equity reserves				
Nature and purpose: The other equity reserves represents the retained earnings of Savings & Loans Credit Union (S.A.) Limited recognised upon the merger with the Credit Union.				
Balance	**171,745**	171,745	**171,745**	171,745

Notes to the Financial Statements

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
21. NOTES TO THE STATEMENTS OF CASH FLOW				
Reconciliation of profit after income tax to net cash from operating activities				
Profit for the period	**25,497**	28,825	**24,288**	27,897
Adjustments for:				
Depreciation and amortisation	**9,337**	11,293	**9,337**	11,293
Increase/(decrease) in provision for impairment	**387**	(1,048)	**387**	(1,048)
Net change in fair value of financial assets/liabilities at fair value through profit or loss	**(830)**	(1,971)	**(830)**	(1,971)
Bad debts written off	**4,064**	3,345	**4,064**	3,345
Dividend income classified as investing cash flow	**(2,330)**	(2,271)	**(2,364)**	(2,271)
Net profit on sale of property, plant & equipment	**5**	(7,720)	**5**	(7,720)
Share of profit of equity accounted investees	**(753)**	-	**-**	-
Change in assets and liabilities:				
Increase in provisions	**1,013**	1,710	**986**	1,735
Increase in provision for income tax	**5,474**	1,447	**5,324**	1,441
Increase in deferred tax assets and liabilities	**(652)**	(1,039)	**(1,750)**	(1,041)
Decrease in interest payable	**(10,159)**	(5,864)	**(11,338)**	(5,640)
Decrease in other payables	**(15,149)**	(3,088)	**(14,641)**	10,681
Increase in net loans and advances	**(136,906)**	(79,389)	**(136,906)**	(79,389)
Increase in deposits and withdrawable share capital	**330,885**	26,474	**330,373**	26,989
Decrease in interest receivable	**304**	5,032	**299**	5,033
(Decrease)/increase in derivative assets/liabilities	**(769)**	(6,928)	**2,937**	(6,700)
(Increase)/decrease in other assets	**(591)**	358	**(2,025)**	406
Net cash from operating activities	**208,827**	(30,834)	**208,146**	(16,960)

Notes to the Financial Statements

22. COMMITMENTS

Capital expenditure commitments

At 30 June 2014, the Group has commitments of $6.200 million (2013: $Nil) predominantly relating to the integrated fit out works for the Group's new head office building in Flinders Street, Adelaide.

	Consolidated	
	2014	2013
Lease expenditure commitments	**$'000**	$'000
Non-cancellable operating leases:		
not later than 1 year	**14,387**	13,457
later than 1 and not later than 2 years	**15,312**	12,110
later than 2 and not later than 5 years	**42,551**	31,936
later than 5 years	**58,621**	64,691
Aggregate lease expenditure contracted for at 30 June	**130,871**	122,194

The Group leases various motor vehicles, office (including the new head office) and branch premises under non-cancellable operating leases expiring within one to twelve years. The leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.

Credit commitments

The Group has the following credit commitments:

	Consolidated	
	2014	2013
	$'000	$'000
Loans approved not disbursed	**150,123**	124,256
Members unused credit facility	**450,006**	449,734
	600,129	573,990

23. CONTINGENT ASSETS AND LIABILITIES

Guarantees

The Group has issued guarantees as follows:

Guarantee issued for members	**2,186**	2,539

As the probability and value of guarantees may be called upon is unpredictable, it is not practical to state the timing of any payment.

CUFSS Limited

With effect from 1 July 1999, the Credit Union is a party to an Industry Support Contract (“ISC”) administered by CUFSS Limited (“CUFSS”). The ISC is certified by APRA under Section 11CB of the Banking Act 1959 (Cth) and is a voluntary financial support scheme whose members are Credit Unions, Mutual Banks and Cuscal Limited. CUFSS is a company limited by guarantee, each member’s guarantee being $100. As a member of CUFSS, the Credit Union:

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

Notes to the Financial Statements

24. SECURITISATION

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets to third parties or special purpose entities on an arm's length basis. The Credit Union transferred loans totalling $82.903 million (2013: $232.698 million) during the financial year as part of its ongoing funding program. The loan transfers are made to either warehouse funding facilities $82.903 million (2013: $34.003 million) and/or to SPE's $Nil (2013: $198.695 million). The total value of transferred loans as at 30 June 2014 was $996.427 million (2013: $1,284.567 million). The Group has not transferred substantially all of the risks and rewards associated with these loans and accordingly these loans are carried on the Group's balance sheet. The Group does invest in some of its own securitisation programs where the Credit Union holds notes equivalent to $33.992 million as at 30 June 2014 (2013: $38.162 million).

Refer to Note 10 b) for information on capital notes held by the Credit Union and Note 29 Related Parties for more information on loan balances and net distributions to unitholders.

25. STANDBY BORROWING FACILITIES

The Credit Union has the following borrowing facilities:

	Credit Union 2014 $'000	Credit Union 2013 $'000
Overdraft facility		
Gross facility amount	**5,000**	5,000
Less: current borrowing	**-**	-
Net available	**5,000**	5,000

26. SIGNIFICANT ALLIANCES

The Credit Union has a significant alliance with the following suppliers of services:

Cuscal Limited

This company provides the Credit Union with the rights to, and the production of member's cheques, ATM management services, Redicards and Visa cards, provides finance facilities, settlement with bankers, electronic funds deposit, central banking and money market services. In addition, this company operates the switching system that links rediATM's, other approved EFT suppliers, Visa acquirers and merchants to the Credit Union's computer systems.

Fiserv (aspac) Pte. Ltd

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

CU Technology Development Ltd

This company has been formed on behalf of credit unions to oversee the continued development and future implementations of the Credit Union's core banking system.

Data Action Pty Ltd

This company operates a computer bureau which operates a processing system of the Credit Union.

Notes to the Financial Statements

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
27. AUDITOR'S REMUNERATION				
Amounts paid or payable to the external auditors - KPMG				
- Auditing the financial report	**237**	227	**208**	201
- Other regulatory activities	**57**	88	**51**	85
- Other assurance services	**85**	71	**85**	71
- Taxation services	**134**	159	**134**	159
- Other services	**19**	12	**19**	12
	532	557	**497**	528

28. KEY MANAGEMENT PERSONNEL

a) Directors

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

J.L. Cossons (Chair)	(Appointed Chair effective 1st June 2014)
W. R. Cossey AM	(Retired from Chair effective 31st May 2014)
P.H.T. Evers (Managing Director)	
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 Credit Union, also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

D. Bateman	(Executive General Manager Sales and Distribution)
A. Hamilton	(Executive General Manager Marketing and Product Management)
D. Mattiske-Wood	(Executive General Manager Organisational Development)
S. Laidlaw	(Executive General Manager Corporate Services)
L. Wilkinson	(Executive General Manager Risk)
A. Hampton	(General Manager Technology) *
D. Lewis	(General Manager Retail Banking) *

* From 2 September 2013, no longer deemed to be key management personnel.

Notes to the Financial Statements

28. KEY MANAGEMENT PERSONNEL (Continued)

c) Key management personnel compensation

Directors and other key management personnel compensation for the Group comprised:

	Short-term employee benefits	Post-employment benefits - superannuation	Other long term benefits	Total
	$'000	$'000	$'000	$'000
2014	**3,153**	**199**	**99**	**3,451**
2013	3,347	215	87	3,649

d) Loans

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

	2014	2013
	$'000	$'000
Total aggregate loans as at the reporting date (30 June)	**3,677**	5,032

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

The Directors and key management personnel who conducted loan accounts with the Credit Union during the year were J.L. Cossons, W.R. Cossey AM, P.H.T. Evers, S.M. Day, K.A. Skipper AM, D. Bateman, A. Hamilton, A. Hampton, D. Lewis and L. Wilkinson.

Other transactions with key management personnel

Apart from the details under this disclosure, no Director or other key management personnel have entered into a material contract with the Credit Union 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 (including loans disclosed within this report) of Directors (including the Managing Director) occur in the ordinary course of business on an arms 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 were in the nature of normal personal banking.

As required to be a member of the Credit Union, each Director and each other key management personnel member holds one $2 share.

Notes to the Financial Statements

29. RELATED PARTIES

Controlled entities

The Credit Union entered into transactions with its Controlled Entities. These transactions were all carried out under normal commercial terms and are eliminated in the financial reports. The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

	Aggregate amounts included in the accounts of the Credit Union Income/(expense)		Payable to the Credit Union/(receivable from Credit Union)		Deposits with the Credit Union	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
Financial Solutions Australasia Pty Ltd	**216**	217	**2,748**	1,756	**-**	-
Australian Central Services Pty Ltd	**105**	115	**140**	117	**-**	-
Flinders Finance Pty Ltd**	**-**	(4)	**-**	(4)	**-**	198
Let's Talk Home Loans Group Pty Ltd	**-**	-	**(147)**	(114)	**481**	425
People's Choice Community Foundation Limited	**(476)**	(428)	**(3)**	12	**164**	115

	Residual unitholder net distribution		Loan		Net Interest Rate Swap Expense	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
Light Trust No. 1	**(1,143)**	(1,426)	**68,247**	87,698	**1,605**	2,059
Light Trust No. 2	**(205)**	(926)	**57,869**	77,512	**752**	1,036
Light Trust No. 3	**(1,708)**	(2,547)	**189,608**	253,387	**2,151**	2,983
Light Trust No. 4	**(3,428)**	1,502	**275,708**	378,263	**2,268**	2,092
Light Trust No. 5R	**-**	-	**-**	-	**-**	-

** Ceased trading as at 31 May 2014. All capital has been returned to the Credit Union. Flinders Finance Pty Ltd is in the process of deregistration with the official deregistration to take place during the year ended 30 June 2015.

Notes to the Financial Statements

30. RISK MANAGEMENT

a) Financial risk management objectives

The Group is exposed to a range of risks as part of its daily operations.

These risks are managed using an enterprise wide approach in line with sound business practice, Australian risk management standards, prudential requirements and the Board's approved risk appetite, providing the Board with a comprehensive view of its risk profile.

As part of the risk management framework, a risk management strategy is maintained which includes policies and plans which detail the Group's approach to the management of risk exposures. The risk management strategy includes systems for the identification, analysis, evaluation, treatment, monitoring and reporting of risk, is subject to regular review and is responsive to the changing regulatory and operating environments.

The Board ensures a sound risk management culture is maintained and embedded in the Group's values and behaviours and the conduct of business. The material financial risks faced by the Group include liquidity risk, credit risk and market risk (incorporating interest rate risk).

b) 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 Group'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 Group 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 liquid assets which meet APRA's criteria for classification as eligible Minimum Liquidity Holdings ("MLH") 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 ADIs 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 Credit Union of a minimum MLH basis whereby the Credit Union is required to maintain a minimum holding in specified eligible assets at all times. The Credit Union and the Group complied with all APRA liquidity requirements throughout the year.

The Credit Union's liquidity ratio as at the reporting date (30 June) is provided below:

	Credit Union	
	2014	2013
	%	%
Liquidity ratio	**13.29**	12.88

The Credit Union also maintains additional liquid assets which are not MLH eligible. After taking into consideration these assets the total liquidity of the Credit Union at 30 June 2014 is 14.16%.

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Group's and the Credit Union's financial liabilities as at 30 June 2014 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice is given immediately. However, the Group or the Credit Union expect that many members will not request repayment on the earliest date the Group or the Credit Union could be required to pay and the tables do not reflect the cash flows indicated by the Group's or the Credit Union's deposit retention history. Derivatives designated are based on their contractual maturity. The amounts represent principal and interest cash flows and may differ when compared to the carrying amounts reported on the Statements of Financial Position.

Notes to the Financial Statements

30. RISK MANAGEMENT (Continued)

b) Liquidity risk management (continued)

Consolidated Entity	At call $'000	3 Months or less $'000	3 to 12 months $'000	1 to 5 years $'000	greater than 5 years $'000	Total $'000	Carrying amount $'000
	Contractual cash flows						
2014							
Financial Liabilities							
Deposits	**2,637,835**	**773,137**	**819,389**	**139,275**	**-**	**4,369,636**	**4,335,835**
Other payables	**-**	**56,713**	**-**	**-**	**-**	**56,713**	**56,713**
Borrowings	**-**	**35,819**	**471,280**	**178,608**	**805,837**	**1,491,544**	**979,253**
Derivative Financial Instruments							
Interest rate swaps (assets)/liabilities	**-**	**835**	**2,146**	**879**	**-**	**3,860**	**3,642**
Total cash flows	**2,637,835**	**866,504**	**1,292,815**	**318,762**	**805,837**	**5,921,753**	**5,375,443**
2013							
Financial Liabilities							
Deposits	2,237,345	914,548	784,247	109,106	-	4,045,246	4,004,950
Other payables	-	82,021	-	-	-	82,021	82,021
Borrowings	-	51,876	521,397	243,042	1,161,058	1,977,373	1,241,523
Derivative Financial Instruments							
Interest rate swaps (assets)/liabilities	-	1,721	3,219	367	-	5,307	5,242
Total cash flows	2,237,345	1,050,166	1,308,863	352,515	1,161,058	6,109,947	5,333,736
Credit Union							
2014							
Financial Liabilities							
Deposits	**2,638,480**	**773,137**	**819,389**	**139,275**	**-**	**4,370,281**	**4,336,480**
Other payables	**-**	**60,910**	**-**	**-**	**-**	**60,910**	**60,910**
Borrowings	**-**	**36,091**	**472,096**	**182,949**	**825,423**	**1,516,559**	**993,287**
Derivative Financial Instruments							
Interest rate swaps (assets)/liabilities	**-**	**418**	**1,063**	**(582)**	**-**	**899**	**1,280**
Total cash flows	**2,638,480**	**870,556**	**1,292,548**	**321,642**	**825,423**	**5,948,649**	**5,391,957**
2013							
Financial Liabilities							
Deposits	2,238,503	914,548	784,247	109,106	-	4,046,404	4,006,107
Other payables	-	86,889	-	-	-	86,889	86,889
Borrowings	-	52,278	522,603	249,461	1,191,721	2,016,063	1,262,027
Derivative Financial Instruments							
Interest rate swaps (assets)/liabilities	-	1,348	2,158	(3,112)	(1,156)	(762)	(827)
Total cash flows	2,238,503	1,055,063	1,309,008	355,455	1,190,565	6,148,594	5,354,196

Notes to the Financial Statements

30. RISK MANAGEMENT (Continued)

c) Credit risk management

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

The Group'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 Statements 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. 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 maximum exposure to credit risk at the reporting date (30 June) was:

	Consolidated		Credit Union	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Cash and cash equivalents	**111,622**	135,522	**99,669**	135,522
Other assets	**20,718**	20,551	**22,826**	20,559
Available-for-sale investment securities	**626,134**	664,036	**615,254**	650,756
Derivative assets	**1,578**	4,468	**2,362**	6,188
Financial assets other than loans and advances	**760,052**	824,577	**740,111**	813,025
Loans and advances	**5,031,103**	4,898,633	**5,031,103**	4,898,633
Total Financial assets	**5,791,155**	5,723,210	**5,771,214**	5,711,658
Credit commitments	**600,129**	573,990	**600,129**	573,990
Total potential exposure to credit risk	**6,391,284**	6,297,200	**6,371,343**	6,285,648
Distribution of financial assets				
Neither past due nor impaired				
Financial assets other than loans and advances	**760,052**	824,577	**740,111**	813,025
Loans and advances	**4,883,760**	4,745,681	**4,883,760**	4,745,681
Past due but not impaired				
Loans and advances	**142,962**	150,630	**142,962**	150,630
Impaired				
Loans and advances	**4,381**	2,322	**4,381**	2,322
	5,791,155	5,723,210	**5,771,214**	5,711,658
Gross loans and advances which are past due but not impaired				
1 - 30 days	**109,559**	120,918	**109,559**	120,918
31 - 60 days	**15,013**	16,345	**15,013**	16,345
61 - 90 days	**6,756**	5,832	**6,756**	5,832
> 90 days	**11,634**	7,535	**11,634**	7,535
Total	**142,962**	150,630	**142,962**	150,630

Notes to the Financial Statements

30. RISK MANAGEMENT (Continued)

c) Credit risk management (continued)

	Consolidated		Credit Union	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Geographic concentration of credit risk for gross loans and advances				
South Australia	**3,761,236**	3,742,793	**3,761,236**	3,742,793
Northern Territory	**560,853**	525,997	**560,853**	525,997
Victoria	**353,839**	311,944	**353,839**	311,944
New South Wales	**163,034**	149,088	**163,034**	149,088
Western Australia	**86,961**	78,147	**86,961**	78,147
Queensland	**79,047**	73,279	**79,047**	73,279
Australian Capital Territory	**18,901**	10,571	**18,901**	10,571
Tasmania	**7,232**	6,814	**7,232**	6,814
	5,031,103	4,898,633	**5,031,103**	4,898,633

d) 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 Credit Union 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 Credit Union is maintained with the level and extent of the risks the Credit Union is exposed to from its activities. The Credit Union and the Group complied with all APRA capital adequacy requirements throughout the year.

The Group's capital adequacy ratio as at the end of the reporting date (30 June) and the comparative are as follows:

	Consolidated	
	2014 $'000	2013 $'000
Capital Adequacy Ratio	**15.84%**	14.75%
Qualifying capital		
Tier 1	**434,297**	406,138
Tier 2	**7,530**	7,779
Total qualifying capital	**441,827**	413,917
Risk Weighted Assets	**2,788,851**	2,806,462

For further detail on the Group's capital adequacy please refer to our public disclosures under *APS 330*, which is located on the Credit Union's website under Regulatory Disclosures.

Notes to the Financial Statements

30. RISK MANAGEMENT (Continued)

e) Market risk management

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

f) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate risk volatility of net interest income and market value of equity exposures. Positions are monitored regularly and approved hedging strategies are executed to ensure sensitivities and exposures are maintained within the established limits.

The sensitivity in the Statements of Profit or Loss and Other Comprehensive Income is the effect of assumed changes in interest rates on the net interest for one year, based on the floating rate financial assets and financial liabilities held at 30 June 2014, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate of loans and advances, available for sale financial assets (including the effect of any associated hedges), and interest rate swaps designated as cash flow hedges, at 30 June 2014 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or interest rate swap, with sensitivity based on the assumption that there are parallel shifts in the yield curve.

Monitoring of adherence to policies, limits and procedures is controlled through the Management Asset and Liability Committee ("MALCO") and the Board Risk Committee.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, on the Group's income statement and in equity with all other variables held constant.

	Equity Sensitivity		Net Revenue Sensitivity	
	2014	2013	**2014**	2013
Consolidated	**%**	%	**$'000**	$'000
50 bp rise	**0.37**	0.20	**5,468**	3,675
50 bp fall	**(0.37)**	(0.20)	**(3,746)**	(3,659)
100 bp rise	**0.73**	0.40	**10,982**	7,366
100 bp fall	**(0.75)**	(0.40)	**(7,485)**	(7,304)

Notes to the Financial Statements

30. RISK MANAGEMENT (Continued)

f) Interest rate risk (continued)

The Group is exposed to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities.

The Group's exposure to interest rate risk at balance date is shown in the following table and does not differ materially from that of the Credit Union.

Consolidated		Fixed interest rate maturing:				
	Floating interest rate	<1 yrs	1-5 yrs	> 5 yrs	Non-interest bearing	Total
2014	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets						
Cash and cash equivalents	**111,622**	**-**	**-**	**-**	**18,390**	**130,012**
Loans and advances	**3,133,825**	**414,432**	**1,466,018**	**10,035**	**-**	**5,024,310**
Available-for-sale investment securities	**-**	**628,143**	**-**	**-**	**8,778**	**636,921**
Other investments	**1,809**	**-**	**-**	**-**	**-**	**1,809**
	3,247,256	**1,042,575**	**1,466,018**	**10,035**	**27,168**	**5,793,052**
Financial Liabilities						
Deposits	**2,635,981**	**1,566,818**	**132,367**	**-**	**669**	**4,335,835**
Borrowings	**-**	**979,253**	**-**	**-**	**-**	**979,253**
	2,635,981	**2,546,071**	**132,367**	**-**	**669**	**5,315,088**
Interest rate swaps - assets/(liabilities)	**798,767**	**(183,544)**	**(594,126)**	**(21,097)**	**-**	**-**
2013						
Financial Assets						
Cash and cash equivalents	142,528	-	-	-	9,064	151,592
Loans and advances	3,285,440	326,594	1,264,706	15,115	-	4,891,855
Available-for-sale investment securities	-	664,036	-	-	12,279	676,315
Other investments	1,701	-	-	-	-	1,701
	3,429,669	990,630	1,264,706	15,115	21,343	5,721,463
Financial Liabilities						
Deposits	2,229,065	1,673,189	102,021	-	675	4,004,950
Borrowings	-	1,241,523	-	-	-	1,241,523
	2,229,065	2,914,712	102,021	-	675	5,246,473
Interest rate swaps - Assets/(liabilities)	557,459	(159,553)	(359,357)	(38,549)	-	-

Notes to the Financial Statements

30. RISK MANAGEMENT (Continued)

g) Interest rate swap contracts

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

	2014			2013		
	Notional amount	Fair Value Asset	Fair Value Liability	Notional amount	Fair Value Asset	Fair Value Liability
	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated						
Derivatives at fair value through profit and loss						
Interest rate swaps	263,767	1,578	(2,715)	202,459	4,348	(6,317)
Derivatives held as cash flow hedges						
Interest rate swaps	535,000	-	(2,505)	355,000	120	(3,393)
	798,767	1,578	(5,220)	557,459	4,468	(9,710)
Credit Union						
Derivatives at fair value through profit and loss						
Interest rate swaps	185,779	2,362	(1,138)	237,732	6,068	(1,968)
Derivatives held as cash flow hedges						
Interest rate swaps	535,000	-	(2,504)	355,000	120	(3,393)
	720,779	2,362	(3,642)	592,732	6,188	(5,361)

Notes to the Financial Statements

30. RISK MANAGEMENT (Continued)

g) Interest rate swap contracts (continued)

The following table details the Group's net fair values and notional principal amounts at the remaining terms of interest rate swap contracts outstanding as at the reporting date:

	Net Fair Value		Notional principal amount	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Less than 1 year	**(2,857)**	(4,878)	**183,544**	159,553
1 to 2 years	**(769)**	(623)	**266,701**	150,756
2 to 5 years	**(16)**	259	**327,425**	208,601
> 5 years	**-**	-	**21,097**	38,549
	(3,642)	(5,242)	**798,767**	557,459

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group does not have a legally enforceable right to set-off any interest rate swap agreements.

Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on the International Swaps and Derivatives Association ("ISDA") Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As neither the Group nor the Credit Union presently have a legally enforceable right of set-off, these amounts have not been offset in the Statements of Financial Position and accordingly derivative assets and derivative liabilities are shown on a gross basis in the Statements of Financial Position.

If under the ISDA Master Agreement there was a legally enforceable right of set-off, there would be a reduction in both the derivative asset and derivative liability of the Credit Union and the Group of $1.578 million as at 30 June 2014 ($4.468 million at 30 June 2013).

Notes to the Financial Statements

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value methodologies

Disclosed below is the estimated fair value of the Group's financial instruments presented in accordance with the requirements of Accounting Standard *AASB 7 "Financial Instruments - Disclosure".*

A financial instrument is defined by *AASB 132 "Financial Instruments - Presentation"* as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial liability is a contractual obligation either to deliver cash or another financial asset to another entity, or, to exchange financial instruments with another entity under conditions that are potentially unfavourable.

The methodologies and assumptions used in measuring fair value depend on the terms and risk characteristics of the various instruments and include the following:

Cash and cash equivalents

Being cash on hand and at call deposits, the carrying amount is the net fair value.

Loans and advances

The net fair value of loans has been estimated using discounted cash flow analysis, based on current rates offered by the Group for loans with similar terms. The net fair value of impaired loans has been estimated as their carrying amount net of the aggregate provision for impairment.

Available-for-sale investment securities

Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

Other investments

Other investments represent both capital notes and shares in unlisted companies. The fair value of capital notes is estimated using discounted cash flow analysis, based on current market rates for similar arrangements. The fair value of unlisted companies cannot be reliably measured as no active market exists for these assets. There are no current intentions to dispose of these investments.

Derivative financial instruments

Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

Other assets

This includes items such as sundry debtors, which are short-term by nature and the carrying amount is therefore a reasonable estimate of fair value.

Deposits

The net fair value of deposits has been estimated using discounted cash flow analysis, based on current rates offered by the Group for deposits with similar terms.

Other payables

Carrying amount approximates net fair value because of the short term to settlement of the amounts due.

Borrowings

Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

Notes to the Financial Statements

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

a) Fair value methodologies (continued)

The following table provides comparison of carrying amounts and net fair values for financial instruments:

	Carrying value		Fair value	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Consolidated				
Financial Assets				
Cash and cash equivalents	**130,012**	151,592	**130,012**	151,592
Loans and advances	**5,024,310**	4,891,855	**5,040,371**	4,906,712
Available-for-sale investment securities	**636,921**	674,823	**636,921**	674,823
Other investments	**1,809**	1,701	**1,809**	1,701
Derivative assets	**1,578**	4,468	**1,578**	4,468
Other assets	**20,718**	20,551	**20,718**	20,551
	5,815,348	5,744,990	**5,831,409**	5,759,847
Financial Liabilities				
Deposits	**4,335,835**	4,004,950	**4,329,848**	4,001,623
Other payables	**56,713**	82,021	**56,713**	82,021
Borrowings	**979,253**	1,241,523	**984,189**	1,244,584
Derivative liabilities	**5,220**	9,710	**5,220**	9,710
	5,377,021	5,338,204	**5,375,970**	5,337,938
Credit Union				
Financial Assets				
Cash and cash equivalents	**118,058**	144,826	**118,058**	144,826
Loans and advances	**5,024,310**	4,891,855	**5,040,371**	4,906,712
Available-for-sale investment securities	**626,041**	661,543	**626,041**	661,543
Other investments	**40,789**	45,011	**40,789**	45,011
Derivative assets	**2,362**	6,188	**2,362**	6,188
Other assets	**22,826**	20,559	**22,826**	20,559
	5,834,386	5,769,982	**5,850,447**	5,784,839
Financial Liabilities				
Deposits	**4,336,480**	4,006,107	**4,330,493**	4,001,623
Other payables	**60,910**	86,889	**60,910**	86,889
Borrowings	**993,287**	1,262,027	**998,223**	1,262,568
Derivative liabilities	**3,642**	5,361	**3,642**	5,361
	5,394,319	5,360,384	**5,393,268**	5,356,441

Notes to the Financial Statements

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

b) Fair value hierarchy

The following table analyses financial instruments at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The different levels within the hierarchy are 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).

The fair value of the financial instruments is summarised in the table below:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Consolidated Entity				
2014				
Financial Assets				
Financial assets available-for-sale	**-**	**636,921**	**-**	**636,921**
Derivative assets	**-**	**1,578**	**-**	**1,578**
	-	**638,499**	**-**	**638,499**
Financial Liabilities				
Derivative financial liabilities	**-**	**(5,220)**	**-**	**(5,220)**
	-	**(5,220)**	**-**	**(5,220)**
2013				
Financial Assets				
Financial assets available-for-sale	-	674,823	-	674,823
Derivative assets	-	4,468	-	4,468
	-	679,291	-	679,291
Financial Liabilities				
Derivative financial liabilities	-	(9,710)	-	(9,710)
	-	(9,710)	-	(9,710)
Credit Union				
2014				
Financial Assets				
Financial assets available-for-sale	**-**	**626,041**	**-**	**626,041**
Derivative assets	**-**	**2,362**	**-**	**2,362**
	-	**628,403**	**-**	**628,403**
Financial Liabilities				
Derivative financial liabilities	**-**	**(3,642)**	**-**	**(3,642)**
	-	**(3,642)**	**-**	**(3,642)**
2013				
Financial Assets				
Financial assets available-for-sale	-	661,543	-	661,543
Derivative assets	-	6,188	-	6,188
	-	667,731	-	667,731
Financial Liabilities				
Derivative financial liabilities	-	(5,361)	-	(5,361)
	-	(5,361)	-	(5,361)

Notes to the Financial Statements

32. EVENTS SUBSEQUENT TO REPORTING DATE

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

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Annual General Meeting

Thursday, 30 October 2014
Commencing 11.00am, Central Daylight Saving Time
Sebel Playford Adelaide, 120 North Terrace, Adelaide

Bankers

Cuscal Ltd
National Australia Bank Limited
Westpac Banking Corporation

Auditors

KPMG

Tax Agent

KPMG

Solicitors

Clayton Utz
DMAW
Fisher Jeffries
Holley Nethercote
Hunt & Hunt
Piper Alderman
Wallmans