



**ECU AUSTRALIA LTD**

**ABN 50 087 650 986**

**FULL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE 2011**



Credit Union and  
Building Society group

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# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Note	Economic Entity		Parent Entity	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Interest income	2	20,647	17,633	20,647	17,633
Interest expense and borrowing costs	2	(13,301)	(10,787)	(13,301)	(10,787)
<b>Net interest income</b>		<b>7,346</b>	<b>6,846</b>	<b>7,346</b>	<b>6,846</b>
Other revenue and income	3	1,663	1,692	1,643	1,686
Net operating income		9,009	8,538	8,989	8,538
Impairment loss on loans and advances	14(c)	73	(138)	73	(138)
Employee benefits expense	4	(3,105)	(3,058)	(3,105)	(3,058)
Occupancy expense	4	(268)	(244)	(268)	(244)
Depreciation and amortisation expense	4	(311)	(289)	(311)	(289)
Other expenses	4	(3,339)	(3,058)	(3,322)	(3,038)
Total operating expenses		(6,950)	(6,787)	(6,933)	(6,767)
Profit before income tax expense		2,059	1,751	2,056	1,765
Income tax expense	5	(622)	(529)	(622)	(532)
<b>Profit for the year</b>		<b>1,437</b>	<b>1,222</b>	<b>1,434</b>	<b>1,233</b>
<b>Other Comprehensive income:</b>					
Cash flow hedge		86	424	86	424
Revaluation of land and buildings		(112)	-	(112)	-
Income tax on items of other comprehensive income	5(c)	(110)	(126)	(110)	(126)
<b>Other comprehensive income for the year, net of tax</b>		<b>(136)</b>	<b>298</b>	<b>(136)</b>	<b>298</b>
<b>Total comprehensive income for the year</b>		<b>1,301</b>	<b>1,520</b>	<b>1,298</b>	<b>1,531</b>

The accompanying notes should be read in conjunction with these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	Economic Entity		Parent Entity	
		2011	2010	2011	2010
		\$'000	\$'000	\$'000	\$'000
<b>ASSETS</b>					
Cash and cash equivalents	8	6,303	1,649	6,303	1,649
Other receivables	9	277	191	285	205
Financial assets held to maturity	10	35,954	34,264	35,954	34,264
Loans and advances to members	11	250,087	240,724	250,087	240,724
Loans and advances to other entities	13	500	500	500	500
Financial assets available for sale or at cost	15	444	444	444	444
Property, plant and equipment	16	2,392	2,547	2,392	2,547
Intangibles	17	161	206	161	206
<b>TOTAL ASSETS</b>		<b>296,118</b>	<b>280,525</b>	<b>296,126</b>	<b>280,539</b>
<b>LIABILITIES</b>					
Deposits from members	19	270,297	247,494	270,297	247,494
Derivative financial instruments	12	63	165	63	165
Other payables	20	577	574	577	574
Income tax payable	21	125	78	125	79
Borrowings	22	6,641	15,062	6,641	15,062
Deferred tax liabilities	18(c)	140	195	140	197
Provisions	23	330	313	330	313
<b>TOTAL LIABILITIES</b>		<b>278,173</b>	<b>263,881</b>	<b>278,173</b>	<b>263,884</b>
<b>NET ASSETS</b>		<b>17,945</b>	<b>16,644</b>	<b>17,953</b>	<b>16,655</b>
<b>MEMBERS FUNDS</b>					
Reserves	24	1,415	1,531	1,415	1,531
Retained earnings		16,530	15,113	16,538	15,124
<b>TOTAL MEMBERS FUNDS</b>		<b>17,945</b>	<b>16,644</b>	<b>17,953</b>	<b>16,655</b>

The accompanying notes should be read in conjunction with these financial statements.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

Economic Entity	Note	Redeemed preference shares \$'000	Asset Revaluation Reserve \$'000	Reserve for Credit Losses \$'000	Cash Flow Hedge Reserve \$'000	Retained Earnings \$'000	TOTAL \$'000
<b>Balance at 30 June 2009</b>		199	962	401	(390)	13,952	15,124
<i>Total comprehensive income for the year</i>							
Profit for the year		-	-	-	-	1,222	1,222
Other comprehensive income for the year							
- Net change in cash flow hedge, net of tax		-	-	-	298	-	298
<i>Total comprehensive income for the year</i>		-	-	-	298	1,222	1,520
Transfers							
- redeemed preference shares		11	-	-	-	(11)	-
- reserve for credit losses		-	-	50	-	(50)	-
<i>Total Transfers</i>		11	-	50	-	(61)	-
<b>Balance at 30 June 2010</b>		210	962	451	(92)	15,113	16,644
<i>Total Comprehensive income for the year</i>							
Profit for the year		-	-	-	-	1,437	1,437
Other comprehensive income for the year							
- Net change in cash flow hedge , net of tax		-	-	-	60	-	60
- Revaluation of land and buildings, net of tax		-	(196)	-	-	-	(196)
<i>Total comprehensive income for the year</i>		-	(196)	-	60	1,437	1,301
Transfers							
- redeemed preference shares		10	-	-	-	(10)	-
- reserve for credit losses		-	-	10	-	(10)	-
<i>Total Transfers</i>		10	-	10	-	(20)	-
<b>Balance at 30 June 2011</b>		220	766	461	(32)	16,530	17,945

The accompanying notes should be read in conjunction with these financial statements

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

### Parent Entity

	Note	Redeemed preference shares \$'000	Asset Revaluation Reserve \$'000	Reserve for Credit Losses \$'000	Cash Flow Hedge Reserve \$'000	Retained Earnings \$'000	TOTAL \$'000
<b>Balance at 30 June 2009</b>		199	962	401	(390)	13,952	15,124
<i>Total comprehensive income for the year</i>							
Profit for the year		-	-	-	-	1,233	1,233
Other comprehensive income for the year							
- Net change in cash flow hedge, net of tax		-	-	-	298	-	298
<i>Total comprehensive income for the year</i>		-	-	-	298	1,233	1,531
<i>Transfers</i>							
- redeemed preference shares		11	-	-	-	(11)	-
- reserve for credit losses		-	-	50	-	(50)	-
<i>Total Transfers</i>		11	-	50	-	(61)	-
<b>Balance at 30 June 2010</b>		210	962	451	(92)	15,124	16,655
<i>Total comprehensive income for the year</i>							
Profit for the year		-	-	-	-	1,434	1,434
Other comprehensive income for the year							
- Net change in cash flow hedge , net of tax		-	-	-	60	-	60
- Revaluation of land and buildings, net of tax		-	(196)	-	-	-	(196)
<i>Total comprehensive income for the year</i>		-	(196)	-	60	1,434	1,298
<i>Transfers</i>							
- redeemed preference shares		10	-	-	-	(10)	-
- reserve for credit losses		-	-	10	-	(10)	-
<i>Total Transfers</i>		10	-	10	-	(20)	-
<b>Balance at 30 June 2011</b>		220	766	461	(32)	16,538	17,953

The accompanying notes should be read in conjunction with these financial statements.

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Interest received	20,423	17,481	20,423	17,481
Fees and commissions received	1,496	1,627	1,476	1,621
Other sundry receipts	(32)	-	(32)	-
Dividends received	134	55	134	55
Interest and other borrowing costs paid	(12,680)	(10,667)	(12,680)	(10,667)
Payments to suppliers and employees	(6,552)	(6,238)	(6,532)	(6,232)
Net movement in financial assets held to maturity	(1,467)	(3,497)	(1,467)	(3,497)
Net movement in loans and advances to members	(9,461)	(25,502)	(9,461)	(25,502)
Net movement in deposits from members	22,209	22,869	22,209	22,869
Income taxes paid	(573)	(497)	(573)	(497)
<b>Net cash provided by / (used in) operating activities</b>	37(a) 13,497	(4,369)	13,497	(4,369)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments for property, plant and equipment	(344)	(216)	(344)	(216)
Payments for intangible assets – computer software	(54)	(101)	(54)	(101)
Proceeds from sale of property, plant and equipment	5	1	5	1
<b>Net cash provided by / (used in) investing activities</b>	(393)	(316)	(393)	(316)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings	5,550	26,000	5,550	26,000
Repayment of borrowings	(14,000)	(22,000)	(14,000)	(22,000)
<b>Net cash provided by / (used in) financing activities</b>	(8,450)	4,000	(8,450)	4,000
Net increase/(decrease) in cash held	4,654	(685)	4,654	(685)
Cash at the beginning of the financial year	1,649	2,334	1,649	2,334
<b>Cash at the end of the financial year</b>	37(b) <b>6,303</b>	<b>1,649</b>	<b>6,303</b>	<b>1,649</b>

The accompanying notes should be read in conjunction with these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, the Corporations Act 2001 and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

The financial statements cover ECU Australia Ltd as an individual entity and ECU Australia Ltd and controlled entities as an Economic Entity. ECU Australia is a public company limited by shares and is incorporated and domiciled in Australia.

The financial statements of ECU Australia Ltd as an individual entity and the consolidated financial statements of the Economic Entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

The financial statements have been prepared on an accruals basis and are based on historical costs except for land and buildings, derivatives and financial assets available for sale that have been measured at fair value.

The presentation currency of the financial statements is Australian Dollars.

The following is a summary of the material accounting policies adopted by the Economic Entity in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

#### (a) Consolidated financial statements

##### Basis of consolidation

###### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ECU Australia Ltd ('company' or 'parent entity') as at 30 June 2011 and the results of all subsidiaries for the year then ended. The Credit Union and its subsidiaries together are referred to in these financial statements as the Group or the Economic Entity.

The names of the subsidiaries are contained in Note 30. All subsidiaries have a 30 June financial year-end and are accounted for by ECU Australia Ltd at cost.

Subsidiaries are all entities (including special purpose entities) over which the Economic Entity has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Economic Entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Economic Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of controlled entities have been changed where necessary to ensure consistency with those policies applied by the Economic Entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

###### *Special purpose entities*

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. A special purpose entity is consolidated if, based on an evaluation of the substance of its relationship with the Economic Entity and the special purpose entity's risks and rewards, the Economic Entity concludes that it controls the special purpose entity.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (a) Consolidated financial statements (cont)

##### *Changes in ownership interests*

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of ECU Australia Ltd.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

#### (b) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised in full, using the liability method, on temporary differences, between carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Economic Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (b) Income Tax (cont)

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

ECU Australia Ltd and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements, where applicable.

ECU Australia Ltd is the head entity in the tax consolidated group. The stand-alone taxpayer within a group approach has been used to allocate current income tax expense and deferred tax balances to wholly-owned subsidiaries that form part of the tax consolidated group. ECU Australia Ltd has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated group via intercompany receivables and payables.

#### (c) Receivables due from other financial institutions

Receivables from other financial institutions are primarily settlement account balances due from banks, building societies and other credit unions and exclude call and term deposits with other ADI's. They are brought to account at the gross value of the outstanding balance. Interest is recognised in profit or loss when earned.

#### (d) Financial Assets and Financial Liabilities

Introduction

##### (i) Initial recognition

The Economic Entity initially recognises loans and advances to members, deposits from members, debt securities and subordinated liabilities on the date that they are originated. All other financial assets and financial liabilities (including financial assets and financial liabilities designated at fair value through profit and loss) are initially recognised on trade date when the related contractual rights or obligations exist.

##### (ii) De-recognition

The Economic Entity de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Economic Entity is recognised as a separate asset or liability. The Economic Entity de-recognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

##### (iii) Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the Statement of Financial Position when, and only when, the Economic Entity has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

##### (iv) Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

##### (v) Identification and measurement of impairment

Refer below and Note 1(f) for details.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (d) Financial Assets and Financial Liabilities (cont)

##### **Application**

##### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances held in banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risks of changes in their value, and are used by the Economic Entity in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

##### **Loans and advances to members**

Loans and advances to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Economic Entity does not intend to sell immediately or in the near term. 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 method.

##### **Investment securities**

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available for sale.

##### **(i) Held-to-maturity**

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Economic Entity has a positive intent and ability to hold to maturity, and which are not designated as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Economic Entity from classifying investment securities as held-to-maturity for the current and the following two financial years.

Impairment losses are measured as the difference between the investment's carrying amount and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the investment's original effective interest rate. Impairment losses are recognised in profit or loss.

##### **(ii) Available-for-sale**

Available-for-sale investments are non-derivative investments that are not designated as another category of financial asset.

After initial recognition, available-for-sale investments are measured at fair value. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gains or losses arising from changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income in the available-for-sale investments revaluation reserve. On sale, the amount held in available-for-sale reserve associated with that asset is recognised in profit or loss as a reclassification adjustment.

Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset below its cost (which constitutes objective evidence of impairment) the cumulative loss recognised in other comprehensive income is reclassified from the available-for-sale investments revaluation reserve to profit or loss as a reclassification adjustment. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be reversed through profit or loss. Reversals of impairment losses on debt instruments classified as available-for-sale can be reversed through profit or loss where the reversal relates to an increase in the fair value of the debt instrument occurring after the impairment loss was recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (d) Financial Assets and Financial Liabilities (cont)

Interest income from available-for-sale investments is recognised in profit or loss using the effective interest method. Dividend income from available-for-sale investments is recognised in profit or loss when the Economic Entity becomes entitled to the dividend.

##### **Deposits from members**

Refer Note 1(k) for details.

##### **Borrowings and sub-ordinated debt**

Refer Note 1(m) for details.

#### (e) Revenue

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the member's loan account on the last day of each month. Loan interest revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the asset.

When a loan is classified as impaired, the Economic Entity ceases to charge interest and other income earned but not yet received. Loan interest is generally not charged when the Economic Entity is informed that the member has deceased, if a loan has been transferred to a debt collection agency, or a judgement has been obtained. No interest is charged on loans where repayments are in arrears and the prospect of a contribution from the member is minimal. However, accrued interest may be recovered as part of the recovery of the debt.

Loan origination fee income and loan transaction costs that are direct and incremental to the establishment of loans are deferred and amortised as a component of the calculation of the effective interest rate in relation to the originated loans.

Fees charged on loans after origination of the loan are recognised as income when the service is provided.

Fees and commissions are recognised on an accruals basis when service to the customer has been rendered and a right to receive the consideration has been attained.

All revenue is stated net of the amount of goods and services tax (GST).

#### (f) Impairment - Loans and Advances

A provision for losses on impaired loans is recognised when there is objective evidence that impairment of a loan has occurred. All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

Impairment losses on loans and advances are measured as the difference between the carrying amount of loans and advances and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan and advances original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (f) Impairment - Loans and Advances (cont)

The amount provided for impairment of loans is determined by management and the Board. The Prudential Standards issued by APRA enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the Credit Union. Management and the Board also make a provision for loans in arrears where the collectability of the debt is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. The critical assumptions used in the calculation are set out in Note 14. Note 31(B) details the credit risk management approach to loan impairment.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

Bad debts are written off, as determined by management and the Board, when it is reasonable to expect that the recovery of the loan is unlikely. All write-offs are on a case-by-case basis, taking into account the exposure at the date of the write-off. On secured loans, the write-off takes place following ultimate realisation of collateral value.

Bad debts are written off against the provision for impairment where an impairment has previously been recognised in relation to a loan. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses in profit or loss.

Renegotiated loans are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members.

#### (g) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

##### Property

Freehold land and buildings are measured at their fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

A revaluation increase is credited to other comprehensive income unless it reverses a revaluation decrease on the same asset previously recognised in profit or loss. A revaluation decrease is recognised in profit or loss unless it directly offsets a previous revaluation increase on the same asset in the asset revaluation reserve. On disposal, any revaluation surplus relating to sold assets is transferred to retained earnings.

It is the policy of the Economic Entity to have an independent valuation every three years, with annual appraisals being made by the directors.

##### Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses, if any.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (g) Property, Plant and Equipment (cont)

##### Depreciation

The depreciable amount of all property, plant and equipment, including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives to the Economic Entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Property, plant and equipment are depreciated on a straight-line basis.

A summary of the rates used are disclosed below:

Buildings	2.5%
Plant and Equipment	7.5% to 25.0%

Assets under \$300 are not capitalised.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

#### (h) Impairment of assets (excluding financial assets)

At each reporting date, the Economic Entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in profit or loss (except for items carried at revalued amount).

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Economic Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### (i) Intangible Assets

##### Computer Software

Items of computer software which are not integral to the computer hardware owned by the Economic Entity are classified as an intangible asset with a finite life. Computer software has a finite life and, accordingly, is amortised on a straight line basis over the expected useful life of the software. These lives range from 2 to 7 years.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### (j) Leases

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the Economic Entity are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Economic Entity as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

When the Economic Entity is the lessor in a lease agreement that transfers a significant portion of the risks and rewards of ownership to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Lease income from operating leases where the Economic Entity is a lessor is recognised in profit or loss on a straight-line basis over the lease term. The respective leased assets are included in the Statement of Financial Position based on their nature.

#### (k) Members' Deposits

Members' deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Interest on deposits is recognised on an accrual basis. Interest accrued at the end of the reporting date is shown as a part of members' deposits.

#### (l) Payables due to other financial institutions

Payables due to other financial institutions are primarily settlement account balances due to other financial institutions. They are measured at the gross value of the outstanding balance (being amortised cost).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### (m) Borrowings and Subordinated Debt

Borrowings and subordinated debt are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Economic Entity chooses to carry the liabilities at fair value through the profit or loss. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method.

The Economic Entity classifies financial instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Preference shares that are mandatorily redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as part of interest expense.

#### (n) Employee benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

Contributions are made by the Economic Entity to employee superannuation funds and are charged as expenses when incurred.

#### (o) Derivative Instruments held for Risk Management Purposes

The Economic Entity uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Derivatives used for risk management purposes are measured at fair value.

For the purpose of hedge accounting, derivatives are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction. When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of the changes in the fair value of the derivative is recognised in other comprehensive income in the cash flow hedge reserve and reclassified to profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss as finance costs.

If a derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in other comprehensive income in the cash flow hedge reserve remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in the cash flow hedge reserve is recognised immediately in profit or loss for the year as a reclassification adjustment.

For further details of interest rate swaps used by the Economic Entity refer Note 12.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### (p) Comparative Figures

Where necessary, comparative figures have been adjusted to conform to changes in the presentation in the current year.

#### (q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. 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 in the Statement of Financial Position are shown inclusive of GST.

#### (r) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars (\$'000) unless otherwise stated.

#### (s) Accounting Estimates and Judgements

Management have made judgements when applying the Economic Entity's accounting policies with respect to the classification of preference shares as borrowings – refer Note 22

Management have made accounting estimates when applying the Economic Entity's accounting policies with respect to the specific impairment provisions for loans – refer Note 14.

#### (t) New and amended standards and interpretations

The following new and amended standards and interpretations are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues
- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and related amendments; and
- AASB 2010-3 Amendments to Australian Accounting Standards arising from Annual Improvements Project.

The adoption of these standards and interpretations did not have any material impact on the current or any prior period and is not likely to materially affect future periods.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### (u) New and amended standards and interpretations not yet adopted

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements, except for the following:

(i) AASB 9 Financial Instruments (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Financial assets are to be classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139. The Economic Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

(ii) AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective from 1 July 2011)

Amendments made to AASB 7 Financial Instruments: Disclosures introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The Economic Entity has not yet determined the extent of the impact on its disclosures.

(iii) AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)

The amendments made to AASB 112 Income Taxes provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. Under AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. However, it is often difficult and subjective to determine the expected manner of recovery when the investment property is measured using the fair value model. To provide a practical approach in such cases, the amendments introduce a rebuttable presumption that an investment property is recovered entirely through sale. The Economic Entity does not plan to adopt this amendment early and the extent of the impact has not been determined.

In addition to the above, new and amended standards dealing with Consolidated Financial Statements, Separate Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities and Fair Value Measurement have recently been released. These standards are effective from 1 January 2013. The Economic Entity does not plan to adopt these standards early nor has the extent of their impact been determined.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 2: INTEREST INCOME AND INTEREST EXPENSE

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>(a) Interest income</b>				
<i>Assets at amortised cost</i>				
Cash and cash equivalents	96	35	96	35
Placements with other ADIs	2,078	1,628	2,078	1,628
Loans and advances to members	18,448	15,950	18,448	15,950
Other	25	20	25	20
<b>Total interest income</b>	<b>20,647</b>	<b>17,633</b>	<b>20,647</b>	<b>17,633</b>
<b>(b) Interest expense</b>				
<i>Liabilities at amortised cost</i>				
Deposits from members	12,411	9,471	12,411	9,471
Borrowings	789	902	789	902
	<b>13,200</b>	10,373	<b>13,200</b>	10,373
<i>Liabilities at fair value</i>				
Interest rate swaps	101	414	101	414
<b>Total interest expense</b>	<b>13,301</b>	<b>10,787</b>	<b>13,301</b>	<b>10,787</b>

### NOTE 3: OTHER REVENUE AND INCOME

Fees and commissions				
• deposits from members	456	521	456	521
• commissions	716	672	696	666
• arrears fees	13	12	13	12
Mortgage servicing income	314	420	314	420
Dividends received	134	55	134	55
Bad debts recovered	2	2	2	2
Rental income from operating leases	9	9	9	9
Hedge ineffectiveness on cash flow hedges	11	(10)	11	(10)
Other	8	11	8	11
<b>Total other revenue and income</b>	<b>1,663</b>	<b>1,692</b>	<b>1,643</b>	<b>1,686</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 4: PROFIT BEFORE INCOME TAX

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Profit before income tax has been determined after the following items:				
<b>Expenses:</b>				
Impairment expense on loans and advances	(73)	138	(73)	138
Employee benefit expenses	3,105	3,058	3,105	3,058
Depreciation				
• buildings	34	33	34	33
• plant and equipment	180	171	180	171
Amortisation				
• Software	97	85	97	85
Rental expense on operating leases				
- minimum lease payments	97	91	97	91
- contingent rents	9	9	9	9
Other occupancy expenses	162	144	162	144
Other expenses				
• Fees and commissions	93	91	93	91
• personnel expenses	354	281	351	279
• promotion and marketing	388	344	388	343
• computer and data expenses	492	465	488	463
• member chequing expenses	53	40	53	40
• member electronic access expenses	730	681	730	681
• loans administration expenses	166	218	166	218
• ATM network expenses	89	69	89	69
• general and administration	974	869	964	854

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 5: INCOME TAX

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>(a) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Tax at the Australian tax rate of 30% (2010 30%)	618	525	618	528
Add: Tax effect of:				
Non-deductible dividend payments on permanent preference shares	42	36	42	36
Non-deductible expenditure	5	5	5	5
Other Items	-	3	-	3
Under (Over) provision for income tax in prior year	-	(21)	-	(21)
	<b>665</b>	<b>548</b>	<b>665</b>	<b>551</b>
Less: Tax effect of:				
Tax offset for franked dividends	(40)	(17)	(40)	(17)
Investment Allowance	-	(2)	-	(2)
Other items	(3)	-	(3)	-
Income tax expense	<b>622</b>	<b>529</b>	<b>622</b>	<b>532</b>
<b>(b) Major components of tax expense/(income):</b>				
Current tax	579	593	579	594
Under (Over) provision for income tax in prior year	-	(21)	-	(21)
Deferred tax relating to the origination and reversal of temporary differences	43	(43)	43	(41)
Income tax expense	<b>622</b>	<b>529</b>	<b>622</b>	<b>532</b>
<b>(c) Tax expense/(income) relating to items of other comprehensive income</b>				
Revaluation of land and buildings	(84)	-	(84)	-
Cash flow hedges	(26)	(126)	(26)	(126)
	<b>(110)</b>	<b>(126)</b>	<b>(110)</b>	<b>(126)</b>
<b>(d) Franking Account</b>				
Balance of franking account at year-end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the end of the reporting date based on a tax rate of 30% (2010: 30%)	6,200	5,624	6,200	5,625

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 6: AUDITORS' REMUNERATION

#### Remuneration of the auditor of the Economic Entity:

- Auditing or reviewing the financial statements of any entity in the group
- Taxation services

2011	2010
\$'000	\$'000
59,600	51,700
7,400	6,523
<b>67,000</b>	<b>58,223</b>

### NOTE 7: KEY MANAGEMENT PERSONNEL

#### (a) Remuneration of Key Management Personnel (KMPs)

Compensation of KMP in total and for each of the following categories was as follows:

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
(i) Short-term employee benefits	744,891	644,235	744,891	644,235
(ii) Post-employment benefits (inc superannuation)	98,312	93,214	98,312	93,214
(iii) Other long-term benefits (inc long service leave)	14,167	14,225	14,167	14,225
Total	<b>857,370</b>	<b>751,674</b>	<b>857,370</b>	<b>751,674</b>

Remuneration shown as short term benefits means, (where applicable) wages, salaries, paid annual leave and sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements. All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Economic Entity.

Directors' remuneration above excludes the cost of the premium for Directors' and Officers' Liability insurance and Group Accident insurance of \$5,875 (30 June 2010: \$5,197). Due to the nature of this cost, it is not practical to allocate this cost to each director as remuneration even though the Directors enjoy the benefit of such insurance.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

### NOTE 7: KEY MANAGEMENT PERSONNEL (Cont'd)

#### (b) Loans to KMPs and their close family members

The Economic Entity's policy for lending to KMPs is that all loans are approved on the same terms and conditions that applied to members during the year for each class of loan.

There are no benefits or concessional terms and conditions applicable to the close family members of the KMP.

There are no loans that are impaired in relation to the loan balances with KMPs. There are also no loans that are impaired in relation to the loan balances with close family relatives of KMPs.

	Economic Entity		Parent Entity	
	2011 \$	2010 \$	2011 \$	2010 \$
Aggregate value of loans at year end	3,345,226	5,014,892	3,345,226	5,014,892
Aggregate value of other credit facilities at year end	232,000	171,000	232,000	171,000
Amounts drawn down included in aggregate value	(125,572)	(102,530)	(125,572)	(102,530)
Net balance available	106,428	68,470	106,428	68,470
During the year the aggregate value of loans disbursed amounted to:				
• Commercial Loans	-	-	-	-
• Personal Loans	-	-	-	-
• Housing Loans	-	3,474,498	-	3,474,498
		3,474,498		3,474,498
During the year the aggregate value of revolving credit facility limits granted or increased amounted to:	61,000	15,000	61,000	15,000
Interest and other revenue earned on loans and revolving credit facilities	273,660	262,895	273,660	262,895

All credit facilities applied for by KMPs and close family members are assessed under the credit union's standard lending policies and normal lending criteria which are applicable to all members. KMP and close family members' applications for credit once assessed are then forwarded to the ALCO committee for review. Security over physical assets is taken in adherence with standard lending practices. All housing loans are secured by residential property and a bill of sale is taken over motor vehicles for personal loans where appropriate. No special consideration is given to KMP in regards to the issuing of credit.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

### NOTE 7: KEY MANAGEMENT PERSONNEL (Cont'd)

#### (c) Other Transactions with KMP's and their Close Family Members

KMP have received interest on deposits with the Economic Entity during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to members of the Economic Entity.

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Total value term and saving deposits at year end	2,687,952	2,400,029	2,687,952	2,400,029
Total interest paid on these deposits during the year	141,985	79,983	141,985	79,983

The Economic Entity's policy for receiving deposits from related parties and in respect of other related party transactions is that all transactions are approved and deposits accepted on the same terms and conditions that apply to members of each type of deposit.

There are no benefits paid or payable to close family members of the KMP.

An associated entity of Mr Phillip Pollard, Director of ECU Australia Ltd, has entered into Subordinated Debt Agreements with ECU Australia Ltd whereby the entity has lent ECU Australia Ltd funds on a subordinated basis to all other Economic Entity liabilities. The details of the agreements are:

Principal amount lent	700,000	400,000	700,000	400,000
Interest paid	33,565	25,858	33,565	25,858

The interest rate applicable is based on the 90 day dealer's bill rate as set on the 1<sup>st</sup> business day of each financial quarter and a margin on the first agreement for the first five years of 3.00% p.a. After the initial five years, the margin is stepped up to 3.25% p.a. The second agreement has a margin of 3.15%. The subordinated debt agreements are for a term of 10 years.

The terms and conditions of this subordinated debt agreement are no more favourable than those available on similar transactions to other subordinated debt holders.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 7: KEY MANAGEMENT PERSONNEL (Cont'd)

#### (c) Other Transactions with KMP's and their Close Family Members

The following persons and entities related to Directors have provided services to the Economic Entity. In each case the transactions have occurred within a normal supplier-customer relationship on terms and conditions no more favourable than those available to other suppliers.

Legal services, including the preparation of loan securities, are provided by the law firm, Bennet & Philp - Lawyers.

	Economic Entity		Parent Entity	
	2011 \$	2010 \$	2011 \$	2010 \$
A summary of these legal services are:				
Mortgage preparation expenses (inclusive of GST and disbursements)	42,076	54,536	42,076	54,536
Mortgage registration and government duties and taxes payable by the firm to various taxing authorities	51,154	60,916	51,154	60,916
Mortgage Release fees (inclusive of GST and disbursements):	7,189	7,542	7,189	7,542
Legal advice and consulting on various matters (inclusive of GST and disbursements):	2,497	9,977	2,497	9,977
	<u>102,916</u>	<u>132,971</u>	<u>102,916</u>	<u>132,971</u>

Legal services are provided upon request by the Credit Union from time to time in the ordinary course of business, for which usual professional fees are paid.

Mr. Lance Pollard is a director of the firm, Bennet & Philp Pty Ltd trading as Bennett & Philp - Lawyers. Mr. Lance Pollard is the son of the Director, Mr. Phillip Pollard.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 8: CASH AND CASH EQUIVALENTS

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cash on hand	1,328	1,285	1,328	1,285
Deposits with ADI's	4,975	364	4,975	364
	<b>6,303</b>	<b>1,649</b>	<b>6,303</b>	<b>1,649</b>

The effective interest rate on short-term bank deposits was 3.74% (2010: 0.11%), these deposits have an average maturity of 1 day.

### NOTE 9: OTHER RECEIVABLES

Sundry debtors	134	81	142	95
Agency clearing and other sundry clearing accounts	143	110	143	110
	<b>277</b>	<b>191</b>	<b>285</b>	<b>205</b>

### NOTE 10: FINANCIAL ASSETS HELD TO MATURITY

Deposits with banks	27,000	25,500	27,000	25,500
Deposits with other ADI's	8,433	8,466	8,433	8,466
Accrued interest	521	298	521	298
	<b>35,954</b>	<b>34,264</b>	<b>35,954</b>	<b>34,264</b>

Amount of financial assets held to maturity expected to be recovered more than 12 months after the reporting date

	-	2,033	-	2,033
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### NOTE 11: LOANS AND ADVANCES TO MEMBERS

Overdrafts	19,332	20,165	19,332	20,165
Term loans	230,677	220,722	230,677	220,722
Credit cards	142	-	142	-
Gross loans and advances	<b>250,151</b>	<b>240,887</b>	<b>250,151</b>	<b>240,887</b>
Specific provisions for impairment	(64)	(163)	(64)	(163)
<b>Net Loans and Advances</b>	<b>250,087</b>	<b>240,724</b>	<b>250,087</b>	<b>240,724</b>

Amount of loans and advances expected to be recovered more than 12 months after the reporting date

	<b>231,944</b>	<b>232,972</b>	<b>231,944</b>	<b>232,972</b>
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### NOTE 12: DERIVATIVE FINANCIAL INSTRUMENTS

<b>Current liabilities</b>				
Interest rate swap contracts – cash flow hedges	63	165	63	165

#### Interest rate swap contracts - cash flow hedges

The Economic Entity's esaver deposits currently bear an average variable rate of interest of 5.43%. It is the Economic Entity's policy to keep interest at risk less than 3% of capital, thus the Economic Entity fixes the rate on an appropriate amount of esaver deposits by entering into interest rate swap contracts under which the Economic Entity is obliged to receive interest at variable rates and to pay interest at fixed rates. The fixed interest rate is 7.45% and variable rates are between 4.74% and 5.02% which are equal to the 90 day bank bill rate which at the end of the reporting period was 4.97% (2010: 4.74%).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 12: DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

At 30 June 2011, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Less than 1 year	-	5,000	-	5,000
1 - 2 years	2,000	-	2,000	-
2 - 3 years	-	2,000	-	2,000
3 - 4 years	-	-	-	-
Total	<b>2,000</b>	<b>7,000</b>	<b>2,000</b>	<b>7,000</b>

The contracts require settlement of net interest receivable or payable each 90 days. Settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

Gains or losses from remeasuring the interest rate swap contracts at fair value, are recognised in other comprehensive income and accumulated in the hedging reserve to the extent that the hedge is effective, and reclassified to profit or loss when the hedged interest expense is recognised. The ineffective portion is recognised in profit or loss immediately. During the year ended 30 June 2011, \$11,543 (2010: (\$9,622)) was reclassified to profit and loss.

### NOTE 13: LOANS AND ADVANCES TO OTHER ENTITIES

Loss reserve subordinated loan agreements	500	500	500	500
	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>

On 21 June 2006, ECU Australia Ltd entered into an agreement to raise capital for prudential purposes. The agreement was entered into in conjunction with another 21 Credit Unions for the purposes of raising prudential capital on a collective basis.

The capital raised by ECU Australia Ltd as part of the group was \$5,000,000, comprising \$2,500,000 in Tier 1 capital and \$2,500,000 in Tier 2 capital. As part of the capital raising agreement, ECU Australia Ltd agreed to provide 10% of the capital raised as a subordinated loan to the investors.

The purpose of the subordinated loan is to act as a loss reserve to the investors as protection against ECU Australia Ltd or any Credit Union in the group defaulting on either the dividend payment under the Tier 1 capital instrument or the interest payable under the Tier 2 capital instrument. If there is no default, the Economic Entity will earn interest revenue on the loan loss reserve at the 90-day Bank Bill Swap Rate plus a small margin. If there is a default, the interest earned on the loan loss reserve is used by the counterparty to the agreement to meet the Economic Entity's obligation for the dividend and interest payments.

The loan loss reserve is only repayable to the Economic Entity once all obligations (including all outstanding principal amounts and accrued dividends and accrued interest) owed under agreement by the Economic Entity to the counterparty have been repaid in full.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 14: IMPAIRMENT OF LOANS AND ADVANCES

#### (a) Provision for Impairment

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<u>Specific provisions for impairment</u>				
Opening balance	163	55	163	55
Impairment expense	(99)	108	(99)	108
Closing Balance	<b>64</b>	<b>163</b>	<b>64</b>	<b>163</b>

#### (b) Provision for Impairment Calculation

Provision prescribed by the prudential standards	42	90	42	90
Additional specific provision	22	73	22	73
Closing Balance	<b>64</b>	<b>163</b>	<b>64</b>	<b>163</b>

Key assumptions in determining the provision for impairment

In the course of the preparation of the financial statements the Economic Entity has determined the likely impairment loss on loans and overdrafts which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as bankruptcy, industrial restructuring, job losses or economic circumstances.

In identifying the impairment arising from these events the Economic Entity is required to estimate the impairment, using the length of time the loan is in arrears, and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment as follows:

Period of impairment	Overdrafts	Unsecured Loans	Secured Loans (Category 2 facilities)
	% of balance	% of balance	% of balance
14 to 89 days	40	-	-
90 days to 181 days	75	40	5
182 days to 272 days	100	60	10
273 days to 364 days	100	80	15
Over 364 days	100	100	20

#### (c) Impairment Expense on loans and advances to members

Movement in provision for impairment	(99)	108	(99)	108
Bad debts written off directly to profit and loss	26	30	26	30
Total impairment expense for loans and advances	<b>(73)</b>	<b>138</b>	<b>(73)</b>	<b>138</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 14: IMPAIRMENT OF LOANS AND ADVANCES (Cont'd)

#### (d) Assets acquired from loan recovery

There were no assets acquired by the Economic Entity during the financial year. The policy of the Economic Entity is to sell the assets via auction at the earliest opportunity, after the measures to assist the members to repay the debts have been exhausted.

#### (e) Loans and advances by impairment class

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Net impaired loans and advances –refer 14(f)	252	548	252	548
Past due but not impaired – refer 14(g)	9,974	6,994	9,974	6,994
Neither past due or impaired – refer 14(h)	239,861	233,182	239,861	233,182
<b>Net loans and advances to members</b>	<b>250,087</b>	<b>240,724</b>	<b>250,087</b>	<b>240,724</b>

#### (f) Impaired loans and advances to members

Individually impaired loans and advances - refer 14(f)(i)	267	261	267	261
Provision for impairment	(22)	(40)	(22)	(40)
Collectively impaired loans and advances – refer 14(f)(ii)	49	450	49	450
Provision for impairment	(42)	(123)	(42)	(123)
<b>Total net impaired Loans and advances</b>	<b>252</b>	<b>548</b>	<b>252</b>	<b>548</b>

Refer 14(i) for details of security held

#### (i) Individually impaired loans and advances

##### *Loans by Purpose*

Housing loans	239	225	239	225
Revolving credit	1	-	1	-
Personal loans	27	36	27	36
Commercial loans	-	-	-	-
Provision for impairment	(22)	(40)	(22)	(40)
<b>Carrying amount</b>	<b>245</b>	<b>221</b>	<b>245</b>	<b>221</b>

#### (ii) Collectively impaired loans and advances

##### *Loans by Purpose*

Housing loans		179		179
Revolving credit	31	48	31	48
Personal loans	18	47	18	47
Commercial loans	-	176	-	176
Provision for impairment	(42)	(123)	(42)	(123)
<b>Carrying amount</b>	<b>7</b>	<b>327</b>	<b>7</b>	<b>327</b>

#### Aging analysis

##### *Loan accounts*

0 to 29 days in arrears	-	36	-	36
30 to 89 days in arrears	27	-	27	-
90 to 181 days in arrears	-	47	-	47
182 to 272 days in arrears	-	560	-	560
273 to 364 days in arrears	-	17	-	17
More than 364 days in arrears	257	2	257	2
<b>Over limit facilities more than 14 days in arrears</b>	<b>32</b>	<b>49</b>	<b>32</b>	<b>49</b>
Provision for impairment	(64)	(163)	(64)	(163)
<b>Carrying amount</b>	<b>252</b>	<b>548</b>	<b>252</b>	<b>548</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 14: IMPAIRMENT OF LOANS AND ADVANCES (Cont'd)

#### (g) Past Due but not impaired loans and advances at reporting date

These loans are not considered impaired as the value of the related security over residential property is in excess of the loan due. Refer Note 14(i) for details of security held. Past due values are the 'on-balance sheet' loan balances

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<i>Loans by purpose</i>				
Housing Loans	8,035	6,076	8,035	6,076
Revolving credit	424	8	424	8
Personal loans	667	867	667	867
Commercial Loans	848	43	848	43
Carrying amount	<b>9,974</b>	<b>6,994</b>	<b>9,974</b>	<b>6,994</b>
<i>Aging analysis</i>				
<i>Loan accounts</i>				
0 to 29 days in arrears	9,105	5,429	9,105	5,429
30 to 59 days in arrears	220	998	220	998
60 to 89 days in arrears	649	38	649	38
90 to 181 days in arrears	-	327	-	327
273 to 364 days in arrears	-	202	-	202
Carrying amount	<b>9,974</b>	<b>6,994</b>	<b>9,974</b>	<b>6,994</b>

#### (h) Neither past due or impaired loans and advances at reporting date

Refer to Note 14(i) for details of security held

<i>Loans by purpose</i>				
Housing Loans	199,577	194,072	199,577	194,072
Revolving credit	1,213	1,452	1,213	1,452
Personal loans	14,711	14,543	14,711	14,543
Commercial Loans	24,360	23,115	24,360	23,115
Carrying amount	<b>239,861</b>	<b>233,182</b>	<b>239,861</b>	<b>233,182</b>

All loans and advances to members that are neither past due or impaired are with long standing clients who have good repayment record. The above values include the balance of re-negotiated loans and advances.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 14: IMPAIRMENT OF LOANS AND ADVANCES (Cont'd)

#### (i) Loans and advances by impairment and security type

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
(i) Individually impaired loans				
Secured by mortgage over real estate	237	225	237	225
No security	28	36	28	36
Provision	(22)	(40)	(22)	(40)
(ii) Collectively impaired				
Secured by mortgage over real estate	-	334	-	334
Partly secured by goods mortgage	18	18	18	18
No security	31	98	31	98
Provision	(42)	(123)	(42)	(123)
(iii) Past Due but not impaired				
Secured by mortgage over real estate	8,884	6,120	8,884	6,120
Partly secured by goods mortgage	667	749	667	749
No security	424	125	424	125
(iv) Against neither past due or impaired				
Secured by mortgage over real estate	220,843	213,604	220,843	213,604
Partly secured by goods mortgage	11,397	11,433	11,397	11,433
Secured by guarantee	3,062	3,153	3,062	3,153
Secured by funds lodged	474	763	474	763
No security	4,086	4,229	4,086	4,229
	<b>250,087</b>	<b>240,724</b>	<b>250,087</b>	<b>240,724</b>

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

Security held as mortgage against real estate is on the basis of				
- Loan to valuation ratio of less than 80%	184,574	177,188	184,574	177,188
- Loan to valuation ratio of more than 80%, mortgage insured	19,841	16,884	19,841	16,884
- Loan valuation ratio of more than 80%, not mortgage insured	21,893	26,211	21,893	26,211

#### (j) Re-negotiated Loans

The value of re-negotiated loans held by the Economic Entity at reporting date was nil (2010 nil).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 15: FINANCIAL ASSETS AVAILABLE FOR SALE OR AT COST

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Financial assets, at cost</b>				
Shares in unlisted entities - CUSCAL	444	444	444	444
	<b>444</b>	<b>444</b>	<b>444</b>	<b>444</b>
Amount of financial assets available for sale expected to be received more than 12 months after the reporting date	444	444	444	444

The shareholding in Credit Union Services Corporation (Aust) Limited (CUSCAL) is measured at cost as its fair value can not be measured reliably. This company was created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the Economic Entity to receive essential banking services – refer Note 36(a). These shares are not publicly traded and are not redeemable.

The financial statements of CUSCAL record net tangible asset backing of these shares exceeding their cost value. Based on net assets of CUSCAL, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily. The Economic Entity is not intending, nor able to dispose of these shares, without a majority of shareholder approval.

### NOTE 16: PROPERTY, PLANT AND EQUIPMENT

#### (a) Carrying Amounts

<u>Land</u>				
At Directors valuation 30/06/08	-	760	-	760
At Independent valuation 30/06/11	710	-	710	-
<u>Buildings</u>				
At Directors valuation 30/06/08	-	1,040	-	1,040
Subsequent additions at cost	-	89	-	89
At Independent valuation 30/06/11	840	-	840	-
Accumulated depreciation	-	(63)	-	(63)
	840	1,066	840	1,066
Total Land and Buildings	1,550	1,826	1,550	1,826
<u>Plant and Equipment</u>				
At cost	1,888	1,691	1,888	1,691
Accumulated depreciation	(1046)	(970)	(1046)	(970)
	842	721	842	721
Total Property, Plant and Equipment	<b>2,392</b>	<b>2,547</b>	<b>2,392</b>	<b>2,547</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 16: PROPERTY, PLANT AND EQUIPMENT (Cont'd)

#### (b) Movements in carrying amounts

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the current financial year are set out below.

	Land	Buildings	Plant & Equipment	Total
	\$'000	\$'000	\$'000	\$'000
<b>Economic Entity</b>				
<b>Balance at 1 July 2009</b>	<b>760</b>	<b>1,064</b>	<b>728</b>	<b>2,552</b>
Additions	-	35	164	199
Disposals	-	-	-	-
Depreciation expense	-	(33)	(171)	(204)
<b>Balance at 30 June 2010</b>	<b>760</b>	<b>1,066</b>	<b>721</b>	<b>2,547</b>
Additions	-	38	306	344
Disposals	-	-	(5)	(5)
Depreciation expense	-	(34)	(180)	(214)
Net revaluation movement	(50)	(230)	-	(280)
<b>Balance at 30 June 2011</b>	<b>710</b>	<b>840</b>	<b>842</b>	<b>2,392</b>
<b>Parent Entity</b>				
<b>Balance at 1 July 2009</b>	<b>760</b>	<b>1,064</b>	<b>728</b>	<b>2,552</b>
Additions	-	35	164	199
Disposals	-	-	-	-
Depreciation expense	-	(33)	(171)	(204)
<b>Balance at 30 June 2010</b>	<b>760</b>	<b>1,066</b>	<b>721</b>	<b>2,547</b>
Additions	-	38	306	344
Disposals	-	-	(5)	(5)
Depreciation expense	-	(34)	(180)	(214)
Net revaluation movement	(50)	(230)	-	(280)
<b>Balance at 30 June 2011</b>	<b>710</b>	<b>840</b>	<b>842</b>	<b>2,392</b>

#### (c) Revaluations

The Economic Entity has a policy to obtain independent valuations of freehold land and buildings owned by the Economic Entity every three years.

The freehold land and building at 93 Sheridan Street, Cairns was independently valued by S Allwood (AAPI, Certified Practising Valuer), Registered Valuer of John Logan & Associates, Cairns on 30 June 2011. The valuation placed upon the freehold land and building at that time was \$1,550,000.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 16: PROPERTY, PLANT AND EQUIPMENT (Cont'd)

(d) If revalued land and buildings were stated at historical cost, amounts would be as follows:

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cost	1071	1,032	1071	1,032
Accumulated Depreciation	(596)	(562)	(596)	(562)
Net book value	<b>475</b>	<b>470</b>	<b>475</b>	<b>470</b>

### NOTE 17: INTANGIBLE ASSETS

#### (a) Carrying Amounts

Computer software at cost	543	493	543	493
Accumulated amortisation	(382)	(287)	(382)	(287)
	<b>161</b>	<b>206</b>	<b>161</b>	<b>206</b>

#### (b) Movements in carrying amounts

Reconciliations of the carrying amounts of each class of computer software between the beginning and end of the current financial year are set out below.

<b>Balance at 1 July</b>	206	173	206	173
Additions purchased	54	115	54	115
Transfers in from work in progress	-	3	-	3
Disposals	(2)	-	(2)	-
Amortisation expense	(97)	(85)	(97)	(85)
<b>Balance at 30 June</b>	<b>161</b>	<b>206</b>	<b>161</b>	<b>206</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 18: DEFERRED TAX ASSETS AND LIABILITIES

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<u>Deferred Tax Assets</u>				
(a) Deferred tax assets comprise temporary differences attributable to:				
Provisions	221	242	221	242
Derivatives - cash flow hedges through other comprehensive income	13	39	13	39
Other	-	2	-	-
	<b>234</b>	<b>283</b>	<b>234</b>	<b>281</b>

(b) The movement in deferred tax assets for each temporary difference during the year is as follows:

Provisions				
Opening Balance	242	201	242	201
Change recognised in profit and loss	(21)	41	(21)	41
Closing Balance	221	242	221	242
Derivatives – cash flow hedges				
Opening Balance	39	167	39	167
Change recognised in comprehensive income	(26)	(128)	(26)	(128)
Closing Balance	13	39	13	39
Other				
Opening Balance	2	-	2	-
Change recognised profit and loss	(2)	2	(2)	2
Closing Balance	-	2	-	2

#### Deferred Tax Liabilities

(c) Deferred tax liabilities comprise temporary differences attributable to:

Property, plant and equipment	34	41	34	41
Capitalised issue costs of borrowings	12	25	12	25
Revaluation of property, plant and equipment through other comprehensive income	328	412	328	412
	<b>374</b>	<b>478</b>	<b>374</b>	<b>478</b>
Set off of deferred tax assets	<b>234</b>	<b>283</b>	<b>234</b>	<b>281</b>
Net deferred tax liabilities	<b>140</b>	<b>195</b>	<b>140</b>	<b>197</b>

(d) The movement in deferred tax liabilities for each temporary difference during the year is as follows:

Property, plant and equipment				
Opening Balance	41	46	41	46
Change recognised in profit and loss	(7)	(5)	(7)	(5)
Closing Balance	<b>34</b>	<b>41</b>	<b>34</b>	<b>41</b>
Capitalised issue costs of borrowings				
Opening Balance	25	20	25	20
Change recognised in profit and loss	(13)	5	(13)	5
Closing Balance	<b>12</b>	<b>25</b>	<b>12</b>	<b>25</b>
Revaluation of property, plant and equipment through other comprehensive income				
Opening Balance	412	412	412	412
Change recognised in other comprehensive income	(84)	-	(84)	-
Closing Balance	<b>328</b>	<b>412</b>	<b>328</b>	<b>412</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 19: DEPOSITS FROM MEMBERS

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Member call deposits (including withdrawable shares)	96,256	82,432	96,256	82,432
Accrued interest payable on member call deposits	199	148	199	148
Member term deposits	170,802	162,417	170,802	162,417
Accrued interest payable on member term deposits	3,040	2,497	3,040	2,497
	<b>270,297</b>	<b>247,494</b>	<b>270,297</b>	<b>247,494</b>

Amount of deposits from members expected to be settled more than 12 months after the reporting date	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
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#### Concentration of Member Deposits

There were no groups representing concentrations of deposits in excess of 10% of total liabilities at the reporting date (2010 nil)

### NOTE 20: OTHER PAYABLES

Annual leave	257	268	257	268
Sundry creditors and accruals	302	288	302	288
Unearned income	18	18	18	18
	<b>577</b>	<b>574</b>	<b>577</b>	<b>574</b>

### NOTE 21: INCOME TAX PAYABLE

Current income tax payable	<b>125</b>	<b>78</b>	<b>125</b>	<b>79</b>
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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 22: BORROWINGS

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<u>Subordinated debt</u>	4,150	3,600	4,150	3,600
Accrued interest payable on subordinated debt	33	21	33	21
	4,183	3,621	4,183	3,621
Subordinated debt issue costs	-	(50)	-	(50)
Total subordinated debt	4,183	3,571	4,183	3,571
<u>Permanent preference shares</u>	2,500	2,500	2,500	2,500
Permanent preference share issue costs	(42)	(50)	(42)	(50)
Total permanent preference shares	2,458	2,450	2,458	2,450
<u>Wholesale funding borrowings</u>	-	9,000	-	9,000
Accrued interest payable on wholesale funding borrowings	-	41	-	41
Total Wholesale funding borrowings	-	9,041	-	9,041
<b>Total Borrowings</b>	<b>6,641</b>	<b>15,062</b>	<b>6,641</b>	<b>15,062</b>
<b>Movements</b>				
<u>Subordinated debt</u>				
Balance at the beginning of the year	3,571	3,559	3,571	3,559
Increase due to debt issued	550	-	550	-
Increase due to debt issue costs written off	50	8	50	8
Increase due to accrued interest	12	4	12	4
Balance at the end of the year.	4,183	3,571	4,183	3,571
<u>Permanent preference shares</u>				
Balance at the beginning of the year	2,450	2,442	2,450	2,442
Increase due to issue costs written off	8	8	8	8
Balance at the end of the year.	2,458	2,450	2,458	2,450
<u>Wholesale funding borrowings</u>				
Balance at the beginning of the year	9,041	5,005	9,041	5,005
Increase due to new loans draw down	-	4,000	-	4,000
Decrease due to principal loan repayments	(9,000)	-	(9,000)	-
Increase due to accrued interest	-	36	-	36
Decrease due to accrued interest paid	(41)	-	(41)	-
Balance at the end of the year.	-	9,041	-	9,041
Amount of borrowings expected to be settled more than 12 months after the reporting date	<b>1,650</b>	<b>3,600</b>	<b>1,650</b>	<b>3,600</b>

Refer to Note 26 for information on wholesale funding lines provided by Cuscal and Note 28 for the maturity profile of the borrowings.

On 21 June 2006 ECU Australia Ltd entered into an agreement with Australian Mutual T1 Capital Funding Trust No 1 (AMCFT) to issue permanent preference shares.

ECU Australia Ltd issued 25,000 paid in full permanent preference shares with a face value of \$100.00 each to AMCFT.

Each share entitles the holder on the record date to receive, on the relevant dividend payment date, a dividend for the dividend period ending on the dividend payment date. Payment of dividends is conditional upon a resolution of the Directors to pay a dividend on the relevant dividend payment date.

There are no shares reserved for issue under options and contracts for the sale of shares.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 22: BORROWINGS (Cont'd)

In the event of winding up ECU Australia Ltd, holders are entitled to repatriation of the \$100.00 issue price, contingent upon an adequate surplus being available after satisfaction in full of all deposit liabilities and all other creditors.

Holders of the permanent preference shares have the same rights as those of holders of member shares in relation to receiving notices, reports and audited accounts and attending meetings of ECU Australia Ltd. Holders are not entitled to vote or participate in any decision-making of ECU Australia Ltd.

A holder has no right to redemption of the instruments.

Holders are not entitled to participate in any issue of securities by ECU Australia Ltd to holders of member shares.

Holders are entitled to transfer permanent preference shares to any person entitled to hold permanent preference shares to accordance with the Constitution.

### NOTE 23: PROVISIONS

Provision for employee benefits	330	313	330	313
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### NOTE 24: RESERVES

#### (a) Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets.

#### (b) Reserve for Credit Losses

The reserve for credit losses records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards as set down by APRA.

#### (c) Cash Flow Hedging Reserve

The reserve for cash flow hedge records gains or losses on a hedging instrument in a cash flow hedge. Amounts are reclassified to profit or loss when the associated hedged transaction affects the profit and loss.

#### (d) Redeemed preference share reserve

The redeemed preference share reserve records the transfer of profits appropriated for the redeemable preference shares that have been redeemed.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 25: COMMITMENTS

#### (a) Future capital commitments

Commitments for the purchase of property, plant and equipment which have not been recognised as liabilities are payable as follows:

	Economic Entity		Parent Entity	
	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000
Not longer than 1 year	184	-	184	-
Longer than 1 and not longer than 5 years	-	-	-	-
Total Operating Lease Commitments	<b>184</b>	-	<b>184</b>	-

#### (b) Operating Lease Commitments

Non cancellable operating leases contracted for but not capitalised:

Not longer than 1 year	250	108	250	108
Longer than 1 and not longer than 5 years	752	257	752	257
Total Operating Lease Commitments	<b>1,002</b>	<b>365</b>	<b>1,002</b>	<b>365</b>

The Economic Entity has operating leases for equipment and branch premises. The property leases are non-cancellable leases with a five year term, with rent payable monthly in advance. Options exist in each contract to renew the lease at the end of the five year terms for an additional term of five years.

#### (c) Outstanding Loan Commitments

Loans and credit facilities approved but not funded or drawn at the end of the financial year:

Loans approved but not funded	4,706	3,609	4,706	3,609
Undrawn overdraft, line of credit, VISA and redraw facilities	27,092	25,021	27,092	25,021

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 26: STANDBY BORROWING FACILITIES

The Economic Entity has the following borrowing facility with CUSCAL:

<b>Economic Entity</b>	<b>Approved Facility \$'000</b>	<b>Used at Reporting Date \$'000</b>	<b>Net Available \$'000</b>
<b>2011</b>			
Overdraft facility	5,000	-	5,000
Wholesale funding facility	-	-	-
	<b>5,000</b>	<b>-</b>	<b>5,000</b>
<b>2010</b>			
Overdraft facility	5,000	-	5,000
Wholesale funding facility	9,000	9,000	-
	<b>14,000</b>	<b>9,000</b>	<b>5,000</b>

<b>Parent Entity</b>	<b>Approved Facility \$'000</b>	<b>Current Borrowing \$'000</b>	<b>Net Available \$'000</b>
<b>2011</b>			
Overdraft facility	5,000	-	5,000
Wholesale funding facility	-	-	-
	<b>5,000</b>	<b>-</b>	<b>5,000</b>
<b>2010</b>			
Overdraft facility	5,000	-	5,000
Wholesale funding facility	9,000	9,000	-
	<b>14,000</b>	<b>9,000</b>	<b>5,000</b>

The Economic Entity and Parent Entity are required to adhere to specified general and financial covenants in order to apply to draw down funds under these Facilities, including compliance with APRA statutory requirements. The facility is subject to annual review. The overdraft facility is a committed facility. The wholesale funding facility is an uncommitted facility and is subject to availability of funds of CUSCAL Limited at the time of drawdown. Credit facilities and borrowings are secured by an equitable mortgage over all assets of the Credit Union.

There are no restrictions in relation to these loan facilities except withdrawals of funds under the wholesale funding facility are subject to availability and are at the discretion of CUSCAL Limited.

### NOTE 27: CONTINGENT LIABILITIES

#### Credit Union Financial Support System

The Economic Entity is a participant in the Credit Union Financial Support System (CUFSS). The purpose of the CUFSS is to protect the interests of the credit union members, increase stability in the industry and provide liquidity in excess of current borrowing limits in times of need.

An industry support contract made on 4 March 1999 between Cuscal Limited (CUSCAL), CUFSS and participating Credit Unions required the entity to execute an equitable charge in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of the Economic Entity and secures any advances that may be made to the Economic Entity under the scheme.

The balance of the debt at 30 June 2011 was nil (2010: nil).

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 30 June 2011*

### **NOTE 28: MATURITY PROFILE OF FINANCIAL LIABILITIES**

The table below shows the undiscounted cash flows of the entity's financial liabilities, including unrecognised loan commitments on the basis of the earliest possible contractual maturity. These values may not agree to the Statement of Financial Position.

To manage the liquidity risk arising from financial liabilities, the entity holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Economic Entity believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable the user to evaluate the nature and extent of liquidity risk.

Please refer to Note 31(c) for Liquidity risk management.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 28: MATURITY PROFILE OF FINANCIAL LIABILITIES (Cont'd)

Economic Entity	Carrying Amount	Total cashflows	Within 1 month	1 to 3 months	3 to 12 months	1-5 years	Over 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2011</b>							
Deposits from members	270,297	273,995	139,413	59,892	74,547	143	-
Derivative financial instruments	63	63	63	-	-	-	-
Other payables	577	577	577	-	-	-	-
Borrowings	6,641	6,683	33	2,500	-	-	4,150
<b>Off Statement of Financial Position Items</b>							
Undrawn Commitments Note 25(c)	-	31,798	31,798	-	-	-	-
<b>2010</b>							
Deposits from members	247,494	250,428	135,973	51,638	62,696	121	-
Derivative financial instruments	165	165	165	-	-	-	-
Other payables	574	574	574	-	-	-	-
Borrowings	15,062	15,062	1,936	7,026	-	-	6,100
<b>Off Statement of Financial Position Items</b>							
Undrawn Commitments Note 25(c)	-	28,630	28,630	-	-	-	-

Parent Entity	Carrying Amount	Total cashflows	Within 1 month	1 to 3 months	3 to 12 months	1-5 years	Over 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2011</b>							
Deposits from members	270,297	273,995	139,413	59,892	74,547	143	-
Derivative financial instruments	63	63	63	-	-	-	-
Other payables	577	577	577	-	-	-	-
Borrowings	6,641	6,683	33	2,500	-	-	4,150
<b>Off Statement of Financial Position Items</b>							
Undrawn Commitments Note 25(c)	-	31,798	31,798	-	-	-	-
<b>2010</b>							
Deposits from members	247,494	250,428	135,973	51,638	62,696	121	-
Derivative financial instruments	165	165	165	-	-	-	-
Other payables	574	574	574	-	-	-	-
Borrowings	15,062	15,062	1,936	7,026	-	-	6,100
<b>Off Statement of Financial Position Items</b>							
Undrawn Commitments Note 25(c)	-	28,630	28,630	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 29: CLASSES OF FINANCIAL ASSETS AND LIABILITIES

The following is a summary of financial instruments by class:

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Financial assets</b>				
(i) Measured at amortised cost				
Cash and cash equivalents	6,303	1,649	6,303	1,649
Other receivables	277	191	285	205
Financial assets held to maturity	35,954	34,264	35,954	34,264
Loans and advances to members	250,087	240,724	250,087	240,724
Loans and advances to other entities	500	500	500	500
<b>Total</b>	<b>293,121</b>	<b>277,328</b>	<b>293,129</b>	<b>277,342</b>
(ii) Measured at cost				
Financial assets held to maturity	444	444	444	444
<b>Financial liabilities</b>				
(i) Measured at amortised cost				
Deposits from members	270,297	247,494	270,297	247,494
Other payables	577	574	577	574
Borrowings	6,641	15,062	6,641	15,062
<b>Total</b>	<b>277,515</b>	<b>263,130</b>	<b>277,515</b>	<b>263,130</b>
(ii) Measured at fair value				
Derivative financial instruments	63	165	63	165

### NOTE 30: SUBSIDIARIES

The parent entity is ECU Australia Ltd.

(a) Subsidiaries consolidated

Name	Country of Incorporation	Percentage Owned	
		2011 %	2010 %
ECUA Financial Services Pty Ltd	Australia	100%	100%

On 4 September 2009 the parent entity established ECUA Financial Services Pty Ltd, with ECU Australia Ltd entitled to all profits earned from 4 September 2009. ECUA Financial Services Pty Ltd is in the business of providing advice regarding insurance and associated insurance products.

Since incorporation, ECUA Financial Services Pty Ltd has generated an after tax loss of \$7,402 which is included in the Economic Entity's profit or loss as disclosed on the Statement of Comprehensive Income.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES

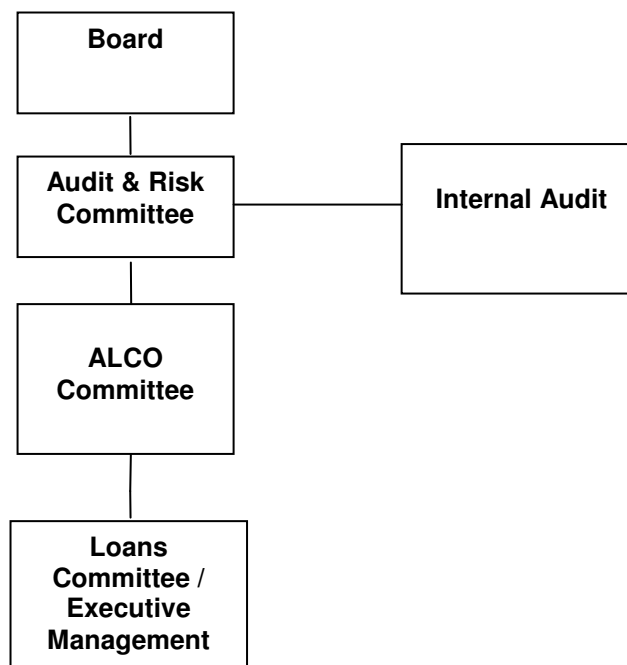
#### Introduction

The Board of Directors (the Board) has endorsed a policy of compliance and risk management to suit the risk profile of the Economic Entity.

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

- (A) Market risk policy and interest rate risk
- (B) Credit risk management
- (C) Liquidity risk management
- (D) Operations risk management including data risk management.
- (E) Capital Management

The Economic Entity's risk management focuses on the major areas of market risk, credit risk, liquidity risk and operational risk. Authority flows from the Board to the Audit and Risk Committee. The following diagram gives an overview of the structure.



The main elements of risk governance are as follows:

#### (i) Board

This is the primary governing body and it approves the level of risk which the Economic Entity is exposed to and the framework for reporting and mitigating those risks.

#### (ii) Audit & Risk Committee:

This is a key body in the control of risk. It has representatives from the board as well as the Economic Entity's Chief Executive Officer and General Manager Operations whom attend all meetings. The Audit & Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Audit & Risk Committee through review of internal audit reports throughout the year. The Audit & Risk Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan.

The Audit & Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Audit & Risk Committee monitors compliance with the framework laid out in the policy and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### Introduction (cont'd)

##### **(iii) Loans Committee – Credit Risk:**

This committee of senior management meets weekly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The Loans Committee also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be put in place regarding the authorisation of new loans.

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

All large credit exposure facilities above policy limits are approved by the Loans Committee or the Board. All exposures are checked daily against approved limits, independently of each business unit, and are reported to the Loans Committee.

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

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A staff member dedicated to monitoring arrears implements the Economic Entity's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the reporting date.

##### **(iv) Assets and Liability Committee (ALCO) - Market Risk:**

This committee has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP. The monthly scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by the Board.

##### **(v) Internal Audit:**

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

The Economic Entity has undertaken the following strategies to minimise the risks arising from financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### (A) Market risk policy and interest rate risk

The objective of the Economic Entity's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and other volatilities will have an adverse effect on the Economic Entity's financial condition or results. The Economic Entity is not exposed to currency risk, and other significant price risk. The Economic Entity does not trade in the financial instruments it holds on its books. The Economic Entity is only exposed to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of the ALCO which reports directly to the Board.

#### (i) Interest Rate Risk

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

Most ADIs are exposed to interest rate risk within their treasury operations.

The Economic Entity's exposure to interest rate risk is measured and monitored using interest rate sensitivity models. There has been no change to the Economic Entity's exposure to market risk or the way the Economic Entity manages and measure interest rate risk in the period.

The policy of the Economic Entity is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The present value sensitivity of the measured gap to a movement of 1% in interest rates is to be maintained below 3.0% of prudential capital. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposit liabilities to rectify the imbalance to within acceptable levels. The policy of the Economic Entity is to undertake derivative transactions to match the interest rate risks and to reduce the present value of the sensitivity analysis to less than 3% of prudential capital. The Economic Entity's exposure to interest rate risk is set out in Note 32 which details the contractual interest change profile.

Based on calculations as at 30 June 2011, the net profit impact for a 1% (2010: 1%) movement in interest rates would be as follows:

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Movement in Profit				
+/- 1% in interest rates	+/- 426	+/- 431	+/- 426	+/- 431

The Economic Entity performs a sensitivity analysis to measure interest rate risk exposures.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### Market risk policy and interest rate risk (cont'd)

The method used in determining the sensitivity is to evaluate the profit based on the timing of the interest repricing on the banking book of the Economic Entity for the next 12 months. In doing the calculation the assumptions applied are that:

- the interest rate change would be applied equally over the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable;
- transaction savings deposits would reprice with a 12 month delay;
- high yield cash management savings accounts and high yield internet e-saver accounts would reprice within 1 month;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate within 1 month;
- personal loans would reprice within a 1 month delay;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits would be unchanged; and
- the value and mix of personal loans to mortgage loans would be unchanged.

#### (B) Credit risk management

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Economic Entity which may result in financial losses. Credit risk arises principally from the loan book, investment assets and derivative contracts, where applicable.

#### Loans and advances

The maximum credit risk exposure in relation to loans is discussed in Note 34.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are discussed below and in Note 34.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### Credit risk management (cont'd)

The Economic Entity has established policies over the:

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

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

#### (i) Past due and impaired loans

A loan is past due when the counterparty has failed to make payment when contractually due. Past due does not mean that a counter party will never pay but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days, the loan is regarded as impaired unless other factors indicate the impairment should be recognised sooner.

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

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

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

Provisions are maintained at a level the management deems sufficient to absorb probable incurred losses in the Economic Entity's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for impairment is established on all past due loans after a specified period of repayment default where it is probable that some of the asset will not be repaid or recovered. Specific loans and portfolios of assets are provided against, depending on a number of factors including deterioration in country risk, changes in counterparty's industry and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

Details of past due and impaired balances and provisions for impairment of loans and advances to members are discussed in Note 14.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### Credit risk management (cont'd)

##### (ii) Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Economic Entity is exposed to risks in the reduction of the Loan to Value (LVR) cover should the property market be subject to a decline at the same time as borrowers are unable to continue making loan repayments.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board policy is to maintain loans in well-secured residential mortgages which carry an 80% Loan to Valuation ratio or less. Where the member is unable to provide a 20% deposit, then the Board policy is for the loan to be approved subject to the consent of mortgage insurance. Note 14 (i) outlines the nature and extent of the security held against the loans held at the reporting date.

It is the policy of the Economic Entity to allow members with a secured loan or advance reasonable assistance and opportunity to rectify a breach prior to recovery procedures being initiated. Details of assets acquired from loan recovery and their disposal are shown in Note 14(d).

##### (iii) Concentration risk – individuals

Concentration risk is a measurement of the Economic Entity's exposure to individual counterparties or group of related parties.

The Economic Entity minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers. Concentration risk is also managed in accordance with the Prudential Standards. A large exposure is considered to exist if prudential limits are exceeded as a proportion of the Economic Entity's regulatory capital (10 per cent). No capital is required to be held against these but APRA must be informed and consulted prior to the exposure occurring. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10 per cent capital benchmark to be higher than acceptable.

The aggregate value of large exposure loans are set out in Note 34. Concentration exposures of counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

The Economic Entity's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of at least 80 per cent and annual reviews of compliance with this policy are conducted.

##### (iv) Concentration risk – industry

The Economic Entity has a concentration in retail lending to members who comprise employees and family in the electricity supply industry. This concentration is considered acceptable on the basis that the Economic Entity was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 34.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### Credit risk - liquid investments

Credit risk in relation to liquid investments is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Economic Entity incurring a financial loss. This usually occurs when counterparties fail to settle their obligations owing to the Economic Entity.

#### (i) Concentration of credit risk

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 40% of the Economic Entity's prudential capital base can be invested in any one financial institution at a time.

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

Under the liquidity support scheme, at least 3.2% of the total assets must be invested in CUSCAL to allow the scheme to have adequate resources to meet its obligations. All other investment must be with financial institutions with a rating of at least investment grade i.e., a minimum rating of BBB.

#### (ii) External Credit Assessment for Institutional Investments

The Economic Entity uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA Prudential Guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step for the Economic Entity are as follows:

Economic Entity	2011 \$'000			2010 \$'000		
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
CUSCAL – rated AA	8,461	-	-	8,480	-	-
ADIs – rated AA and above	1,018	-	-	3,546	-	-
ADIs – rated below AA	26,475	-	-	22,238	-	-
<b>Total</b>	<b>35,954</b>	<b>-</b>	<b>-</b>	<b>34,264</b>	<b>-</b>	<b>-</b>

Parent Entity	2011 \$'000			2010 \$'000		
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
CUSCAL – rated AA	8,461	-	-	8,480	-	-
ADIs – rated AA and above	1,018	-	-	3,546	-	-
ADIs – rated below AA	26,475	-	-	22,238	-	-
<b>Total</b>	<b>35,954</b>	<b>-</b>	<b>-</b>	<b>34,264</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### (iii) Equity Investments

All investments in equity instruments are solely for the benefit of service to the Economic Entity. The Economic Entity invests in entities set up for the provision of services such as IT solutions, treasury services, etc where specialisation demands quality staff. This is best secured by one entity. Further details of the investments are set out in Note 15.

#### (C) Liquidity Risk Management

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

The Economic Entity manages liquidity risk by:

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

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

The Economic Entity is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 2 business days under the APRA Prudential Standards. The Economic Entity's policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits and the borrowing facilities available. Notes 22 and 26 describe the borrowing facilities as at the reporting date.

The maturity profile of the financial liabilities based on the contractual repayment terms is set out in Note 28. The ratio of liquid funds over the past year is set out below:

	2011	2010
Liquid funds to total adjusted liabilities (as per APS 210):		
- As at 30 June	15.04%	13.56%
- Average for the year	14.94%	14.63%
- Minimum during the year	12.97%	12.95%
Liquid funds to total member deposits:		
- As at 30 June	15.65%	14.54%

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### (D) Operational Risk Management

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

The Economic Entity's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact.

Systems of internal control are enhanced through:

- The segregation of duties between employee duties and functions, including approval and processing duties;
- Documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- Implementation of whistle blowing policies to promote a compliance culture and awareness of duty to report exceptions by staff;
- Education of members to review their account statements and report exceptions to the Economic Entity promptly;
- Effective dispute resolution procedures to respond to member complaints;
- Effective insurance arrangements to reduce the impact of losses; and
- Contingency plans for dealing with loss of functionality of system or premises or staff.

#### (i) Fraud

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

#### (ii) IT Systems

The worst case scenario would be the failure of the Economic Entity's core banking and IT network suppliers, to meet customer obligations and service requirements. The Economic Entity has outsourced the IT systems management to an Independent Data Processing Centre, which is owned by a specialist provider of IT hardware and infrastructure, to the mutual retail financial services sector. This service provider has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Economic Entity by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM & Visa cards, and Bpay etc.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### (E) Capital Management

The Australian Prudential Regulatory Authority (APRA) sets and monitors capital requirements for the Economic Entity under Australian Prudential Standard (APS) 110 Capital Adequacy. Under the Standard the Economic Entity must maintain minimum levels of Tier 1 capital and may also hold Tier 2 capital up to certain prescribed limits. Tier 1 capital comprises the highest quality components of capital that fully satisfy the following essential characteristics:

- Provide a permanent and unrestricted commitment of funds;
- Are freely available to absorb losses;
- Do not impose any unavoidable servicing charges against earnings;
- Rank behind claims of depositors and other creditors in the event of winding up.

The Economic Entity's Tier 1 capital includes preference share capital, retained profits and realised reserves. The preference shares issued are approved by APRA and qualify as Tier 1 capital.

Tier 2 capital comprises capital instruments that, to varying degrees, fall short of the quality of Tier 1 capital but exhibit some of the features of equity and contribute to the overall strength of the Economic Entity as a going concern. The Economic Entity's Tier 2 capital includes unrealised gains/losses on equity instruments classified as available for sale (AFS reserve), qualifying subordinated loans and collective impairment allowances where the standardised approach is used (general reserve for credit losses). Tier 2 capital also includes 45% of the value unrealised gains/losses on land and buildings (Asset revaluation reserve) net of capital gains tax and estimated costs of sale.

Capital in the Economic Entity is made up as follows:

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Tier 1 capital</b>				
Preference share capital	2,500	2,500	2,500	2,500
Retained earnings	16,749	15,323	16,749	15,323
	19,249	17,823	19,249	17,823
Less prescribed deductions	(661)	(752)	(661)	(752)
Net Tier 1 capital	18,588	17,071	18,588	17,071
<b>Tier 2</b>				
Subordinated debt	4,150	3,600	4,150	3,600
Reserve for credit losses	461	451	461	451
Asset revaluation reserve on property (discounted to 45%)	618	617	618	617
	5,229	4,668	5,229	4,668
Less prescribed deductions	(472)	(472)	(472)	(472)
Net Tier 2 capital	4,757	4,196	4,757	4,196
Total capital	23,345	21,267	23,345	21,267

The Board has adopted a minimum capital level of 12% as compared to the risk weighted assets at any given time. The Economic Entity has complied with all internally and externally imposed capital requirements throughout the period.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 31: RISK MANAGEMENT POLICY AND OBJECTIVES (Cont'd)

#### (E) Capital Management (cont'd)

The level of the capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The capital ratios as at the end of each reporting period, for the past 5 years follows:

2011	2010	2009	2008	2007
15.05%	14.68%	15.00%	16.09%	15.46%

The Economic Entity's objective is to maintain sufficient capital resources to support business activities and operating requirements and to ensure continuous compliance with externally imposed capital ratios. To manage the Economic Entity's capital, the Economic Entity reviews the ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board and the regulator if the capital ratio falls below 12%. Further, a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 32: INTEREST RATE RISK

The Economic Entity's exposure to interest rate risk, which is the risk that a financial instrument's value or cash flows 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, is as follows:

Economic Entity	Floating interest rate		Fixed interest rate maturing						Non interest sensitive		Total carrying amount as per Statement of Financial Position		Effective interest rate	
			Within 1 year		1 to 5 years		Over 5 years							
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>														
Cash and cash equivalents	4,975	364	-	-	-	-	-	-	1,328	1,285	6,303	1,649	3.74%	0.11%
Other receivables	-	-	-	-	-	-	-	-	277	191	277	191	-	-
Financial assets held to maturity	-	-	35,433	31,966	-	2,000	-	-	521	298	35,954	34,264	5.73%	5.57%
Loans and advances to members	188,168	177,851	30,423	29,260	31,496	33,613	-	-	-	-	250,087	240,724	7.61%	7.49%
Loans and advances to other entities	-	-	500	500	-	-	-	-	-	-	500	500	5.06%	4.62%
Financial assets available for sale or at cost	-	-	-	-	-	-	-	-	444	444	444	444	-	-
<b>Total</b>	<b>193,143</b>	<b>178,215</b>	<b>66,356</b>	<b>61,726</b>	<b>31,496</b>	<b>35,613</b>	<b>-</b>	<b>-</b>	<b>2,570</b>	<b>2,218</b>	<b>293,565</b>	<b>277,772</b>		
<b>Liabilities</b>														
Deposits from members	96,256	82,432	170,702	162,317	100	100	-	-	3,239	2,645	270,297	247,494	4.88%	4.77%
Derivative financial instruments	-	-	-	-	-	-	-	-	63	165	63	165	-	-
Other payables	-	-	-	-	-	-	-	-	320	306	320	306	-	-
Borrowings	-	-	6,641	15,062	-	-	-	-	-	-	6,641	15,062	6.36%	5.95%
<b>Total</b>	<b>96,256</b>	<b>82,432</b>	<b>177,343</b>	<b>177,379</b>	<b>100</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>3,622</b>	<b>3,116</b>	<b>277,321</b>	<b>263,027</b>		
<b>Off Statement of Financial Position Items</b>														
Interest rate swaps	2,000	7,000	-	(5,000)	(2,000)	(2,000)	-	-	-	-	-	-	(2.48)%	(3.03)%

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 32: INTEREST RATE RISK (cont'd)

Parent Entity	Floating interest rate		Fixed interest rate maturing						Non interest sensitive		Total carrying amount as per Statement of Financial Position		Effective interest rate	
			Within 1 year		1 to 5 years		Over 5 years							
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>														
Cash and cash equivalents	4,975	364	-	-	-	-	-	-	1,328	1,285	6,303	1,649	3.74%	0.11%
Other receivables	-	-	-	-	-	-	-	-	285	205	285	205	-	-
Financial assets held to maturity	-	-	35,433	31,966	-	2,000	-	-	521	298	35,954	34,264	5.73%	5.57%
Loans and advances to members	188,168	177,851	30,423	29,260	31,496	33,613	-	-	-	-	250,087	240,724	7.61%	7.49%
Loans and advances to other entities	-	-	500	500	-	-	-	-	-	-	500	500	5.06%	4.62%
Financial assets available for sale or at cost	-	-	-	-	-	-	-	-	444	444	444	444	-	-
<b>Total</b>	<b>193,143</b>	<b>178,215</b>	<b>66,356</b>	<b>61,726</b>	<b>31,496</b>	<b>35,613</b>	<b>-</b>	<b>-</b>	<b>2,578</b>	<b>2,232</b>	<b>293,573</b>	<b>277,786</b>		
<b>Liabilities</b>														
Deposits from members	96,256	82,432	170,702	162,317	100	100	-	-	3,239	2,645	270,297	247,494	4.88%	4.77%
Derivative financial instruments	-	-	-	-	-	-	-	-	63	165	63	165	-	-
Other payables	-	-	-	-	-	-	-	-	320	306	320	306	-	-
Borrowings	-	-	6,641	15,062	-	-	-	-	-	-	6,641	15,062	6.36%	5.95%
<b>Total</b>	<b>96,256</b>	<b>82,432</b>	<b>177,343</b>	<b>177,379</b>	<b>100</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>3,622</b>	<b>3,116</b>	<b>277,321</b>	<b>263,027</b>		
<b>Off Statement of Financial Position Items</b>														
Interest rate swaps	2,000	7,000	-	(5,000)	(2,000)	(2,000)	-	-	-	-	-	-	(2.48)%	(3.03)%

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 33: EVENTS SUBSEQUENT TO THE REPORTING DATE

The Economic Entity is not aware of any significant events that have occurred subsequent to the reporting date that require disclosure within the financial statements.

### NOTE 34: CREDIT RISK

#### (a) Maximum Credit Risk Exposure

The Economic Entity's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position, except loans where the maximum credit risk exposure is \$277,179,000 (2010: \$265,745,000).

In relation to loans, the maximum credit exposure is the value on the Statement of Financial Position plus the undrawn loan commitments. Details of undrawn loan commitments are shown in Note 25. Details of collateral held as security are disclosed in Note 14.

#### (b) Concentrations of Credit Risk

The Economic Entity minimises concentrations of credit risk in relation to loans and financial assets by undertaking transactions with a large number of customers. Credit risk is currently managed in accordance with the Prudential Standards to reduce the Economic Entity's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

The following categories represent concentrations of Placements with, and loans and advances, to other ADI's in excess of 10% of capital.

	Economic Entity		Parent Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>AMP Limited</b>				
Cash and other liquids	2,500	-	2,500	-
<b>Bank of Queensland Limited</b>				
Term and other Deposits	8,000	5,500	8,000	5,500
<b>Bendigo and Adelaide Bank Limited</b>				
Term and other Deposits	3,500	4,000	3,500	4,000
<b>Cuscal Limited</b>				
Term and other Deposits	8,433	8,465	8,433	8,465
Cash and other liquids	2,475	364	2,475	364
<b>Investec Bank (Australia) Limited</b>				
Term and other Deposits	4,000	-	4,000	-
<b>Rural Bank Limited</b>				
Term and other Deposits	2,000	4,000	2,000	4,000
<b>Suncorp - Metway Limited</b>				
Term and other Deposits	7,000	5,000	7,000	5,000

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 34: CREDIT RISK (Cont'd)

The following categories represent concentrations of loans in excess of 10% of capital.

Economic Entity	Maximum credit risk exposure			
	% of Total Loans		\$'000	
	2011	2010	2011	2010
<b>Geographical Areas</b>				
Cairns	41.60	42.72	104,068	102,916
Queensland other than Cairns	55.58	52.17	139,042	125,669
<b>Industry</b>				
Electricity supply	14.80	13.19	37,020	31,774

Concentrations of credit risk on loans to individual members (including associated members) greater than 10% of capital are detailed as follows:

	2011	2010
Number of Loans	1	1
Outstanding Balance	\$'000 3,693	\$'000 3,717

Parent Entity	Maximum credit risk exposure			
	% of Total Loans		\$'000	
	2011	2010	2011	2010
<b>Geographical Areas</b>				
Cairns	41.60	42.72	104,068	102,916
Queensland other than Cairns	55.58	52.17	139,042	125,669
<b>Industry</b>				
Electricity supply	14.80	13.19	37,020	31,774

Concentrations of credit risk on loans to individual members (including associated members) greater than 10% of capital are detailed as follows:

	2011	2010
Number of Loans	1	1
Outstanding Balance	\$'000 3,693	\$'000 3,717

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 35: FAIR VALUE OF FINANCIAL INSTRUMENTS

The net fair value estimates were determined by the following methodologies and assumptions:

#### **Cash and cash equivalents, receivables due from other financial institutions and other receivables**

The carrying values approximate their fair value as they are short term in nature or are receivable on demand.

#### **Investments**

*(i) Assets measured at cost:* Fair value is not reasonably determinable due to the unpredictable nature of cashflow and lack of suitable method of arriving at a reliable fair value. Financial assets available for sale are carried at cost.

*(ii) Assets measured at fair value:* Fair values of financial assets available for sale are determined based on quoted market prices.

*(iii) Assets measured at amortised cost:* The carrying values of financial assets held to maturity approximate their fair value due to short-term maturities of these securities.

#### **Loans and advances**

For variable rate loans the carrying value is a reasonable estimate of the fair value. The fair value for fixed rate loans was calculated by utilising discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June 2011.

#### **Short-term borrowings, payables due to other financial institutions and other payables**

The carrying value approximates their fair value as they are short term in nature.

#### **Deposits from members**

The fair value of at call and variable rate deposits, and fixed rate deposits repriced within twelve months, approximates the carrying value. Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of other term deposits. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at 30 June 2011.

#### **Subordinated debt**

The carrying value of subordinated debt approximates its fair value as it reprices quarterly.

#### **Derivatives**

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows.

#### **Fair value hierarchy**

The Economic Entity measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using:
  - quoted market prices in active markets for similar instruments
  - quoted prices for identical or similar instruments in markets that are considered less than active; or
  - other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 35: FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

The table below categorises financial instruments measured and recognised at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Economic Entity</b>				
<b>2011</b>				
Derivative liabilities	-	63	-	63
<b>2010</b>				
Derivative liabilities	-	165	-	165
<b>Parent Entity</b>				
<b>2011</b>				
Derivative liabilities	-	63	-	63
<b>2010</b>				
Derivative liabilities	-	165	-	165

There have been no significant transfers into or out of each Level during the year ended 30 June 2011.

### NOTE 36: ECONOMIC DEPENDENCY

The Economic Entity has an economic dependency on the following suppliers of service:

#### (a) Cuscal Limited

This entity supplies the Economic Entity rights to Visa Card in Australia and provides services in the form of settlement with Bankers for ATM and Visa Card transactions, and the production of Visa and Redicards for use by members.

#### (b) FDRA Limited

This company operates the switching computer used to link Redicards operated through the RediATM network and other approved ATM suppliers to the Economic Entity's computer systems.

#### (c) The System Works Pty. Ltd

This company operates the computer facility on behalf of the Economic Entity in conjunction with other Credit Unions. The Economic Entity has a management contract with the company to supply computer support staff and services to meet the day to day needs of the Economic Entity and compliance with relevant Prudential Standards.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### NOTE 37: STATEMENT OF CASH FLOWS

#### (a) Cash Flows Presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:

- (i) Member deposits and withdrawals
- (ii) Provision of member loans and the repayment of such loans; and
- (iii) Sales and purchases of Financial assets held to maturity

#### (b) Reconciliation of cash flow from operations with profit after income tax

Profit after income tax	1,437	1,222	1,434	1,233
Depreciation and amortisation	311	289	311	289
Movement in fair value of derivatives	(11)	10	(11)	10
(Decrease)/Increase in provision for loan impairment	(73)	138	(73)	138
<i>Changes in operating assets and liabilities</i>				
(Increase)/Decrease in interest receivable – due from other financial institutions	(223)	(100)	(223)	(100)
(Increase)/Decrease in other receivables	(86)	104	(83)	88
(Increase)/Decrease in deferred tax asset	23	(43)	23	(41)
(Increase)/Decrease in financial assets held to maturity	(1,467)	(3,497)	(1,467)	(3,497)
(Increase)/Decrease in loans and advances to members	(9,293)	(25,538)	(9,293)	(25,538)
(Increase)/Decrease in capitalised issue costs – borrowings	58	17	58	17
(Decrease)/Increase in interest payable – member deposits	594	66	594	66
(Decrease)/Increase in interest payable – borrowings	(29)	40	(29)	40
(Decrease)/Increase in member deposits	22,209	22,869	22,209	22,869
(Decrease)/Increase in provisions	6	46	6	46
(Decrease)/Increase in income tax payable	47	75	47	78
(Decrease)/Increase in deferred tax liability	(20)	(1)	(20)	(1)
(Decrease)/Increase in other payables	14	(66)	14	(66)
Net cash provided by/(used in) operating activities	<b>13,497</b>	<b>(4,369)</b>	<b>13,497</b>	<b>(4,369)</b>

### NOTE 38: COMPANY DETAILS

The registered office of the company is:

ECU Australia Ltd  
93 Sheridan Street  
Cairns Qld 4870

# DIRECTORS' DECLARATION

The Directors of ECU Australia Ltd declare that:

- (a) The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001, and:
  - (i) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (ii) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Parent Entity and of the Economic Entity.
- (b) The Economic Entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards
- (c) In the directors' opinion, there are reasonable grounds to believe that ECU Australia Ltd will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the directors in accordance with a resolution of the Board

Signed at Cairns this 31st day of August, 2011



CS Turnbull  
Chairman



JJ Fitzgerald  
Deputy Chairman

## **INDEPENDENT AUDITOR'S REPORT**

To the members of ECU Australia Ltd

### **Report on the Full Financial Report**

We have audited the accompanying financial report of ECU Australia Ltd, which comprises the statements of financial position as at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the Credit Union and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' Responsibility for the Financial Report**

The directors of the Credit Union are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of ECU Australia Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

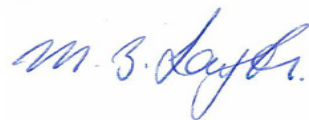
## Opinion

In our opinion the financial report of ECU Australia Ltd is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the Credit Union's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date;
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001;

and the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

## BDO Audit (QLD) Pty Ltd



**M B Taylor**

Director

Brisbane, 31 August 2011