2014

Australian Defence Credit Union
55th Annual Report

ADCU
Australian Defence Credit Union

Contents

2014

Directors' Report

I am pleased to report that ADCU has enjoyed another strong year of growth and progress in 2013–4.

Chairman's summary

I am pleased to report that ADCU has enjoyed another strong year of growth and progress in 2013–14.

As a direct result of growing member support, ADCU finished the year with $1.03 billion in assets (on and off balance sheet). Our total assets grew by 12%, which was approximately twice the growth rate experienced in the banking system. This result is remarkable given the record low interest rates and the high levels of member loan repayments.

Our net profit after tax was $4 million. This result reflected the ongoing decline in interest margins as our loan portfolio becomes increasingly skewed towards low risk : low return residential mortgages. ADCU has given priority to containing our expenditure to withstand the impact of declining margins in order to preserve earnings. As a consequence, capital reserves increased with our capital adequacy ratio finishing the year at 17.53%.

The expansion of our deposit product range, including the popular Online Saver Account, was accompanied by strong deposit inflows. This places ADCU in a very liquid position and well placed to meet the borrowing demands of our members. Notwithstanding this, ADCU further strengthened our prudential infrastructure by developing our own internal securitisation program.

Across the year we took steps to improve and modernise our services to members. We appreciate members are looking for increased convenience and thus promoted our mobile phone app and extended the hours of our call centre including Saturdays. As a DHOAS home loan provider, we also increased the number of Mobile Bankers who can carry out loan consultations at a time and place of the members choosing. Other changes are progressively being made to simplify interactions for members.

Prior to December 2013, we took the decision to reduce the operations at five branches to fortnightly attendance in lieu of changed member transactional preferences. ADCU will continue to maintain an extensive branch network to service members but we recognise that most members now prefer self service for routine transactions. Interestingly, just 2% of all member initiated transactions now occur at the branch.

ADCU remains committed to the broader Defence community and participates and sponsors numerous events across the year. A stand out event in 2013–14 was our involvement in the International Fleet Review, which attracted participation from 20 nations and millions of viewers across Australia. Our staff thoroughly enjoyed being involved in this fantastic event and the sponsorship of the photographic and art competition was a great success.

Another significant development during the year was the launch of RSL Money in March 2014. ADCU has worked in conjunction with RSL National to offer a very competitive credit card, Deeming Account and Sub Branch Account to RSL members. These banking products proudly carry the RSL Money brand, provide a financial return to the RSL movement and help ensure ADCU has funds available to lend to current serving personnel. We thank RSL National for their co-operation in developing this initiative and the Australian War Memorial for hosting the RSL Money launch.

Since 30 June 2014 ADCU has seen the launch of our own range of Capital Guaranteed Super and Pension Accounts. We understand those about to retire don't necessarily want to risk their retirement nest egg, nor do they want to see fees erode their effective rate of return. ADCU's Capital Guaranteed Super and Pension Accounts offer investors the ability to lock in a fixed rate of return – thereby providing a secure and predictable income stream. We see this new service as an important step in assisting retired Defence personnel with a dignified and well earned retirement.

Outside of ADCU, the Federal Government has commissioned a Financial Services Inquiry (FSI) to examine the state of the financial services industry. ADCU has contributed to this enquiry via our industry association, COBA. We are arguing for a more even playing field in the financial services sector so that Australians can enjoy greater competition. In particular, we would like the capital risk weightings for mortgages to be consistent across all authorised deposit taking institutions so that consumers can benefit from strong competition to the Big 4 banks. We will continue to monitor the FSI for implications to our membership.

ADCU continues to enjoy a very positive and special relationship with the Navy, Army, Air Force, and the broader Department of Defence as not only our collective host, but through the individual relationships with both uniformed and non-uniformed members and employees of the Department. Indeed these relationships are central to our reason for being, our 'raison d'être'. I believe we have again collaborated well to mutually support each other and our members particularly through another period of high operational tempo.

I would further like to take this opportunity to extend my thanks to the staff and management of ADCU (and in particular CEO, John Ford) for their continued passion and professionalism over this reporting period. We have undergone considerable deliberate change over recent times but naturally, further change will be needed into the future to evolve, develop and remain relevant. Our focus on the training, education and professional development of our staff will remain an enduring requirement for ADCU as we continue to grow as an organisation and support the ever changing needs of our members.

I thank also my fellow Directors whom again this year have continued to ensure that we are tracking positively towards our vision and are doing so through the application of quality contemporary governance standards. I acknowledge our new director this year, Bruce Scott, who brings significant experience and expertise to the Board, and of course acknowledge John Wood the outgoing Chairman for his magnificent contribution to ADCU over 17 years, 12 of these years as Chairman.

Finally I thank and acknowledge our members, for again this year, entrusting us to serve your financial needs. Without your support there would be no ADCU.

RADM Clinton Thomas AM, CSC RAN
Chairman

25 September 2014

The Directors present their report on Australian Defence Credit Union Limited (ADCU) for the financial year ended 30 June 2014.

Corporate governance

This statement outlines the main corporate governance practices in place throughout the financial year.

Legislative and regulatory requirements

ADCU is an Authorised Deposit Taking Institution (ADI) supervised by the Australian Prudential Regulation Authority (APRA) under the Banking Act 1959.
ADCU is also supervised by the Australian Securities and Investments Commission as both an Australian Financial Services Licence holder under the *Corporations Act 2001* and an Australian Credit Licence holder under the *National Consumer Credit Protection Act 2009*.

Role of the Board

The Board is responsible for the overall corporate governance of ADCU, including formulating its strategic direction, appointing the CEO, overseeing risk management and compliance, monitoring executive performance and the achievement of ADCU's ethical and financial goals.

The Board has delegated responsibility for the management of ADCU to the CEO.

Composition of the Board

The Constitution sets out the size and composition of the Board. The Board comprises seven independent non executive Directors – their names and qualifications are set out later in the Directors' Report. A Director must retire from office at the end of the third Annual General Meeting ("AGM") at which the Director's election is announced, and may stand for re-election should he or she re-nominate.

The Board may appoint a new Director to fill a casual vacancy and the term of a Director so appointed may end at the conclusion of the next AGM after the elected Director's appointment. The Board may also appoint up to two Directors in addition to the elected directors.

Board Committee Structure

To assist in the planning and execution of its responsibilities, the Board has established a number of Board Committees. They are the Executive Committee, Renewal Committee, Audit Committee, Risk Committee and Remuneration Committee.

Executive Committee

The Executive Committee's role is to plan, manage and coordinate the agendas and timetables of the Board meetings and strategic planning activities. This committee comprises the Chairman of the Board, the Deputy Chairman and Chief Executive Officer.

Renewal Committee

The Renewal Committee's role is to maintain the Corporate Governance, Fit and Proper, Board Renewal and Performance Evaluation policies and initiate and conduct the activities that flow from these policies. The committee comprises at least two directors. The Chair of the Renewal Committee is normally an experienced Director. The Committee is assisted by the Head of Human Resources.

Audit Committee

The Audit Committee has specific responsibilities relating to policy development, financial accounting and reporting processes, internal and external audit processes, compliance, and whistleblower monitoring. The Audit Committee has free and unfettered access to senior management, the Internal Auditor, the External Auditor and the heads of all risk management functions. The committee comprises three Directors, assisted by the Head of Finance & Operations.

Risk Committee

The Risk Committee's role is to oversee the formulation of ADCU's risk appetite and strategy, develop policies and plans to ensure the risk strategy is complied with, and to monitor compliance with those policies. The risk management areas overseen by the committee include, but are not restricted to, market, liquidity, credit, capital, strategic, funding and operational risk. The committee comprises three Directors assisted by the Head of Risk.

Remuneration Committee

The Remuneration Committee is responsible for overseeing the establishment and regular review of the Remuneration Policy, including assessment of the effectiveness of the policy. The committee is responsible for making annual recommendations to the Board on remuneration of the CEO, direct reports of the CEO and other persons whose activities may in the Remuneration Committee's opinion affect the financial soundness of ADCU, and any other person specified by APRA. The committee comprises three Directors.

Asset and Liability Committee (ALCO)

The ALCO meets at least monthly and has responsibility for managing and monitoring the product suite as well as credit, liquidity, market and capital risk exposures. It scrutinises operational reports and monitors exposures against limits determined by the Board.

Strategic planning

The Board and Executive Management, as required, meet up to twice a year to plan the strategic direction of ADCU by the establishment of medium to long term goals and objectives. The progression of these goals and objectives are monitored throughout the year to ensure ADCU remains on track to deliver the best possible financial offering to our members.

Ethical standards

All Directors, Executives and staff are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of ADCU.

Directors (L to R): Michael Pike, Warren Thomas, RADM Clinton Thomas, BRIG Jane Spalding AM, John Brooks, Graham Weber, and Bruce Scott.

2014 Office bearers

Rear Admiral Clinton William Thomas AM, CSC, RAN

Qualifications

Graduate RAN College and RAN Staff College

Member of the Australasian Mutuals Institute

Member of the Risk Management Institute of Australasia

Associate Member of the Australian Institute of Project Management

Graduate Member of the Australian Institute of Company Directors

Fellow of the Chartered Institute of Logistics and Transport Australia

Diploma Applied Science (UNSW)

Diploma Company Directors

Diploma of Government (Contract Management)

Advanced Diploma of Government (Strategic Procurement)

Advanced Diploma of Project Management

Graduate Diploma of Resource Management

Master of Management (Operations/Logistics) (MGSM)

Experience and Responsibilities

38 years in the Royal Australian Navy and Defence

Past Member of the Defence Audit Committee (3 years)

Past Chairman of RAN Relief Trust Fund Board of Trustees (5 years)

Past President of the RAN Australian Football Association (8 years)

Current Patron of the RAN Australian Football Association

Past Chairman of the Navy Canteens Board (3 years)

Currently the Commander Joint Logistics Command

Credit Union Director for 14 years

Past Chair of the ADCU Risk Committee (6 years)

Past Chair of the ADCU Renewal Committee

Current Member of the ADCU Renewal Committee

Current Member of the ADCU Remuneration Committee

Current Chair of the ADCU Board

Current Chair of the ADCU Executive Committee

John Robert Brooks

Qualifications

Bachelor of Arts

Graduate of the Royal Air Force Staff College

Fellow of the Australian Defence College

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Company Directors

Graduate Diploma in Strategic Studies

Experience and Responsibilities

28 years with the Royal Australian Air Force (Logistics Branch)

Owner of Brooks Newsagency, Orange, NSW

Credit Union Director for 14 years

Chair of the ADCU Risk Committee

Director of the ADCU Board

Michael Morrison Pike

Qualifications

Graduate RAN College and RAN Staff College

Graduate Joint Services Staff College

Fellow of the Australian Institute of Management

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Company Directors

Graduate Diploma in Management

Graduate Diploma in Strategic Studies

Master of Management Economics (UNSW)

Diploma Company Directors

Experience and Responsibilities

29 years full-time service in the Royal Australian Navy (Supply Branch)

Active Naval Reservist

Long standing Credit Union Director

Member of the ADCU Risk Committee

Chairman of the ADCU Remuneration Committee

Director of the ADCU Board

Past Deputy Chairman of the ADCU Board, Chairman of the ADCU Audit and Renewal Committees

Bruce Andrew Robert Scott, CSC

Qualifications

Graduate Member of the Australian Institute of Company Directors

Graduate of Command and Staff College

Member of the Australasian Mutuals Institute

Experience and Responsibilities:

40 years service and experience in the Australian Army

Credit Union Director since November 2013

Member of the ADCU Audit Committee

Member of the ADCU Remuneration Committee

Director of the ADCU Board

Director Shooting Australia

Brigadier Jane Maree Spalding AM

Qualifications

Bachelor of Social Science

Master of Arts (Military Studies)

Master of Defence Studies

Master of Arts (Strategic Studies)

Graduate of the Royal Military College of Science (United Kingdom)

Graduate of the Australian Army Command and Staff College

Graduate of the Centre for Defence and Strategic Studies

Graduateship of the City and Guilds of London Institute

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Management

Graduate Member of the Australian Institute of Company Directors

Experience and Responsibilities

31 years in the Australian Regular Army

Currently Director General Explosive Ordnance, Joint Logistics Command

Head of Corps Royal Australian Army Ordnance Corps

Credit Union Director for 7 years

Chair of the ADCU Audit Committee

Director of the ADCU Board

Previously a member of the TAFE Riverina Institute Advisory Council

Warren Raymond Thomas

Qualifications

Qualified Accountant

Graduate Diploma in Company Directorship

Member of the Australasian Mutuals Institute

Graduate Member of the Australian Institute of Company Directors

Member of the Club Directors Institute of NSW

Experience and Responsibilities

37 years in Dept of Defence, including Army service in Vietnam

20 years experience in high level financial management in various Navy and Army Commands

President of Cronulla RSL sub-Branch (2008-present)

Director of Cronulla RSL Memorial Club (2005–present)

Credit Union Director for 18 years

Past Deputy Chairman of the ADCU Board

Served on the ADCU Risk Committee for 4 years

Chairman of the ADCU Renewal Committee

Member of the ADCU Audit Committee

Director of the ADCU Board

Graham Anthony Weber

Qualifications

Member Australian Society of Certified Practising Accountants (CPA)

Bachelor of Commerce in Accounting

Member of the Australasian Mutuals Institute

Member Australian Institute of Company Directors

Experience and Responsibilities

6 years in Accounting Firms and Advisory Services

20 years in State and Commonwealth Agencies in Financial Management, budgeting and performance reporting

Currently Chief Finance Officer – Air Force

Credit Union Director for 5 years

Member of ADCU Risk Committee

Deputy Chairman of the ADCU Board

Member of the ADCU Executive Committee

John Wood

Qualifications

Fellow of Australian Defence College

Fellow of the Australian Institute of Company Directors

Fellow of the Australasian Mutuals Institute

Experience and Responsibilities

36 years service and experience in the Royal Navy and Royal Australian Navy

Consultant to Defence Industry

Credit Union Director for 17 years and ADCU Chairman from 2001

Chairman of the ADCU Board (until 13 November 2013)

Chairman of the ADCU Board Executive Committee (until 13 November 2013)

Member of the ADCU Board Renewal and Remuneration Committees (until 13 November 2013)

John Ronald Ford

Qualifications

Bachelor of Arts

Graduate Diploma of Business Studies

Fellow of the Institute of Financial Services

Fellow of the Australasian Mutuals Institute

Advanced Diploma of Superannuation

Member of the Association of Superannuation Funds of Australia Limited

Experience and Responsibilities

Chief Executive Officer of ADCU

26 years management experience in Banks, Building Societies and Credit Unions

ADCU Company Secretary

Grazier

Andrew Arvan Prichard

Qualifications

Member Institute of Chartered Accountants (CA)

Bachelor of Commerce – University of New South Wales

Experience and Responsibilities

9 years in the Chartered Accounting profession

Over 18 years in the Banking and Finance Industry

Head of ADCU Finance and Operations (until 12 September 2014)

ADCU Company Secretary (until 12 September 2014)

Meetings attended

	Board meetings		Annual Gen Meeting		Board Committee Meetings: Executive		Audit		Risk		Renewal		Remuneration	
Directors	H	A	H	A	H	A	H	A	H	A	H	A	H	A
Clinton Thomas+	11	9	1	–	6	5	2	2	–	–	4	3	2	2
John Brooks	11	10	1	1	–	–	–	–	8	7	–	–	–	–
Michael Pike	11	11	1	1	2	2	–	–	8	8	–	–	4	4
Bruce Scott*	7	7	1	1	–	–	3	3	–	–	–	–	2	1
Jane Spalding	11	10	1	1	–	–	5	4	–	–	–	–	–	–
Warren Thomas	11	10	1	1	5	5	5	5	–	–	4	3	2	2
Graham Weber	11	11	1	1	6	6	–	–	8	8	–	–	–	–
John Wood**	4	2	1	1	5	4	–	–	–	–	1	–	2	2

* Appointed Director of the ADCU Board from 13 November 2013
** Retired as Chairman/Director of the ADCU Board on 13 November 2013
+ Chairman of the ADCU Board as from 13 November 2013

H No. of meetings held that Director was eligible to attend
A No of meetings attended

Director benefits

Directors are required to make an annual declaration of any benefits or interests that may have occurred because of their association with ADCU. As at 30 June 2014, no Director has received or become entitled to receive any such benefit.

Indemnity of Directors and Officers

ADCU has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of Directors' and Officers' liability and legal expenses, as such disclosure is prohibited under the insurance contract. No insurance cover has been provided for the benefit of the ADCU auditors, Grant Thornton Audit Pty Ltd.

Principal activities

The principal activities of ADCU during the year were the raising of funds authorised by the Prudential Standards administered by APRA and the Banking Act 1959, and the application of those funds in providing financial and credit services to our members in the form of lending, savings and insurance products.

On 1 July 2014 ADCU commenced offering retirement savings account products – ADCU Capital Guaranteed Super and ADCU Capital Guaranteed Pension.

As a Home Loan Provider under the Defence Home Ownership Assistance Scheme (DHOAS) ADCU has continued to experience sound growth in mortgage loans and associated products during the year ended 30 June 2014.

Operating and financial review

Operating results

Net profit after tax for the year ended 30 June 2014 decreased by 4% on the prior year to $4 million and reflected the low interest rate environment and reductions in competitive interest rates across the variable home portfolio.

The key components of the result were:

- Interest revenue decreased by 3% to $49 million due primarily to the reduction in interest rates across ADCU's variable home loan portfolio, offset partially by the additional revenue generated from an increase in the loan portfolio of 9% to $744 million.
- Interest expense decreased by 6% to $26 million due primarily to lower interest rates for deposits as well as borrowings, offset partially by the additional funding costs generated from an increase in member deposits of 27% to $787 million.
- Net interest income increased by 0.58% to $24 million, due primarily to this reduction in interest expense.
- Non interest income decreased by 3% to $9 million due primarily to a reduction in fee income, offset partially by increases in insurance commission and bad debts recovered.
- Non interest expenses decreased by 1% to $27 million due to disciplined cost management and control. During the financial year, ADCU continued to grow, with total on and off balance sheet assets increasing by 12% to $1.03 billion. This growth was largely sourced from quality growth in the ADCU's home loan portfolio both from DHOAS and the broader membership.
- Throughout the year demand continued in the banking and financial services market for deposits. Despite the competitive pressure, ADCU successfully grew deposits by $167 million (27%) to $787 million and this provided a stable base to fund our loan growth.

Dividends

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

Significant changes in state of affairs

There have been no significant changes in the state of affairs for ADCU.

Regulatory snapshot

ADCU implemented Single Customer View (SCV) requirements under APRA's Prudential Standard APS 910 Financial Claims Scheme. The SCV requirements form part of APRA's management of the Financial Claims Scheme and principally require that ADCU be able to identify each account holder and show a single snapshot of all the account balances held by that account holder.

During the year, ADCU also upgraded its existing processes in order to comply with the amended Privacy legislation including Australian Privacy Principles, which commenced in March 2014. The key changes included enhanced controls regarding the use of personal information and the introduction of a new Privacy (Credit Reporting) Code, supported by new requirements regarding the correction and complaints process.

Events occurring after balance date

Since the end of the financial year, the Directors have not become aware of any matters or circumstances that may significantly affect the operations or state of affairs of ADCU.

Likely developments and results

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect the:

- operations of ADCU;
- results of these operations; or
- state of affairs of ADCU;

in the financial years subsequent to this financial year.

Auditors' independence

The auditors have provided the declaration of independence to the Board prescribed by the *Corporations Act 2001* as set out on page 12.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Board resolution

This report is signed in accordance with a formal resolution of the Board of Directors.

RADM Clinton Thomas AM, CSC RAN
Chairman

Graham Anthony Weber
Deputy Chairman

25 September 2014

Director's declaration

In the opinion of the Directors of Australian Defence Credit Union Limited:

1. The financial statements and notes of Australian Defence Credit Union Limited as set out on pages 18–52 are in accordance with the *Corporations Act 2001*, including

    a) giving a true and fair view of its financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and

    b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*

2. There are reasonable grounds to believe that Australian Defence Credit Union Limited will be able to pay its debts as and when they become due and payable.

3. The financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

RADM Clinton Thomas AM, CSC RAN
Chairman

25 September 2014

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Sydney NSW 2000

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W www.grantthornton.com.au

Auditor's Independence Declaration
To the Directors of Australian Defence Credit Union Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Australian Defence Credit Union Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

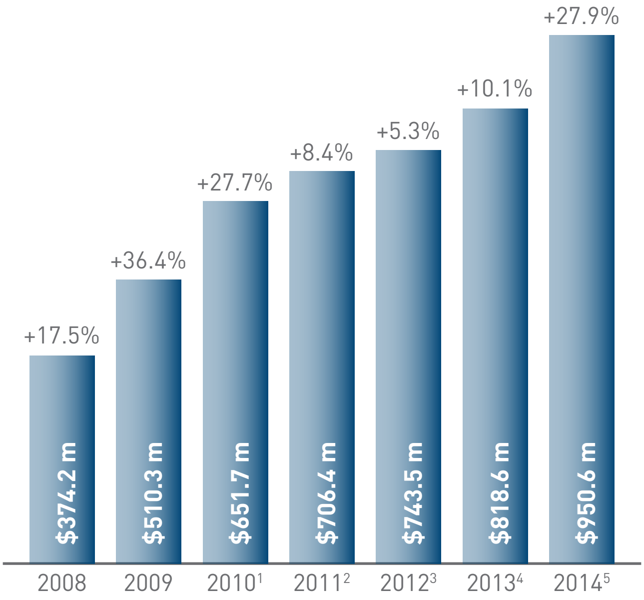
Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

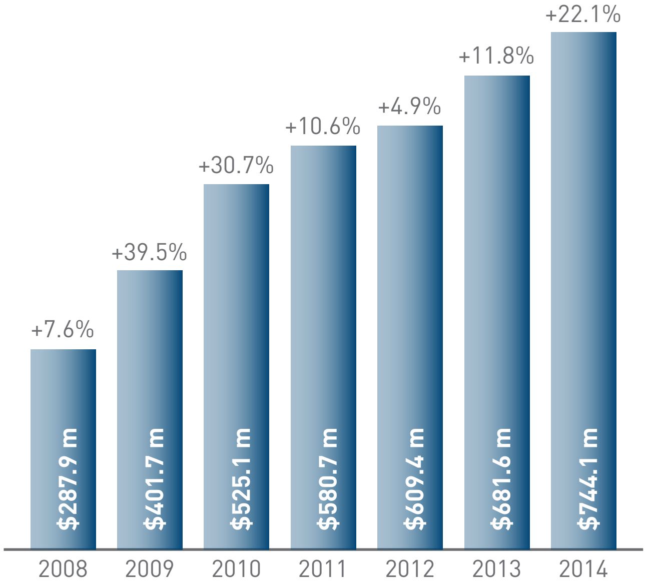
G S Layland
Director - Audit & Assurance

Sydney, 25 September 2014

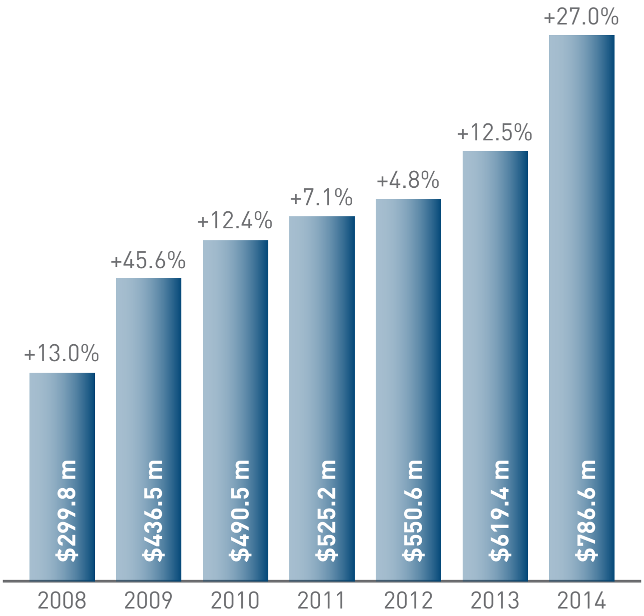
Key performance measures



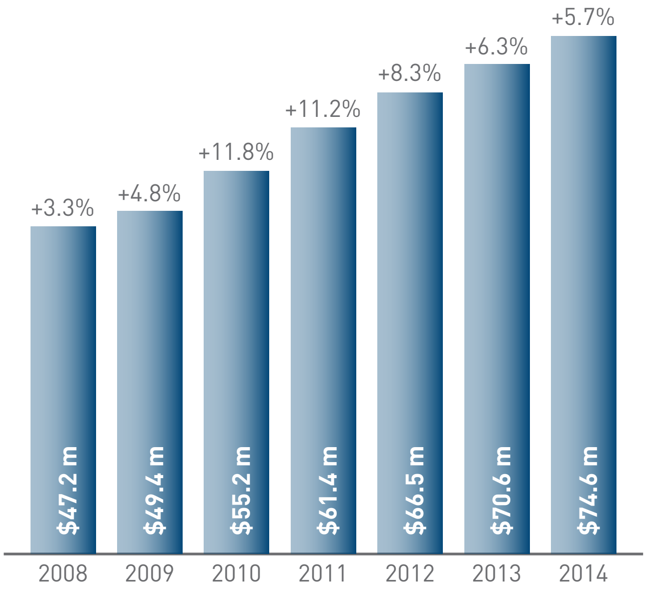
Balance Sheet Assets



Net Balance Sheet Loans



Deposits



Member's Equity

1 Includes $56,366,795 in loans securitised through Athena Trust.

2 Includes $56,298,045 in loans securitised through Athena Trust.

3 Includes $66,498,506 in loans securitised through Athena Trust.

4 Includes $59,960,139 in loans securitised through Athena Trust.

5 Includes $50,264,651 in loans securitised through Athena Trust.

ADCU in the community

ADCU staff members at the International Fleet Review, October 2013.

(L to R) FLTLT Tony Gesualdi, CAPT Jonathan Sadlier, Andrew Moebus Regional Manager ACT/South Coast and RADM Clinton Thomas at the White Ribbon Charity Golf Day 2014.

National President of the RSL, Rear Admiral Ken Doolan AO RAN (Ret'd) unveils the RSL Money Debit Card

2014

Independent Auditor's Report

To the members of Australian Defence Credit Union Limited.

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Independent Auditor's Report
To the Members of Australian Defence Credit Union Limited

We have audited the accompanying financial report of Australian Defence Credit Union Limited (the "Company"), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company .

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.

Auditor's opinion
In our opinion:

a the financial report of Australian Defence Credit Union Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

G S Layland
Director - Audit & Assurance

Sydney, 25 September 2014

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2014

	Note	2014 $	2013 $
Interest revenue	2.a	49,267,180	50,729,575
Interest expense	2.c	(25,555,438)	(27,153,527)
Net interest income		**23,711,742**	**23,576,048**
Fee commission and other income	2.b	9,303,589	9,552,775
		33,015,331	33,128,823
Less non interest expenses			
Impairment losses on loans receivable from members	2.d	1,501,048	2,089,036
Fee and commission expenses		3,508,282	3,434,458
General administration expenses			
– Employees compensation and benefits		13,392,374	13,331,299
– Depreciation and amortisation	2.e	434,490	407,505
– Information technology		2,405,434	2,257,587
– Office occupancy	2.f	1,378,280	1,150,695
– Other administration		2,517,941	2,540,096
Other operating expenses		2,064,167	2,149,520
Total non interest expenses		**27,202,015**	**27,360,196**
Profit before income tax		5,813,316	5,768,627
Income tax expense	3	1,800,377	1,602,321
Profit after income tax		**4,012,939**	**4,166,306**
Other comprehensive income, net of income tax		–	–
Total comprehensive income for the period		**4,012,939**	**4,166,306**

Note: This statement should be read in conjunction with the notes to the financial statements.

Statement of Changes in Member Equity for the year ended 30 June 2014

	Capital reserve $	Reserve for credit losses $	Retained earnings $	Total $
Total as at 1 July 2012	106,166	1,060,545	65,290,221	66,456,932
Profit for the year	–	–	4,166,306	4,166,306
Transfer to reserve for credit losses in the year	–	445,874	(445,874)	–
Transfer to capital account on redemption of shares	6,026	–	(6,026)	–
Total as at 30 June 2013	**112,192**	**1,506,419**	**69,004,627**	**70,623,238**
Profit for the year	–	–	4,012,939	4,012,939
Transfer to reserve for credit losses in the year	–			–
Transfer to capital account on redemption of shares	5,930	–	(5,930)	–
Total as at 30 June 2014	**118,122**	**1,506,419**	**73,011,635**	**74,636,176**

Note: This statement should be read in conjunction with the notes to the financial statements.

Statement of Financial Position as at 30 June 2014

	Note	2014 $	2013 $
Assets			
Cash	4	55,657,695	6,410,538
Liquid Investments	5	145,526,481	123,738,519
Receivables	6	2,268,756	4,214,453
Loans to members	7.a	744,092,347	681,591,997
Available for sale investments	9	907,097	907,097
Property, plant and equipment	10	478,209	388,914
Taxation assets	11	1,003,325	888,145
Intangible assets	12	671,994	459,050
Total assets		**950,605,904**	**818,598,713**
Liabilities			
Short term borrowings	13	72,721,699	110,110,470
Deposits from members	14	786,572,690	619,439,965
Creditor accruals and settlement accounts	15	10,339,703	12,749,069
Taxation liabilities	16	525,195	198,716
Provisions	17	810,441	477,255
Long term borrowings	18	5,000,000	5,000,000
Total liabilities		**875,969,729**	**747,975,475**
Net assets		**74,636,176**	**70,623,238**
Members' equity			
Capital reserve account	19	118,122	112,192
General reserve for credit losses	20	1,506,419	1,506,419
Retained earnings		73,011,635	69,004,627
Total members' equity		**74,636,176**	**70,623,238**

Note: This statement should be read in conjunction with the notes to the financial statements.

Statement of Cash Flows for the year ended 30 June 2014

	Note	2014 $	2013 $
Operating activities			
Revenue inflows			
Interest received		49,281,448	50,756,866
Fees and commissions received		8,552,349	8,979,784
Dividends received		166,281	164,769
Other income		519,625	468,117
Revenue outflows			
Interest paid		(24,762,166)	(29,968,890)
Payments suppliers and employees		(25,512,245)	(24,060,907)
Income taxes paid		(1,589,078)	(1,598,536)
Net cash from revenue activities	34.b	**6,656,216**	**4,741,203**
Inflows (outflows) from other operating activities			
Increase in member loans (net movement)		(63,959,899)	(74,355,100)
Increase in member deposits and shares (net movement)		166,518,696	67,681,320
Increase in deposits to other financial institutions (net)		(21,787,961)	(9,764,218)
Net cash used in operating activities		**87,427,051**	**(11,696,795)**
Investing activities			
Inflows			
Proceeds on sale of property, plant and equipment		26,086	5,945
Proceeds on sale of investment		–	57
Less: Outflows			
Purchase of property, plant and equipment		(326,363)	(96,925)
Purchase of intangible assets		(412,616)	(134,763)
Money refunded/(placed) on security deposit		(78,226)	428,933
Net cash used in investing activities		**(791,121)**	**203,247**
Financing activities			
Inflows (outflows)			
Increase/(Decrease) in borrowings (net movement)		(37,388,771)	4,404,417
Net cash provided by financing activities		**(37,388,771)**	**4,404,417**
Total net cash increase/(decrease)		49,247,159	(7,089,131)
Cash at beginning of year		6,410,538	13,499,668
Cash at end of year	34.a	**55,657,697**	**6,410,538**

Note: This statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

1. Statement of Accounting Policies

This financial report is prepared for Australian Defence Credit Union Limited (the Credit Union) for the year ended 30 June 2014. The financial report was authorised for issue on 25th September 2014 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Australian Defence Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of measurement

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

b. Classification and subsequent measurement of financial assets and liabilities

Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss, are presented within interest income, interest expense or other income, except for impairment of loans and receivables which is presented within non interest expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Credit Union's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment, which is determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Credit Union has the intention and ability to hold them until maturity. The Credit Union currently holds Term deposits, Negotiable Certificates of

Deposit (NCD) and Floating Rate Notes in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available For Sale financial assets.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Available For Sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's AFS financial assets include the equity investment in Cuscal Limited.

The equity investment in Cuscal Limited is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within an AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'other income'.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Classification and subsequent measurement of financial liabilities

The Credit Union's financial liabilities include borrowings, trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

c. Loans to members

(i) Basis of recognition

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

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

(ii) Interest earned

Term loans – interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Overdraft – interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the 2nd day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

Non-accrual loan interest – while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member is deceased, or, where a loan is impaired.

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

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

(v) Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

(vi) Net gains and losses

Net gains and losses on loans to members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

d. Loan Impairment

(i) Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The key assumptions used in the calculation are as set out in Note 8. Note 21 details the credit risk management approach for loans.

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

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

(ii) Reserve for credit losses

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

- the level of security taken as collateral; and
- previous trends where loss experience exists.

(iii) Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

e. Bad debts written off (direct reduction in loan balance)

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write-offs are recognised as expenses in the statement of profit or loss.

f. Property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Credit Union. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the balance date are as follows:

- Leasehold improvements – 5 years.
- Plant and equipment – 3 to 7 years.
- Assets less than $300 are not capitalised.

g. Receivables from other financial institutions

Term deposits and Negotiable Certificates of Deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

h. Equity investments and other securities

Investments in marketable financial instruments

Available for sale financial instruments held for trading are measured at fair value.

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

Investments in shares

The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies services to the member organisations which are all mutual banks and credit unions. The credit union holds shares in Cuscal to enable the Credit Union to receive essential banking services – refer to Note 31. The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded in the shares is low.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily. The net dividend return in 2013 was 10.2 cents. Management has determined that the cost value of $0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale.

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

i. Member Deposits

(i) Basis for measurement

Member savings and term investments are quoted at the aggregate amount of money owing to depositors as at balance date.

(ii) Interest payable

Interest on savings is calculated either on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

j. Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loans and borrowings using the effective interest method.

k. Provision for Employee Benefits

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

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

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

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

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the statement of profit or loss as incurred.

l. Leasehold on Premises

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

m. Income Tax

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

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

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

n. Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets.

Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

o. Goods and Services Tax (GST)

As a financial institution the Credit Union is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST. To the extent that the full amount of the GST incurred is not recoverable from the Australian Taxation Office (ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

p. Cash and cash equivalents

Cash comprises cash on hand and on demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

q. Impairment of Assets

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

r. Accounting Estimates and Judgements

Management have made judgements when applying the Credit Union's accounting policies with respect to derecognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 7.

Management have made critical accounting estimates when applying the Credit Union's accounting policies with respect to the impairment provisions for loans – refer Note 8.

s. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2014 reporting periods. The Credit Union's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Nature of Change	Application date:	Impact on Initial Application
AASB 9 Financial Instruments (issued December 2009 and amended December 2010)	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments: Recognition and Measurement* into AASB 9. These include the requirements relating to: • classification and measurement of financial liabilities; and • derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 July 2018	The Credit Union does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.

2. Income Statement

	2014 $	2013 $
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	29,160	66,955
Receivables from financial institutions	5,156,003	5,598,218
Loans to members	44,082,017	45,064,402
Total interest revenue	**49,267,180**	**50,729,575**
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	1,774,859	1,754,912
Other fee income	4,295,035	4,820,687
Insurance commissions	1,971,477	1,777,701
Other commissions	552,478	562,928
Total fee and commission revenue	**8,593,848**	**8,916,228**
Other income		
Dividends received on available for sale assets	166,281	164,769
Bad debts recovered	503,756	433,813
Gain on disposal of assets		
– Property, plant and equipment	23,835	3,661
Miscellaneous revenue	15,869	34,304
Total other income	**709,741**	**636,547**
Total fee, commission and other income	**9,303,589**	**9,552,775**
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Short term borrowings	1,426,172	1,885,377
Deposits from members	21,548,675	22,043,630
Long Term Borrowings	430,908	288,954
Borrowings from Westpac – Athena Trust	2,149,682	2,935,566
Total interest expense	**25,555,438**	**27,153,527**
d. Impairment losses		
Loans and advances		
Increase/(Decrease) in provision for impairment	(70,869)	244,916
Bad debts written off directly against profit	1,571,917	1,844,120
Total impairment losses	**1,501,048**	**2,089,036**
e. Other prescribed disclosures		
General administration – employee compensation and benefits includes:		
– net movement in provisions for employee annual leave	188,116	(5,220)
– net movement in provisions for employee long service leave	(64,862)	18,349
	123,254	**13,129**
General administration – depreciation expense includes:		
– Plant and equipment	114,907	132,508
– Leasehold improvements	119,911	94,917
– Amortisation of software	199,672	180,080
	434,490	**407,505**

		2014 $	2013 $
f.	**General administration – office occupancy costs include:**		
	Property operating lease payments	**1,202,475**	**806,088**
g.	**Other operating expenses include:**		
	Auditor's remuneration (excluding GST)		
	Grant Thornton		
	– Audit fees	104,500	100,500
	– Other services – taxation	12,450	8,675
	– Other services – other	14,500	11,500
		131,450	**122,008**

3. Income Tax expense

		2014 $	2013 $
a.	**The income tax expense comprises amounts set aside as:**		
	Current tax provision	1,805,645	1,728,988
	Adjustments for previous years	109,912	(68,068)
	Total current income tax expense	**1,915,557**	**1,660,920**
	Deferred tax		
	Origination and reversal of temporary differences	(115,180)	–
	Write-down and/or reversal of previous write-down of a deferred tax asset		(58,599)
	Total movement in temporary differences	(115,180)	(58,599)
	Total income tax expense in income statement	**1,800,377**	**1,602,321**
b.	**The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:**		
	Profit	**5,813,316**	**5,768,627**
	Prima facie tax payable on profit before tax at 30%	1,743,995	1,730,588
	Add tax effect of expenses not deductible	9,718	10,400
	Less		
	– Franking rebate	(49,884)	(49,430)
	Total current year tax expense	**1,703,829**	**1,691,558**
	Origination and reversal of temporary differences	101,816	37,430
	Total current year tax provision	**1,805,645**	**1,728,988**
	Less		
	– Adjustments to deferred tax assets	(115,180)	(58,599)
	– Under (Over) provision in prior year	109,912	(68,068)
	Total income tax expense in statement of comprehensive income	**1,800,377**	**1,602,321**

4. Cash

	2014 $	2013 $
Cash on hand	953,661	1,047,638
Deposits at call	54,704,034	5,362,900
	55,657,695	**6,410,538**

5. Liquid Investments

	2014 $	2013 $
Receivables from financial institutions		
Deposits with industry bodies – Cuscal (refer Note 29)	37,931,259	35,948,633
Deposits with other societies	17,934,610	4,954,113
Deposits with banks	89,660,611	82,835,773
	145,526,481	**123,738,519**

	2014 $	2013 $

6. Receivables

	2014 $	2013 $
Interest receivable on deposits with other financial institutions	673,958	688,226
Prepayments	302,672	472,860
GST receivable	8,581	3,856
Sundry debtors and settlement accounts	(332,102)	1,512,089
Security deposit	1,615,648	1,537,422
	2,268,756	**4,214,453**

7. Loans to members

a. Amount due comprises:

	2014 $	2013 $
Overdrafts and revolving credit	27,134,083	27,747,409
Term loans	667,841,142	595,144,345
Term loans held by the Athena Trust	50,264,651	59,960,139
Subtotal	**745,239,876**	**682,851,893**
Less:		
Unamortised loan origination fees	(160,244)	(201,742)
Subtotal	**745,079,632**	**682,650,151**
Less:		
Provision for impaired loans (Note 8)	(987,285)	(1,058,154)
Total	**744,092,347**	**681,591,997**

b. Credit quality – security held against loans

	2014 $	2013 $
Secured by mortgage over real estate held in Athena trust	50,264,651	59,960,139
Secured by mortgage over real estate	583,336,036	509,346,076
Partly secured by goods mortgage	59,668,863	64,269,037
Wholly unsecured	52,000,265	49,276,641
	745,269,815	**682,851,893**

It is not practicable to value all collateral as at the balance 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:

	2014 $	2013 $
Security held as mortgage against real estate is on the basis of:		
– loan to valuation ratio of less than 80%	364,160,270	310,799,564
– loan to valuation ratio of more than 80% but mortgage insured	208,895,950	191,106,589
– loan to valuation ratio of more than 80% and not mortgage insured	10,279,816	7,439,922
Total	**583,336,036**	**509,346,075**

Where the loan value is less than the 80% there is a 20% margin to cover the costs of any sale, or potential value reduction

c. Concentration of loans

The values discussed below include on balance sheet values and off balance sheet undrawn facilities as described in Note 25.

	2014 $	2013 $
(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate	–	–
Total	**–**	**–**

	2014 $	2013 $
Loans to members are concentrated to individuals employed in the Australian Defence industry.		
(ii) Geographical concentrations Loans have been made to individuals in the Defence Forces throughout Australia. There are no concentrations of borrowers in any state or region.		
(iii) Loans by purpose		
Loans to natural persons		
Residential loans and facilities	580,783,779	500,543,188
Personal loans and facilities	114,221,385	122,348,566
Business loans and facilities	–	–
Loans held by the Athena Trust	50,264,651	59,960,139
	745,269,815	**682,851,893**
Loans to corporations	**–**	**–**

d. Securitised loans

	2014 $	2013 $
The value of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in AASB 139.	50,264,651	59,960,139
	50,264,651	**59,960,139**

During the year ended 30 June 2014, the Credit Union transferred mortgage loans to the Athena Trust under a securitisation arrangement.

Under the arrangements the Credit Union bears no credit risk in respect of these loans. The risks and rewards of ownership to which the entity remains exposed are the interest rate risk arising from the prepayment of the loans, and the Credit Union is the ultimate beneficiary of the trust net assets on winding up. Whilst these transfers satisfied all prudential requirements to obtain the benefits of capital relief, under the Accounting Standards Athena Trust is treated as a controlled entity by the Credit Union but contains no material balances, and as a consequence these loans have continued to be disclosed as assets on the Statement of Financial Position for the consolidated group.

8. Provision on impaired loans

a. Total provision comprises

	2014 $	2013 $
Collective provisions	987,285	1,058,154
Total Provision	**987,285**	**1,058,154**

b. Movement in the provision for impairment

	2014 $	2013 $
Balance at the beginning of year	1,058,154	813,238
Add (deduct):		
Transfers from (to) income statement	(70,869)	244,916
Balance at end of year	**987,285**	**1,058,154**

Details of credit risk management is set out in Note 20.

c. Impaired loans written off

	2014 $	2013 $
Amounts written off directly to expense	1,571,917	1,844,120
Total bad debts	**1,571,917**	**1,844,120**
Bad debts recovered in the period	503,756	433,813
	1,068,161	**1,410,307**

d. Analysis of loans that are impaired or potentially impaired by class

In the note below:

- carrying value is the amount recorded on the statement of financial position;
- impaired loans value is the 'on balance sheet' loan balances which are past due by 90 days or more;
- provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.

	2014			2013		
	Carrying Value $	Value of impaired loans $	Provision for impairment $	Carrying Value $	Value of impaired loans $	Provision for impairment $
Loans to members						
Mortgages held by Athena Trust	50,264,651	–	–	59,960,139	–	–
Mortgages	580,783,779	–	–	500,543,188	–	–
Personal	87,087,302	1,161,137	766,117	94,601,157	947,850	741,740
Credit cards and overdrafts	27,134,083	528,845	221,168	27,747,409	671,981	316,414
Total to natural persons	745,269,815	1,689,981	987,285	682,851,893	1,619,831	1,058,154
Corporate borrowers		–	–		–	–
Total	**745,269,815**	**1,689,981**	**987,285**	**682,851,893**	**1,619,831**	**1,058,154**

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.

It is not practicable to determine the fair value of all the collateral as at the balance date due to the variety of assets and conditions.

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

	2014		2013	
	Carrying Value $	Provision for impairment $	Carrying Value $	Provision for impairment $
Non impaired up to 31 days	160,804	–	166,523	234,489
31 to 90 days in arrears	1,134,483	66,090	1,390,420	69,726
90 to 180 days in arrears	711,657	331,888	694,380	298,050
180 to 270 days in arrears	359,980	290,264	222,629	108,634
270 to 365 days in arrears	58,128	46,502	30,841	30,841
Over 365 days in arrears	31,373	31,373	–	–
Over limit facilities over 14 days	528,845	221,168	671,981	316,414
Total	**2,985,268**	**987,285**	**3,176,774**	**1,058,154**

f. Assets acquired by enforcement of security

There are no assets acquired by the credit union. The policy is to sell the assets via auction at the earliest opportunity after measures to assist the member to repay the debts have been exhausted.

g. Loans with repayments past due but not regarded as impaired

Loans with repayments past due but not impaired are in arrears as follows:

Loans to members

	1–3 Months	3–6 Months	6–12 Months	> 1 Year	Total
2014					
Mortgage secured	–	–	–	–	–
Personal loans	978,206	–	–	–	978,206
Credit cards and overdrafts less than 14 days	160,804	–	–	–	160,804
Total	**1,139,010**	**–**	**–**	**–**	**1,139,010**
2013					
Mortgage secured	–	–	–	–	–
Personal loans	1,390,420	–	–	–	1,390,420
Credit cards and overdrafts less than 14 days	166,523	–	–	–	166,523
Total	**1,556,943**	**–**	**–**	**–**	**1,556,943**

h. Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report the Credit Union has determined the likely impairment loss on loans that have not maintained repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in 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.

Period of impairment	% of balance
Up to 90 days	–
91 days to 180 days	40
181 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

9. Available for sale investments

	2014 $	2013 $
Shares in unlisted companies – at cost		
– Cuscal Limited	907,097	907,097
Total value of investments	**907,097**	**907,097**

Disclosures on shares held at cost

Cuscal Limited

The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies services to the member organisations which are all mutual banks and credit unions. The credit union holds shares in Cuscal to enable the Credit Union to receive essential banking services – refer to Note 31. The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded in the shares is low.

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

The final dividend payable in 2014 was 7.5 cents per share. Management has determined that the cost value of $0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale. The Credit Union is not intending to dispose of these shares.

10. Property, plant and equipment

a. Fixed assets

	2014 $	2013 $
Plant and equipment – at cost	4,728,958	5,157,042
Less: provision for depreciation	(4,603,787)	(4,965,577)
	125,170	191,465
Capitalised leasehold improvements at cost	2,340,441	2,064,753
Less: provision for amortisation	(1,987,402)	(1,867,304)
	353,038	197,449
	478,209	**388,914**

b. Movement in the assets balances during the year were:

	2014			2013		
	Plant & equipment $	**Leasehold improvements $**	**Total $**	**Plant & equipment $**	**Leasehold improvements $**	**Total $**
Balance at the beginning of the year	191,465	197,449	388,914	233,337	288,361	521,698
Purchases	50,676	275,687	326,363	92,920	4,005	96,925
Less						
Assets disposed	(2,251)	–	(2,251)	(2,284)	–	(2,284)
Depreciation charge	(114,907)	(119,911)	(234,818)	(132,508)	(94,917)	(227,425)
Balance at the end of the year	**124,984**	**353,225**	**478,209**	**191,465**	**197,449**	**388,914**

	2014 $	2013 $

11. Taxation assets

	2014 $	2013 $
Deferred tax assets	**1,003,325**	**888,145**
Deferred tax assets comprise:		
– Accrued expenses not deductible until incurred	42,431	24,840
– Provisions for impairment on loans	296,185	317,445
– Provisions for employee benefits	347,695	310,718
– Depreciation on fixed assets and intangible assets	197,600	235,142
– Provision for Lease Straight Line	119,414	–
	1,003,325	**888,145**

12. Intangible assets

	2014 $	2013 $
Computer Software	3,861,876	3,449,225
Less provision for amortisation	(3,189,882)	(2,990,175)
	671,994	**459,050**
Movement in the assets balances during the year were:		
Opening Balance	459,050	504,368
Purchases	412,616	134,763
Less amortisation charge	(199,672)	(180,081)
Balance at the end of the year	**671,994**	**459,050**

13. Short term borrowings

	2014 $	2013 $
Borrowings from Westpac through the Athena Trust	51,443,699	61,304,470
Loans from other Authorised Deposit-taking Institutions (ADIs)	21,278,000	48,806,000
	72,721,699	**110,110,470**

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

14. Deposit from members

	2014 $	2013 $
Member deposits		
– at call	344,432,663	229,830,674
– term	302,534,558	313,285,937
Deposits from other financial institutions – term	139,510,219	76,230,000
Member withdrawable shares	95,250	93,354
	786,572,690	**619,439,965**

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Concentration of member deposits

	2014 $	2013 $
(i) Significant individual member deposits which in aggregate represent more than 10% of the total liabilities;	–	–

(ii) Member deposits at balance date were received from individuals employed principally in the Australian Defence industry throughout Australia. There were no concentrations of depositors in any state or region.

	2014 $	2013 $

15. Creditor accruals and settlement accounts

	2014 $	2013 $
Annual leave	746,589	558,473
Creditors and accruals	718,208	1,650,741
Interest payable on borrowings	386,941	175,926
Interest payable on deposits	5,384,405	4,802,148
Sundry creditors	3,103,560	5,561,781
	10,339,703	**12,749,069**

16. Taxation liabilities

	2014 $	2013 $
Current income tax liability	**525,195**	**198,716**
Current income tax liability comprises:		
Liability for income tax in current year	1,805,645	1,728,988
Less instalments paid in current year	(1,280,450)	(1,530,272)
Balance at end of the year	**525,195**	**198,716**

17. Provisions

	2014 $	2013 $
Long service leave	412,393	477,255
Lease – straight line provision	398,048	–
Total Provisions	**810,441**	**477,255**

18. Long Term Borrowings

	2014 $	2013 $
Subordinated Debt		
Balance at the beginning of the year	5,000,000	5,000,000
Increase due to debt issued	–	–
Balance at the end of year	**5,000,000**	**5,000,000**

The credit union entered into an agreement to issue subordinated debt in the prior year which was approved by the Board.

19. Capital reserve account

	2014 $	2013 $
Balance at the beginning of the year	112,192	106,166
Transfer from retained earnings on share redemptions*	5,930	6,026
Balance at the end of the year	**118,122**	**112,192**

*** Share redemption**

The accounts represent the amount of redeemable preference shares redeemed by the Credit Union since 1 July 1999. The Corporations Act requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

20. General reserve for credit losses

	2014 $	2013 $
General reserve for credit losses	1,506,419	1,506,419
	1,506,419	**1,506,419**

General reserve for credit losses

This reserve records the amount previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA

	2014 $	2013 $
Balance at beginning of year	1,506,419	1,060,545
Add: increase transferred from retained earnings	–	445,874
Balance at the end of year	**1,506,419**	**1,506,419**

21. Financial Risk Management Objectives and Policies

Introduction

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

The Credit Union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Risk Committee and the Audit Committee which are both integral to the management of risk.

The main elements of risk governance are as follows:

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

Risk Committee: This is a key body in the control of risk. It has representatives from the Board and is supported by management. The 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. The Risk Committee confirms whether risks are within the parameters outlined by the Board.

The Risk Committee confirms there is 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 Risk Committee monitors compliance with the framework laid out in policy on a quarterly basis and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

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

Asset & Liability Committee (ALCO): This committee of senior management meets at least monthly and has responsibility for managing and reporting credit, liquidity, market and capital risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board.

Head of Risk: This position has responsibility for both liaising with the operational functions to ensure timely production of information for the Risk Committee and ensuring that instructions passed down from the Board via the Risk Committee are implemented.

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

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

- Risk Management Policy
- Liquidity Risk Management Plan
- Capital Management Plan
- Market Risk Management Plan
- Funding Plan
- Credit Risk Management Policy
- Collections Policy
- Operational Risk Management Policy, which has a number of related documents, including the Compliance Program, AML/CTF Program, Data Risk Management Policy and other operational risk management policy documents.
- Internal Capital Adequacy Assessment Process – Summary Statement

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

a. Market Risk

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

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

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

Interest rate risk

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

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

Interest rate risk in the banking book

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

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

The level of mismatch on the banking book is set out in Note 24 below. The table set out in Note 24 displays the period that each asset and liability will reprice as at balance date.

This risk is not considered sufficiently significant to warrant the use of derivatives to mitigate it.

Method of managing risk

The Credit Union manages its interest rate risk by the use of a value at risk (VaR) model. An independent review of the interest rate risk profile is conducted on a quarterly basis by Protecht Advisory Pty Ltd, an independent risk management consultancy company. The Board monitors interest rate risk through the management reporting process.

Value at Risk (VaR)

The Credit Union's exposure to market risk is measured and monitored using the VaR methodology of estimating potential losses. VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out in the table below, has been calculated using historical simulations, using movements in market rates and prices, a 99 percent confidence level and taking into account historical correlations between different markets and rates.

The VaR on the non-trading book was as follows:

	2014	2013
VaR	$312,902	$273,997

The Credit Union is therefore confident within a 99 per cent confidence level that, given the risks as at 30 June 2014, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the VaR model used.

Although the use of VaR models calculates the interest rate sensitivity on the banking book, this is not reflected in the Pillar 1 capital requirement.

The Credit Union's exposure to banking book interest rate risk is not expected to change materially in the next year so existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

b. Liquidity Risk

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

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- Monitoring the prudential liquidity ratio daily;
- Transferring loans to the Athena trust or to the Integris securitisation scheme when there are insufficient liquid funds to meet loan demand (see Note 33).

The Credit Union has a longstanding arrangement with the industry liquidity support scheme Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should this be necessary.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Credit Union's policy during the year was to operate within the range of 17% to 19% 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 range the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 28 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and liabilities, based on the contractual repayment terms are set out in Note 23.

The ratio of liquid funds over the past year is set out below:

Liquid funds to total adjusted liabilities

	2014	2013
Prescribed liquidity %	9.00%	9.00%
As at 30 June	19.23%	17.33%
Average for the year	19.47%	18.95%
Minimum during the year	17.78%	16.91%

c. Credit Risk

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

(i) Credit Risk – Loans

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

	2014			2013		
Loan type	**Carrying value $**	**Commitments $**	**Maximum exposure $**	**Carrying value $**	**Commitments $**	**Maximum exposure $**
Mortgages held by Athena Trust	50,264,651	–	50,264,651	59,960,139	–	59,960,139
Mortgages	580,783,779	36,328,067	617,111,846	500,543,188	38,909,278	539,452,466
Personal	87,087,302	7,913,698	95,001,000	94,601,156	5,600,950	100,202,106
Credit cards and overdrafts	27,134,083	20,408,469	47,542,552	27,747,409	22,409,603	50,157,012
Total to natural persons	**745,269,815**	**64,650,234**	**809,920,049**	**682,851,893**	**66,919,831**	**749,771,723**
Corporate borrowers	**–**	**–**	**–**	**–**	**–**	**–**
Total	**745,269,815**	**64,650,234**	**809,920,049**	**682,851,893**	**66,919,831**	**749,771,723**

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in Note 27 and a summary is in Note 7.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in Note 7c.

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 Risk Management Policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

The Credit Union has established policies over the:

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

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

Past due and impaired

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

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

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

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

Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

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

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are set out in Note 8.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write-offs are assessed on a case by case basis, taking account of the exposure at the date of the write-off.

On secured loans, the write-off takes place on ultimate realisation of collateral value, or from claims on any lenders' mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 8.

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7b describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – individuals

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

The aggregate value of large exposure loans are set out in Note 7c. The Credit Union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored against the Credit Unions policy of not entering into exposures over 5% of the capital base.

Concentration risk – industry

The Credit Union has a concentration in the retail lending for members who comprise employees and family in the Defence industry. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 7c.

(ii) Credit risk – liquid investments

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

The credit policy is that investments are only made to institutions that are credit worthy based on the assessment of independent credit rating agencies. The risk of losses from liquid investments is reduced by the nature and quality of the financial institutions used and limits to the concentration and amount of individual investments with an institution.

There is a concentration of credit risk with respect to investment receivables with the placement of investments with Cuscal (a company set up to support member credit unions and which has a A+ rating).

External credit assessment for institution investments

The Credit Union 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 are as follows:

	2014			2013		
Investments with:	**Carrying value $**	**Past due value $**	**Provision $**	**Carrying value $**	**Past due value $**	**Provision $**
Cuscal – rated A-1	46,167,935	–	–	35,811,533	–	–
Banks – rated AA and above	32,848,340	–	–	9,288,000	–	–
Banks – rated below AA	103,279,630	–	–	84,001,886	–	–
Credit Unions – rated below AA	17,934,610	–	–	–	–	–
Total	**200,230,515**	**–**	**–**	**129,101,419**	**–**	**–**

d. Capital Management

The capital levels are prescribed by APRA. Under the APRA prudential standards capital is determined in three components:

- Credit risk;
- Market risk (trading book); and
- Operational risk.

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

Capital resources

Tier 1 Capital

The vast majority of tier 1 capital comprises:

- Retained profits; and
- Realised reserves.

Additional Tier 1 Capital

This is a new classification of capital and includes:

- Preference share capital approved by APRA and qualify as Tier 1 capital

Tier 2 Capital

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

Tier 2 capital generally comprises:

- General reserve for credit losses.
- Tier 2 capital instruments – subordinated debt.

Capital in the Credit Union is made up of the following:

	2014 $	**2013 $**
Tier 1 Common Equity		
Capital reserve	118,122	112,192
Retained earnings	73,011,635	69,004,627
	73,336,962	**69,116,819**
Less prescribed deductions	(2,128,818)	(1,800,744)
Net Tier 1 Common Equity	**71,000,939**	**67,235,264**
Tier 1 Additional Equity		
Additional Tier 1 Capital Instruments	–	–
Net Tier 1 Capital	**–**	**–**
Tier 2 Capital		
Tier 2 Instruments	4,000,000	4,500,000
Reserve for credit losses	1,506,419	1,506,419
	5,506,419	**6,006,419**
Less prescribed deductions/ adjustments	(453,549)	(453,549)
Net Tier 2 Capital	**5,052,870**	**5,552,870**
Total Capital	**76,053,809**	**72,788,134**

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

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

	Risk Weight	Carrying Value 2014	Risk Weighted Value 2014	Carrying Value 2013	Risk Weighted Value 2013
Cash on hand	0%	953,661	–	1,047,637	–
Deposits at call	20%	54,864,938	10,972,988	5,570,000	1,114,000
Liquid Investments	20% – 50%	146,059,523	30,407,837	123,738,519	33,002,591
Standard loans secured against eligible residential mortgages up to 80% LVR or up to 90% LVR with mortgage insurance	35%	477,941,568	167,229,499	410,071,022	143,524,859
Standard loans secured against eligible residential mortgages over 80% LVR with no mortgage insurance or over 90% LVR with mortgage insurance	50% – 100%	105,394,468	52,885,899	99,275,055	50,020,261
Other loans	100%	110,697,825	110,697,825	112,537,566	112,537,566
Other assets	0% –100%	4,651,894	4,651,894	6,735,485	4,068,677
Term loans held by the Athena Trust	0%	50,264,651	–	59,960,138	–
Total on statement of financial position assets		**950,828,528**	**376,845,942**	**818,935,422**	**344,267,954**
Total commitments undrawn		64,650,234	9,912,747	66,919,831	11,534,199
Total risk weighted assets		**1,015,478,762**	**386,758,689**	**885,855,253**	**355,802,153**

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

2014	2013	2012	2011	2010
Basel III	**Basel II**	**Basel II**	**Basel II**	**Basel II**
17.53%	18.16%	17.18%	15.81%	14.72%

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

To manage capital the Credit Union reviews the capital ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below certain trigger levels. Further, a 3 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 capital on operational risk

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

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

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

- Operational risk capital $3,956,864 (2013: $3,596,493)

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

Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance business unit then update the forecast capital resources models produced and the impact upon the overall capital position of the Credit Union is reassessed.

In relation to the operational risks, the major measurements for additional capital in 2012/2013 were fraud and system security risks. The optional additional capital charge recognised by the board equates to $0 (2012/2013: $670,000).

The Credit Union is also able to transfer loans to the Athena Trust, to assist with capital management.

22. Categories of financial instruments

The following information classifies the financial instruments into measurement classes

	Note	2014 $	2013 $
FINANCIAL ASSETS – carried at amortised cost			
Cash	4	55,657,695	6,410,538
Receivables	6	2,289,606	2,225,649
Receivables from financial institutions	5	145,526,481	123,738,519
Loans to members	7 & 8	693,827,696	621,631,858
Loans held by Athena Trust	7 & 8	50,264,651	59,960,139
Total loans and receivables carried at amortised cost		947,566,129	813,966,703
Available for sale investments – carried at cost	9	907,097	907,097
Total available for sale investments		**907,097**	**907,097**
Total financial assets		**948,473,226**	**814,873,800**
FINANCIAL LIABILITIES			
Short term borrowings	13	21,278,000	48,806,000
Creditors		6,489,554	6,628,814
Deposits from other institutions	14	139,510,219	76,230,000
Securitisation Facility – Athena Trust	13	51,443,699	61,304,470
Deposits from members	14	647,062,471	543,209,965
Long term borrowings	18	5,000,000	5,000,000
Total carried at amortised cost		**870,783,944**	**741,179,249**
Total financial liabilities		**870,783,944**	**741,179,249**

Assets measured at fair value through profit or loss

	2014		2013	
	Level 3 **$**	**Total** **$**	**Level 3** **$**	**Total** **$**
Available for sale	907,097	907,097	907,097	907,097

The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Level 3 investments are held at cost and relate to the shares in the trade association body CUSCAL Limited. These shares are held to maintain services for the settlement with other financial institutions, treasury, and support services. They are not readily realisable by way of sale or transfer.

23. Maturity profile of financial assets and liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

2014	Book value $000	Up to 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	No maturity $000	Total $000
ASSETS							
Cash	55,658	54,704	–	–	–	954	55,658
Liquid Investments	145,526	93,554	11,171	44,369	–	–	149,094
Loans & advances	695,005	20,141	60,803	250,866	865,103	–	1,196,914
Loans & advances – Athena Trust	50,265	874	2,676	13,189	50,609	–	67,348
Total financial assets	**946,454**	**169,274**	**74,650**	**308,425**	**915,712**	**954**	**1,469,014**
LIABILITIES							
Borrowings	21,278	19,067	2,336	–		–	21,403
Borrowings – Securitisation facility	51,444	–	–	–	51,444	–	51,444
Creditors	718	718	–	–	–	–	718
Deposits from other financial institutions	139,510	133,727	6,361	–	–	–	140,088
Deposits from members–at call	344,528	344,528	–	–	–	95	344,623
Deposits from members–term	302,535	142,894	157,437	6,142	–	–	306,474
Subordinated debt	5,000	–	–	–	8,608	–	8,608
On balance sheet	**865,013**	**640,935**	**166,134**	**6,142**	**60,052**	**95**	**873,358**
Undrawn commitments	64,650	64,650	–	–	–	–	64,650
Total financial liabilities	**929,663**	**705,585**	**166,134**	**6,142**	**60,052**	**95**	**938,008**

2013	Book value $000	Up to 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	No maturity $000	Total $000
ASSETS							
Cash	6,411	5,363	–	–	–	1,048	6,411
Liquid Investments	123,739	73,828	17,980	35,501	–	–	127,309
Loans & advances	622,891	19,347	58,218	232,304	751,103	–	1,060,972
Loans & advances – Athena Trust	59,960	1,297	3,960	19,505	83,563	–	108,325
Total financial assets	**813,001**	**99,835**	**80,158**	**287,310**	**834,666**	**1,048**	**1,303,017**
LIABILITIES							
Borrowings	48,806	35,613	13,750	–	–	–	49,363
Borrowings – Securitisation facility	61,304	–	–	–	61,304	–	61,304
Creditors	1,651	1,651	–	–	–	–	1,651
Deposits from other financial institutions	76,230	71,134	5,603	–	–	–	76,737
Deposits from members–at call	229,924	229,924	–	–	–	93	230,017
Deposits from members–term	313,286	143,962	167,794	6,187	–	–	317,943
Subordinated debt	5,000	–	–	–	9,098	–	9,098
On balance sheet	**736,201**	**482,284**	**187,147**	**6,187**	**70,402**	**93**	**746,113**
Undrawn commitments	66,920	66,920	–	–	–	–	66,920
Total financial liabilities	**803,121**	**549,204**	**187,147**	**6,187**	**70,402**	**93**	**813,033**

24. Current and non-current profile of financial assets and liabilities

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment of the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of those balances to roll over. Loan repayments are at the discretion of the members and are not able to be reliably estimated.

	2014			2013		
	Within 12 months $	After 12 months $	Total $	Within 12 months $	After 12 months $	Total $
FINANCIAL ASSETS						
Cash	55,658		55,658	6,411		6,411
Liquid Investments	104,226	41,300	145,526	87,890	35,849	123,739
Loans & advances	34,379	660,626	695,005	32,643	590,248	622,891
Loans & advances – Athena Trust	493	49,772	50,265	–	59,960	59,960
Total financial assets	**194,757**	**751,697**	**946,454**	**126,944**	**686,057**	**813,001**
FINANCIAL LIABILITIES						
Borrowings	21,278	–	21,278	48,806	–	48,806
Borrowings – Securitisation facility	–	51,444	51,444	–	61,304	61,304
Creditors	718	–	718	1,651	–	1,651
Deposits from other financial institutions	139,510	–	139,510	76,230	–	76,230
Deposits from members–at call	344,528	–	344,528	229,924	–	229,924
Deposits from members–term	296,807	5,833	302,640	308,535	4,751	313,286
Subordinated debt	–	5,000	5,000	–	5,000	5,000
Total financial liabilities	**802,842**	**62,277**	**865,118**	**665,146**	**71,055**	**736,201**

25. Interest rate change of profile of financial assets and liabilities

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of contractual repricing date, or maturity date.

2014	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	Non interest bearing $000	Total $000
ASSETS							
Cash	54,704	–	–	–	–	954	55,658
Receivables	1,616	–	–	–	–	674	2,289
Liquid Investments	75,738	67,789	2,000		–	–	145,526
Loans & advances	622,010	1,715	7,045	64,235	–	–	695,005
Loans & advances – Athena Trust	50,265	–	–	–	–	–	50,265
Total financial assets	**804,332**	**69,504**	**9,045**	**64,235**	**–**	**1,628**	**948,743**
LIABILITIES							
Borrowings – Securitisation facility	13,073	38,371	–	–	–	–	51,444
Borrowings – other ADIs	5,000	14,000	2,278	–		–	21,278
Creditors	–	–	–	–	–	6,490	6,490
Deposits from other financial institutions	64,184	69,076	6,250	–	–	–	139,510
Deposits from members–at call	344,433	–	–	–	–	95	344,528
Deposits from members–term	63,635	78,663	154,509	5,833			302,640
Subordinated debt	–	5,000	–	–	–	–	5,000
On balance sheet	**490,325**	**205,110**	**163,037**	**5,833**	**–**	**6,585**	**870,889**
Undrawn commitments	64,650						64,650
Total financial liabilities	**554,975**	**205,110**	**163,037**	**5,833**	**–**	**6,585**	**935,540**

2013	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	Non interest bearing $000	Total $000
ASSETS							
Cash	5,363	–	–	–	–	1,048	6,411
Receivables	1,537	–	–	–	–	688	2,225
Liquid Investments	41,433	73,779	2,512	6,014	–	–	123,738
Loans & advances	571,706	673	6,709	43,804	–	–	622,892
Loans & advances – Athena Trust	59,960	–	–	–	–	–	59,960
Total financial assets	**679,999**	**74,452**	**9,221**	**49,818**	**–**	**1,736**	**815,226**
LIABILITIES							
Borrowings – Securitisation facility	15,768	45,536	–	–	–	–	61,304
Borrowings – other ADIs	24,707	23,278	1,028	–	–	–	49,013
Creditors	–	–	–	–	–	6,629	6,629
Deposits from other financial institutions	21,500	49,230	5,500	–	–	–	76,230
Deposits from members–at call	229,831	–	–	–	–	93	229,924
Deposits from members–term	56,273	86,923	164,255	5,835			313,286
Subordinated debt	–	5,000	–	–	–	–	5,000
On balance sheet	**348,079**	**209,967**	**170,783**	**5,835**	**–**	**6,722**	**741,386**
Undrawn commitments	66,920						66,920
Total financial liabilities	**414,999**	**209,967**	**170,783**	**5,835**	**–**	**6,722**	**808,306**

26. Fair value of financial assets and liabilities

The fair value is required to be disclosed where the financial instruments are not measured at fair value in the Statement of Financial Position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. For the financial and non financial assets where the fair values are reported below, all are measured using Level 3 unobservable inputs. The description of the valuation technique(s) and the inputs used in the fair value measurement are in the notes that follow.

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities.

The values reported have not been adjusted for the changes in credit ratings of the assets. The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term.

	2014			2013		
	Fair value $	Carrying value $	Variance $	Fair value $	Carrying value $	Variance $
FINANCIAL ASSETS						
Cash	55,657,695	55,657,695	–	6,410,538	6,410,538	–
Liquid Investments	146,470,468	145,526,481	943,988	124,789,306	123,738,519	1,050,787
Receivables (1)	2,289,606	2,289,606	–	2,225,649	2,225,649	–
Loans & advances	693,611,131	693,827,696	(216,565)	621,904,744	621,631,858	272,886
Loans & advances – Athena Trust	50,264,651	50,264,651	–	59,960,139	59,960,139	–
Investments	907,097	907,097	–	907,097	907,097	–
Total financial assets	**949,200,648**	**948,473,226**	**727,422**	**816,197,473**	**814,873,800**	**1,323,673**
FINANCIAL LIABILITIES						
Borrowings	27,293,644	21,278,000	6,015,644	55,028,577	48,806,000	6,222,577
Securitisation facility	51,443,699	51,443,699	–	61,304,470	61,304,470	–
Deposits from other financial institutions	139,635,078	139,510,219	124,859	76,388,909	76,230,000	158,909
Deposits from members						
– Call	344,432,663	344,432,663	–	229,830,674	229,830,674	–
– Term	303,717,785	302,534,558	1,183,227	314,960,189	313,285,937	1,674,252
Creditors (1)	6,489,554	6,489,554	–	6,628,814	6,628,814	–
Total financial liabilities	**873,012,423**	**865,688,694**	**7,323,729**	**744,141,633**	**736,085,895**	**8,055,738**

(1) For these assets and liabilities the carrying value approximates fair value.

Assets where the fair value is lower than the book value have not been written down in the accounts of the Credit Union on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

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

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts. For variable rate loans, (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Deposits from members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related maturity.

Short term borrowings

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

a. Assets not measured at fair value on the Statement of Financial Position

	Fair value measurement at end of the reporting period using:			
	Balance $	**Level 1 $**	**Level 2 $**	**Level 3 $**
Financial assets – carried at amortised cost				
Cash	55,657,695	–	–	55,657,695
Negotiable certificate of deposit		–	–	–
Receivable from financial Institutions	145,526,481	–	–	145,526,481
Loans to members	693,827,696	–	–	693,827,696
Loans held by Athena Trust	50,264,651	–	–	50,264,651
Receivables	2,289,606	–	–	2,289,606
Total	**947,566,129**	**–**	**–**	**947,566,129**
Available for Sale – investments carried at cost	907,097			907,097
Total financial assets	**948,473,226**	**–**	**–**	**948,473,226**
Financial Liabilities				
Short term borrowings	21,278,000	–	–	21,278,000
Creditors	6,489,554	–	–	6,489,554
Deposits from other institutions	139,510,219	–	–	139,510,219
Deposits from members	647,062,471	–	–	647,062,471
Securitisation Facility – Athena Trust	51,443,699	–	–	51,443,699
Long term borrowings	5,000,000	–	–	5,000,000
Total	**870,783,944**	**–**	**–**	**870,783,944**

b. Assets measured at fair value on the Statement of Financial Position

	Fair value measurement at end of the reporting period using:			
	Balance $	**Level 1 $**	**Level 2 $**	**Level 3 $**
Financial assets at fair value through profit or loss – hedge derivatives				
Cash flow Hedge derivatives				
Financial assets at fair value through equity				
Available-for-sale financial assets	907,097	–	–	907,097
Equity investments				
Total	**907,097**	**–**	**–**	**907,097**

The fair value hierarchy has the following levels:
Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

c. **Assets measured at fair value on Level 3 on the Statement of Financial Position**

Fair value measurement at the end of the reporting period	Available for sale financial assets	
	Equity investments $	Total $
Opening balance	907,097	907,097
Total gains or losses		
– in profit or loss	–	–
– in other comprehensive income	–	–
Purchases	–	–
Issues	–	–
Settlements	–	–
Transfers out of Level 3		
Closing balance	**907,097**	**907,097**
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	–	–

For details on the fair value measurement see Note 26.

27. Financial commitments

	2014 $	2013 $
a. Outstanding loan commitments		
The loans approved but not funded	**8,865,869**	**16,613,334**
b. Loan redraw facilities		
The loan redraw facilities available	**35,375,896**	**27,896,894**
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	47,566,674	47,661,315
Less: Amount advanced	(27,158,205)	(25,251,712)
Net undrawn value	**20,408,469**	**22,409,603**
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	**64,650,234**	**66,919,831**
d. Computer expenditure commitments		
The cost committed under contracts with TAS and Ultradata are as follows:		
Not later than 1 year	1,623,478	1,539,315
Later than 1 year but not 2 years	614,379	1,585,495
Later than 2 years but not 5 years	1,067,339	1,574,657
Later than 5 years	–	–
	3,305,196	**4,699,467**
e. Lease expense commitments for operating leases on property occupied by the Credit Union		
Not later than 1 year	878,562	825,870
Later than 1 year but not 2 years	936,037	865,382
Later than 2 years but not 5 years	3,110,561	2,910,859
Later than 5 years	4,938,660	6,074,399
	9,863,820	**10,676,510**

The Credit Union entered into a property lease for its head office at 45 Clarence Street, Sydney, covering the period 1 July 2013 to 30 June 2023 with an option to renew for a period of 5 years. The rent for the term has been agreed and the lease allows for an increase in rent of 4% for each year. Other operating leases are in respect of property used for providing branch services to members, for periods up to 5 years and rent is subject to agreed escalation clauses. There are no restrictions imposed on the Credit Union so as to limit the ability to undertake further leases, borrow funds or issue dividends.

28. Standby borrowing facilities

The Credit Union has a number of borrowing facilities.

	Gross $	Current borrowing $	Net available $
2014			
Committed loan facility – Cuscal	–	–	–
Loan facility – Cuscal	40,000,000	10,000,000	30,000,000
Loan facility – Other	40,000,000	11,278,000	28,722,000
Overdraft facility – Cuscal	5,000,000	–	5,000,000
Athena – Westpac committed facility	120,000,000	51,443,699	68,556,301
Total standby borrowing facilities	**205,000,000**	**72,721,699**	**132,278,301**
2013			
Committed loan facility – Cuscal	25,000,000	–	25,000,000
Loan facility – Cuscal	40,000,000	10,000,000	30,000,000
Loan facility – Other	40,000,000	38,806,000	1,194,000
Overdraft facility – Cuscal	5,000,000	207,100	4,792,900
Athena – Westpac committed facility	125,000,000	61,304,470	63,695,530
Total standby borrowing facilities	**235,000,000**	**110,317,570**	**124,682,430**

Withdrawal of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds an equitable mortgage charge over all of the assets of the Credit Union as security against loan and overdraft amounts drawn under the facility arrangements.

29. Contingent liabilities

Liquidity Support Scheme

The Credit Union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a company limited by guarantee, established to provide financial support to member credit unions in the event of a liquidity or capital problem.

As a member, the Credit Union is committed to maintaining 3.2% of the total assets as deposits with Cuscal Limited. Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.2% of the credit union's total assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans).

This amount represents the participating credit union's irrevocable commitment under the ISC. At balance date there were no loans issued under this arrangement.

30. Disclosures on key management persons

a. Remuneration of Key Management Persons (KMP)

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

KMP have been taken to comprise the Directors and the 2 members of the Executive Management responsible for the day-to-day financial and operational management of the Credit Union. The aggregate compensation of **KMP** during the year comprising amounts paid or payable or provided for was as follows:

	2014 $	2013 $
(a) short-term employee benefits	879,618	1,183,265
(b) post-employment benefits – superannuation contributions	151,223	110,163
(c) other long-term benefits	–	–
(d) termination benefits	–	–
(e) share-based payment	–	–
Total	**1,030,840**	**1,293,428**

In the previous table, remuneration shown as short term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements. All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Credit Union. The amount approved for 2014 was $353,000 [2013 $345,000].

b. Loans to KMP

		2014 $	2013 $
(i)	The aggregate value of loans to Directors and other KMP as at balance date amounted to	–	–
(ii)	The total value of revolving credit facilities to Directors and other KMP as at balance date amounted to	–	–
	Less amounts drawn down and included in (i)	–	–
	Net balance available	**–**	**–**
(iii)	During the year the aggregate value of loans disbursed to KMP amounted to:		
	Revolving credit facilities	–	–
	Personal loans	–	–
	Term loans	–	–
(iv)	During the year the aggregate value of revolving credit facility limits granted or increased to KMP amounted to:	–	–
(v)	Interest and other revenue earned on loans and revolving credit facilities to KMP	–	–

The Credit Union's policy for lending to KMP is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit with the exception of personal loans to KMP who are not Directors. There are no loans which are impaired in relation to the loan balances with KMP or their close family relatives. There are no benefits or concessional terms and conditions applicable to KMP or their close family members. Other transactions between related parties include deposits from KMP are:

	2014 $	2013 $
Total value term and savings deposits from KMP	**406,048**	**160,510**
Total interest paid on deposits to KMP	**10,049**	**5,026**

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

c. Transactions with other related parties

Other transactions between related parties include deposits from related entities or close family members of KMP. The Credit Union's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

There are no benefits paid or payable to the close family members of the KMP. There are no service contracts to which KMP or their close family members are an interested party.

31. Outsourcing arrangements

The Credit Union has arrangements with other organisations to facilitate the supply of services to members.

a. Cuscal Limited

Cuscal is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. The Credit Union has equity in the company. This organisation:

(i) provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa Card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;

(ii) operates the computer network used to link Redicards and Visa cards operated through rediATMs and other approved ATM providers to the Credit Union's electronic data processing systems.

(iii) provides treasury and money market facilities to the Credit Union. The Credit Union invests a significant part of its liquid assets with Cuscal to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

b. Ultradata Australia Pty Limited

This organisation provides and maintains the application software utilised by the Credit Union.

c. Transaction Solutions Pty Limited

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

32. Superannuation liabilities

The Credit Union contributes to the NGS Super Plan, as our default fund for employees who have not exercised choice, for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee. The Credit Union has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

33. Transfer of financial assets

The Credit Union has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with:

(i) Athena Trust which supports the independent financing of the loans. These loans are not de-recognised as the Credit Union retains the benefits of the trust net income.

(ii) The Integris securitisation vehicle where the Credit Union acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value.

(iii) The Repurchase obligation Trust (REPO) trust for securing the ability to obtain liquid funds from the reserve bank – these loans are not de-recognised as the credit union retains the benefits of the trust until such time as a drawing is required.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred in each of the above situations.

a. Securitised loans retained on the balance sheet

The values of securitised loans which are not qualifying for de-recognition as the conditions do not meet the criteria in the accounting standards are set out below. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

	2014 $	2013 $
Balance sheet values		
Loans and receivables		
Repurchase obligation Trust (REPO)	66,376,011	–
Athena Trust	50,264,651	59,960,139
	116,640,662	**59,960,139**
Fair value of associated liabilities		
Borrowings from other financial institutions	51,443,699	61,304,470
Net	**(1,179,048)**	**(1,344,331)**
Off balance sheet commitments (redraws)		
Financial Commitments		
Repurchase obligation Trust (REPO)	10,635,559	–
Athena Trust	4,328,499	4,284,613
	14,964,058	4,284,613
Carrying amount of the loans as at the time of transfer		
Athena Trust	–	–

b. Securitised loans not on the balance sheet

The values of securitised loans which are qualifying for de-recognition arising from transfer of interest in the loans, as the conditions do not meet the criteria in the accounting standards. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

	2014 $	2013 $
Carrying amount		
Integris securitisation vehicle (bulk sale items only)	**77,509,312**	**99,642,637**
Fair value of continuing involvement in assets	–	–
Fair value of liabilities that represent continuing involvement in loans	–	–
Undiscounted cash outflows required to repurchase loans under an option agreement	–	–
The maximum exposure to loss from continuing involvement is	–	–
The gain or loss on the transfer of assets in the current years is	–	–
The net income received from the continuing involvement current year	515,129	648,320
The net income received from the continuing involvement – cumulatively	515,129	648,320
The total proceeds received in the year from transfer of bulk sale loans to Integris	–	–

The values of above securitised loans are qualifying for de-recognition as they do not meet the criteria in the accounting standard AASB 139, where the Credit Union assumes the contractual obligation to pay all cash flows it received on the loans to the trust, but receives no benefit from the net gains or losses in the trust.

Nature of relationship and any continuing involvement

Integris Securitisation Services Pty Limited

The Trust is an independent securitisation vehicle established by Cuscal.

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union also manages the loans portfolio on behalf of the trust. The Credit Union bears no risk exposure in respect of these loans. The Credit Union receives a management fee to recover the costs of administration of the processing of the loan repayments and the issue of statements to the members.

In addition the Credit Union is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year the Credit Union did not assign any loans to Integris. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to the Credit Union. The Credit Union receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

The Credit Union does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

Repurchase Obligations REPO Trust

The Reserve Bank REPO trust is a trust established by the credit union to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee. In the case of the REPO Trust the credit union receives a Note certificate to sell to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The Note is secured over residential mortgage-backed securities (RMBS).

The credit union has financed the loans and received the net gains or losses from the trust after trustee expenses. The credit union has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the Notes received. The credit union retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

If a portion of the value of the portfolio in the Repo trust fails to meet the trust's criteria, the credit union is obliged to repurchase those loans and substitute equivalent qualifying loans into the trust.

Maturity analysis for undiscounted cash outflows to repurchase transferred assets derecognised in their entirety

The Credit Union has no obligations for cash flows that are required to be paid (e.g. forward contracts), or cash flows that may be required to pay (e.g. written put options).

The Credit Union may choose to pay to purchase the loans in a call option, but only with the consent of the trustees, and the Credit Union has no intention to make such payments at this time.

34. Notes to cash flow statement

	2014 $	2013 $
a. Reconciliation of cash		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	953,661	1,047,638
Deposits at call	54,704,034	5,362,900
Total cash	**55,657,695**	**6,410,538**
b. Reconciliation of cash from operations to accounting profit		
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax.		
Profit after income tax	4,012,939	4,166,306
Add (Deduct):		
Bad debts written off	1,571,917	1,844,120
Depreciation expense	434,490	407,505
Increase/(Decrease) in amortised fees on loans	(41,499)	63,556
Increase/(Decrease) in provision for staff leave	(64,862)	18,349
Increase in provision for straight line lease	398,048	–
Increase in provision for income tax	326,479	62,384
Decrease in provision for loans	(70,869)	244,916
Increase/(Decrease) in accrued expenses	(744,416)	850,245
Increase/(Decrease) in interest payable	793,272	(2,815,365)
Gain on sale of assets	(23,835)	(3,661)
Decrease/(Increase) in prepayments	170,188	(320,626)
Increase in deferred tax assets	(115,180)	(58,599)
Decrease/(Increase) in accrued taxes	(4,725)	254,779
Decrease in interest receivable	14,269	27,294
Net cash from revenue activities	**6,656,215**	**4,741,203**

35. Corporate information

The Credit Union is a company limited by shares, and is registered under the Corporations Act 2001.

The address of the registered office is:
Level 18, 45 Clarence Street, Sydney NSW 2000.

The address of the principal place of business is:
Level 18, 45 Clarence Street, Sydney NSW 2000.

The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Credit Union.

Australian Defence Credit Union
ABN 48 087 649 741 AFSL No. 237 988
Australian credit licence number 237 988

Directors

RADM Clinton William Thomas AM, CSC, RAN

John Robert Brooks

Michael Morrison Pike

BRIG Jane Maree Spalding AM

Bruce Andrew Robert Scott, CSC

Warren Raymond Thomas

Graham Anthony Weber

Chief Executive Officer

John Ronald Ford

Auditors

Grant Thornton Audit Pty Ltd.

Level 17, 383 Kent Street Sydney NSW 2000

Images Index

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Australian Army Captain James Georgiadis on the Camp Baird, UAE, shooting range prior to certifying personnel for their deployments to Operation Slipper.

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No. 36 Squadron Pilot, Flying Officer Alex Moulds during his C-17 Globemaster Simulator conversion course.

we understand you!

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