

# EECU Limited 2011 Annual Report



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# Mission, Vision and Guiding Principles

## Our Mission

EECU delivers competitive banking with exceptional service for the benefit of the ExxonMobil community.

## Our Vision

EECU will be the primary institution meeting the personal financial services needs of the ExxonMobil community and their families.

## Our Guiding Principles

By joining together, our members will always be able to:

- access competitive finance;
- achieve competitive and secure returns on savings and investments; and
- advantage themselves through the quality of our service.

In striving to attain our vision, the credit union will be noted for the:

- personal financial security afforded to members;
- prudent manner in which it equitably manages members' resources;
- way that it demonstrates to members the practical benefits and financial rewards that accrue from traditional credit union philosophy, ethics and values;
- unique relationship it has with the ExxonMobil community; and
- benefit it provides members through their employment with ExxonMobil.

## Member Relations Staff

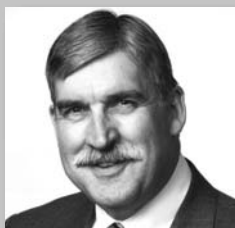


**David Nicholds**  
General Manager



**Melbourne:** *(left to right)*

Peter Barber, Tracey Cherubin, Mary Christou, Helen Renfrew



**Ron Cox**  
Senior Member  
Relations Manager



**Sale:** *(left to right)*

Jenny Counahan, Quinn Bird, Trudi Elston, Vicki Gray, Susan Thomas



# Chairperson's Report

for the year ended 30 June 2011



Ron Reinten

*“The credit union enjoyed strong growth in member deposits during the year with the portfolio growing by \$26.9 million (14%).”*

I am pleased to report on the credit union's performance and activities during the year ended June 2011.

The Australian financial sector was influenced by a lack of confidence in the economy during the past year. While the mining sector experienced strong growth the remainder of the economy was slow. Reduced interest in housing and the sharemarket translated to lower levels of lending and increased deposits to banking accounts. EECU is of course influenced by the level of activity in the oil and gas industry and this has remained steady.

The Australian government has declared its support for increased banking competition and in December 2010 announced measures to achieve this called 'A Competitive and Sustainable Banking System'. The credit union sector supported these measures. Few of the measures affected EECU except for the requirement to provide a Key Facts Sheet for every loan enquiry by a member, which will occur from January 2012.

Another competitive issue of importance to the mutual finance sector is retention of the government deposit guarantee at a significant level. The sector, which comprises credit unions and mutual building societies, believes that a higher guarantee assists it to compete for deposits with the major participants in the market. The government has accepted this argument with the recent announcement of retention of the guarantee at \$250,000.

## Member Services

Early in 2011 EECU conducted a member survey to assist the board with future planning. Members indicated a high level of satisfaction, particularly with the service they receive from staff. The board was pleased with this outcome but not complacent, recognising that we must continue to place a priority on high quality service and development of facilities, particularly internet based facilities.

During the year we released further developments to our internet banking facility including the choice of up to three phone numbers for the security validation feature. We also introduced a secure email facility in which staff and members can communicate about their financial arrangements knowing that this is confidential and secure.

Card fraud continues to be a problem in the financial services sector and has received increased focus from criminals as the use of cash has declined and been replaced with cards. In accordance with security enhancements being promulgated by the Visa organisation, EECU has been including electronic chips on all new Visa cards and by the end of this September every EECU Visa card will include a chip. We look forward to the inclusion of chip readers on all ATMs and eftpos devices in the community, a development which is mandated by Visa.

We have also introduced the contactless payWave feature on all new Visa cards, which I know has raised queries from some members about security. While there is a small risk of the card being misused for low value transactions if it is lost or stolen I emphasise that the credit union does

have risk controls in place and that the card does not leave the control of the member during the transaction, which is itself an improvement in security.

## Industry Issues

The mutual banking sector has conducted an advertising campaign in the past year under the banner that 'It all comes back to members'. Market research indicates that the sector enjoys high member satisfaction but has a low community profile. EECU has supported the national campaign which has enjoyed success in raising awareness of our sector with the general public and with policy makers.

A further outcome of the government policy of encouraging competition has been an acknowledgement that larger credit unions and building societies may apply to call themselves banks if they feel that this will enhance their ability to compete. It is expected that several of these institutions will take advantage of the opportunity to rebrand themselves as mutual banks, member owned banks or similar. Future industry promotional campaigns will have to focus on the customer owned nature of the financial institution. These institutions will remain as mutuals, where their customers are also owners, and will retain membership of industry associations and service companies used by credit unions and mutual building societies.

The system of direct charging for ATM usage has been in place for some time now and EECU participates in the rediATM network, a network made up of ATMs owned by credit unions and the National Australia Bank. During the year the Bank of Queensland resolved to enter the network and this will produce a network of close to 4,000 'direct charge free' ATMs for our members around Australia.

# Chairperson's Report

for the year ended 30 June 2011

## Deposits and Loans

The credit union enjoyed strong growth in member deposits during the year with the portfolio growing by \$26.9 million (14%). There was particularly strong growth in savings accounts after several years where growth has been principally in term deposits.

The slower growth in loans under management of 9% continued the trend of lower demand for credit which has been evident since the global financial crisis commenced. It is noted that this is still higher than general market growth.

I acknowledge the careful manner in which our members manage their loans. There were no bad debts written off during the year but there was a small increase in the number of impaired loans. Almost all the outstanding amount of these loans is covered by first mortgage secured Australian property and revised repayment arrangements have been agreed with the borrowers.

## Financial Performance

We are reporting an after-tax profit of \$941k for the 2011 financial year, a substantial increase on the GFC

affected levels of the past 2 years. When measured on a relative scale this represents a 0.41% return on assets which is still lower than the 0.70% average for the credit union sector overall, reflecting the high proportion of mortgage secured loans in our portfolio. Profit was boosted by improved net interest revenue and by a one-off amount which was received following the float of Visa as a public company. The most significant increase in non-interest expenses was for employees' compensation and benefits where the full-year impact of higher staff levels appointed during the previous year to meet regulatory demands took effect.

## Future Developments

We expect to release electronic statements in the near future, a facility which many members are keen to use. We have to balance our commitment of resources to member developments with the need to respond to regulatory developments, of which there are many at present.

## The Board

We have enjoyed stable board membership during the year with one change only, the appointment of Scott Gration early in 2011. Scott has demonstrated energy and enthusiasm for the role and kindly agreed to accept the role of Chair of the Audit & Risk Committee. I thank my fellow directors for the time, careful consideration and commitment they give to this honorary role.

## Staffing

The board wishes to acknowledge the contribution of our staff particularly the contribution of Leanne Ladson who leaves EECU in early October 2011. Leanne has been a key contributor behind the scenes at EECU for 14 years and her skills and commitment will be greatly missed.

On behalf of the board I commend the report on the 2011 financial year to you.



**Ron Reinten**  
Chairperson

21 September 2011

## Directors



**Ron Reinten**  
Chairperson



**Stuart Brown**  
Deputy Chairperson



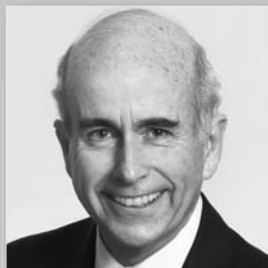
**Kevin Dixon**



**Mark Goonan**



**Scott Gration**



**Nick Heath**



**Denis Lister**



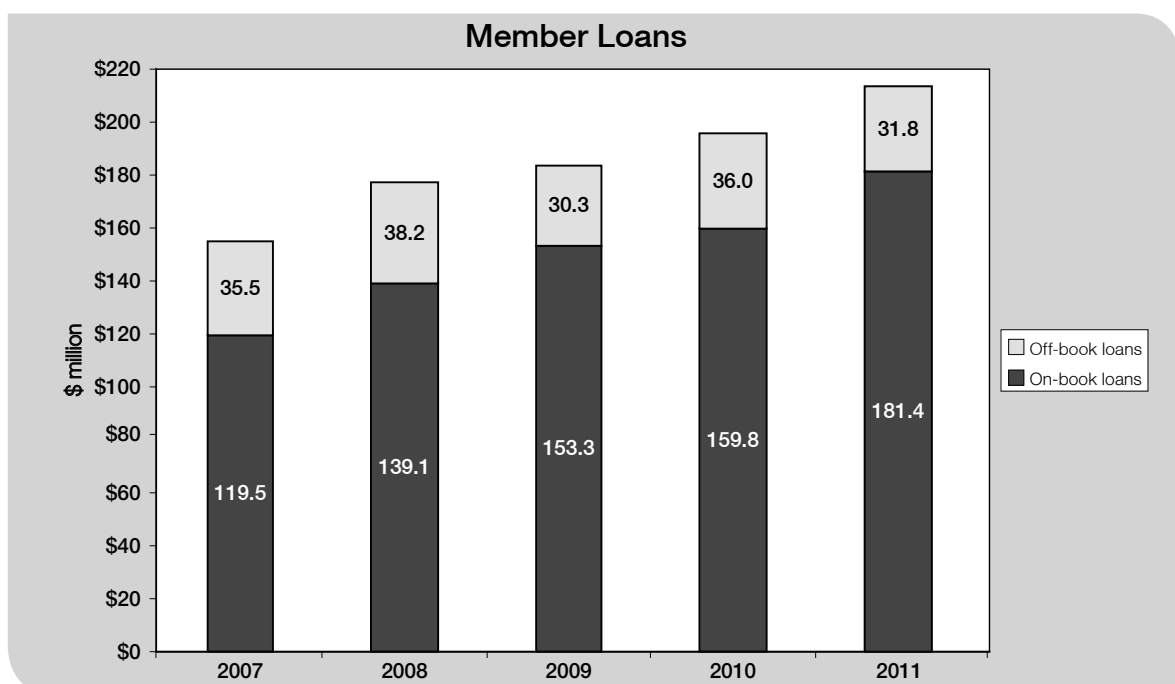
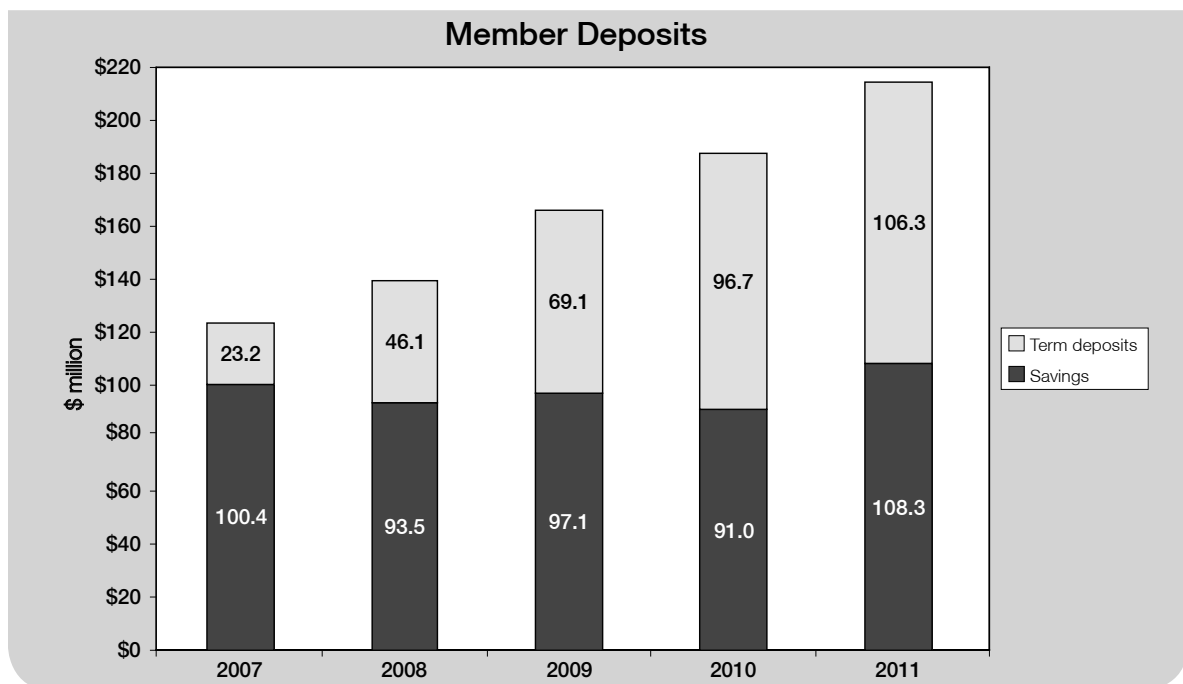
**Barry Thompson**

# Statistical & Financial Highlights

for the year ended 30 June 2011

		2007	2008	2009	2010	2011
Number of members	No	5,358	5,434	5,549	5,678	5,796
Number of staff	EFT	19.5	19.0	18.2	19.8	20.4
Member deposits	\$m	123.6	139.6	166.2	187.7	214.6
Member loans under management*	\$m	154.9	177.3	183.6	195.8	213.2
Member loans funded*	\$m	50.7	68.1	44.2	48.8	45.5
Total assets	\$m	147.7	167.1	189.5	216.8	238.9
Operating profit after income tax	\$k	414	625	488	483	941
Profit as return on average total assets	%	0.31	0.40	0.27	0.24	0.41
Members' equity	\$m	7.6	8.3	8.8	9.4	10.3

\*Includes off-book loans



# Directors' Report

for the year ended 30 June 2011

Your directors present their report on the credit union for the financial year ended 30 June 2011. The credit union is a company registered under the Corporations Act 2001.

## Information on directors

The names of the directors in office at any time during or since the end of the year were:

Name	Qualifications	Responsibilities
Ron Reinten Chairperson	BEng (Hons)	Chairperson since May 2007 Director since Oct 2001 Chairperson of Governance Committee
Stuart Brown Deputy Chairperson	BEd, LLB (Hons)	Deputy Chairperson since Sep 2001 Director since Oct 2000 Chairperson of Audit & Risk Committee until May 2011 and member since May 2011
Kevin Dixon	BEng (Hons), FIE Aust, FAICD	Director since Jul 2009 Member of Governance Committee
Mark Goonan		Director since Jun 2009
Scott Gration	BBus, CPA, Grad Dip App Fin & Inv	Director since Feb 2011 Member of Audit & Risk Committee since Feb 2011 and Chairperson since May 2011
Nick Heath	BEng (Hons)	Director since Sep 2008 Member of Governance Committee
Denis Lister	BComm, CPA, FCIS	Director since Aug 2001 Member of Audit & Risk Committee
Barry Thompson	BEng, BA	Director since Feb 2007 Member of Audit & Risk Committee

## Information on company secretaries

The company secretaries in office at any time during or since the end of the year were:

Name	Qualifications	Experience
David Nicholds	BA, BComm, CPA, FAMI	Company secretary since Nov 1995
Janine Sawyer	MAMI	Company secretary since Feb 2011

## Directors' meeting attendance

Directors	Board Meetings held - 12		Audit & Risk Committee Meetings held - 9		Governance Committee Meetings held - 6	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Stuart Brown	12	10	9	7	-	-
Kevin Dixon	12	12	-	-	6	6
Mark Goonan	12	11	-	-	-	-
Scott Gration	4	4	4	3	-	-
Nick Heath	12	10	-	-	6	5
Denis Lister	12	11	9	9	-	-
Ron Reinten	12	8	-	-	6	5
Barry Thompson	12	11	9	8	-	-

## Directors' benefits

No director has received or become entitled to receive during or since the financial year, a benefit because of a contract made by the credit union, controlled entity, or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest, other than that disclosed in Note 34 of the financial report.

## Indemnifying officers or auditors

Insurance premiums have been paid to insure each of the directors and officers of the credit union against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the credit union. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the credit union.

# Directors' Report

for the year ended 30 June 2011

## Financial performance disclosures

### Principal activities

The principal activities of the credit union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the constitution. No significant changes in the nature of these activities occurred during the year.

### Rounding

The amounts contained in the financial report have been rounded under the option available under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies, and in accordance with that Class Order, amounts in the Directors' Report and the financial report have been rounded to the nearest thousand dollars (where rounding is appropriate).

### Operating results

The comprehensive income of the credit union for the year after providing for income tax was (in \$'000) - \$941 [2010 \$646]

### Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended by the directors of the credit union since the end of the financial year.

## Review of operations

The credit union's profitability significantly improved during the year due to higher net interest revenue and an increased level of 'other income'.

During the year member demand for loans and other forms of credit was restrained and the inflow of member deposits was higher than in previous years, in line with banking behaviour of the wider Australian community. Growth in 'at call' deposits from EECU members was particularly strong. Reduced market competition for retail savings resulted in lower interest cost and the increased level of member deposits enabled the credit union to retire several million dollars of higher cost wholesale funding. Receipt of a one-off amount from the float of Visa as a public company boosted 'other income'.

The most significant increase in non-interest expenses was for employees' compensation and benefits where the full-year impact of higher staff levels appointed during the previous year to meet regulatory demands took effect.

## Significant changes in state of affairs

Apart from the matters referred to in 'Review of operations' there were no significant changes in the state of affairs of the credit union during the year.

## Events occurring after balance date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the credit union in subsequent financial years.

## 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:

(i) The operations of the credit union; (ii) The results of those operations; or (iii) The state of affairs of the credit union in the financial years subsequent to this financial year.

This report is made in accordance with a resolution of the board of directors and is signed for and on behalf of the directors by:



Ron Reinten (Chairperson)  
21 September 2011



Scott Gratton (Director)

## Auditor's independence declaration

The auditors have provided the following declaration of independence to the board as prescribed by the Corporations Act 2001.

In relation to our audit of the financial report of EECU Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



T M Dring (Partner)  
Melbourne  
21 September 2011

# Statement of Comprehensive Income

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Net income</b>			
Interest revenue	2a	14,723	11,445
Interest expense	2c	10,406	7,904
Net interest income		4,317	3,541
Other income	2b	940	858
<b>Total net income</b>		<b>5,257</b>	<b>4,399</b>
<b>Non-interest expenses</b>			
Impairment losses on loans and advances	2d	7	12
Fee and commission expenses		280	282
General administration			
Employees' compensation and benefits	2e(i)	1,808	1,654
Depreciation and amortisation	2e(ii)	174	159
Information technology		437	403
Office occupancy		154	163
Other administration	2e(iii)	737	688
Other operating expenses		316	338
<b>Total non-interest expenses</b>		<b>3,913</b>	<b>3,699</b>
Profit before income tax		1,344	700
Income tax expense	3	403	217
<b>Profit after income tax</b>		<b>941</b>	<b>483</b>
Fair value revaluation of land and buildings		-	233
Income tax on items of other comprehensive income		-	(70)
Other comprehensive income for the period, net of tax		-	163
<b>Total comprehensive income for the period</b>		<b>941</b>	<b>646</b>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# Statement of Changes in Members' Equity

for the year ended 30 June 2011

	Capital reserve \$'000	General reserve \$'000	Asset revaluation reserve \$'000	Reserve for credit losses \$'000	Retained earnings \$'000	Total
<b>Balance at 1 July 2009</b>	52	5,937	-	165	2,597	8,751
Other comprehensive income	-	-	163	-	-	163
Profit for the year	-	-	-	-	483	483
Transfers to/(from) reserves	1	-	-	(7)	6	-
<b>Balance at 30 June 2010</b>	53	5,937	163	158	3,086	9,397
Other comprehensive income	-	-	-	-	-	-
Profit for the year	-	-	-	-	941	941
Transfers to/(from) reserves	1	-	-	224	(225)	-
<b>Balance at 30 June 2011</b>	54	5,937	163	382	3,802	10,338

The above Statement of Changes in Members' Equity should be read in conjunction with the accompanying notes.

# Statement of Financial Position

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Assets</b>			
Cash	4	7,716	2,083
Receivables from financial institutions	5	40,311	47,316
Receivables from other institutions	6	6,914	4,881
Receivables	7	469	521
Prepayments		68	46
Loans and advances	8 & 9	181,376	159,814
Available for sale investments	10	342	342
Property, plant and equipment	11	964	976
Taxation assets	12	151	136
Intangible assets	13	88	147
Loans to capital investors	14	500	500
<b>Total assets</b>		<b>238,899</b>	<b>216,762</b>
<b>Liabilities</b>			
Borrowings	15	-	-
Deposits	16	220,287	198,885
Creditor accruals	17	2,691	2,959
Taxation liabilities	18	169	134
Provisions	19	385	353
Deferred income tax liabilities	20	103	124
Subordinated debt	21	3,737	3,724
Preference shares	22	1,189	1,186
<b>Total liabilities</b>		<b>228,561</b>	<b>207,365</b>
<b>Net assets</b>		<b>10,338</b>	<b>9,397</b>
<b>Members' equity</b>			
Capital reserve	23	54	53
General reserve	24	5,937	5,937
Reserve for credit losses	25	382	158
Asset revaluation reserve	26	163	163
Retained earnings	27	3,802	3,086
<b>Total members' equity</b>		<b>10,338</b>	<b>9,397</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

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# Statement of Cash Flows

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Operating activities</b>			
Revenue inflows			
Interest received		14,745	11,286
Fees and commissions		788	759
Dividends		105	43
Other income		47	56
Revenue outflows			
Interest paid		(10,466)	(7,300)
Suppliers and employees		(3,892)	(3,588)
Income taxes paid		(404)	(165)
Net cash from revenue activities		923	1,090
Inflows/(outflows) from other operating activities			
Increase in liquid investment balances		4,972	(18,716)
Increase in loan balances		(21,562)	(6,534)
Increase in deposit balances		21,402	26,038
<b>Net cash from operating activities</b>	38b	5,735	1,878
<b>Investing activities</b>			
Outflows			
Purchase of fixed assets		(102)	(90)
<b>Net cash from investing activities</b>		(102)	(90)
<b>Financing activities</b>			
Inflows/(outflows)			
Borrowings (net movement)		-	-
<b>Net cash from financing activities</b>		-	-
Total net cash increase/(decrease)		5,633	1,788
Cash at beginning of year		2,083	295
<b>Cash at end of year</b>	38a	7,716	2,083

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to Financial Statements

for the year ended 30 June 2011

## 1. Statement of accounting policies

This financial report is prepared for EECU Limited as a single entity, for the year ended 30 June 2011. The report was authorised for issue on 21 September 2011 in accordance with a resolution of the board of directors.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, and the Corporations Act 2001.

The financial statements have been prepared on an historical cost basis. The accounting policies are consistent with the prior year unless otherwise stated.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

EECU Limited is incorporated and domiciled in Australia.

### a. Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ('IFRS').

Certain Australian Accounting Standards have been recently issued or amended but are not yet effective and have not been adopted by the credit union for the annual reporting period ended 30 June 2011. The assessment of the impact of these new standards and interpretations (to the extent relevant to the credit union) is set out below:

Reference	Title	Summary	Application date of standard	Impact on the credit union financial report	Application date for credit union
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p>	1 January 2013	<p>Adoption is only mandatory for the 30 June 2014 year end. The current requirements for classification and measurement of financial assets will not have a material impact on the credit union. The credit union has not yet made an assessment of the impact of the proposed amendments until all amendments have been confirmed.</p> <p>Early adoption has not been considered at this time.</p>	1 July 2013

# Notes to Financial Statements

for the year ended 30 June 2011

## 1. Statement of accounting policies - continued

### a. Compliance with IFRS continued

Reference	Title	Summary	Application date of standard	Impact on the credit union financial report	Application date for credit union
AASB 9 - continued	Financial Instruments - continued	<p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>			
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement.	1 January 2013	<p>This Standard shall be applied when AASB 9 is applied.</p> <p>The credit union has not yet made an assessment of the impact of the proposed amendments until all amendments have been confirmed.</p>	1 July 2013
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	Additional disclosures are required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.	1 July 2011

# Notes to Financial Statements

for the year ended 30 June 2011

## 1. Statement of accounting policies - continued

### b. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand, which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in current liabilities on the statement of financial position.

### c. Loans to members

#### (i) Basis of inclusion

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

Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and amounts paid or received between parties to the contract such as transaction costs, other premiums and discounts.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the credit union at balance date, less any allowance or provision against debts where there is objective evidence of impairment.

#### (ii) Interest earned

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the credit union revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded.

#### (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 using the effective interest rate method. The amounts brought to account are included as part of 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. The amounts brought to account are included as part of interest revenue using the effective interest rate method.



# Notes to Financial Statements

for the year ended 30 June 2011

## 1. Statement of accounting policies – continued

### d. Loan impairment

#### (i) Provisioning

The credit union assesses at each balance date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably measured.

Evidence of impairment may include indicators that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the credit union first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the credit union determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The critical assumptions in the calculation are set out in Note 9.

The APRA Prudential Standards also 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.

#### (ii) Reserve for credit losses

In addition to provisioning, the board of directors 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. The reserve is based on an estimation of potential risk in the loan portfolio based upon the level of security taken as collateral.

### e. Bad debts written off

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 provision if the provision for impairment had previously been recognised. If no provision had been recognised, the write-offs are recognised as expenses in the statement of comprehensive income.

### f. Property, plant and equipment

Land and buildings are measured at cost (fair value) less accumulated depreciation. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the income statement. Revaluation decreases are debited to the income statement unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

Property, plant and equipment with the exception of freehold land, 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:

- Buildings - 40 years.
- Leasehold Improvements - term of lease, to maximum 10 years.
- Plant and Equipment - 3 to 7 years.

Assets less than \$300 are not capitalised.

# Notes to Financial Statements

for the year ended 30 June 2011

## 1. Statement of accounting policies – continued

### g. Deposits with other financial institutions

Term deposits and negotiable certificates of deposits are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity and recorded using the effective interest rate method. All deposits are in Australian currency. These items are brought to account at the gross value of the outstanding balance.

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 shares are classified as available for sale assets.

Investments in shares where a market value is readily available are revalued to market value, with the gains and losses reflected in equity through the asset revaluation reserve.

Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for impairment.

All investments are in Australian currency.

### i. Member deposits

#### (i) Basis for determination

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

#### (ii) Interest payable

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

### j. Borrowings

All loans and 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 statement of comprehensive income over the period of the loans and borrowings using the effective interest method.

### k. Provision for employee entitlements

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

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

Provision for long service leave is on a pro-rata basis from commencement of employment with the credit union, based on the present value of its estimated future cash flows. Annual leave is accrued in respect of all employees on pro-rata entitlement for part year of service and leave entitlement due but not taken at balance date. Contributions are made by the credit union to an employees' superannuation fund and are charged to the statement of comprehensive income 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 statement of comprehensive income on a straight-line basis over the period of the lease.

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term. Increases in the provision in future years shall be recognised as part of the interest expense.

# Notes to Financial Statements

for the year ended 30 June 2011

## 1. Statement of accounting policies – continued

### m. Income tax

The income tax expense shown in the statement of comprehensive income is based on the operating profit before income tax, adjusted for any non-tax deductible, or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the 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 assessed at 30%.

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

### n. Intangible assets

Under the Australian Accounting Standards, items of computer software which are not integral to the computer hardware owned by the credit union are classified as intangible assets.

Computer software held as intangible assets is amortised over the expected useful life of the software 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. 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 income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases is 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, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

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

### p. Impairment of non-financial assets

At each reporting date the credit union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in the statement of comprehensive income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value (less costs to sell) and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the 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.

### q. Accounting estimates and judgements

Management has made judgements when applying the credit union's accounting policies with respect to the classification of assets as available for sale.

The detail of the critical accounting estimates and assumptions are set out in Note 9 for the impairment provisions for loans.

# Notes to Financial Statements

for the year ended 30 June 2011

## 1. Statement of accounting policies – continued

### r. Risk management objectives and policies

The credit union has undertaken the following strategies to minimise the risks arising from financial instruments:

#### (i) Market risk policy

The credit union is not exposed to currency risk and other price risks in relation to trading financial instruments. The credit union does not trade in the financial instruments it holds on its books.

The credit union is exposed to interest rate risk arising from changes in market interest rates. The credit union's Market Risk policy sets limits for fixed rate exposures.

#### (ii) Credit risk – loans

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board of directors policy is to require lender's mortgage insurance (LMI) cover when mortgage secured loans have a loan-to-valuation ratio which exceeds 80%.

Note 8(b) describes the nature of the security held against the loans as at the balance date.

The credit union has a concentration in retail lending for members who comprise employees in the oil and gas industry and their family members. 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 as 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 8.

#### (iii) Significant accounting judgements

The significant accounting judgements related to the determination of the provision for impairment of loans are set out in Note 9.

#### (iv) Credit risk – liquid investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity.

All EECU investments are in APRA approved investments. The board of directors' policy is to spread the risk by limiting the level of investment in various entities according to their rating by recognised rating agencies. Limits are also set by institution and by specified sectors. The credit union maintains specified minimum amounts of liquid funds with Cuscal Limited, a services company established by credit unions and regulated by APRA, to meet their requirements and the requirements of the Credit Union Financial Support System.

#### (v) Equity investments

All investments in equity instruments are solely for the benefit of service to the credit union. The credit union has invested in Cuscal Limited, to utilise services such as treasury, banking and credit products where specialisation and the need for economies of scale warrant this approach. Further details of the investments are set out in Note 10.

#### (vi) Liquidity risk

The credit union has set out in Note 28 the maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms.

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours, under APRA Prudential Standards. The credit union policy is to apply a minimum of 10% of total adjusted liabilities and to have contingency plans for when liquidity is at or below 15%. The liquidity ratio is calculated daily and forecasts are used based on known transaction levels, proposed loan fundings and other matters impacting liquid funds.

The credit union has access through Cuscal Limited to a range of facilities which can be used to manage liquidity levels. Contingency plans include use of liquidity facilities and a range of matters affecting deposits and loans, should these be necessary.

Note 32 describes the borrowing facilities as at the balance date.

# Notes to Financial Statements

for the year ended 30 June 2011

## 2. Statement of comprehensive income

### a. Analysis of interest revenue

2011	Interest revenue \$'000	Average balance \$'000	Average interest rate %
<b>Category of interest bearing assets</b>			
Cash - deposits at call	157	3,794	4.14
Receivables from financial institutions	2,355	40,645	5.79
Receivables from other institutions	243	5,048	4.81
Loans and advances	11,968	173,184	6.91
	14,723	222,671	6.61

2010	Interest revenue \$'000	Average balance \$'000	Average interest rate %
<b>Category of interest bearing assets</b>			
Cash - deposits at call	94	2,846	3.54
Receivables from financial institutions	1,586	35,872	4.42
Receivables from other institutions	9	407	2.26
Loans and advances	9,756	164,175	5.94
	11,445	203,300	5.63

### b. Other income comprises

Note	2011 \$'000	2010 \$'000
Dividend received	105	43
Fee and commission revenue		
Loan fee income – other than unamortised loans	164	213
Other fee income	221	233
Insurance commissions	56	54
Visa commissions	59	60
Securitised lending commissions	232	146
Other commissions	56	53
Decrease in provision for loan impairment	-	4
Other revenue		
Bad debts recovered	2	8
Income from property (rental income)	12	12
Business services	33	32
	940	858

# Notes to Financial Statements

for the year ended 30 June 2011

## 2. Statement of comprehensive income - continued

### c. Analysis of interest expense

2011	Interest expense \$'000	Average balance \$'000	Average interest rate %
<b>Category of interest bearing liabilities</b>			
Deposits	10,071	206,735	4.87
Borrowings from other financial institutions	18	562	8.27
Subordinated debt	247	3,800	6.50
Preference shares	70	1,200	5.81
	<u>10,406</u>	<u>212,297</u>	<u>4.90</u>

2010	Interest expense \$'000	Average balance \$'000	Average interest rate %
<b>Category of interest bearing liabilities</b>			
Deposits	7,627	188,583	4.04
Borrowings from other financial institutions	13	297	7.29
Subordinated debt	204	3,800	5.35
Preference shares	60	1,200	5.01
	<u>7,904</u>	<u>193,880</u>	<u>4.08</u>

### d. Impairment losses on loans and advances

Note	2011 \$'000	2010 \$'000
Bad debts written off against profit	-	12
Increase in provision for impairment	7	-
	<u>7</u>	<u>12</u>

### e. Other prescribed expense disclosures

(i) Provision for annual leave	15	15
Provision for long service leave	17	30
Superannuation	269	237
(ii) Depreciation and amortisation comprises		
Plant and equipment	38	37
Leasehold improvements (inc. lease make good provision)	3	2
Buildings	25	19
Intangibles	108	101
	<u>174</u>	<u>159</u>
(iii) Property lease	121	125
APRA supervision levy	10	9
Auditors' remuneration, excluding GST	<b>\$</b>	<b>\$</b>
Note: amounts for auditors' remuneration are shown in whole dollars		
Audit fee - external (Ernst & Young)	44,290	42,230
Audit fee - internal (AFS & Associates)	45,490	43,710
Other services (Ernst & Young, AFS & Associates)	380	10,830
Taxation services (AFS & Associates)	2,630	2,550

# Notes to Financial Statements

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>3. Income tax expense</b>			
<b>a. The income tax expense comprises amounts set aside as:</b>			
Current tax expense - current year profit		441	247
Adjustments from previous year		-	(1)
<b>Total current income tax expense</b>		<b>441</b>	<b>246</b>
Increase/(decrease) in deferred tax expense		(38)	(29)
Income tax expense attributable to profit		<b>403</b>	<b>217</b>
<b>b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:</b>			
Profit before income tax		1,344	700
Prima facie tax payable on profit before income tax at 30%		403	210
plus: Tax effect of expenses not deductible			
Dividend on preference shares not deductible		20	17
Other non-deductible expenses		15	10
(Over)/under provision in previous year/s		438	237
		-	(2)
less: Franking rebate		(35)	(18)
Income tax expense attributable to profit		<b>403</b>	<b>217</b>
<b>c. Franking credits</b>			
Franking credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year		2,866	2,466
<b>4. Cash</b>			
Cash on hand		260	212
Deposits at call		7,456	1,871
		<b>7,716</b>	<b>2,083</b>
<b>5. Receivables from financial institutions</b>			
Deposits with Cuscal Limited		7,311	7,316
Deposits with other societies		14,000	14,000
Deposits with banks		19,000	26,000
		<b>40,311</b>	<b>47,316</b>
<b>6. Receivables from other institutions</b>			
Investments in government securities		6,914	4,881
		<b>6,914</b>	<b>4,881</b>
<b>7. Receivables</b>			
Interest receivable		309	379
Sundry debtors		160	142
		<b>469</b>	<b>521</b>

# Notes to Financial Statements

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>8. Loans and advances</b>			
<b>a. Amount due comprises</b>			
Overdrafts		1,644	1,759
Term loans		179,709	158,036
		<u>181,353</u>	<u>159,795</u>
plus:			
Unamortised loan origination fees		32	21
Unearned income		-	-
		<u>32</u>	<u>21</u>
less: Provision on impaired loans	9	(9)	(2)
		<u>181,376</u>	<u>159,814</u>
<b>b. Security dissection</b>			
Secured by mortgage over business assets		5,529	867
Secured by mortgage over real estate		170,730	153,745
Partly secured by goods mortgage		3,735	4,052
Wholly unsecured		1,359	1,131
		<u>181,353</u>	<u>159,795</u>
It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued in order to determine the amount. A breakdown of the quality of the security on a portfolio basis is as follows:			
Security held as mortgage against real estate is on the basis of:			
Loan to valuation ratio of less than 80%		157,756	146,719
Loan to valuation ratio of more than 80% but mortgage insured		6,001	1,766
Loan to valuation ratio of more than 80% but not mortgage insured*		6,973	5,260
		<u>170,730</u>	<u>153,745</u>
* This arises from a characteristic of the banking system for interest only loans which have been funded to the 80% loan-to-valuation (LVR) level, above which mortgage insurance would be mandatory. The system charges interest at the end of the month, increasing the LVR above 80%. It should be noted that an automatic offsetting interest payment occurs the following day, which reverts the LVR to the previous level.			
<b>c. Concentration of loans</b>			
(i) Individual loans which exceed 10% of members' equity in aggregate		6,905	9,362
(ii) Loans by customer type were:			
(a) Loans to natural persons		178,113	157,657
(b) Loans to corporations		3,240	2,138
(iii) Loans by value to members are concentrated principally in Australia, in the following regions: Gippsland 40%    Melbourne 44%    NSW 10%    Other 6%			
(iv) Loans to members are concentrated to individuals employed in the oil and gas industry.			
(v) Loans by purpose			
Residential loans and facilities		172,256	150,397
Personal loans and facilities		6,097	6,412
Business loans and facilities		3,000	2,986
		<u>181,353</u>	<u>159,795</u>

# Notes to Financial Statements

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>9. Provision on impaired loans</b>			
<b>a. Total provision</b>		9	2
<b>b. Movement in the total provision</b>			
Balance at the beginning of year		2	7
Transfers from/(to) statement of comprehensive income		7	(5)
Balance at the end of year		9	2
<b>c. The loans provision consists of:</b>			
(i) Collective provision		8	2
(ii) Specific provision		1	-
		9	2
<b>d. Impaired loans written off</b>			
Amounts written off directly to expense		-	12
Total impaired loans written off		-	12
<b>e. Impaired loans disclosures</b>			
(i) Loans with provision for impairment		14	-
(ii) Restructured loans with no provision for impairment		609	-
All restructured loans are secured by registered mortgage over residential properties and the value of the properties is in excess of the loan due.			
(iii) Loans with repayments past due but not deemed impaired		1,323	2,458
These loans are not considered to be impaired as the value of related security over residential property is in excess of the loan due.			
(iv) Assets acquired via enforcement of security		4	-
(v) Key assumptions in determining the provision for impairment			
In the course of the preparation of the annual report the credit union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other objective 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.			
<b>Period of impairment</b>	<b>% of loan balances</b>		
Up to 90 days	0		
90 days to 181 days	40		
182 days to 272 days	60		
273 days to 364 days	80		
365 + days	100		

# Notes to Financial Statements

for the year ended 30 June 2011

Note	2011 \$'000	2010 \$'000
<b>10. Available for sale investments</b>		
<b>Shares in unlisted companies</b>		
Cuscal Limited	342	342
	<u>342</u>	<u>342</u>
<b>Disclosures on shares</b>		
Cuscal Limited		
Cuscal Limited was created to supply services to member credit unions and has a limited independent business focus. These shares are held to enable the credit union to receive essential banking services – refer to Note 35. The shares are not redeemable.		
The financial reports of Cuscal Limited record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal Limited, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of an active market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.		
The credit union is not intending to dispose of these shares as at balance date.		
<b>11. Property, plant and equipment</b>		
<b>a. Property, plant and equipment comprises:</b>		
Plant and equipment - at cost	622	569
less: Accumulated depreciation	(528)	(490)
	<u>94</u>	<u>79</u>
Capitalised leasehold improvements - at cost	114	114
less: Accumulated depreciation	(111)	(109)
	<u>3</u>	<u>5</u>
Land - at cost	100	100
Buildings	800	800
less: Accumulated depreciation	(33)	(8)
	<u>867</u>	<u>892</u>
Balance at the end of the year	<u>964</u>	<u>976</u>
<b>b. Movement in the asset balances during the year was:</b>		
Opening balance	976	750
Purchases	53	50
Revaluation increment	-	233
less: Depreciation charge	(65)	(57)
Balance at the end of the year	<u>964</u>	<u>976</u>



# Notes to Financial Statements

for the year ended 30 June 2011

Note	2011 \$'000	2010 \$'000
<b>12. Taxation assets</b>		
<b>a. Taxation assets comprise:</b>		
Deferred tax assets	143	127
GST receivable	8	9
	151	136
<b>b. Deferred tax assets comprise:</b>		
Accrued expenses not deductible until incurred	10	10
Provisions for impairment on loans	3	1
Provisions for employee benefits	108	99
Depreciation on fixed assets	15	10
Other provisions	7	7
	143	127
<b>13. Intangible assets</b>		
<b>a. Intangible assets comprise:</b>		
Computer software	683	634
less: Accumulated amortisation	(595)	(487)
	88	147
<b>b. Movement in the intangible asset balances during the year was:</b>		
Opening balance	147	208
Purchases	49	40
less: Amortisation charge	(108)	(101)
Balance at the end of the year	88	147
<b>14. Loans to capital investors</b>		
Subordinated loans to subordinated debt investors	380	380
Subordinated loans to preference share investors	120	120
	500	500
<p>The credit union entered an agreement to issue preference shares and subordinated debt in 2006 in which it was required to establish loans equivalent to 10% of the amount of these liabilities as security for payment of dividends and interest. The loan to subordinated debt investors will be discharged in 2011 when the subordinated debt which was issued in 2006 is repaid. No loan will be established for the new subordinated debt.</p> <p>These loans are issued as subordinated loans to the respective investors and on the following terms and conditions:</p> <ul style="list-style-type: none"> <li>• The loans are unsecured</li> <li>• Interest is payable quarterly</li> <li>• Interest may be withheld if the credit union fails to pay dividends or interest on the respective liabilities</li> <li>• No repayments are required until the respective liabilities are settled in accordance with the agreements</li> </ul>		
<b>15. Borrowings</b>		
Overdraft	-	-
	-	-

# Notes to Financial Statements

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>16. Deposits</b>			
Member deposits			
At call		108,308	91,049
Term		106,327	96,686
Total member deposits		214,635	187,735
Other deposits		5,600	11,100
Member withdrawable shares		52	50
		<u>220,287</u>	<u>198,885</u>
<b>Concentration of member deposits</b>			
No members individually or as a group have deposits which represent 10% or more of total liabilities.			
Member deposits at balance date were generally received from individuals employed in the oil and gas industry.			
<b>17. Creditor accruals</b>			
Creditors and accruals		563	709
Interest payable on deposits		2,072	2,147
Unearned interest		56	103
		<u>2,691</u>	<u>2,959</u>
<b>18. Taxation liabilities</b>			
<b>a. Taxation liabilities comprise:</b>			
Current income tax liability	18b	117	75
Accrual for GST payable		3	4
Accrual for other tax liabilities		49	55
		<u>169</u>	<u>134</u>
<b>b. Current income tax liability comprises:</b>			
Opening balance		75	(1)
less: Tax paid		(75)	(43)
plus: Refunded tax		-	51
(Over)/under statement in prior year		-	(1)
Liability for income tax in current year		441	247
less: Instalments paid in current year		(324)	(178)
		<u>117</u>	<u>75</u>
<b>19. Provisions</b>			
<b>a. Provisions comprise:</b>			
Lease make good of premises		24	24
Annual leave		106	91
Long service leave (LSL)		255	238
		<u>385</u>	<u>353</u>
<b>b. Provisions movements* comprise:</b>			
Opening balance		24	23
Liability increase in current year		-	1
Balance at the end of the year		<u>24</u>	<u>24</u>
*movement required for provisions other than LSL and annual leave			
Total number of full-time equivalent (FTE) employees at year end		20.4	19.8

# Notes to Financial Statements

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>20. Deferred income tax liabilities</b>			
Deferred income tax liability comprises:			
Tax due on timing differences in deduction of capital and debt raising expenses		22	27
Provision for intangible assets		1	21
Deferred loan fees		10	6
Tax on revalued property held in equity		70	70
		103	124
<b>21. Subordinated debt</b>			
Debt at cost		3,800	3,800
less: Costs of debt		(63)	(76)
Balance at the end of the year		3,737	3,724
<p>The credit union is currently raising new subordinated debt of \$6 million. It is anticipated that this will be received in late 2011 and the existing \$3.8 million debt will be repaid shortly thereafter.</p>			
<b>22. Preference shares</b>			
Preference shares at cost		1,200	1,200
less: Capital raising expenses		(11)	(14)
Balance at the end of the year		1,189	1,186
<p>The issuance was approved at the members' meeting held on 8 March 2006. Each preference share confers a right to receive dividends in priority to any dividends paid or payable on issued member shares.</p>			
(i) the number of shares authorised by Australian Mutual Capital Fund		500,000	500,000
(ii) the number of shares issued and fully paid for by the credit union		12,000	12,000
(iii) par value per share (shown in whole dollars)		\$100	\$100
<b>23. Capital reserve</b>			
Opening balance		53	52
Transfer from retained earnings on share redemptions		1	1
Balance at the end of the year		54	53
<p>Share redemption</p> <p>The accounts represent the amount of redeemable preference shares redeemed by the credit union since 1 July 1999. The law requires that the redemption of the shares be made out of profits. Since the value of the shares 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. 146 shares were redeemed during the year.</p>			
<b>24. General reserve</b>			
<b>a. General reserve</b>			
This is the legacy reserve that retained earnings had previously been transferred to		5,937	5,937
		5,937	5,937
<b>b. Movement in general reserve</b>			
Opening balance		5,937	5,937
add: Transfer from profit and loss appropriation		-	-
Balance at the end of the year		5,937	5,937

# Notes to Financial Statements

for the year ended 30 June 2011

Note	2011 \$'000	2010 \$'000
<b>25. Reserve for credit losses</b>		
<b>a. Reserve for credit losses</b>	382	158
The board enhanced the methodology for determining the reserve for credit losses during the year to bring it in line with industry practice. This resulted in a substantial one-off increase in this item.	382	158
<b>b. Movement in reserve for credit losses</b>		
This reserve records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA.		
Opening balance	158	165
Transfer from/(to) retained earnings	224	(7)
Balance at the end of the year	382	158
<b>26. Asset revaluation reserve</b>		
<b>a. Asset revaluation reserve - buildings</b>	163	163
	163	163
<b>b. Movement in reserves</b>		
The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value		
Opening balance	163	-
Increase/(decrease) in value	-	233
less: Deferred tax liability	-	(70)
Balance at the end of the year	163	163
<b>27. Retained earnings</b>		
Retained earnings at the beginning of the year	3,086	2,597
add: Operating profit for the year	941	483
Transfer from/(to) reserve for credit losses in year	(224)	7
Transfer to capital account on redemption of shares	(1)	(1)
Retained earnings at the end of the year	3,802	3,086



# Notes to Financial Statements

for the year ended 30 June 2011

## 28. 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. For term loans the dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

2011	Within 1 month \$ '000	1 - < 3 months \$ '000	3 - < 12 months \$ '000	1-5 years \$ '000	After 5 years \$ '000	No maturity \$ '000	Total \$ '000
<b>Assets</b>							
Cash	7,716	-	-	-	-	-	7,716
Receivables from financial institutions	8,000	31,311	1,000	-	-	-	40,311
Receivables from other institutions	-	-	6,914	-	-	-	6,914
Loans & advances	1,079	2,270	9,906	46,232	121,857	32	181,376
Investments	-	-	-	-	-	342	342
Loans to capital investors	-	380	-	120	-	-	500
	16,795	33,961	17,820	46,352	121,857	374	237,159
<b>Liabilities</b>							
Deposits	125,599	23,042	68,784	2,862	-	-	220,287
Subordinated debt	-	3,737	-	-	-	-	3,737
Preference shares	-	-	-	1,189	-	-	1,189
	125,599	26,779	68,784	4,051	-	-	225,213
<b>2010</b>							
2010	Within 1 month \$ '000	1 - < 3 months \$ '000	3 - < 12 months \$ '000	1-5 years \$ '000	After 5 years \$ '000	No maturity \$ '000	Total \$ '000
<b>Assets</b>							
Cash	2,083	-	-	-	-	-	2,083
Receivables from financial institutions	8,000	33,316	6,000	-	-	-	47,316
Receivables from other institutions	-	-	4,881	-	-	-	4,881
Loans & advances	2,732	287	11,137	41,818	103,819	21	159,814
Investments	-	-	-	-	-	342	342
Loans to capital investors	-	-	-	-	500	-	500
	12,815	33,603	22,018	41,818	104,319	363	214,936
<b>Liabilities</b>							
Deposits	98,216	40,562	57,685	2,422	-	-	198,885
Subordinated debt	-	-	-	-	3,724	-	3,724
Preference shares	-	-	-	-	1,186	-	1,186
	98,216	40,562	57,685	2,422	4,910	-	203,795

# Notes to Financial Statements

for the year ended 30 June 2011

## 29. Fair value of financial assets and liabilities

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 are regularly traded by the credit union, and there is no active market to assess the value of the financial assets and liabilities.

	2011			2010		
	Fair value \$ '000	Book value \$ '000	Variance \$ '000	Fair value \$ '000	Book value \$ '000	Variance \$ '000
<b>Assets</b>						
Cash	7,716	7,716	-	2,083	2,083	-
Receivables from financial institutions	40,315	40,311	4	47,328	47,316	12
Receivables from other institutions	6,914	6,914	-	4,879	4,881	(2)
Loans & advances	181,389	181,376	13	159,834	159,814	20
Investments	342	342	-	342	342	-
Loans to capital investors	500	500	-	500	500	-
	<b>237,176</b>	<b>237,159</b>	<b>17</b>	<b>214,966</b>	<b>214,936</b>	<b>30</b>
<b>Liabilities</b>						
Deposits from members	220,738	220,287	451	199,277	198,885	392
Subordinated debt	3,737	3,737	-	3,724	3,724	-
Preference shares	1,189	1,189	-	1,186	1,186	-
	<b>225,664</b>	<b>225,213</b>	<b>451</b>	<b>204,187</b>	<b>203,795</b>	<b>392</b>

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 using the following methodologies and assumptions:

### (a) 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 3 months approximate their fair value as they are short term in nature or are receivable on demand.

### (b) Loans and advances

The carrying value of loans and advances is net of unearned income and both collective and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the statement of financial position 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's future principal and interest cash flows), based on the 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.

### (c) Deposits

The fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repricing within 3 months, is the amount shown in the statement of financial position as at 30 June. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value of other term deposits.

### (d) 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.

# Notes to Financial Statements

for the year ended 30 June 2011

## 30. Risk management

The credit union is exposed to a range of risks through its operation in the retail financial services market. These include ensuring credit, liquidity, market and operational risks. The credit union has risk management systems in place to monitor, measure and control these risks because the process of risk management is critical to its continuing profitability. These risk control systems do not include business risks such as changes in the environment, technology and industry but they are monitored through the credit union's strategic planning process.

Primary responsibility for the identification and control of these risks lies with senior management and the Audit and Risk Committee, under the authority of the board of directors. The board is ultimately responsible for identifying and ensuring that risks are controlled. The board reviews and agrees policies for managing each of the risks identified below, including the setting of limits. Separate independent bodies are also responsible for assisting in the managing and monitoring of risks.

### Asset and Liability Committee (ALCO)

The credit union has an ALCO that is responsible for managing the pricing of the credit union's financial assets and liabilities and the interest margin. It is also primarily responsible for the funding and liquidity risks of the credit union.

### Internal audit

Risk management processes in the credit union are audited through the year by the credit union's internal audit function, which is appointed to examine the adequacy of controls, procedures and compliance with regulatory requirements. The internal auditor presents the results of its assessments to management, reports its findings and recommendations directly to the Audit & Risk Committee and shares its findings with the external auditors.

### Risk measurement and reporting systems

The credit union's risks are measured using a number of methods including modelling, measuring expected losses arising in normal circumstances, and unexpected losses based on past experiences and as part of the processes prescribed by regulatory bodies such as APRA.

Monitoring and controlling risks is primarily based on limits established by the credit union. These limits reflect the business strategy and market environment of the credit union as well as the level of risk that the credit union is willing to accept. In addition, the credit union monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from each area of business activity is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Audit and Risk Committee and the board of directors and includes compliance, controls and breach reporting.

The credit union holds a reserve for credit losses which is determined from a formula specified by the board and based on the collateral for each loan. The formula is determined after consideration of historical analysis of the delinquency of the loan portfolio and the nature of the collateral provided for these loans. The required reserve is calculated monthly.

### Excessive risk concentration

Concentrations of risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

By the nature of its bond of membership to companies in the ExxonMobil group the credit union's prospects are inextricably linked to the future operations of ExxonMobil in Australia. Similarly the credit union is heavily exposed to the residential mortgage market in Australia because of the demographic profile of its membership base. It controls the exposure to the residential mortgage market through conservative credit risk policies.

# Notes to Financial Statements

for the year ended 30 June 2011

## 30. Risk management - continued

### Credit risk

Credit risk is the risk of counterparty default. Examples of credit risks include the inability of members to repay their loans or trade debtors to meet their financial obligations to the credit union. The credit union's exposure to a counterparty (or group of associated counterparties) is limited to 25% of the capital base. This is the maximum allowable under the prudential regulations.

The Loans Risk Management System exists to facilitate prudent risk assessment in order to minimise the risk of loss through default, large exposures, or inadequacy of securities held.

The credit union actively uses collateral to reduce its credit risks.

The Loans Risk Management System is regularly reviewed to ensure it remains effective and relevant to the credit union.

Staff are provided with lending delegation authorities, as approved by the Board, relevant to the position held and skill base of the employee.

With respect to the credit risk arising from the financial assets of the credit union, the credit union's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these items as disclosed in the statement of financial position.

### Monitoring and measuring credit risk

Impaired credit risk assets are reviewed weekly by credit union staff and the Board is notified monthly of:

- Impaired assets;
- Aged dissection; and
- Large exposures

### Guarantees

The credit union makes available to its members guarantees as disclosed at Note 33b, which may require that the credit union makes payments on their behalf. Such payments are collected from members on the terms of the letter of credit. They expose the credit union to similar risks to loans and these are mitigated by the same control processes and policies.

### Collateral

The amount and type of collateral required depends on the loan product requested by the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are:

- For retail lending, mortgages over residential properties; and
- For commercial lending, mortgages over real estate properties, including both residential and commercial properties.

Management monitors the market value of collateral during its review of the adequacy of the reserve for credit losses.

### Credit quality

The credit union has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established which assign each counterparty an internal risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the credit union to assess the potential loss as a result of the risks to which it is exposed and take timely corrective action. For further information about credit quality based on loan to value ratios, please refer to Note 8b and Note 8c.

The credit quality of loans is managed through parameters in the Loans Risk Management System. 'Past due' loans and advances include those that are 30 days or more in arrears. As at the balance date there are no mortgage secured 'past due' loans which are considered to be impaired. An age analysis of loans and advances in arrears is provided to the board on a monthly basis.

The aged analysis of loans and advances in arrears as at 30 June 2011 and 30 June 2010, respectively, are:

	2011		2010	
	No. of accounts	\$'000	No. of accounts	\$'000
30 – < 60 days	16	9	18	34
≥ 60 days	74	454*	61	1

\*\$440,000 of loans and advances in arrears are secured by residential mortgage, and are not considered to be impaired as the value of the securities is in excess of the loan due.

# Notes to Financial Statements

for the year ended 30 June 2011

## 30. Risk management - continued

### Impairment assessment

The main considerations for the loan impairment assessment are whether any payments of principal or interest are overdue by more than 90 days for all loans and 14 days for overdrawn deposit accounts or there are any known difficulties in the cash flows of counterparties or infringement of the original terms of the contract.

The credit union addresses impairment assessment individually for losses on loans, advances and overdrawn deposit accounts. Allowances are evaluated each month. The assessment takes into account arrears and any other known circumstances which may affect future capacity to meet obligations.

Note 8b discloses a security dissection of the loan portfolio

Note 8c discloses the credit concentration risk within the loan portfolio

Note 9 discloses impaired loan details

### Liquidity risk

Liquidity risk is the risk that the credit union will be unable to meet its payment obligations as and when they fall due. Some liquidity risks include:

- Excessive demand for loan funding (including from undrawn facilities)
- Slow or irregular deposits
- Concentration of maturing deposits
- Increase in rate sensitivity of products
- Maturity mismatch between assets and liabilities

The credit union's Liquidity Management System is designed to ensure that the credit union:

- Has sufficient high quality liquid assets always available to meet cash flow and liquidity requirements
- Holds high quality liquid assets that are readily negotiable to provide a cushion of liquidity in times of extreme liquidity pressure
- Has sufficient available liquid assets to meet the credit union's obligations under the Credit Union Financial Support System (CUFSS), and
- Can implement an approved contingency plan in the event of a liquidity crisis

### Monitoring and measuring liquidity risk

The credit union maintains an Asset and Liability Committee (ALCO) which has delegated authority from the board to determine interest rates for deposit and loan products, providing a change does not exceed the limits of the board. Senior management have delegated authority from the board for the placement of excess liquid funds providing such placements fall within board approved guidelines for the mix of liquid assets. Borrowing facilities and associated limits are approved by the board and these limits are reviewed at least annually to ensure continued adequacy of the facilities.

The credit union has systems in place to monitor and measure daily cash flow requirements, forecast liquidity requirements for each financial period and calculate daily regulatory liquidity requirements. These systems are reviewed by senior management. A portfolio gap analysis and the liquidity position are provided to the board on a monthly basis and the board considers long term liquidity requirements at least annually.

The portfolio gap analysis and monthly liquidity position as at 30 June 2011 and 30 June 2010, respectively, are:

	2011	2010
Total Liquidity	23.30%	25.30%
Total Funding Gap (\$'000)	\$27,540	\$27,159

Note 28 discloses the maturity profile of financial assets and liabilities as at balance date

Note 29 discloses the fair value of financial assets and liabilities as at balance date

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. For the credit union, market risk includes general market risks and interest rate risk.

Examples of the former include:

- Rapid asset growth which outstrips the rate at which capital can be accumulated from profits or sourced by other means, and
- Changes within the ExxonMobil group affecting the membership base.

# Notes to Financial Statements

for the year ended 30 June 2011

## 30. Risk management - continued

### Market risk (cont'd)

Examples of interest rate risk include:

- Movements in market interest rates which adversely affect the credit union's interest margin, and
- Mismatches in the maturity profiles of deposits and loan accounts

The credit union's Market Risk Management System is designed to ensure that the credit union:

- Has sufficient capital to cope with rapid growth
- Monitors and maintains consistent and appropriate volume and mix relationships between member deposits and loans
- Maintains a system to measure and monitor interest rate and market risk movements and the effect of these movements on the market value of interest rate sensitive assets and liabilities
- Monitors movements in market interest rates and accommodates movements which may adversely affect the credit union's interest margin
- Remains aware of significant changes affecting the bond of membership it serves which could have a material impact on the credit union's business, and
- Maintains awareness of developments in the financial services sector which could affect its market

### Monitoring and measuring market risk

The ALCO meets:

- weekly to review and consider interest rates on fixed rate products
- following RBA changes to official interest rates to review and consider variable rate products, and
- at other times when it is believed necessary to adjust interest rates due to changes in market conditions

The board is notified monthly of:

- The actual and projected interest rate margin
- Current product interest rates
- Any adverse factors which may compromise the credit union's future interest rate margin
- Any factors that are likely to have a material impact on the business base
- Portfolio analysis which includes a sensitivity analysis of the effect of a 0.25% interest rate movement, maturity and repricing gap analysis

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The interest rate risk of the credit union is managed and monitored using, amongst other methods, a maturity repricing analysis which is reported to the board each month. The data below shows the annual impact on profit after tax and equity (as at balance date) of a possible change in interest rates of 25 basis points.

	2011	2010
+/-25bp	+/--\$137,637	+/--\$126,637

The sensitivity for 2011 is higher than the previous year as a greater proportion of member deposits were held in fixed term accounts.

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The credit union cannot expect to eliminate all operational risks, but through a robust controls framework and by monitoring and responding to potential risks, the credit union is able to manage its operational risk. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education processes and the internal audit process.

# Notes to Financial Statements

for the year ended 30 June 2011

## 31. Financial commitments

### a. Outstanding loan commitments

Loans approved but not funded  
Loan redraw facilities available

	2011 \$'000	2010 \$'000
Loans approved but not funded	4,184	4,032
Loan redraw facilities available	21,945	20,194
	<u>26,129</u>	<u>24,226</u>

### b. Undrawn loan facilities

Loan facilities available to members for overdrafts and line of credit loans are as follows:

Total value of facilities approved  
less: Amount advanced  
Net undrawn value

Total value of facilities approved	7,517	7,612
less: Amount advanced	(1,532)	(1,735)
Net undrawn value	<u>5,985</u>	<u>5,877</u>

These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

### c. Lease expense commitments for operating leases on property occupied by the credit union

Not later than one year  
Later than one year but not later than five years

Not later than one year	122	128
Later than one year but not later than five years	31	165
	<u>153</u>	<u>293</u>

The operating leases are in respect of property used for providing branch services to members and credit union offices. There are no contingent rentals applicable to leases taken out. The term of the leases is 5 years and options for renewal are usually obtained for a further 5 years.

There are no restrictions imposed on the credit union so as to limit the ability to undertake further leases, borrow funds or issue dividends.

## 32. Standby borrowing facilities

Cuscal Limited

2011

Overdraft facility

	Gross Amount \$'000	Current borrowing \$'000	Net available \$'000
Overdraft facility	5,000	-	5,000
	<u>5,000</u>	<u>-</u>	<u>5,000</u>

2010

Overdraft facility

	Gross Amount \$'000	Current borrowing \$'000	Net available \$'000
Overdraft facility	5,000	-	5,000
	<u>5,000</u>	<u>-</u>	<u>5,000</u>

Cuscal Limited holds an equitable mortgage charge over all of the assets of the credit union as security.

## 33. Contingent liabilities

### a. Liquidity support scheme

The credit union is a member of the Credit Union Financial Support System 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 an amount equivalent to 3.2% of its 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 the balance date there were no loans issued under this arrangement.

# Notes to Financial Statements

for the year ended 30 June 2011

## 33. Contingent liabilities - continued

### b. Guarantees

The credit union has issued guarantees on behalf of members for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total \$120,200. The guarantees are payable only on the member defaulting on the contractual repayments to the lessor/supplier. The guarantees are fully secured against registered first mortgages.

## 34. Disclosures on directors and other key management personnel

### a. Remuneration of key management personnel

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

*Key management personnel* has been taken to comprise the directors and the 4 members of the executive management responsible for the day to day financial and operational management of the credit union. *Key management personnel* are as follows -

Directors: Ron Reinten, Stuart Brown, Kevin Dixon, Mark Goonan, Scott Gration, Nick Heath, Denis Lister, Barry Thompson  
Executive management: David Nicholds, Ron Cox, Leanne Ladson, Michael Xu

The aggregate compensation of *key management personnel* during the year comprising amounts paid or payable or provided for was as follows:

	2011		2010	
	Directors \$'000	Other KMP \$'000	Directors \$'000	Other KMP \$'000
Short-term employee benefits	-	418	-	386
Post-employment benefits - superannuation contributions	-	106	-	96
Other long-term benefits – net increases in long service leave provision	-	16	-	-
	-	540	-	482

In the above table, remuneration shown as short term benefits means wages, salaries, paid annual leave, and value of fringe benefits received, but excludes out-of-pocket expense reimbursements.

Remuneration to directors was approved by the members at the previous annual general meeting of the credit union.

### b. Loans to directors and other key management personnel

(i) The aggregate value of loans to directors and other key management personnel as at balance date amounted to:

	2011 \$'000	2010 \$'000
(i) The aggregate value of loans to directors and other key management personnel as at balance date amounted to:	3,626	2,224
(ii) The total value of revolving credit facilities to directors and other key management personnel, as at balance date amounted to:	38	38
less: Amounts drawn down and included in (i)	(14)	(13)
Net balance available	24	25
(iii) During the year the aggregate value of loans disbursed to directors and other key management personnel amounted to:		
Revolving credit facilities	205	188
Term loans	688	279
	893	467
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to directors and other key management personnel amounted to:	-	10
(v) Interest and other revenue earned on loans and revolving credit facilities to directors and other key management personnel	234	127

(ii) The total value of revolving credit facilities to directors and other key management personnel, 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 directors and other key management personnel amounted to:

Revolving credit facilities

Term loans

(iv) During the year the aggregate value of revolving credit facility limits granted or increased to directors and other key management personnel amounted to:

(v) Interest and other revenue earned on loans and revolving credit facilities to directors and other key management personnel

# Notes to Financial Statements

for the year ended 30 June 2011

	2011 \$'000	2010 \$'000
<b>34. Disclosures on directors and other key management personnel - continued</b>		
<b>b. Loans to directors and other key management personnel - continued</b>		
The credit union's policy for lending to key management personnel is that all loans are approved on the same terms and conditions which apply to members for each class of loan.		
There are no loans which are impaired in relation to the loan balances with directors or other key management personnel.		
There are no benefits or concessional terms and conditions for loans applicable to the close family members of the key management personnel. There are no loans which are impaired in relation to the loan balances with close family relatives of directors and other key management personnel.		
Loans to directors and other key management personnel excludes loans which have been securitised. The aggregate amount of securitised loans to directors and other key management personnel at year end is \$ nil (2010: \$ nil).		
<b>c. Deposits from directors and other key management personnel</b>		
The credit union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit.		
(i) Total value of term and at-call deposits from directors and other key management personnel	186	320
(ii) Total interest paid on deposits to directors and other key management personnel	8	5
<b>d. Transactions with other related parties</b>		
Other transactions between related parties include deposits from director related entities or close family members of directors, and other key management personnel.		
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 apply to members for each type of deposit.		
There are no benefits paid or payable to the close family members of the key management personnel.		
There are no service contracts to which key management personnel or their close family members are an interested party.		
<b>35. Economic dependency</b>		
The credit union has an economic dependency on the following suppliers of services.		
<b>a. ExxonMobil Australia Pty Ltd &amp; associated companies</b>		
The credit union retains a 'common bond' which restricts new membership to employees of the ExxonMobil group of companies, family members of those employees and bodies corporate which are associated with eligible members. While the credit union retains this bond of membership it has a significant dependency on the presence in Australia of ExxonMobil companies and the level of their activity and employment.		
<b>b. Cuscal Limited</b>		
Cuscal Limited is an Authorised Deposit-Taking Institution registered under the Corporations Act 2001 and the Banking Act 1959. This entity:		
(i) provides the licence rights to Visa card in Australia and settlement with bankers for ATM, Visa card and cheque transactions, as well as the production of Visa cards and rediCARDS for use by members;		
(ii) provides treasury and money market facilities to the credit union. The credit union has invested a substantial proportion of its liquid assets with the entity to comply with the liquidity support scheme requirements.		
<b>c. First Data International (FDI)</b>		
This entity operates the computer network used to link Visa cards and rediCARDS operated through rediATMs and other approved ATM suppliers to the credit union's IT systems.		

# Notes to Financial Statements

for the year ended 30 June 2011

## 35. Economic dependency - continued

### d. Data Action Pty Limited

This entity operates a computer bureau 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.

## 36. Superannuation liabilities

The credit union used Cuesuper Plan as its default superannuation fund until 31 March 2011 for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. Cuesuper merged with NGS Super on 1 April 2011 which became the default superannuation fund from that date. The plan is administered by an independent 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.

## 37. Securitisation

The credit union has an arrangement with Integrus 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 amount of securitised loans under management is:

	2011		2010	
	No.	\$'000	No.	\$'000
Securitised loans	200	31,816	222	35,988

## 38. Notes to statement of cash flows

### a. Reconciliation of cash

Cash includes cash on hand, and deposits at call with other financial institutions and comprises:

Cash on hand

Deposits at call

**Total cash**

	2011 \$'000	2010 \$'000
Cash on hand	260	212
Deposits at call	7,456	1,871
<b>Total cash</b>	<b>7,716</b>	<b>2,083</b>

# Notes to Financial Statements

for the year ended 30 June 2011

	2011 \$'000	2010 \$'000
<b>38. Notes to statement of cash flows - continued</b>		
<b>b. Reconciliation of cash from operations to accounting profit</b>		
The net cash increase/(decrease) from operating activities is reconciled to the profit after income tax.		
Profit after income tax	941	483
<b>plus/(less):</b>		
Depreciation expense	174	159
Increase/(decrease) in		
Provisions for staff leave	32	45
Provision for lease make good of premises	-	1
Provision for income tax	42	76
Deferred tax liabilities	(21)	(15)
Other tax liabilities	(8)	8
Accrued expenses	(146)	(161)
Interest payable	(75)	587
Unearned income	(47)	(19)
Decrease/(increase) in		
Subordinated debt	13	13
Preference shares	3	3
Prepayments	(22)	(33)
Sundry receivables	(18)	102
Deferred tax assets	(16)	(14)
Other tax assets	1	(4)
Interest receivable	70	(141)
<b>Net cash from revenue activities</b>	<b>923</b>	<b>1,090</b>
<b>plus/(less) non-revenue operations</b>		
Increase/(decrease) in		
Deposit balances	21,402	26,037
Decrease/(increase) in		
Loan balances	(21,562)	(6,533)
Liquid investment balances	4,972	(18,716)
<b>Net cash increase/(decrease) from operating activities</b>	<b>5,735</b>	<b>1,878</b>

## 39. 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: 12 Riverside Quay, Southbank, Vic 3006

The address of the principal place of business is: 12 Riverside Quay, Southbank, Vic 3006

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.

# Directors' Declaration

for the year ended 30 June 2011

In accordance with a resolution of the directors of EECU Limited ('the company'), I state that:

In the opinion of the directors:

- (a) The financial statements and notes of the company are 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 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board



Ron Reinten  
Chairperson  
Melbourne



Scott Gration  
Director  
Melbourne

21 September 2011



# Independent Audit Report

## Independent auditor's report to the members of EECU Limited

We have audited the accompanying financial report of EECU Limited, which comprises the statement of financial position as at 30 June 2011, the statement of 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.

## 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 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the Notes, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

## Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, 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 controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

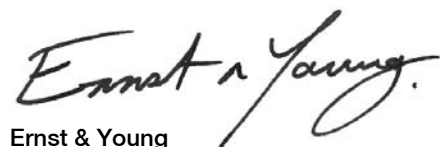
## Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

## Auditor's opinion

In our opinion:

- a. the financial report of EECU 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 2011 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 Note 1.



Ernst & Young



**TM Dring**

Partner

Melbourne

21 September 2011

# Corporate Governance Disclosures

Much of this information is extracted from EECU's Corporate Governance Management System, of which a complete copy is available on the website, [eeecu.com.au](http://eeecu.com.au).

## Board of directors

The board of directors of the credit union has responsibility for the overall management and strategic direction of the credit union. All board members are independent of management and free of any business or other association that could materially interfere with their independent judgement. Elected directors are appointed by members on a rotation of every 3 years. Directors appointed by the board are only done so to fill a casual vacancy or a skills need and their appointment expires at the end of the next annual general meeting.

Each director must be eligible to act as a director under criteria set out in the credit union's constitution and in the Corporations Act 2001. Directors must also satisfy the fit and proper criteria set down by APRA.

The board has established policies to govern the conduct of board meetings and training in order to maintain director awareness of emerging issues and to satisfy all governance requirements.

The board deals with:

- setting and reviewing strategic and business plans
- approval of risk management systems
- financial budgets and performance criteria
- appointing members to the sub-committees
- staff remuneration policies
- remuneration and benefits for the General Manager and senior management.

The board is responsible for ensuring that within its ranks it has the skills, knowledge, experience and diversity required to effectively steer the credit union forward. Directors may seek independent professional or legal advice to assist with matters before the board and may receive financial support from EECU to do so.

An annual skills and representation assessment is conducted in accordance with EECU's Corporate Governance Management System to identify any gaps on the board and provide direction for succession planning.

## Code of conduct

EECU is committed to following ethical principles in all aspects of the business. It is EECU's policy that all directors and staff have a duty to behave in an ethical manner both within the workplace and in dealings with members, stakeholders and the community in general.

In order to demonstrate equity and objectivity this includes a requirement that board members are generally not aware of the names of any members for whom they are giving consideration.

EECU's Code of Conduct is incorporated in the Corporate Governance Management System.

## Conflicts of interest

The board has developed a policy to assist directors in identifying, reporting and managing potential or known conflicts of interest which may arise for directors, management and staff. Directors and the General Manager must keep the board informed of any known or potential conflict which may arise. Transactions between directors and the credit union are subject to the same terms and conditions that apply to all members.

## Remuneration - board of directors and management

The board is authorised under the constitution to recommend an aggregate annual amount of director remuneration to members in general meetings of the credit union. To date the board has elected to remain honorary. The credit union pays for all expenses incurred by directors in discharging their duties, including travel, accommodation and training expenses. There are no other benefits received by directors from the credit union.

All management are remunerated by salary packages only. There are no bonus or equity benefits available to management.

## Performance evaluations

Performance evaluations are completed for the board, its committees, directors, General Manager and senior managers in accordance with EECU's Corporate Governance Management System. This includes the objective of encouraging enhanced performance and ensuring all parties have the necessary skills and knowledge to discharge their duties.

## Board committees

Sub-committees have been formed to assist the board in dealing with certain matters. Directors form these committees with attendance from associate directors and management staff where appropriate. Refer to the Directors' Report on page 5 for individual information on directors.

# Corporate Governance Disclosures

## Board committees (cont'd)

### Audit & Risk Committee

The Audit and Risk Committee is established to oversee the financial reporting and risk management process. Its role includes:

- Monitoring audit reports received from internal and external auditors, and management's responses thereto;
- Liaising with the auditors (internal and external) on the scope of their work, their independence and their experience in auditing similar entities;
- Monitoring the credit union's internal audit and compliance process;
- Reviewing the credit union's corporate insurance for adequacy and completeness;
- Reviewing financial reports which are provided to members of the credit union, or APRA;
- Reviewing the risk profile of the credit union and ensuring that adequate risk management systems are in place.

### Governance Committee

The Governance Committee is established to ensure good governance in accordance with prudential standards and best practice guidelines.

Its responsibilities include:

- Managing policy development relating to governance matters;
- Maintaining the process for identifying and recruiting future board members;
- Acting as the board's Nomination Committee;
- Acting as the board's Remuneration Committee;
- Providing oversight of the board election process;
- Ensuring effective training and education of board members;
- Ensuring that evaluation of the performance of board members, General Manager and senior management takes place consistent with EECU's Corporate Governance Management System;
- Making annual recommendations to the board on the remuneration of the General Manager and each of his direct reports (other than administrative reports) and other persons whose role may affect the financial soundness of EECU.

## Risk management systems

The board has adopted systems of risk management and compliance to meet the requirements of the relevant prudential standards and any other risk inherent in the business. The board is committed to disclosure in accordance with prudential standards and financial reporting requirements as required by the Corporations Act 2001 and any other required disclosures.

Refer to note 1r, Statement of accounting policies and note 30, Risk management of the Notes to Financial Statements for further information relating to EECU's risk management objectives and policies.

Key risk management systems include:-

- Capital adequacy management
- Liquidity risk management
- Loans risk management
- Fraud risk management
- Corporate governance management
- Electronic access
- Data risk management
- Operational risk management
- Market risk management
- Large exposure management
- Business continuity

## Compliance

The credit union has a staff member who is responsible for compliance, including maintaining the awareness of staff for all changes in applicable legislation and responding to staff inquiries on compliance matters. The officer also monitors EECU's Australian financial services licence (AFSL) and Australian credit licence number (ACL) obligations. The credit union also has Complaint and Investigation Officers for member complaints and disputes should they arise.

## External audit

External audit has been performed by Ernst & Young.

# Corporate Governance Disclosures

## Internal audit

The internal audit function is principally carried out by AFS & Associates (AFS), chartered accountants. AFS provide internal and external audit services to several credit unions, and other entities. AFS review internal controls and regulatory compliance and are assisted where appropriate by a member of management who is responsible for risk and compliance.

Controls and compliance are also examined by the external auditors. The work performed by the external and internal auditors is examined by the Audit and Risk Committee to ensure that it is consistent with the current audit reporting role and does not impair their independence.

This role is supplemented by other external compliance reviews performed by security audits on the credit union's data processing centre for adequacy of the back-up, disaster recovery and internet security systems.

## Regulation

The credit union is regulated by:

- APRA for the prudential risk management of the credit union;
- ASIC for adherence to the Corporations Act, accounting standards disclosures in the financial report, AFSL and ACL requirements. The AFSL and ACL requirements set minimum standards for conduct and disclosure when providing financial services and credit facilities.

Both APRA and ASIC conduct periodic inspections and the auditors report annually to both on compliance with respective requirements. The external auditors also report to APRA on prudential policy compliance and to ASIC on AFSL compliance.

## Communication to members

The board aims to keep members informed with ready access to balanced and understandable information about EECU and its corporate goals via electronic means and newsletters.

Members have the right and are encouraged to participate in general meetings of the credit union, either in person or by proxy.

A copy of the annual report is accessible on EECU's website and is available to members on request to EECU via email or hardcopy.



# Site Representatives & Key to Abbreviations

## Site Representatives

### Longford - Gas Plant

Shane Bennett

Angela Jones

### Longford - Heliport

Simon Walsh

### Long Island Point

Pamela Johnson

## Key to Abbreviations

### Abacus

Abacus, Australian Mutuals is the industry association for mutual authorised deposit-taking institutions, which are all credit unions and mutual building societies.

### ADIs

ADIs are authorised deposit-taking institutions and comprise credit unions, building societies and banks. They are regulated by APRA and licensed to accept deposits from the public.

### APRA

#### Australian Prudential Regulation Authority

APRA is responsible for the supervision of credit unions, building societies, banks, life offices, general insurers, superannuation funds and friendly societies.

### ASIC

#### Australian Securities and Investments Commission

ASIC is responsible for ensuring compliance of corporate entities with the Corporations Act 2001 (Cth) and with consumer protection legislation, where applicable.

### CUFSS

#### Credit Union Financial Support System

CUFSS is a voluntary self-regulated industry liquidity support scheme which is available to credit unions throughout Australia.

### Cuscal

Cuscal is a financial services company which provides industry banking and payment services.

# EECU Staff & Corporate Information

## EECU Staff

General Manager **David Nicholds**  
*BA, BComm, CPA, FAMI*

Administration Officer **Kathleen Harrison**

### Member Relations Group

Senior Member Relations Manager **Ron Cox**  
*BBus (Admin), Ass Dip Sys Des, MAMI*

### Melbourne

Member Relations Manager **Peter Barber**

Senior Member Relationship Officers **Mary Christou**  
**Helen Renfrew**

Member Relationship Officer **Tracey Cherubin**

### Sale

Member Relations Manager **Jenny Counahan**

Loans Officer **Vicki Gray**

Senior Member Relationship Officer **Susan Thomas**

Member Relationship Officers **Quinn Bird**  
**Trudi Elston**

### Corporate Services Group

Corporate Services Manager **Leanne Ladson**  
*BBus (Acc), CPA, MAMI*

Risk Management Officer **Colin Moyle**  
*BAppSc, BEc, FAMI*

Governance Officer **Janine Sawyer**  
*MAMI*

Systems Administrator **Su Tran**  
*BComm (Acc), CPA (Associate)*

Systems Support Officer **Bonnie Walls**

### Finance Group

Finance Manager **Michael Xu**  
*BComm (Acc & Fin), CPA (Associate), MAMI*

Accountant **Melissa Botha**  
*BComm (Management Acc)*

Accounting Officer **Leanne Hughan**

### Marketing Group

Marketing and Communications Coordinator **Nicole Blackmore**

Graphic Designer **Yvonne Ritchie**

## Corporate Information

Registered name EECU Limited  
Registered office 12 Riverside Quay,  
Southbank Vic 3006

Australian Business Number 35 087 650 039

Australian Financial Services Licence Number and Australian Credit Licence Number 244 356

BSB number 802-254

Website [eecu.com.au](http://eecu.com.au)

Telephone Aust 1300 65 3328  
Int'l +61 3 9608 8301

### Office locations

Melbourne 12 Riverside Quay,  
Southbank Vic 3006

Postal: GPO Box 400,  
Melbourne Vic 3001

t +61 3 9608 8300  
f +61 3 9608 8305  
e [melbourne@eecu.com.au](mailto:melbourne@eecu.com.au)

Sale 113 Cunninghame Street,  
Sale Vic 3850

t +61 3 5144 7094  
f +61 3 5143 2716  
e [sale@eecu.com.au](mailto:sale@eecu.com.au)

### Principal service providers

Affiliations Abacus - Australian Mutuals Limited

Credit Union Financial Support System Limited

Auditor - external audit Ernst & Young

Auditor - internal audit AFS & Associates Chartered Accountants

Bankers Cuscal Limited in conjunction with National Australia Bank Limited

Computer bureau Data Action Pty Ltd

Insurer CUNA Mutual Group

Solicitors Daniels Bengtsson  
Wisewould Mahony

