the community mutual group®

community mutual ltd. annual report 2012

Community Mutual Ltd.

Annual Report 2012

directors

M.G. Dennis

B.M. Goodall

G.R. Goodman

D.R. Honner

K.E. James

J.B. O'Connor

A.J. Sheridan

G.M. Thompson

P.G. Olrich

chief executive officer

K.P. Dupé

company secretary

D.L. Munday

registered office

Suite 4, New England Technology Park
Madgwick Drive
Armidale, NSW, 2350
(02) 6776 0444

solicitors

Daniels Bengtsson Pty Ltd
Level 4, 171 Clarence St
Sydney, NSW, 2000

Langes Lawyers
Level 6 / 60 York St
Sydney, NSW, 2000

bankers

Australian Settlements Ltd (ASL)
16 Thesiger Crt
Deakin, ACT, 2600

Australian and New Zealand Banking
Group Limited (ANZ)
Martin Place
Sydney, NSW, 2000

CUSCAL
National Australia Bank Limited
1 Margaret St
Sydney, NSW, 2000

Indue Ltd.
Level 3 / 601 Coronation Drv
Toowong, QLD, 4066

auditors

PricewaterhouseCoopers
201 Sussex St
Sydney, NSW, 1171

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Dear Members and staff,

As your Chairman, it is my pleasure to provide you with this report of the performance of the Community Mutual Group (Community Mutual Ltd) for the 2011-2012 financial year.

As you would be aware, the global economy continues to be shocked by bad news from one European economy or another. On the back of poor economic conditions in Europe and North America, demand for exports from countries such as China has slowed, leading to a slow down in their production and, hence, their imports of Australian mineral resources. When coupled with Australia's weak domestic demand, this has led to a slowing of our domestic economy. It is within this environment of a subdued economy and weak consumer and business confidence that I report to you on our performance over the past financial year.

Fortunately, our performance has been solid with modest asset growth of 4 per cent from $960 million to $1.01 billion. This growth has been profitable with a net profit after tax (NPAT) of $6.12 million, a responsible return on assets of 0.6 per cent. So, the prudential performance has been solid in the face of difficult times.

During the year, we undertook a major member survey with some spectacular outcomes. Firstly, the member participation rate, a huge record response with some 6,678 members giving us their feedback.

Secondly, the feedback was remarkable with some 98 per cent of members rating their overall service experiences as 'Good' or better, of which 92 per cent rated us as 'Very Good' or 'Excellent'. These are very encouraging results. Of course, there was much feedback on areas for improvement and our management and staff are already acting on that feedback to ensure we continue to enjoy our members' support and confidence.

Another significant outcome for us this year was the outcome of our annual staff survey where 76 per cent of our staff told us that they were satisfied or very satisfied with their employment with us. Bringing all three highlights together, we believe that your Board of Directors and Management have created a culture where a focus on excellence in member service is allowed to thrive. We have recruited and rewarded our people based on our values of integrity, respect and fairness. When these ingredients come together, it is a recipe for very high member satisfaction and loyalty which, in turn, results in a strong business model that produces solid financial returns as well as ensuring strong staff satisfaction and a stable workforce. In short, a winning formula for all.

On the back of our solid financial performance and in line with our members' wishes, we have once again given back to our community in both monetary and in-kind support. We have had another big year with our community involvement. In the 2011-12 financial year our sponsorship program put back $295,000 to 420 local community groups in both sponsorships and donations. The community partnership account continues to be a great success with members, this year generating over $170,000 for our communities, a growth of over 30% on last financial year. It's a great product, unique to our institution and truly is a revolution in community banking. This contribution really does show evidence of how both staff and members are living the 'at the heart of our community' positioning of our brand and our local communities are reaping the benefits from this.

With that, the Board would like to take this opportunity to celebrate our people. Firstly, to Kevin Dupe and his management team for their continued dedication to member service; our staff for their contribution to these fantastic business outcomes and, lastly, to our members for their support and loyalty. I also wish to acknowledge my fellow Board members for their skill and commitment to ensuring CMG continues to succeed and grow.

Michael Dennis
Chairman

"When these ingredients come together, it is a recipe for very high member satisfaction and loyalty which, in turn, results in a strong business model that produces solid financial returns..."

board of **directors**

integrity . respect . fairness

Dr Alison Sheridan
Board Member since 2003

Alison has extensive experience in education and consulting activities in management. Key responsibilities include Chair of Corporate Governance Committee.

Mr Brian Goodall
Board Member since 1997

A former member of the Orana Credit Union Board, Brian is a member of the Audit and Risk Committee.

Brian operates a Solicitor practice in Dubbo and Warren specialising in commercial and property matters.

Mr David Honner
Board Member since 1995

As the former Chairman of Orana Credit Union, David brings a wealth of Credit Union industry experience to the Board. David is a member of the Corporate Governance Committee.

Mr Michael Dennis
Chairman since 2005
Board Member since 1995

Michael brings a legal and regulatory background to the Board. A qualified Solicitor, he has served on the Board for seventeen years, the last seven as Chairman. Key responsibilities on the Board include ex-officio Member of Corporate Governance Committee and ex-officio Member of Audit and Risk Committee.

Mr Peter G Olrich
Board Member since 2011

Graham brings a history of strategy, leadership, risk management and business development to the Board. He has over 37 years experience in the banking sector, 14 of these served as CEO/Managing Director of Credit Union Australia. Graham runs his own Consulting business and has occupied various Board positions over the past 15 years. Key responsibilities include Chair of the Audit & Risk Committee.

Mrs Katherine James
Board Member since 2007

Katherine has experience in small business and corporate governance. She has participated in a number of Agriculture and Government related consultative committees.

As a small business person and agricultural consultant, she is well aware of the unique challenges that face small businesses, particularly in regional and rural areas. Katherine is a member of the Corporate Governance Committee.

Mr John O'Connor
Board Member since 1974

John has extensive experience in local government engineering and management. Prior to joining the Board of New England Credit Union, John served on the Board of Peel Valley Credit Union for 30 years, with seven years as Chairman. John is a member of the Corporate Governance Committee.

Mr Graham Goodman
Board Member since 1997

Graham has a diverse background in business, having experience in taxation, auditing and accounting positions within the public sector. Former member of the Peel Valley Credit Union Board. Awarded Honorary life membership of NSW Health Services Union in 2011. Graham is a member of the Audit and Risk Committee.

Mr Geoffrey Thompson
Board Member since 2008

Geoff is a partner in a successful accounting firm and has significant experience in providing specialised business advice to some of the Hunter Valley's most significant businesses. Geoffrey is a member of the Audit and Risk Committee.

executive **management**

integrity . respect . fairness

Mr Kevin Dupé
Chief Executive Officer

Kevin brings a strong economic background to the Credit Union. Kevin has over twenty years' experience in the Credit Union sector, including seventeen years at CMG. Prior to entering the Credit Union sector, Kevin spent sixteen years as a Director in various economic and socioeconomic policy units in the Federal Government.

Ms Valerieanne Byrnes
Executive Manager People, Communities and Credit

Valerieanne has extensive management experience from the Credit Union and Building Society sector. Valerieanne has also worked as a volunteer and consultant for the Credit Union Foundation of Australia in Papua New Guinea, Vanuatu and as part of the Credit Care team, building capacity in regional and remote communities.

Mr David Munday
Executive Manager Legal, Compliance, Operational Risk and Corporate Services / Company Sectretary

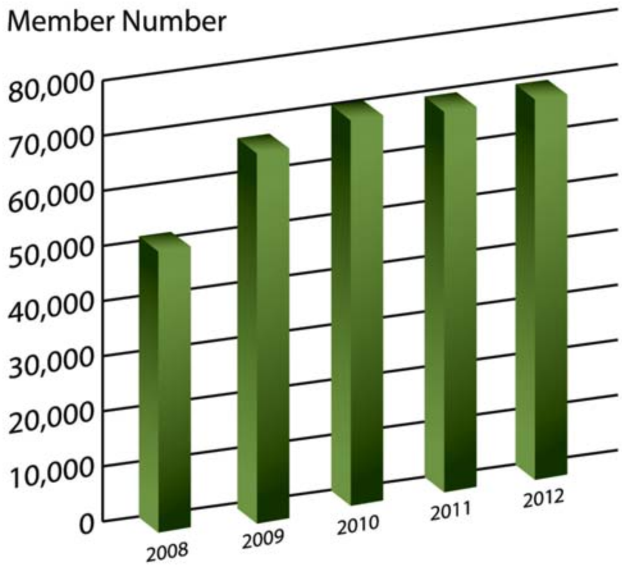
David has over ten years of experience in the Credit Union sector, providing a broad knowledge of company secretarial and corporate governance processes and practices.

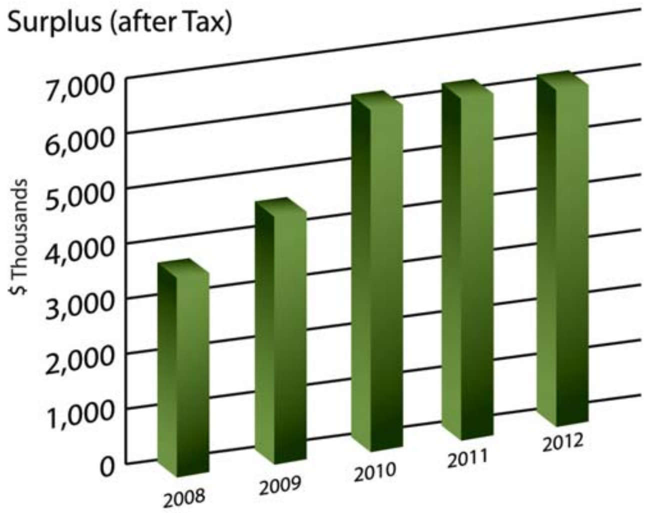
Mr James Harris
Chief Financial Officer

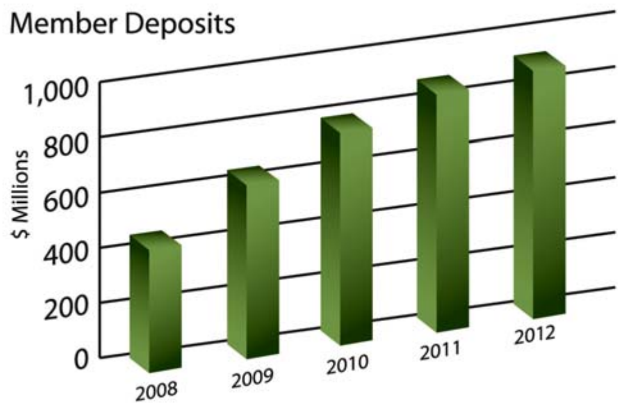
James has over fifteen years financial experience in the financial services, training and hospitality industries in Australia, Europe and North America. James holds professional qualifications in accounting and finance.

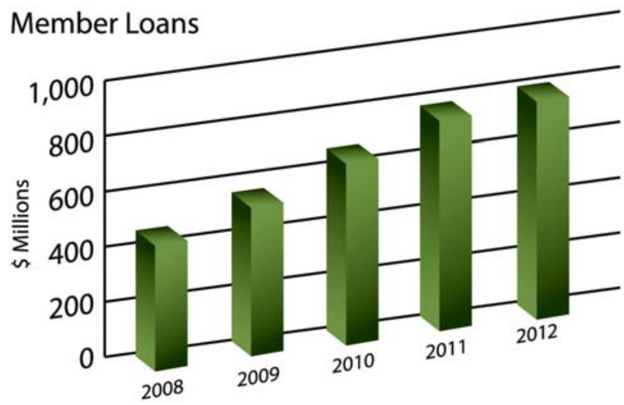
Mr Bill Miller
Executive Manager Member Service

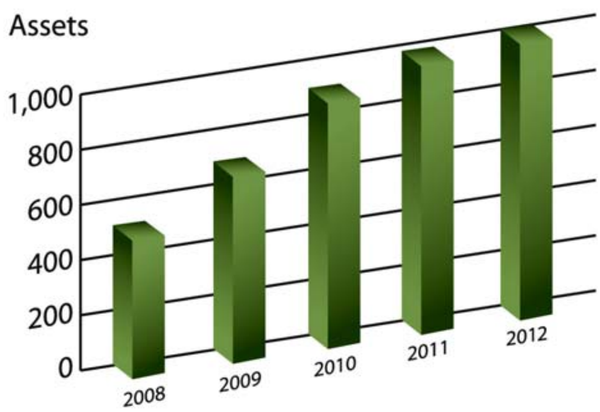
Bill brings over thirty years of experience in banking and finance to the Executive Management team. Prior to The Community Mutual Group, Bill held managerial positions with Colonial State Bank and the Commonwealth Bank.

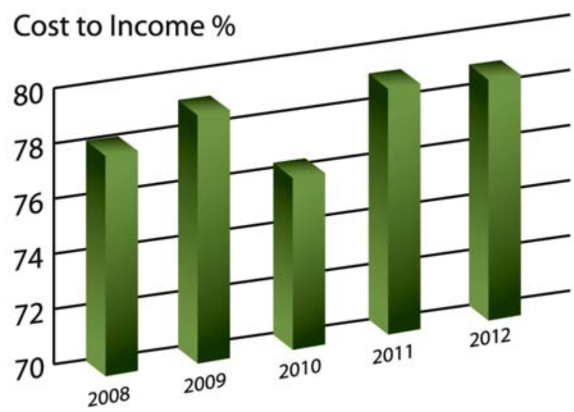

Member Number
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
2008
2009
2010
2011
2012

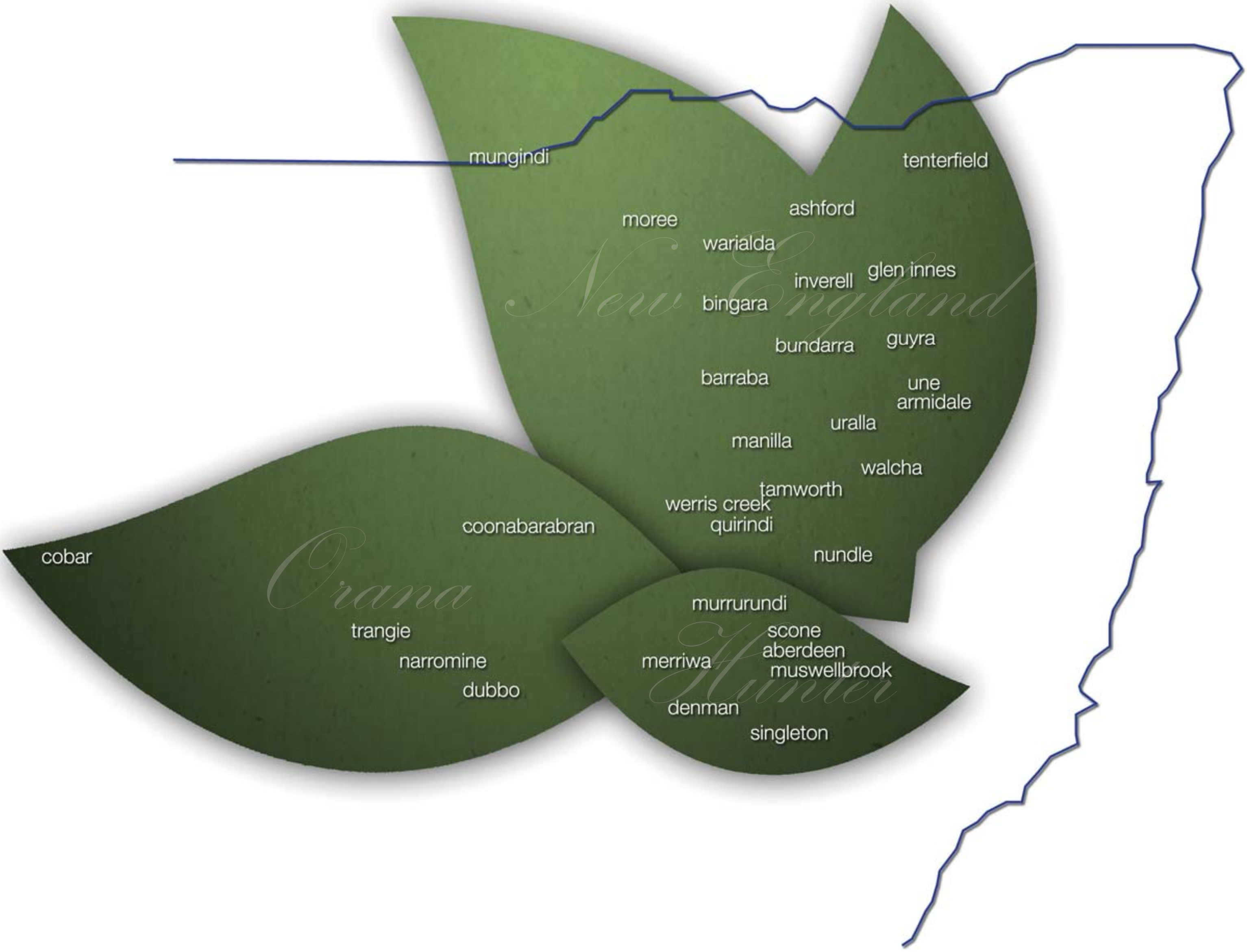

Surplus (after Tax)
$ Thousands
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
2008
2009
2010
2011
2012


Member Deposits
$ Millions
1,000
800
600
400
200
0
2008
2009
2010
2011
2012


Member Loans
$ Millions
1,000
800
600
400
200
0
2008
2009
2010
2011
2012


Assets
1,000
800
600
400
200
0
2008
2009
2010
2011
2012


Cost to Income %
80
78
76
74
72
70
2008
2009
2010
2011
2012



The Community Mutual Group was adopted as a trading name of New England Credit Union Ltd in January 2010, following the merger of New England Credit Union and Orana Credit Union in 2008, and a subsequent merger with Hunter Mutual in 2010. The new name was developed as a way to refer to the group of regional Credit Union brands that operate across the New England, North West, Central West, Orana and Hunter Valley regions of New South Wales.

The diagram above shows how The Community Mutual Group has grown since the first board meeting of the University of New England Staff Credit Union in 1969. Since 15 January 1970, when the Credit Union opened its door for the first time, The Community Mutual Group has expanded through a series of new branch openings and mergers.

Introduction

The Community Mutual Group (CMG) is the name used to describe three regional Credit Union brands that have combined to form a strong, regionally based financial institution. In the New England and North West regions, The Community Mutual Group trades as New England Mutual. In the Orana and Central West regions we trade as Orana Mutual. Similarly, in the Hunter Valley, our trading name is Hunter Mutual.

Mutuals and community go together like a horse and carriage; you can't have one without the other. We are a member based financial organisation and our members are the local people in the communities. Our members and their needs drive the organisation and we regard ourselves as an integral part of their communities. We support smaller centres where there are no other banking facilities, we are often the first port of call for people having a tough time, and we support many community organisations and events. This culture is right across our organisation as we take very seriously our responsibilities to provide competitive and sound financial services, empower our staff to make decisions locally and to support our members and communities. Having a physical branch presence in these areas means we are very involved in local concerns and priorities. That makes a big difference. A sense of community is integral to rural culture and we like being part of that.

CMG is a member-focused, value-driven organisation, committed to providing members with trusted community banking. We exist to ensure the financial well-being of our members and the sustainability of our communities. We strive to deliver genuine care and commitment to our members and our communities through our trusted products, services and through our broader contribution and participation in the community.

As a member-owned financial institution, CMG acknowledges the interdependency of our financial and non-financial contributions to the community. As such, we are implementing projects in both the financial and non-financial sphere, and developing systems to report on the interdependency between social, environmental and economic wellbeing.

Our Principles and Priorities

There are four areas of focus which stem from our operating principles, and these are:

1. our members
2. our people
3. our communities
4. our environment

We aspire to make a positive difference for the people in our community and we are passionate about developing and implementing ways to ensure our principles are demonstrated.

What is Corporate Social Responsibility (CSR)?

"A continuing commitment by CMG to behave ethically and contribute to economic development, while protecting the environment and improving the quality of life of our members, staff and community"

Our Members

1. **Goal: Achieve a high member satisfaction rating of over 75%**
2. **Goal: Increased participation rates through engagement strategies**
3. **Goal: Implementing Member Education Programs in each region**

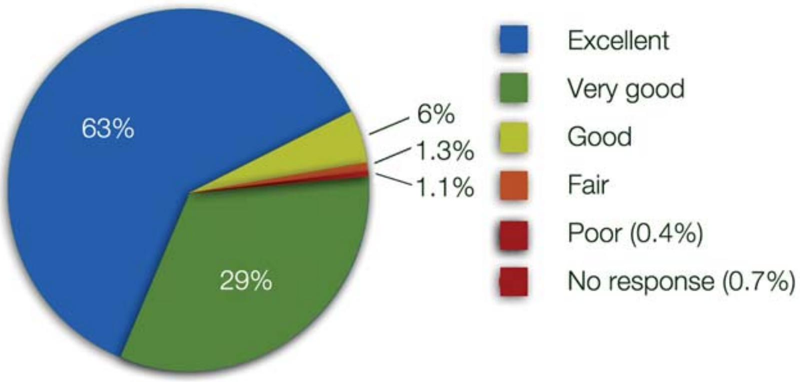
A commitment to our members is our first priority. We aim to provide a superior level of member value by ensuring that our members have access to quality service and products. We encourage member participation at all levels through member forums, focus groups, surveys and 'across the counter' feedback. We seek to make a genuine difference through democratic engagement with our members.

1. **Goal: Achieve a high member satisfaction rating of over 75%**
   Results: Achieved. 92% of respondents reported an 'Overall Quality of Service' as 'Very Good' or 'Excellent'.

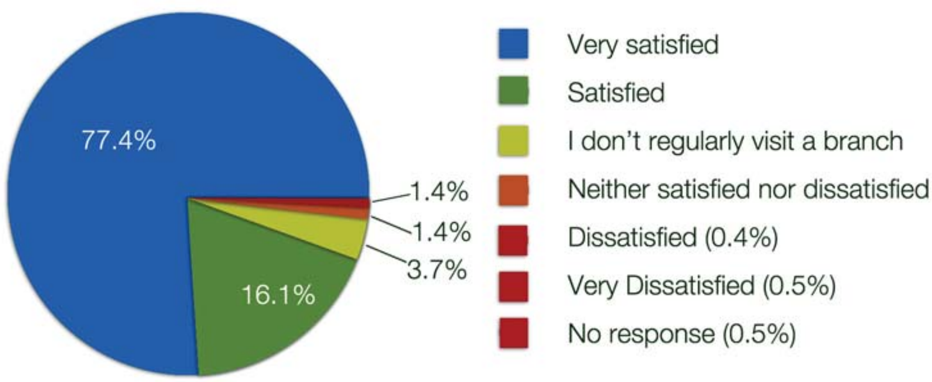
The Annual Member Survey was distributed in June 2012. Over 6500 responses were received with representation from members in the Hunter, Orana and New England. Since greater than 10% response rate for a survey is considered a strong result, with over 15% of our member base responding, we are able to make very sound conclusions from the member research.

The survey results showed that 92% of members rated 'Overall Quality of Service' with CMG either 'Very Good' or 'Excellent' (98% rating 'Good' or better). There were 93% of members indicating they are either 'Very Satisfied' or 'Satisfied' with the service at their local branch.

Overall Quality of Service



Local Branch Satisfaction



2. Goal: Increased participation rates through engagement strategies
Results: Achieved

i. **Annual Member Survey:** A record response to the surveys indicates that members are increasingly interested in providing feedback to our organisation. The very fact that the feedback was so positive (98%) shows us that our relationship with our members is healthy.

ii. **Focus Groups:** To engage members in discussion around key aspects of service, CMG hosts Member Focus Groups. They are used as a forum for our members to provide valuable feedback on our products, services and community image in order for us to identify, based on member input, key areas of change and improvements.

This year we hosted a Focus Group to engage with members on a proposal for a more competitive transaction fee structure. This proposal was based upon feedback received from members in the 2011 Focus Groups and Annual Member Surveys which called for a fee review. In order to have in-depth discussions related to the proposed new fee regime, members who were most likely to be affected by such changes were invited to a formal research evening. The evening was hosted by a professional facilitator, equipped with all the information to help members to understand the premise for the proposed fee changes. Members were invited to share their key concerns and they had an opportunity to make suggestions about the changes and the key communication that they would expect from CMG as members. The feedback results from this engagement process have been addressed in the planning phase of the fee review to ensure member interests are at the forefront during the change to the new structure.

iii. **Financial Health Check:** In March 2012 a Member Health Check Program was established with the objective to engage with members by inviting them to an appointment designed to review their financial needs and offer solutions for any needs they may have. Member feedback has been very positive with several members explaining how impressed they are with the proactive service and guidance in relation to their ‘financial health’.

iv. **Business Breakfasts:** Many of our branches regularly engaged members and the broader community by hosting regular business breakfasts that bring guest speakers from community groups, businesses, local government as well as CMG Executive Management. The frequency of these can be up to quarterly in some areas.

v. **Community Partnership Account Cheque Presentations:** In 2011-12 some 475 organisations received donations of varying amounts from this unique and revolutionary community savings account. Most of these recipient organisations were publicly presented with their cheques by their local Branch and Area Managers at organised functions across the network.

vi. **Member Functions:** Throughout October and November 2011, CMG invited members to participate in the celebration of the ‘International Year of the Co-operative’ and to provide a platform to engage with their organisation. The Member Functions are a social occasion, providing an opportunity for members to meet our staff, executive and board representatives. The events were held in Dubbo, Moree, Inverell, Tamworth, Armidale and Singleton, with buses provided from other local towns within the region. Members were encouraged to vote through their AGM proxy forms at these events and local guest speakers from community organisations and the broader membership were invited to address the audience.

In terms of providing a platform for engagement with members across the network these events were a great success, with record levels of attendance and positive feedback from members. At the request of members, these functions will continue to be held in 2012.

3. **Goal: Implementing Member Education Programs in each Region**
   Results: Achieved

i. **'Plan It Youth'** budgeting sessions occurred in Tingha and Ashford Schools for Year 5 students, with our specialist staff Learning and Development Co-ordinator. This partnership will continue into 2012-2013.
ii. **The 2012 IYC Schools Video Challenge** engaged schoolchildren and their teachers across the network in promoting 'What makes a credit union different?' The video entries were shown in a Gala event and displayed on CMG's website.
iii. **"Talking Cents"** for students at the University of New England: A series of forums to assist young people with their budgeting and other financial concerns, as they embark on their university careers.
iv. **'Banking Change Financial Literacy'** at Minimbah School, Armidale. Financial literacy sessions were delivered by Armidale Branch staff to students from Kindergarten to Year Six.

Managers and staff across the CMG network also spoke at local schools and the University of New England to provide assistance in the area of financial literacy as requested. CMG takes pride in offering personalised assistance in the branch to educate members about new banking technologies and budgeting.

Our People

1. **Goal: Staff Satisfaction Rating of > 70%**
2. **Goal: Employee Attrition Rate < 15%**
3. **Goal: An ongoing commitment to invest in learning and development across all employees with a minimum spend of no less than 1% of our total net profit**

At CMG, we share common values. These values focus on our responsibilities to each other, our members and our communities. Our values of; Integrity, Respect and Fairness, are the foundation of a strong business reputation and workplace culture. Staff education, recognition, remuneration and performance management are designed to promote and support commitment to service, community, credit union values and operating principles, team work and continuous improvement.

Annual Managers Forum proudly "at the heart of our communtiy".

We aim to provide our workforce with a supportive working environment, with a strong focus on professional development to ensure that our people have the opportunity to reach their full potential. We strongly promote equal employment opportunities and respect in our diverse workforce and align expectations to our values.

1. **Goal: Staff Satisfaction Rating of > 70%**
   Results: Achieved. An overall satisfaction score of 76% which was maintained from 2011. This is above the benchmark for the Mutual sector and is approaching worlds best practice (80%) from a world wide company perspective.

Our staff satisfaction and employee engagement is not just found in our employee staff satisfaction survey, but is fundamental across our entire range of employment strategies:

- Employee turnover
- Employee effectiveness
- Engagement and productivity
- Employer branding
- Operational effectiveness
- Sales effectiveness
- Leadership effectiveness
- Team effectiveness
- Team planning
- Retention

CMG, like other organisations, are faced with the challenge of understanding what drives employees most. Satisfied employees not only remain with CMG but are more productive. They are loyal and are most likely to recommend CMG's products and services whenever and wherever possible. Employees continue to assist and advise with attracting the best talent for future recruitment.

2. **Goal: Employee Attrition Rate < 15%**
   Results: Achieved. 12% attrition rate

At CMG we believe that retaining quality staff and remaining the employer of choice in our regions is critical to the long term health and success of our organisation. The ability to retain and attract employees ensures member satisfaction, satisfied staff, retention of organisational knowledge, learning and development and effective succession planning.

Staff turnover at CMG is currently 12%, which is a reduction from 17% last financial year. The industry standard for annual staff turnover in NSW Country areas is 16% (annually)*.

**Source McGuirk – 2011/2012 Performance Indicators*

3. **Goal: An ongoing commitment to invest in learning and development across all employees with a minimum spend of no less than 1% of our total net profit**
   Results: Achieved. CMG invested well above the 1% of net profit target on developing staff during 2011-2012.

As one of our most critical assets, this investment in our people enables us to continue to achieve organisational success. The average spend per staff member was comparable to other NSW country financial organisations (McGuirks Benchmarks, 2011). All staff were provided with the opportunity to participate in continuing professional development.

Our Community

1. **Goal: A continued focus and investment of 5% of net profit in our regional communities through an active community support program**
2. **Goal: The establishment of a Charitable Trust with Deductible Gift Recipient (DGR) status**
3. **Goal: The development and implementation of Community Engagement strategies in partnership with existing members and like organisations**

Building partnerships with community groups is a central part of what we do, and who we are. We aim to provide enduring benefits in the communities in which we operate. These benefits extend above and beyond the provision of financial services. We achieve this primarily through our community investment programs, partnerships, sponsorships and donations.

1. **Goal: A continued focus and investment of 5% of net profit in our regional communities through an active community support program**
   Result: Achieved. The program achieved the target of 5% of net profit in 2011-2012.

CMG's support of local communities in the last 12 months has resulted in direct assistance to over 420 various community organisations, totaling more than $295,000. CMG provided sponsorships and donations to a range of community groups and events in a number of categories, including sporting, arts, education, employment, environmental, indigenous/cultural, and health related initiatives.

2. **Goal: The establishment of a Charitable Trust with Deductible Gift Recipient (DGR) status**
   Result: In progress

The due diligence process has been completed and CMG has sought legal advice and guidance for the establishment of the Foundation (Trust). It is envisaged that the structure and governance requirements will be completed in the first half of the 2012/13 financial year.

3. **Goal: The development and implementation of Community Engagement strategies in partnership with existing members and like organisations**
   Results: Achieved

Taking into consideration the member feedback gained through the 2011 focus groups, CMG will focus on making sure our social and environmental projects are in the interest of not only our members but also the wider community.

i. **Social Programs and Projects:** We have been providing financial and in-kind support to see two major community projects maintain their momentum. The first is BackTrack which has proven to be one of the country's most successful youth programs. It has seen over 300 young people who have been through the program and are now in work, apprenticeships, training or at school or TAFE. We are delighted that the program has recently secured $800,000 in federal funding on the back of some great work and inspiring leadership from its founder Bernie Shakeshaft. CMG CEO Kevin Dupe continues to head the BackTrack steering committee, and with participation at this level it exemplifies the culture of CMG, and will ensure that this support will continue.

   Secondly, CMG have been working on a community project in Tamworth to build an Adventure Playground at their

Marsupial enclosure at Endeavour Park. It too has received federal government funding to go ahead and has encouraged us to look at exploring this type of infrastructure investment in other communities. It's a model that we are learning from, and one we would love all of our communities to consider. CMG would like to acknowledge the great work of Charles Impey – President of the Adventure Playground committee, and our Tamworth Branch for their active support.

Tamworth Branch Staff and Head Office Staff fundraise for the Tamworth Adventure Playground.

ii. **Community Partnership Account:** Each year CMG provides essential support to community groups as part of our Community Support Program. As one example, the Community Mutual Group offers Community Partnership Accounts (CPA) to assist community-based organisations with their fundraising activities. The CPA is a full access savings account that offers a competitive interest rate and a guarantee that we will reward the account holder's nominated community group with an annual bonus payment. As a measure of the trust of these groups, in 2012, approximately 475 community groups invested more than $17m through these transaction accounts. In return, more than 6,000 members received personal interest payments, and we were able to invest $171,222 back into the community through these groups. Overall, the average balance of CPA accounts grew by 31% on the previous year. This represents an increase of approximately $54,000, and an additional 75 beneficiary organisations, compared with last year. The Community Partnership Account is just one example of how everyone WINS through this initiative. Members WIN through a competitive transaction account, community groups WIN by receiving financial support, and we WIN through being able to direct more funds back into the communities in which we operate.

Promoting our Community Partnership Account at the Orana Mutual Annual Dubbo Show.

iii. Community Sponsorships Program: This year CMG has partnered with and actively supported Clean up Australia Day, Landcare, New England Wind, BackTrack, Beyond Empathy, New England Sustainability Strategy, Citizen's Wildlife Corridors, Cornerstone Church Soup Kitchen, The Community Youth Center Group, and many more.

iv. Community Education: As an active participant in the 'International Year of the Cooperative,' CMG have engaged community leaders by coordinating and hosting a series of forums on how cooperatives can assist in regional prosperity. The first of the 'Building Regional Prosperity Forums' was held at the University of New England in collaboration with the UNE Business School, attracting a large audience from across the region.

CMG has also created the inaugural Schools Video Challenge which saw 13 schools across the three regions of Orana, Hunter & New England to engage with CMG to explore 'what makes a Credit Union different?' The Video Challenge distributed prize money into local public schools and achieved much more in community education.

v. Volunteer Work: Of course there is a large component of in-kind donations of human capital (our staff) in both time and expertise for many worthwhile projects. At CMG we encourage and celebrate volunteering. CMG staff are afforded 1 day of paid leave per year to volunteer. Managers will work with staff to approve the required leave. Some of the many volunteer organisations that CMG are involved in are: Meals on Wheels, Camp draft and Horse sports, Chamber of Commerce, Rotary, Girl Guides, Tamworth Adventure Playground, BackTrack and numerous local sporting activities including soccer, hockey, football, golf and swimming.

Hunter Mutual Staff supporting the Denman Food and Wine Festival.

vi. Fundraising: The CMG Staff Foundation, established in 2002, raises funds for various causes through appeals run by staff across the CMG network. The Foundation has supported the scholarship of a Postgraduate Student involved in the Memory Assessment Program at UNE, which provides assistance to sufferers of Dementia and Alzheimer's that are in the early stages of the disease. Fundraising initiatives have included conducting raffles, events and barbeques and publishing a calendar to raise funds for local and national charities. Staff offer assistance to community groups as required.

vii. Facilities: We host community meetings at our Technology Park Head Office located in Armidale. Our marquee's are also used regularly for community events such as school fetes, youth camps and sporting carnivals. We offer expertise and office support to several community groups for promotions of events and community causes.

Our Environment

1. **Goal: Reduce electricity usage throughout the CMG branch network by 7.5% through the utilisation of energy efficient practices**
2. **Goal: Minimise the usage of paper throughout the network by 10% through refinement of practices**
3. **Goal: Implementation of sustainable waste practices throughout the network**

CMG is committed to the responsible use of resources such as paper, power and fuel, for the benefit of the environment, and to maximise member returns. CMG continued implementing measures to reduce power and paper consumption through the NSW Government Sustainability Advantage Program. In 2013 we will focus on further reducing our operational footprint, through initiatives such as offering online statements to members, and by partnering with like-minded organisations such as Landcare and the Sustainability Advantage business network.

Throughout 2012 we have worked hard to capture and consolidate the 2010-2011 data needed to establish an accurate baseline for our energy, paper and fuel use, while putting in place initiatives to reduce material and operating costs. As a result of these initiatives, CMG reduced overall carbon emissions by 7.9% in 2012. There are a number of direct and indirect member benefits attributable to these reductions, and we look forward to furthering these gains in 2013.

1. **Goal: Reduce electricity usage throughout the CMG branch network by 7.5% through the utilisation of energy efficient practices**
   Result: Achieved. CMG's electricity use across the branch network decreased by 12.3%, with estimated cost savings of $50,000.

A further 10% reduction in electricity and carbon dioxide emissions is being targeted in 2012-13, through participation in the NSW Government's Sustainability Advantage Program and other measures.

Continuous capture of this data on a yearly basis will enable accurate assessments of our environmental footprint as a whole network, as well as branch by branch, to more clearly identify opportunities for staff and members to use energy more efficiently.

2. **Goal: Minimise the usage of paper throughout the network by 10% through refinement of practices**
   Result: Achieved. Paper use throughout the CMG network decreased in 2011-12 by 20%, with savings of almost 500,000 pages. Further significant savings are planned in 2013 and beyond, through the option of paperless statements for members.

The CMG reduced overall carbon emissions by 8.9% in 2012

3. Goal: Implementation of sustainable waste practices throughout the network

Result: In progress

CMG has branches in 18 Local Government Areas (LGAs) across NSW. This year CMG has participated in Bin-Trim audits for a number of branches, to determine baseline information and plan improvements in recycling, and landfill waste deposits. The audits revealed a number of opportunities to reduce waste across the network, and plans will be implemented in 2013, aiming to further reduce environmental footprint in relation to waste.

CMG continues to develop and refine sustainability monitoring and reporting systems in order to capture consistent data on our social and environmental performance. These systems will allow us to gauge the effectiveness of our social and environmental projects, and help us to re-invest in areas to help maximise highest social returns for members. Under this system, CMG will move toward reporting under internationally recognised sustainability standards, and will implement quality assurance measures and reporting for our members and stakeholders.
In addition to the goals set last year, we have made a considerable effort to enhance our environmental commitment through membership of various organisations:

i. **A member of the Northern Inland Sustainable Business Network (NISBN)**. NISBN enables CMG to network amongst other sustainable businesses and improves our education and awareness to assist in furthering our sustainable practices.

ii. **A member of Sustainability Advantage**. Showing commitment to sustainable business practice has lead CMG to build systems and participate in the NSW Government's Sustainability Advantage program in 2011. The program has helped CMG assess the efficiency of our resource use and identify opportunities for improvement. Increasing energy and paper efficiency will be a key goal for 2012-13, as well as responsible recycling, including electronics.

Resource Use and Carbon Footprint – 2011 & 2012 Financial Year

Input	2010-11 (baseline)	2011-12	Net Difference
Paper	12,500 kgs	9,995 kgs	**Saving – 20%**
Power	1,302,928 kWh	1,193,729 kWh	**Saving – 8.4%**
Fuel (surface litres)	35,040 lts	37,027 lts	**Increase – 5.7%**
Fuel (air km)	250,527 km	235,554 km	**Decrease – 5.9%**
Solid Waste to Landfill	12 tonnes (estimated)	12 tonnes (estimated)	**0**
Carbon Dioxide Equivalent (CO2e)	**1,606 tonnes**	**1,479 tonnes**	**Decrease - 7.9%**

Future Goals

Our Members

- Achieve member satisfaction > 90%
- Increase participation rates through engagement strategies
- Implementing Member Education Programs in each region

Our People

- Achieve staff satisfaction > 70%
- Attrition rate <15%

Our Community

- Establish CMG Foundation
- A continued focus and investment of 5% of net profit in our regional communities through an active sponsorship and donations program
- The development and implementation of Community Engagement strategies in partnership with existing members and like organisations
- Establish and implement CMG Financial Literacy Program
- Raise awareness of and support for member owned institutions
- Enhance employment skills through participation in programs such as work placement and contributions toward social development schemes

Our Environment

- Implement Sustainability Advantage Program
- Implement Sustainability Policy and a Sustainability Management System to direct and track our environmental impact
- Reduce electricity usage by 10% throughout CMG branch and office network by utilising energy efficient practices
- Minimise the usage of paper throughout the network by at least 5% through refinement of practices
- Implementation of sustainable waste practices throughout the network including the responsible recycling of paper and electronics
- Continue transitioning to using 50% recycled paper
- Reduce paper use through offering members digital statements

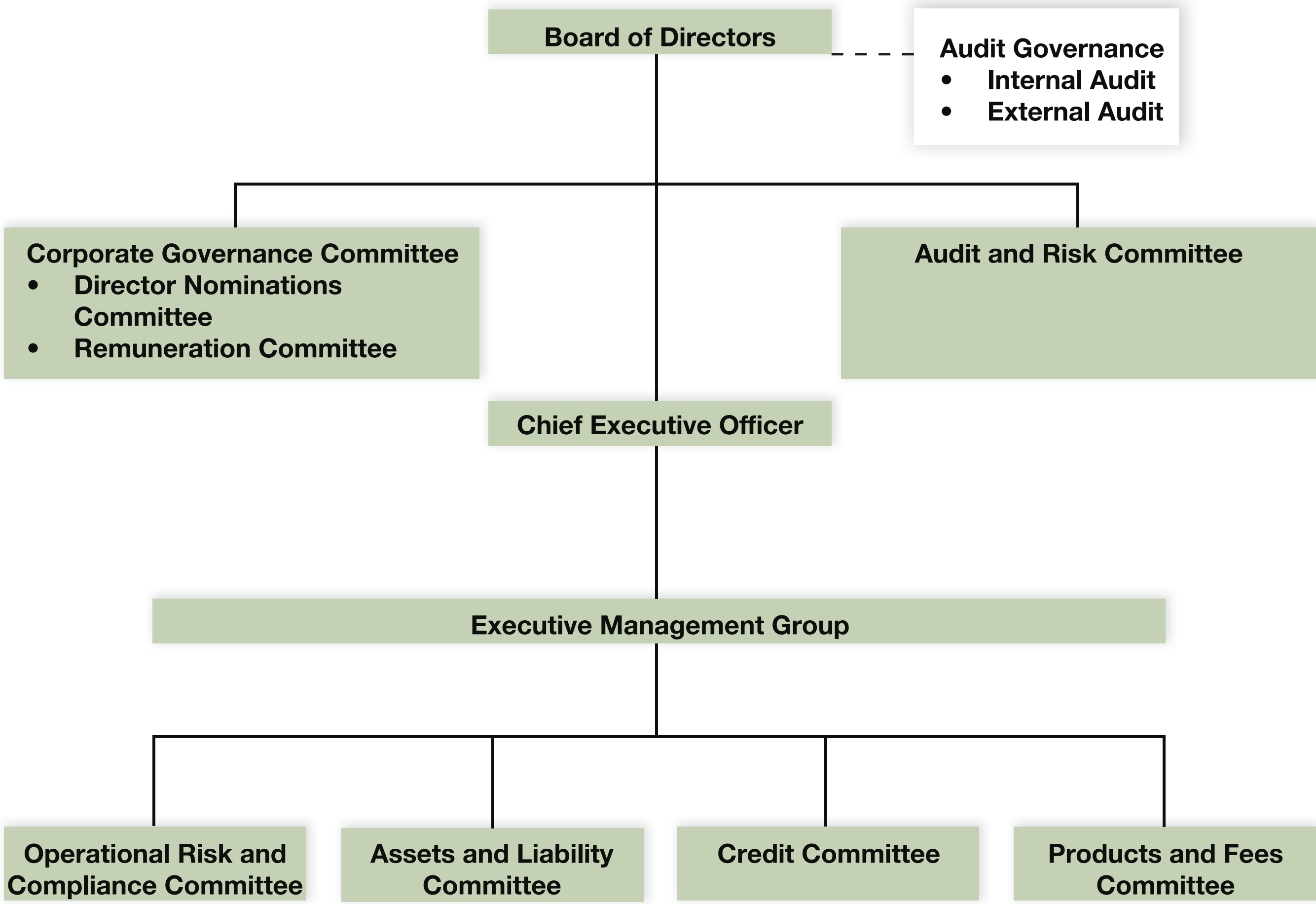
Approach to Corporate Governance

The Board of Community Mutual Ltd (trading as the Community Mutual Group – (CMG)) places great importance on its governance framework to ensure sustainable financial performance and long-term prosperity. This Corporate Governance Framework has been developed to support CMG's member focused strategic plan, whilst ensuring a clear structure of oversight of key controls.

At CMG, the Board and staff are responsible for upholding those values which underpin operational activities, provide transparency and protect members' interests: Integrity, Respect, and Fairness. These values are important in embracing governance principles and ensuring behaviours are directed toward best practice operations.

The foundations of good governance by which CMG operate are set out by the Australian Prudential Regulation Authority (APRA) and the Australian Securities Investment Commission (ASIC). Whilst CMG is not required to report against the ASX Corporate Governance Principles and Recommendations, it seeks to embrace these guidelines to ensure a best practice approach is followed.

The Board has established an appropriate structure for the oversight and management of CMG which is reflected in the following Corporate Governance Framework:



This document reflects CMG's approach to governance and its corporate governance framework as at 30 June 2012.

Foundations for Management and Oversight

The Board is the governing body of CMG and therefore, it is the responsibility of the Board to ensure that the foundations for management and oversight of CMG are established and appropriately documented and monitored.

Role of the Board

The Board's powers are outlined in the Constitution and the Board Corporate Governance Policy. The Board has adopted a structure of policies which detail its role and responsibilities, delegations, operation and performance of the Board. In summary, the role of the Board includes:

- Providing strategic direction and approving significant strategic initiatives to ensure the continued growth and success of the business;
- Monitoring financial performance through the review of business results and maintaining a direct and ongoing dialogue with CMG's auditors;
- Setting, monitoring and reviewing CMG's risk appetite;
- Monitoring compliance with regulatory and statutory requirements and the implementation of related policies;
- Establishing and monitoring CMG's values, culture, reputation and ethical standards;
- Monitoring the effectiveness of the Corporate Governance Framework; and
- Appointing and reviewing the performance of the CEO.

To ensure the CMG Board is well equipped to discharge its responsibilities, CMG has established guidelines based around skills, knowledge, experience and values for the nomination and selection of Directors and for the operation of the Board. The duties of Directors are clearly articulated to ensure a clear and transparent expectation of their role.

Meetings of the Board are held regularly with Board committees meeting as often as required to carry out their respective functions. Directors are expected to prepare for, attend and participate at Board meetings and meetings of committees.

The Chief Executive Officer, Chief Financial Officer and Company Secretary are invited to attend all Board meetings. It is the Board's practice to allow other members of Executive Management to attend Board meetings when an issue which comes under their area of responsibility is being considered or as otherwise requested by the Board.

The Board has delegated day to day management of CMG to the Chief Executive Officer. The scope of this delegated authority is clearly documented to ensure effective oversight with appropriate empowerment and accountability.

Structuring the Board to Add Value

The Board ensures that, collectively, Directors have a broad range of relevant financial expertise, industry experience and other skills to meet CMG's strategic objectives. The composition of the Board and the election of Directors are determined in accordance with CMG's Constitution, and other statutory and regulatory requirements as apply from time to time. The Board is able to appoint two directors at their discretion, allowing the Board the flexibility to be able to source appropriate skills and expertise onto the Board from time to time.

The Corporate Governance Committee has been delegated responsibility to review and make recommendations to the Board regarding Board composition, and to assist in the Director nomination process. This committee assists the Board in evaluating potential candidates against criteria such as professional skills, experience and personal qualities. The

Board requires that each of its Directors and Executive Management undertake fit and proper character assessments to ensure compliance with APRA's Prudential Standard *CPS 520 Fit and Proper*.

The CMG Board comprised of 9 Directors throughout the 2011/12 financial year. Details of their experience and qualifications are set out in the Directors Report.

Board Committees

The Board is responsible for committee composition, structure and functions. To assist it in discharging its responsibilities and oversight of the business, the Board has established two committees, being the Audit & Risk Committee and the Corporate Governance Committee. Membership of these committees is set out as follows:

Director	Audit & Risk	Corporate Governance
Mr Michael G Dennis	Ex-officio Member	Ex-officio Member
Mr John B O'Connor		Member
Mr David R Honner		Member
Mr Brian M Goodall	Member	
Mr Graham R Goodman	Member	
Mr Geoffrey M Thompson	Member	
Mrs Katherine E James		Member
Dr Alison J Sheridan		Member & Chair
Mr Peter G Olrich	Member & Chair	

Each of the Board committees operates within its own terms of reference which set out matters relevant to the composition and responsibilities of that committee, which are reviewed by the respective committee and Board every twelve months.

The Board and its two committees are structured in accordance with the following parameters:

- Must be of a size that facilitates effective and efficient decision making;
- Must comprise Directors with a broad range of skills and experience from a diverse range of backgrounds appropriate to CMG's business; and
- The Board Chairman and the Audit & Risk Committee Chairman must be independent Directors.

The Board delegates to the Corporate Governance Committee the role of the Director Nominations Committee and the Remuneration Committee, as well as the role of conducting fit and proper assessments for Director candidates and making recommendations to the Board.

Audit & Risk Committee

The Audit and Risk Committee's Terms of Reference are to:

- Review monthly financial reports and make recommendations to the Board on significant accounting and financial policies;
- Review compliance with APRA statutory reporting requirements;
- Evaluate the adequacy and effectiveness of the risk management framework and review and recommend to the Board financial risk management policies around operational risk, credit risk and financial risk;
- Review the effectiveness of business continuity and disaster recovery planning and consider whether they are

relevant, reliable and capable of prompt implementation;

- Recommend the appointment, and where necessary, the removal of the External and Internal Auditor;
- Review the reports on the findings of the audits and ensure that issues are being managed and rectified in an appropriate and timely manner;
- Review and approve the annual audit plans and activities for the internal audit function; and
- Oversee the Whistle Blowing Policy and processes.

The Internal Auditor and the External Auditor are both invited to attend meetings at the discretion of the committee.

The committee currently holds meetings as required.

Corporate Governance Committee

The Corporate Governance Committee's Terms of Reference are to:

- Assess all persons, including existing Directors, prior to their appointment or election as a Director as to their fitness and propriety and make recommendations to the Board on candidates for appointment as Director;
- Coordinate the annual Board and Director performance assessment process;
- Make recommendations to the Board with regard to succession planning for the positions of Chairman, Director and Chief Executive Officer;
- Evaluate the adequacy and effectiveness of the Corporate Governance Framework and review and recommend to Board the governance policies;
- Make recommendations to the Board on Director and Chief Executive Officer remuneration, as well as the remuneration packages of the direct reports to the CEO and other persons covered by the Remuneration Policy;
- Ensure there is an induction / orientation and education program for new Directors and to make recommendations on opportunities to improve Directors' knowledge and skills;
- Evaluate and review plans on succession planning for Board positions; and
- Review adherence to CMG's legal responsibilities.

The committee holds meetings as required.

Directors' Independence

APRA's Prudential Standard *CPS 510* on governance mandates that Authorised Deposit Taking Institutions (ADIs) must have a majority of independent Directors at all times. All of the Directors of CMG serve in a non-executive capacity and the CMG Board has adopted specific principles in determining Directors' independence. To ensure compliance with governing prudential standards, a CMG Director cannot be regarded as independent if that Director:

- Is employed, or has previously been employed in an executive capacity by the regulated institution or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- Has within the last three years been a principal of a material professional adviser or a material consultant to the regulated institution or another group member, or an employee materially associated with the service provided;
- Is a material supplier or customer of the regulated institution or other group member, or an officer of or otherwise associated directly with a material supplier or customer; or
- Has a material contractual relationship with the regulated institution or another group member other than as a Director.

The Board assesses independence annually in accordance with the Board Corporate Governance Policy, requiring

each Director to disclose all information that could reasonably be considered to influence their capacity to act as an independent Director. All current Directors have been assessed as independent Directors.

Review of Performance

The Board has established an annual performance review process which is designed to assess the performance and effectiveness of the Board as a whole, its committees and individual directors. The Board, from time-to-time, engages an external consultant to carry out the Board performance review. This was last undertaken in the 2010 / 2011 financial year.

Access to Independent Information and Advice

All Directors have unrestricted access to records and information of CMG. In order to fulfil their responsibilities the Board collectively, and each Director individually, has the right to seek independent professional advice whenever it is considered necessary. Individual Directors may seek independent professional advice on any matter connected with the discharge of their responsibilities to ensure they exercise their objective, unfettered and independent judgement.

In addition, the Board and each committee, at the expense of CMG, may obtain relevant professional advice, as required, to assist in undertaking its role.

Ethical and Responsible Decision Making

The Board, Chief Executive Officer, Executive Management and all employees are responsible for adhering to, and promoting, high standards of ethical behaviour and decision making.

Code of Conduct

In carrying out its role, the Board operates in accordance with approved governance policies and in a manner reflecting CMG's values and behaviours. The Board has developed a Code of Conduct which applies to everyone at CMG. This code is reviewed annually to ensure it reflects the highest level of behaviour and practices, and provides a guideline for the standards of ethical behaviour and decision making expected to be displayed by all CMG employees.

The Code of Conduct details standards and expectations around behaviour to ensure that the highest standards are maintained and CMG's reputation enhanced.

Conflict of Interest

In accordance with the *Corporations Act 2001* and CMG's Constitution, each Director must ensure that no action or decision is taken that places their interest in front of the interests of CMG. Directors commit to the collective decision-making processes of the Board. Individual Directors are expected to debate issues openly and constructively and to be free to question or challenge the opinions of others.

The Board has established a clear framework for the handling of actual or potential conflicts of interest with respect to the activities or decision-making responsibilities of CMG's Directors. In order to ensure that such conflicts are properly identified and managed, all CMG Directors are required to disclose any conflict of interest (whether actual or potential).

Management Delegation

The Board has delegated authority to achieve CMG's strategic objectives to the Chief Executive Officer (CEO) who is responsible for day-to-day leadership and management of CMG's business activities and implementation of Board-approved strategies, policies, resolutions and directions.

To ensure responsible decision making the CEO has developed an approvals framework where management committees make recommendations to the CEO in relation to operational matters. Delegations from the CEO to management are clearly documented.

The Executive Management Team meets regularly with the CEO to provide advice on matters that are strategic or have the potential to impact CMG's business.

Whistleblower Protection

CMG has a commitment to fostering a culture of compliance, ethical behaviour and good corporate governance. CMG's whistleblower protection policy enables individuals to voice concerns or escalate serious matters on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

Remunerate Fairly and Responsibly

The Board, through the oversight of the Corporate Governance Committee, is responsible for remuneration practices that assist in attracting and retaining executive and other individuals who are critical to CMG's success. It is CMG's objective to provide maximum member benefit from the retention of a high quality Board and the Executive Management Team by remunerating fairly and responsibly by reference to prevailing market benchmarks.

In accordance with the requirements of APRA's Prudential Standard *CPS 510* on governance, CMG has a framework for managing approval of remuneration for Board, the CEO, Executive Management and other individuals who are responsible for managing financial performance and risk management.

The Board regularly undertakes an independent review of Board remuneration in line with the mutual sector of financial institutions and used independent benchmarking data for the 2011/2012 financial year to ensure that remuneration practices were consistent with market practices.

Safeguard Integrity in Financial Reporting

The Board of CMG is committed to ensuring that the financial reports present a true and fair view and are constructed in accordance with applicable accounting rules and policies. The Board, through the responsibility of the Audit & Risk Committee, maintain a close focus to ensure the external auditor is independent and serves members interest by knowing the true financial position of CMG.

Recognise and Manage Risk

The CMG Board has responsibility for setting CMG's risk appetite and overseeing risks inherent in CMG's business. The Board is responsible for approving CMG's Risk Management Framework and monitoring and reviewing the performance of CMG in accordance with the risk framework.

Through the Audit & Risk committee, the Board is responsible for ensuring there are internal control systems. There are established policies for oversight and management of material risks. These are embedded as controls to manage CMG's material business risks. Further explanatory notes on the management of risk are included throughout the financial report.

financial **report**

Your Directors present their report on the Community Mutual Ltd ("the Credit Union") for the financial year ended 30 June 2012.

The Credit Union is a public company registered under the Corporations Act 2001.

Information on Directors

The name of the Directors in office at any time during the year are:

Mr Michael G Dennis - BLegS (Macquarie) - Non-Executive Chairman
Dr Alison J Sheridan - BAgEc(Hons) (Syd), PhD (UNE), GAICD - Non-Executive Director
Mr Peter G Olrich - Dip FS, Dip FS (Credit Union Directorship), FAICD, FAMI - Non-Executive Director
Mr John B O'Connor - LGE, Grad Dip Mgmt & Bus Admin - Non-Executive Director
Mr David R Honner - JP, FIPA, FAMI, GAICD - Non-Executive Director
Mr Brian M Goodall - B.Ec LLB, GAICD - Non-Executive Director
Mr Graham R Goodman - BA (Economics) (UNE), FAMI - Non-Executive Director
Mrs Katherine E James - BRurSci (UNE), GAICD - Non-Executive Director
Mr Geoffrey M Thompson - BFin Admin, FCA - Non-Executive Director

Information on Company Secretary

The Company Secretary is Mr David L Munday BComm (UNE), Grad Dip Applied Corporate Governance (CSA Syd), GAICD, ACIS. Mr Munday was appointed to the position of Company Secretary in 2004.

Information on Board Meetings

	Board		Corporate Governance		Audit & Risk	
	E	A	E	A	E	A
Mr Michael G Dennis	10	10	4	3	4	2
Dr Alison J Sheridan	10	10	2	2	2	2
Mr Peter G Olrich	6	5	*	*	2	2
Mr John B O'Connor	10	9	4	4	*	*
Mr David R Honner	10	10	3	3	*	*
Mr Brian M Goodall	10	10	*	*	4	4
Mr Graham R Goodman	10	9	*	*	4	3
Mrs Katherine E James	10	10	4	4	*	*
Mr Geoffrey M Thompson	10	9	*	*	4	4

E = number of meetings Directors eligible to attend
A = number of meetings attended during the time the Director held office
* = not a member of the relevant committee

Directors Benefits

No Director has received or become entitled to receive, during, or since the end of the financial year, a benefit because of a contract made by the Credit Union 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 40 of the financial report.

Indemnifying Directors, 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 cover has been provided for the benefit of the auditors of the Credit Union.

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.

Review of Operations

The net profit of the Credit Union for the year before income tax is $8,615,000 (2011: $8,731,000) representing a result on par with the previous year.

Dividend on Tier 1 Shares

Dividends paid during the year on permanent preference shares was $5.39 per share amounting to a total dividend of $788,000 (2011: $813,000).

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Credit Union during the financial year.

Significant Events After the Balance Date

There have been no significant events occurring after balance date which may affect the Credit Union's operations or results of those operations.

Likely Developments and Expected 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.

Rounding

The financial report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Credit Union under ASIC class order 98/100. The Credit Union is an entity to which the class order applies.

Non-Audit Services

The following non-audit services were provided by the Credit Union's auditor, PricewaterhouseCoopers. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

PricewaterhouseCoopers received or are due to receive the following amounts for the provision of non-audit services:

	$
Taxation Services	19,250
Total	**19,250**

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out following the Director's Report.

Signed in accordance with a resolution of the Directors

M G Dennis
Director
28 September 2012

P G Olrich
Director

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Community Mutual Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Community Mutual Limited during the period.

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Sydney
28 September 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Interest income	5	71,219	69,065
Interest expense	6	(38,097)	(35,366)
Net interest income		**33,122**	**33,699**
Non-interest income	7	7,245	7,497
Net operating income		**40,367**	**41,196**
Impairment loss on loans and advances	8	(694)	(1,135)
Employee benefits expense	8	(15,926)	(15,878)
Occupancy expense	8	(2,651)	(2,464)
Depreciation and amortisation expense	8	(1,735)	(2,054)
Information technology and communication expense	8	(3,400)	(3,262)
Other operating expenses	8	(7,346)	(7,672)
Total operating expenses		(31,752)	(32,465)
Profit before income tax		**8,615**	**8,731**
Income tax expense	9	(2,498)	(2,546)
Net profit after tax attributable to members		**6,117**	**6,185**
Other comprehensive income			
Revaluation reserve	30	-	-
Income tax relating to components of other comprehensive income	9	-	-
Other comprehensive income for the year net of tax		**-**	**-**
Total comprehensive income for the year		**6,117**	**6,185**

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

STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Cash and cash equivalents	11	101,499	79,864
Due from other financial institutions	12	13,500	3,000
Trade and other receivables	13	11,436	7,080
Loans and advances to members	14	765,092	741,830
Financial Assets - available-for-sale	16	314	312
Financial Assets - held-to-maturity	16	106,904	119,506
Property, plant and equipment	17	6,412	7,064
Intangible assets	18	438	888
Deferred tax assets	19	1,671	1,775
Loss reserve loan	20	2,390	2,390
Total Assets		**1,009,656**	**963,709**
LIABILITIES			
Deposits	21	882,974	845,989
Trade and other payables	22	20,818	16,894
Current tax liabilities	23	1,246	1,639
Deferred tax liabilities	24	-	-
Provisions	25	2,498	2,399
Lease Liabilties	26	767	1,314
Subordinated debt	27	9,300	9,300
Total Liabilities		**917,603**	**877,535**
Net Assets		**92,053**	**86,174**
EQUITY			
Preference shares	28	14,455	14,418
Redeemable member shares	29	505	440
Reserves	30	732	734
Retained earnings	31	67,900	62,131
Contributed Equity	32	8,461	8,451
Total Equity		**92,053**	**86,174**

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

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 30 June 2012

	Contributed Equity $'000	Preference Shares $'000	Member Shares $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2010	**8,451**	**14,382**	**401**	**734**	**56,798**	**80,766**
Total comprehensive income for the year	-	-	-	-	6,185	**6,185**
Amortisation of preference share discount	-	36	-	-	-	**36**
Over/under provision for deferred tax on revaluation reserve in prior periods	-	-	-	-	-	**-**
Transfer to capital account on redemption of shares	-	-	39	-	(39)	**-**
Transfer of business	-	-	-	-	-	**-**
Transactions with preference shareholders	-	-	-	-	(813) -	**813**
Balance at 30 June 2011	**8,451**	**14,418**	**440**	**734**	**62,131**	**86,174**
Total comprehensive income for the year	-	-	-	-	6,117	**6,117**
Amortisation of preference share discount	-	37	-	-	-	**37**
Over/under provision for deferred tax on revaluation reserve in prior periods	-	-	-	(2)	-	**(2)**
Transfer to capital account on redemption of shares	10	-	65	-	440	**515**
Transfer of business	-	-	-	-	-	**-**
Transactions with preference shareholders	-	-	-	-	(788)	**(788)**
Balance at 30 June 2012	**8,461**	**14,455**	**505**	**732**	**67,900**	**92,053**

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

STATEMENT OF CASH FLOWS
For the Year Ended 30 June 2012

	Note	2012 $'000	2011 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		71,219	69,081
Dividends received		79	179
Fees and commissions received		6,859	7,003
Other income		123	313
Interest paid		(38,085)	(33,161)
Payments to suppliers and employees		(30,700)	(31,056)
Income taxes paid		(2,787)	(2,937)
(Increase)/Decrease in operating assets			
Net advances from other financial institutions		494	3,000
Net increase in member loans		(22,567)	(67,454)
(Increase)/Decrease in operating liabilities			
Net increase in member deposits		36,985	79,311
Net cash provided by operating activities	**34(c)**	**21,620**	**24,279**
CASH FLOW FROM INVESTING ACTIVITIES			
Net cash acquired in transfer of business		-	-
Proceeds from sale of available-for-sale financial assets		-	-
Payments for held-to-maturity financial assets		2,102	(41,870)
Proceeds from sale of property, plant and equipment		70	212
Payments for property, plant and equipment		(570)	(1,055)
Purchase of intangible assets		(219)	(367)
Net cash (used in) investing activities		**1,383**	**(43,080)**
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of finance leases		(580)	(565)
Dividends paid		(788)	(814)
Net cash (used in) financing activities		**(1,368)**	**(1,379)**
Total net increase in cash held		21,635	(20,180)
Cash at the beginning of year		79,864	100,044
Cash and cash equivalents at the end of year	**11**	**101,499**	**79,864**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: CORPORATE INFORMATION

The financial report of the Credit Union for the year ended 30 June 2012 was authorised for issuance in accordance with a resolution of the Directors on 28 Septemeber 2012.

Community Mutual Ltd ("the Credit Union") is a public company incorporated and domiciled in Australia. The members are the owners of the Credit Union.

The registered office is at Suite 4, Technology Park, Madgwick Drive, Armidale NSW 2350.

The nature of the operations and principal activities of the Credit Union are described in the Directors' Report.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report of Community Mutual Ltd is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for land and buildings which have been measured at fair value.

The functional and reporting currency is Australian Dollars.

The Credit Union is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(b) Statement of Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as Mr Kevin Dupe, Chief Executive Officer of the Credit Union.

Internal reporting is presented on the basis of a single segment.

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest and similar income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial instrument over the relevant period 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 to the net carrying amount of the financial asset or financial liability.

Loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a member's account on the last day of each month. Interest income on impaired loans is recognised using the original effective interest rate.

(ii) Fees and commission income

The Credit Union earns fee and commission income from a diverse range of services it provides to its members. Income is brought to account on an effective interest rate basis once a right to receive consideration has been established.

(iii) Dividend income

Dividend income is recorded in non-interest income when the Credit Union's right to receive the payment is established.

(iv) Rental income

Rental income arising from Rural Transaction Centres is accounted for on a straight-line basis over the agreement terms and is recorded in non-interest income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

(f) Leases

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

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Credit Union, substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Credit Union will obtain ownership by the end of the lease term.

Leases, in which a significant portion of risks and rewards are not transferred to the Credit Union or lessee are classified as operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

A provision has been made for the present value of anticipated costs of future restoration of leased branch premises. The provision includes future cost estimates associated with dismantling furniture and fittings. An asset is created as a result of this provision which is included in leasehold improvements. This asset is amortised over the effective remaining life of each lease. The calculation of this provision requires assumptions which may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each branch is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for branches are recognised in the balance sheet by adjusting both the expense or asset (if applicable) and provision.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are, with limited exception, measured initially at fair value at the acquisition date.

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the entity's share of the net identifiable assets is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(h) Contributed Equity

Contributed Equity reflects the addition to equity arising from the application of AASB3(r) for business combinations undertaken by the Credit Union. The acquirer in a combination of mutual entities is required to recognise the acquiree's net assets as a direct addition to equity in its Statement of Financial Position.

(i) Impairment of loans and advances

The Credit Union assesses at each balance date whether there is any objective evidence that a loan and advance to a member, or a group of loans and advances, is impaired. A loan and advance, or a group of loans and advances, 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 loan and advance or group of loans and advances that can be reliably estimated. Objective evidence of impairment may include indications that the borrower, or a group of borrowers is experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial restructure 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.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or decreased by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'bad debts recovered'.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of loans and advances (continued)

Bad debts are written off when identified. Identification may include: bankruptcy, clearout or unlikelihood of recovery. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses in the Statement of Comprehensive Income.

(j) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in values.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts.

(k) Due from other financial institutions

Receivables due from other financial institutions are primarily settlement account balances due from banks, building societies and other credit unions. They are brought to account at the gross value of the outstanding balance. Interest is brought to account in the Statement of Comprehensive Income as interest income when earned.

(l) Trade and other receivables

Trade and other receivables include amounts owed to the Credit Union for services provided, accrued interest on loans and advances, investments, unpresented cheques and deposits not yet banked on the bank account and reimbursements of expenses incurred on behalf of a third party. Trade and other receivables includes interest accrued on investments which is received on maturity. Amounts due for services provided are normally settled in 30 days.

Trade and other receivables are initially recorded at cost including transaction costs. At reporting date, trade and other receivables are measured at amortised cost, less any allowance for impairment or uncollectability.

(m) Loans and advances

Loans and advances to members, including loans to key management personnel, are assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Such assets are measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

(n) Renegotiated loans

Where possible, the Credit Union seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(o) Investments and other financial assets

Investments and financial assets are categorised as either financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated each financial year end.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Investments and other financial assets (continued)

(i) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Credit Union has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of the difference between the initially recognised amount and the maturity amount. For investments carried at amortised cost, gains or losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(ii) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets, principally equity securities that are designated as available-for-sale. After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Refer to Note 3 (d).

In the case of debt instruments classified as available-for-sale investments, impairment is assessed on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(iii) Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party unless under a 'pass-through' arrangement; or
- either (a) the Credit Union has transferred substantially all the risks and rewards of the asset, or (b) the Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Credit Union's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Credit Union could be required to repay.

The Credit Union has arrangements with Integris Securitisation Services Pty Limited and Trinity Limited whereby it acts as an agent to promote loans on their behalf, for on sale to an investment trust. The Credit Union also manages the portfolio on behalf of the trust. The amount of securitised loans under management as at 30 June 2012 is $4,915,166 (2011: $6,120,940).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Property, plant and equipment

Each category of property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

(i) Property

Land and buildings are measured at fair value, based on periodic but at least triennial valuations by external independent valuers, less subsequent depreciation on buildings and less any impairment losses recognised after the date of revaluation. The fair value is reassessed prior to sale.

Any revaluation increment net of tax is credited to other comprehensive income and the asset revaluation reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to other comprehensive income and the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amounts of the assets and depreciation based on the asset's original costs, net of tax.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(ii) Plant and Equipment

Plant and equipment are measured on the historical cost basis less depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the asset's employment and subsequent disposal.

Any decrease in the carrying amount is recognised as an impairment expense in the Statement of Comprehensive Income in the reporting period in which the impairment loss occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

(iii) Disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the year the asset is derecognised.

(iv) Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to the residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

• Buildings	25 years
• Furniture, Fittings & Leasehold Improvements	5 to 15 years
• Office equipment	3 to 15 years
• Motor Vehicles	6 years
• Leased plant & equipment	3 to 8 years

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Intangible assets

Intangible assets relate to the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Amortisation is calculated using the straight line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer Software 3 years

(r) Impairment of assets

The Credit Union assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Credit Union makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and the difference is recognised as the impairment loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised. The carrying amount of the asset is increased to its recoverable amount.

(s) Member deposits

All member deposits are initially recognised at the fair value of the amount received. After initial recognition, deposits are subsequently measured at amortised cost using the effective interest method.

Interest is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis. Interest is recognised on an effective interest basis.

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent accrued interest on deposits and liabilities for goods and services provided to the Credit Union prior to the end of the financial year that are unpaid and arise when the Credit Union becomes obliged to make future payments in respect of the purchase of these goods and services. Trade liabilities are normally settled within 30 days.

(u) Subordinated debt

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

Subordinated debt costs are recognised as an expense when incurred.

(v) Provisions

Provisions are recognised when the Credit Union has a legal or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past events. It is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(w) Employee benefits

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date after the end of the period which the employees render related service are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. The liability for annual leave and accumulating sick leave is recognised in the provision for annual leave.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Employee benefits (continued)

The liability for long service leave is not expected to be settled within 12 months after the end of the period in which the employees render the related service recognised in the provision for long service leave and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, to the estimated future cash flows.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the Statement of Comprehensive Income as incurred.

(x) Goods and services tax (GST)

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

Revenue, expenses and assets are recognised net of the amount of GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. CMG's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013*)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect CMG's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. CMG is yet to assess its full impact. However, initial indications are that it may affect CMG's accounting for available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

* In December 2011, the IASB delayed the application date of IFRS 9 to January 2015. The AASB is expected to make equivalent amendments to AASB 9 shortly.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) ***(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)***

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation - Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if the are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. AASB 10 is not expected to have any impact on CMG's financial statements.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. As CMG are not party to any joint arrangements AASB 11 is not expected to have any impact on the financial statements.

AASB 12 sets out required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. There is no impact expected on CMG.

(iii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. CMG is yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. CMG does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: FINANCIAL RISK MANAGEMENT

The Credit Union's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk and operational risk. The Credit Union's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Credit Union. The Credit Union uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity in the case of interest rate risk and ageing analysis for credit risk.

The Credit Union manages these risks on a daily basis through the operational responsibilities of Executive and Senior Management and the functioning of the Asset and Liability Committee (ALCo), the Credit Committee and the Operational Risk & Compliance Committee and under policies approved by the Board after recommendation from the Audit & Risk Committee.

The Credit Union holds the following financial instruments:

	2012 $'000	2011 $'000
Financial Assets		
Cash and cash equivalents	101,499	79,864
Due from other financial institutions	13,500	3,000
Trade and other receivables	11,436	7,080
Loans and advances to members	765,092	741,830
Financial Assets - available-for-sale	314	312
Financial Assets - held-to-maturity	106,904	119,506
Loss reserve loan	2,390	2,390
	1,001,135	953,982
Financial Liabilities		
Deposits	882,974	845,989
Trade and other payables	20,818	16,894
Lease Liabilities	767	1,314
Subordinated debt	9,300	9,300
	913,859	873,497

(a) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The board has established limits on Value at Risk (VaR) and interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are considered to ensure positions are maintained within the established limits.

(i) Value at Risk (VaR)

VaR is a statistical measure of the potential loss expected due to a change in market conditions arising from currently held positions, given a certain confidence level and holding period. VaR is presented as a dollar amount and is based on historically observed volatility. The holding period represents the implied liquidation period of the portfolio. It is the number of days required to either liquidate a portfolio or hedge the risk within the portfolio. The observation period is the number of days over which the previous market data (interest rates) is observed to predict the future. The 99% confidence level is the degree of confidence with which the VaR number will not be exceeded. A 99% confidence level implies that for 99 out of 100, observations the market value based loss will not be greater than the VaR number.

As a normal distribution is used, the standard deviation of the portfolio is multiplied by 2.33 to achieve a 99% confidence level. A proxy set of interest rates must be used to estimate the changes in the yield curve. The proxy curve used by the Credit Union is the interbank yield curve constructed from the official cash rate, BBSW and swap rates.

Since VaR is an integral part of the Credit Union's interest rate risk management, VaR limits have been established for all non-trading operations and exposures are reviewed monthly against the limits by management.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(a) Interest Rate Risk (continued)

	2012 $'000	2011 $'000
VaR exposure at 30 June 2012	722	498
Average monthly VaR exposure	748	605
Maximum monthly VaR exposure	906	672
Minimum monthly VaR exposure	302	498

(ii) Sensitivity

The following table demonstrates the sensitivity to a reasonable change in interest rates, with all other variables held constant, of the Credit Union's income statement. This methodology was also applied at 30 June 2012.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net income for one year, based on floating rate non-trading financial assets and liabilities held at 30 June 2012.

1% shift upwards	(939)	(870)
1% shift downwards	939	870

(iii) Prepayment Risk

Prepayment risk is the risk that the Credit Union will incur a financial loss because its members and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages. The Credit Union is not exposed to significant prepayment risk given that its fixed rate portfolio is 13.97% of its total loan portfolio.

(b) Credit Risk

Credit risk is the risk that the Credit Union will incur a loss when its members, clients or counterparties fail to discharge their contractual obligations. The Credit Union manages and controls credit risk by setting limits for individual counterparties, geographical and industry concentrations and monitoring these exposures.

The Credit Union has established a credit control review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Credit limits are established by use of a comprehensive assessment process. The credit control review process allows the Credit Union to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(i) Maximum exposure to credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on balance sheet assets:

Cash and cash equivalents	101,499	79,864
Due from other financial institutions	13,500	3,000
Trade receivables	11,436	7,080
Loans and advances to members	765,092	743,711
Financial assets - available for sale	314	312
Financial assets - held-to-maturity	106,904	119,506
Loss reserve loan	2,390	2,390
Total on balance sheet	1,001,135	955,863

Credit risk exposures relating to off balance sheet assets:

Guarantees	789	729
Undrawn loan commitments	41,257	39,033
Other commitments	9,750	7,335
Total on and off balance sheet	1,052,931	1,002,960

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(ii) Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the member. Guidelines are in place with regards to the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:
- for commercial lending, charges over real estate properties and inventory;
- for retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The terms and conditions are specific to individual loan and security types.

It is the Credit Union's policy to dispose of repossessed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Credit Union does not occupy repossessed properties for business use.

During the financial period, the Credit Union has acquired $397,200 of real estate and other assets through the enforcement of security. As at period-end, there are $70,800 assets owned by the Credit Union. The Credit Union does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

(iii) Impairment assessment

The main considerations for loan impairment assessment are as follows:
- whether any payments of principal or interest are overdue; or
- there are any known difficulties in the cash flows of counterparties; or
- infringements of the original terms of the contract

The Credit Union addressed impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

(iv) Individually assessed allowances

The Credit Union determines the allowances appropriate for each individually significant loan or advance on an individual basis. Objective evidence includes the timing of expected cash flows, the availability of other financial support and the realisable value of collateral. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(v) Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio being separately reviewed.

The collective assessment takes account of impairment that is likely to be present in the portfolio. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for calculating the length of the emergence period which can extend for as long as eighteen months. The impaired allowance is then reviewed by the Credit Committee to ensure alignment with the Credit Union's overall policy objectives.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(vi) Analysis of age of financial assets that are past due but not impaired

30 June 2012	1 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	More than 91 days $'000	**Total 2012 $'000**
Loans and advances to members					
Personal Loans	3,422	518	211	-	**4,151**
Mortgage Loans	18,259	2,031	615	-	**20,905**
Commercial Loans	2,014	1	13	-	**2,028**
Revolving Credit	223	78	44	-	**345**
Total	**23,918**	**2,628**	**883**	**-**	**27,429**

30 June 2011	1 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	More than 91 days $'000	**Total 2011 $'000**
Loans and advances to members					
Personal Loans	2,728	425	388	-	**3,541**
Mortgage Loans	8,617	1,202	876	-	**10,695**
Commercial Loans	799	68	228	-	**1,095**
Revolving Credit	268	94	56	-	**418**
Total	**12,412**	**1,789**	**1,548**	**-**	**15,749**

(vii) Analysis of financial assets individually determined to be impaired

			2012			**2011**
	Gross Impaired Assets $'000	Individually Assessed Provisions $'000	Net Impaired Assets $'000	Gross Impaired Assets $'000	Individually Assessed Provisions $'000	Net Impaired Assets $'000
Loans and advances to members	5,744	530	5,214	4,845	384	4,461
Financial assets individually assessed as impaired	**5,744**	**530**	**5,214**	**4,845**	**384**	**4,461**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(viii) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available):

	2012 $'000	2011 $'000
AAA	-	11,960
AA	53,951	34,381
A	73,595	17,154
BBB	51,040	76,324
Unrated	43,317	62,551
	221,903	202,370

The portfolio composition of loans and advances to members is as follows:

	Housing $'000	Commercial $'000	Personal $'000	**Total $'000**
Loans	575,542	87,860	70,893	**734,295**
Revolving Credit and Overdrafts	8,903	10,445	13,157	**32,505**
Total Balances	**584,445**	**98,305**	**84,050**	**766,800**
Percentage of portfolio	**76.2%**	**12.8%**	**11.0%**	**100.0%**
Maximum percentage under policy	**100.0%**	**15.0%**	**30.0%**	

Loans and Advances to members are disclosed in more detail in Note 14.

(c) Liquidity Risk

Liquidity risk is the risk that the Credit Union will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has wholesale funding sources in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows.

The Credit Union maintains a portfolio of high quality liquid assets that can be easily liquidated in the event of an unforeseen interruption to cash flow. The Credit Union also has committed lines of credit that it can access to meet its liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Credit Union. The most important of these is to maintain minimum regulatory limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consists of cash and short term bank deposits available for immediate sale.

In order to minimise the risk of NECU's liquidity ratio falling below 12%, the Board has determined a target liquidity ratio of 13%. In the event that NECU's liquidity ratio falls below 13%, or is considered to be at risk of falling below that level, specific remedial measures are required to be taken by the Board and management.

The liquidity ratio during the year was as follows:

	2012 %	2011 %
30 June	15.18	14.96
Average during the period	14.92	15.17
Highest	16.74	16.46
Lowest	13.87	13.7

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (continued)

Maturities of financial liabilities

The table below analyses the entity's financial liabilities into relevant maturity groupings as follows:
(a) based on their contractual maturities:
(b) based on the remaining period to the expected settlement date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Maturity	**Total**
As at 30 June 2012	$'000	$'000	$'000	$'000	$'000	$'000	**$'000**
Deposits	474,350	266,525	125,325	16,774	-	-	**882,974**
Trade and other payables	-	-	-	-	-	20,818	**20,818**
Lease Liability	-	162	382	223	-	-	**767**
Subordinated debt	-	148	9,745	-	-	-	**9,893**
Total financial liabilities	**474,350**	**266,835**	**135,452**	**16,997**	**-**	**20,818**	**914,452**
Contingent liabilities	789	-	-	-	-	**-**	**789**
Commitments	36,116	5,141	1,815	5,678	2,218	**-**	**50,968**
Total contingent liabilities	**36,905**	**5,141**	**1,815**	**5,678**	**2,218**	**-**	**51,757**
As at 30 June 2011							
Deposits	396,662	281,480	175,562	7,539	-	-	**861,243**
Trade and other payables	16,894	-	-	-	-	-	**16,894**
Lease Liability	-	168	524	819	-	-	**1,511**
Subordinated debt	-	156	9,769	-	-	-	**9,925**
Total financial liabilities	**413,556**	**281,804**	**185,855**	**8,358**	**-**	**-**	**889,573**
Contingent Liabilities	729	-	-	-	-	**-**	**729**
Commitments	32,462	6,601	1,623	4,096	1,485	**-**	**46,267**
Total contingent liabilities	**33,191**	**6,601**	**1,623**	**4,096**	**1,485**	**-**	**46,996**

(d) Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes.

As of 1 July 2009, Community Mutual Ltd has adopted the amendment to AASB 7 Financial Instruments: Disclosures, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)(level 2) and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

Investments in unlisted equity investments with a carrying value of $314,162 were included in Available for Sale Investments as at 30 June 2012. Due to the unlisted nature of the investments, their fair value could not be reliably measured and they are carried at cost. There is no immediate intention to dispose of these investments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(e) 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 control framework and by monitoring and responding to potential risks, the Credit Union is able to manage the risks. Controls include effective segregation of duties, access to systems, authorisation and reconciliation procedures, staff training and assessment processes including the use of internal audit.

(f) Capital Management

The Credit Union maintains an actively managed capital base to cover risks inherent in its business. The adequacy of the Credit Union's capital is monitored using, among other measures, the rules and ratios established by the Australian Prudential Regulation Authority.

The primary objectives of the Credit Union's capital management are to ensure that the Credit Union complies with externally imposed capital requirements and that the Credit Union maintains healthy capital ratios in order to support its activities.

During the past year the Credit Union has complied in full with all its externally imposed capital requirements.

Although the Credit Union actively monitors and manages its risk exposure in each of these areas, the Credit Union does not calculate and determine its minimum capital needs by allocating a specific value or 'capital charge' to each type of risk. Rather, the Board has resolved that the Credit Union will maintain, based on the outcomes of its annual capital planning processes, an 'internal minimum' prudential capital ratio (PCR) of 15%.

For capital adequacy purposes, authorised deposit-taking institutions must hold a minimum amount of Tier 1 capital. In addition, they may include an amount of Tier 2 capital as part of their required capital holdings, up to the limits specified in the Prudential Standard.

The Prudential Standard sets out the essential characteristics that an instrument must have to qualify as Tier 1 or Tier 2 capital for inclusion in the capital base for assessing Level 1 and Level 2 capital adequacy.

Tier 1 capital comprises the highest quality capital components. Tier 2 capital includes other components that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an institution as a going concern.

For capital adequacy purposes, the capital base at Level 1 and Level 2 is defined as the sum of Tier 1 and Tier 2 capital after all specified deductions and adjustments, subject to the various limits that apply.

	2012 $'000	2011 $'000
Tier 1 Capital	81,942	75,542
Tier 2 Capital	11,263	13,952
Total Capital	**93,205**	**89,494**
Risk Weighted Assets	530,741	515,198
Risk-based Capital Ratio	**17.56%**	**17.37%**

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

In the process of applying the Credit Union's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(i) Classification and valuation of investments

The Credit Union has classified investments in unlisted securities as available-for-sale investments and movements in fair value are recognised directly in equity. The fair values of unlisted securities not traded in an active market are recorded at historical cost as it is not practical to determine a valuation that would reflect fair value.

(ii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(iii) Impairment of non-financial assets other than goodwill

The Credit Union assesses impairment of all assets at each reporting date by evaluating conditions specific to the Credit Union and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

(iv) Long service leave provision

As discussed in Note 2 (w), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

(v) Estimation of useful lives of assets

The estimation of the useful lives of assets is based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once every year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in Note 8.

(vi) Impairment of loans and advances

The Credit Union reviews its problem loans at each reporting date to assess whether an allowance for impairment should be recorded in the Statement of Comprehensive Income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Credit Union also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as deterioration in industry, as well as identified structural weaknesses or deterioration in cash flows.

(vii) Asset revaluations

Any property revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. Any revaluation decrease is recognised in profit or loss, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

(viii) Make good provisions

A provision has been made for the present value of anticipated costs of future restoration of leased branch premises. The provision includes future cost estimates associated with dismantling furniture and fittings. The calculation of this provision requires assumptions which may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each branch is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for branches are recognised in the balance sheet by adjusting both the expense or asset (if applicable) and provision.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates in preparing the financial report are reasonable. Actual results in the future may differ from those reported.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

		2012 $'000	2011 $'000
NOTE 5:	**INTEREST INCOME**		
	Cash and cash equivalents	1,059	572
	Due from other financial institutions	9,797	9,933
	Loans and advances to members	60,083	58,246
	Interest income accrued on impaired financial assets	164	191
	Other interest income	116	123
	Total interest income	**71,219**	**69,065**
NOTE 6:	**INTEREST EXPENSE**		
	Deposits	37,463	34,859
	Lease Liabilities	39	13
	Subordinated debt	595	494
	Total interest expense	**38,097**	**35,366**
NOTE 7:	**NON-INTEREST INCOME**		
	Loan fees	951	1,130
	Transaction fees	3,719	3,934
	Insurance commissions	869	1,036
	Other commissions	1,022	1,001
	Bad debts recovered	65	45
	Gain on sale of property, plant & equipment	71	2
	Rental income	47	52
	Dividend income	79	179
	Insurance profit share	299	-
	Other non-interest income	123	118
	Total non-interest income	**7,245**	**7,497**

NOTE 8: OPERATING EXPENSES

	2012 $'000	2011 $'000
Bad and doubtful debts		
Change in provision for impairment of loans & advances	(174)	289
Bad debts written off directly	868	846
	694	**1,135**
Employee benefits expense		
Salaries and wages	12,372	12,262
Superannuation expense	1,076	1,067
Other employee benefits expense	2,478	2,549
	15,926	**15,878**
Office occupancy expense		
Rental expense on operating leases	1,735	1,557
Other office occupancy costs	916	907
	2,651	**2,464**
Depreciation and amortisation expense		
Depreciation of buildings and plant & equipment	1,048	935
Amortisation of finance leases and intangibles	687	1,119
	1,735	**2,054**
Information technology and communications expense		
Hardware and software maintenance	1,011	1,052
Communications expense	532	1,065
Other information technology expense	1,857	1,145
	3,400	**3,262**
Other expenses		
Marketing and promotional expenses	1,509	1,536
Loss on disposal of assets	-	271
Board and committee expenses	492	448
Membership protection and benefits	774	763
General administrative expenses	2,571	2,388
Loan administration costs	169	287
Motor vehicle expenses	110	87
Member transaction costs	1,591	1,638
Other operating expenses	130	254
	7,346	**7,672**
Total operating expenses	**31,752**	**32,465**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 9: INCOME TAX

		2012 $'000	2011 $'000
(a)	*Income tax expense*		
	Current tax charge	2,527	2,824
	Deferred Tax	(29)	(88)
	Adjustment in respect of current income tax of previous years	-	(190)
		2,498	**2,546**
	Deferred income tax (revenue) expense included in the income tax expense comprises:		
	Decrease (increase) in deferred tax assets	(180)	(37)
	(Decrease) increase in deferred tax liabilities	151	(51)
		(29)	(88)
(b)	*Numerical reconciliation of income tax expense to prima facie tax payable:*		
	Profit from continuing operations before income tax expense	8,615	8,731
	Prima facie tax calculated at 30% payable on the profit (2012: 30%)	2,585	2,619
	Add tax effect of:		
	Entertainment	-	6
	Imputation credits	(24)	(54)
	Sundry items	(63)	53
	Over-provision for income tax in prior year	-	(78)
	Income tax attributable to profit	**2,498**	**2,546**
(c)	**Amounts recognised directly in equity**		
	Gains on revaluation of land and buildings	-	-

NOTE 10: DIVIDENDS PAID

(a) Recognised amounts

Dividends are payable in arrears on 30 June, 30 September, 31 December and 31 March in each year that the permanent preference shares are on issue.

Dividends paid on permanent preference shares (fully franked) are as follows:

			2012 $'000	2011 $'000
30/09/11	141.56	cents (2011 : 139.56)	207	204
31/12/11	139.59	cents (2011 : 141.18)	204	206
31/03/12	130.34	cents (2011 : 138.60)	190	202
30/06/12	127.92	cents (2011 : 138.25)	187	201
Total dividends paid			**788**	**813**

The payment of dividends on permanent preference shares is at the discretion of the directors and, if paid, is on a quarterly basis at a floating rate equal to three month Australian Financial Markets Association (AFMA) BBSW reference rate plus a margin of 2.99% per annum multiplied by (1-T) where T is the prevailing Australian corporate tax rate at the time of payment of the dividend.

Dividends may only be paid out of distributable profits. Distributable profits refers to the profits after tax of the Credit Union for the 12 month period ending 30 June 2012.

The payment of a dividend is also subject to the Credit Union having profits available for the payment of a dividend as required by the Corporations Act and such payment not exceeding 100% of the Credit Union's annual profit after tax in any year.

(b) Tax rate used

The tax rate at which paid dividends have been franked is 30% (2011: 30%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 $'000	2011 $'000
NOTE 10: DIVIDENDS PAID (Continued)		
(c) Balance of franking account at year-end adjusted		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2009: 30%)	23,043	20,317
Franking credits transferred on merger		-
Franking credits that will arise from payment of income tax payable as at the end of the financial year	2,846	2,998
Franking debits that will arise from payment of dividends as at the end of the financial year	34	77
Franking credits that will arise from receipt of dividends recognised as receivables as at the end of the financial year	(309)	(349)
Franking account balance for future reporting periods	**25,614**	**23,043**

NOTE 11: CASH AND CASH EQUIVALENTS

	2012 $'000	2011 $'000
Cash on hand	6,248	7,213
Short term deposits	95,251	72,651
Total cash and cash equivalents	**101,499**	**79,864**

The entity's exposure to interest rate risk is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 12: DUE FROM OTHER FINANCIAL INSTITUTIONS

	2012 $'000	2011 $'000
Deposits with authorised deposit-taking institutions	**13,500**	**3,000**
Maturity analysis		
Longer than 3 months and not longer than 6 months	13,500	3,000
Longer than 6 months	-	-
	13,500	**3,000**

NOTE 13: TRADE AND OTHER RECEIVABLES

	2012 $'000	2011 $'000
Interest receivable on deposits	1,428	1,178
Sundry debtors and settlement accounts	9,843	5,692
Prepayments	165	210
Total trade and other receivables	**11,436**	**7,080**

There were no receivables past due at balance date.

All trade and other receivables are collectable within 12 months.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 14: LOANS AND ADVANCES TO MEMBERS

	2012 $'000	2011 $'000
Loans and advances to members		
Personal Loans	70,893	77,606
Mortgage Loans	575,542	544,071
Commercial Loans	87,861	90,487
Revolving Credit	32,505	31,547
Total loans and advances to members	**766,801**	**743,711**
Provision for impairment		
Personal Loans	(971)	(1,300)
Mortgage Loans	(386)	(180)
Commercial Loans	(251)	(159)
Revolving Credit	(101)	(242)
Total provision for impairment	**(1,709)**	**(1,881)**
Net loans and advances	**765,092**	**741,830**

(a) **Impairment allowance for loans and advances to members**

	Personal Loans 2012 $'000	Mortgage Loans 2012 $'000	Commercial Loans 2012 $'000	Revolving Credit 2012 $'000	Total $'000
At 1 July 2011	1,283	192	163	243	**1,881**
Charge for the year	14	175	112	164	**465**
Recoveries	57	-	-	9	**66**
Amounts written off	(494)	(7)	(50)	(316)	**(867)**
Interest accrued on impaired loans (Note 5)	111	26	26	1	**164**
At 30 June 2012	**971**	**386**	**251**	**101**	**1,709**
Individual impairment	47	337	125	22	**531**
Collective impairment	924	49	126	79	**1,178**
	971	**386**	**251**	**101**	**1,709**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	5,547	24,530	3,229	3,629	36,935

	Personal Loans 2011 $'000	Mortgage Loans 2011 $'000	Commercial Loans 2011 $'000	Revolving Credit 2011 $'000	Total $'000
At 1 July 2010	1,020	99	210	263	**1,592**
Charge for the year	461	92	50	242	**845**
Recoveries	97	-	-	2	**99**
Amounts written off	(469)	(6)	(106)	(265)	**(846)**
Interest accrued on impaired loans (Note 5)	174	7	9	1	**191**
At 30 June 2011	**1,283**	**192**	**163**	**243**	**1,881**
Individual impairment	61	146	150	27	**384**
Collective impairment	1,222	46	13	216	**1,497**
	1,283	**192**	**163**	**243**	**1,881**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	4,522	10,644	2,434	2,745	20,345

NOTE 14: LOANS AND ADVANCES TO MEMBERS (Continued)

		2012 $'000	2011 $'000
(b)	**Maturity Analysis**		
	Not longer than 3 months	2,719	4,134
	Longer than 3 months and not longer than 12 months	6,946	4,418
	Longer than 12 months and not longer than 5 years	81,935	93,287
	Longer than 5 years	675,201	641,872
	Total loans and advances	**766,801**	**743,711**
(c)	**Security dissection**		
	Secured by mortgage over Commercial property	57,949	53,675
	Secured by mortgage over real estate	624,803	603,876
	Partly secured by goods mortgage	64,580	70,149
	Wholly unsecured	19,469	16,011
	Total loans and advances	**766,801**	**743,711**

The Credit Union accepts a number of methods for valuing the fair value of collateral supporting loans. Real estate is valued utilising the purchase price of arms length residential sales, market appraisals from real estate agents (a lower loan to valuation ratio is applied) and licensed panel valuers where security is non residential, of high value or remotely located. Motor vehicles are valued by reference to an independent valuation guide.

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown of the loan to valuation ratio on loans secured by mortgages over real estate, on a portfolio basis is as follows:

		2012 $'000	2011 $'000
(d)	**Loan to valuation ratio**		
	Loan to valuation ratio of less than 80%	581,953	561,945
	Loan to valuation ratio of more than 80% but mortgage insured	42,214	39,446
	Loan to valuation ratio of more than 80% but not mortgage insured	58,585	56,160
	Total loans secured by mortgage over real estate and commercial property	**682,752**	**657,551**

(e) Concentration of loans

- There were no loans to individual or related groups of members which exceed 10% of member funds in aggregate.
- There is no concentration of loans to individual members employed in a particular industry.
- Loans to members are concentrated solely in Australia and principally in the Central West, North and North West of NSW.

	2012 $'000	2011 $'000
New South Wales	735,485	717,664
Victoria	1,905	1,341
Queensland	23,459	19,255
Western Australia	1,845	1,634
South Australia	115	163
Tasmania	282	671
A.C.T.	2,170	1,787
N.T.	1,540	1,196
Total	**766,801**	**743,711**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15: IMPAIRMENT OF LOANS AND ADVANCES

		2012 $'000	2011 $'000
(a)	**Provisions for impairment**		
	Opening balance	1,881	1,592
	Impairment expense:		
	Personal Loans	(311)	280
	Mortgage Loans	194	81
	Commercial Loans	89	(51)
	Revolving Credit	(144)	(21)
	Closing balance	**1,709**	**1,881**

Key assumptions in determining the provision for impairment

Refer to Note 2(i) on impairment of loans and advances.

		2012 $'000	2011 $'000
(b)	**Impairment expense**		
	Provisions for impairment	(173)	289
	Bad debts written off directly:		
	Personal Loans	494	467
	Mortgage Loans	7	7
	Commercial Loans	50	106
	Revolving Credit	316	266
	Total impairment expense	**694**	**1,135**

The level of restructured loan balances and provision for impairment are not considered material for disclosure.

		2012 $'000	2011 $'000
(c)	**Interest and other revenue recognised and foregone**		
	Interest foregone on non-accrual and restructured loans	158	81

There was no revenue on real estate or other assets acquired via enforcement of security during the year.

		2012 $'000	2011 $'000
NOTE 16:	**FINANCIAL ASSETS**		
(a)	**Available-for-sale**		
	Shares in unlisted companies – at cost		
	Indue Ltd	312	312
	Australian Settlements Limited	2	-
	Total available-for-sale	**314**	**312**

The shareholding in Indue Ltd (Indue) and Australian Settlements Limited (ASL) is measured at cost as its fair value could not be measured reliably. This companies were created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 41. The shares are not able to be traded and are not redeemable.

		2012 $'000	2011 $'000
(b)	**Held-to-maturity**		
	ADI debt securities	106,904	100,633
	Other debt securities	-	18,873
	Total Held-to-maturity	**106,904**	**119,506**

		2012 $'000	2011 $'000
NOTE 17:	**PROPERTY, PLANT AND EQUIPMENT**		
(a)	**Fixed assets**		
	Land & buildings		
	At valuation	2,634	2,836
	Less accumulated depreciation	(201)	(157)
		2,433	**2,679**
	Furniture, fittings & leasehold improvements		
	At cost	5,064	4,781
	Less accumulated depreciation	(2,843)	(2,461)
		2,221	**2,320**
	Office equipment		
	At cost	3,379	3,192
	Less accumulated depreciation	(2,745)	(2,246)
		634	**946**
	Motor vehicles		
	At cost	11	23
	Less accumulated depreciation	(5)	(14)
		6	**9**
	Leased plant & equipment		
	Capitalised leased assets	2,813	2,706
	Less accumulated amortisation	(1,695)	(1,596)
		1,118	**1,110**
	Net Fixed Assets	**6,412**	**7,064**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 17: PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Movements in carrying amounts

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

2012	Land & Buildings $'000	Furniture, Fittings & Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Leased Plant and Equipment $'000	**Total $'000**
Balance at the beginning of the year	2,679	2,320	946	9	1,110	**7,064**
Merger Acquisitions	-	-	-	-	-	**-**
Revaluation	-	-	-	-	-	**-**
Additions	219	176	324	-	126	**845**
Disposals	(422)	-	-	-	(27)	**(449)**
Depreciation expense	(43)	(275)	(636)	(3)	(91)	**(1,048)**
Carrying amount	**2,433**	**2,221**	**634**	**6**	**1,118**	**6,412**

2011	Land & Buildings $'000	Furniture, Fittings & Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Leased Plant and Equipment $'000	**Total $'000**
Balance at the beginning of the year	2,769	2,514	947	45	1,314	**7,589**
Merger Acquisitions	-	-	-	-	-	**-**
Revaluation	-	-	-	-	-	**-**
Additions	-	250	278	-	236	**764**
Disposals	-	-	(3)	(29)	(323)	**(355)**
Depreciation expense	(90)	(444)	(276)	(7)	(117)	**(934)**
Carrying amount	**2,679**	**2,320**	**946**	**9**	**1,110**	**7,064**

(c) Revaluations

The revaluation was made in accordance with a policy to revalue land and buildings every three years and prior to sale. The Narromine property revaluation was based on an independent assessment by Aspect Property Consultants as at 17th September 2009. The Armidale head office property revaluation was based on an independent assessment by Knight Davidson Property Advisory as at 12th August 2009.

	2012 $'000	**2011 $'000**
(d) If land and buildings were stated at historical cost, amounts would be as follows:		
Cost	2,634	2,709
Less accumulated depreciation	(201)	(1,455)
Net book value	**2,433**	**1,254**
(e) Gross carrying amount of fully depreciated property, plant & equipment		
Furniture & Fittings	847	752
Office Equipment	2,150	1,841
Gross carrying amount	**2,997**	**2,593**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 18: INTANGIBLE ASSETS

	2012 $'000	2011 $'000
(a) Intangible assets		
Computer software at cost	3,487	3,256
Less accumulated amortisation	(3,049)	(2,368)
Net intangible assets	**438**	**888**

(b) Movements in carrying amounts

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

	2012 $'000	2011 $'000
Written down value balance at the beginning of the year	888	1,119
Acquisition on transfer of business		-
Additions	232	367
Disposals	-	-
Amortisation expense	(682)	(598)
Carrying amount	**438**	**888**

(c) Gross carrying amount of fully amortised intangible assets

	2012 $'000	2011 $'000
Software	2,652	1,330
Gross carrying amount	**2,652**	**1,330**

NOTE 19: DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

	2012 $'000	2011 $'000
Amounts recognised in profit or loss		
Plant, property and equipment	752	647
Doubtful debts	513	564
Employee leave benefits	636	602
Accrued expenses	14	160
Other	116	10
	2,031	1,983
Set-off of deferred tax liabilities pursuant to set-off provisions	(360)	(208)
Net deferred tax assets	1,671	1,775
Movements:		
Opening balance at 1 July	1,983	1,946
Credited/(charged) to the income statement	180	37
Prior year adjustment	(132)	-
Closing balance at 30 June	2,031	1,983
Deferred tax assets to be recovered after more than 12 months	14	734
Deferred tax assets to be recovered within 12 months	2,017	1,249
	2,031	1,983

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

		2012 $'000	2011 $'000
NOTE 20:	**LOSS RESERVE LOAN**		
	Preference share loss reserve loan	1,460	1,460
	Subordinated debt loss reserve loan	930	930
	Total loss reserve loan	**2,390**	**2,390**

On 21 June 2006, the Credit Union issued 126,000 preference shares, each having an issue price of $100, to the Australian Mutual T1 Capital Funding Trust No 1 (AMCFT). On that same date, the Credit Union issued 73,000 subordinated debt instruments, each having an issue price of $100, to Australian Mutual LT2 Capital Funding No 1 Limited (AMCFL).

Also on 21 June 2006, the Credit Union advanced loans to each of AMCFT and AMCFL, for amounts of $1,460,000 and $930,000 respectively, with both loans having similar terms as summarised below in this Note. The principal amount of the preference share loss reserve loan is being treated, for accounting purposes, as an unpaid component of the $14.6 million preference share issue. In the event that the Credit Union does not pay a dividend on the preference shares, the Credit Union is not required to pay, or deliver to the holder of those shares, any amounts or benefits. However, a non-payment of a dividend by the Credit Union may result in the Credit Union not receiving, from the Trust, an amount of interest that it would otherwise have received on the preference share loss reserve loan.

These loans have been provided on the following terms and conditions:

- the loans are unsecured;
- interest is due and payable to the Credit Union quarterly in arrears (by AMCFT and AMCFL respectively), on the dates and at the rate specified in the loan agreements. The rate of interest payable on both loans is specified in the contracts as 0.125% above the applicable 90 day AFMA BBSW reference rate, as determined on the first day of each quarterly interest period;
- interest may not be received on the loans (on one or more of the quarterly interest payment dates) if the Credit Union does not pay a dividend on the preference shares or fails to satisfy its interest payment obligations on the subordinated debt instruments; and
- neither AMCFT nor AMCFL is required to make any repayments of principal on the loans until the borrowers have fully satisfied certain payment obligations to third parties, as set out in the loss reserve loan agreements.

		2012 $'000	2011 $'000
NOTE 21:	**DEPOSITS**		
	Member call deposits (including member's shares)	420,274	396,662
	Member term deposits	462,700	449,327
	Total Deposits	**882,974**	**845,989**
(a)	***Maturity analysis***		
	At call	420,274	396,662
	Not longer than 3 months	266,525	274,485
	Longer than 3 months and not longer than 6 months	125,325	92,272
	Longer than 6 months and not longer than 12 months	54,148	75,629
	Longer than 12 months	16,702	6,941
		882,974	**845,989**

(b) ***Concentration of Deposits***

There are no groups that represent in excess of 10% of total liabilities.

Member deposits at balance date were received from individuals employed in Australia. There are no significant groups of members concentrated in any particular industry.

	2012 $'000	2011 $'000
New South Wales	857,517	809,677
Victoria	1,190	4,085
Queensland	16,993	24,502
Western Australia	2,047	3,471
South Australia	513	1,709
Tasmania	401	1,564
ACT	746	-
Northern Territory	485	-
Other	3,082	981
	882,974	**845,989**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

		2012 $'000	2011 $'000
NOTE 22:	**TRADE AND OTHER PAYABLES**		
	Accrued interest payable	7,860	7,849
	Prepaid income	240	363
	Sundry creditors and accrued expenses	1,352	1,198
	Clearing accounts	11,366	7,484
	Total trade and other payables	**20,818**	**16,894**
NOTE 23:	**CURRENT TAX LIABILITIES**		
	Income tax payable	1,246	1,639
NOTE 24:	**DEFERRED TAX LIABILITIES**		
	The balance comprises temporary differences attributable to:		
	Amounts recognised in profit or loss		
	Depreciation - land and buildings	(317)	(96)
	Preference share costs	(43)	(54)
	Other	-	(22)
		(360)	(172)
	Amounts recognised directly in equity	-	(36)
		(360)	(208)
	Set-off of deferred tax liabilities pursuant to set-off provisions	360	208
	Net deferred tax assets	-	-
	Movements:		
	Opening balance at 1 July	208	260
	Credited/(charged) to equity		-
	Credited/(charged) to the income statement	151	(52)
	Prior year adjustment	1	0
	Closing balance at 30 June	360	208
	Deferred tax assets to be recovered after more than 12 months	(360)	(132)
	Deferred tax assets to be recovered within 12 months	-	(76)
		(360)	(208)
NOTE 25:	**PROVISIONS**		
	Current		
	Annual leave	1,065	910
	Long service leave	819	828
	Non-current		
	Make good	378	392
	Long service leave	236	269
	Total provisions	**2,498**	**2,399**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 $'000	2011 $'000

NOTE 25: PROVISIONS (Continued)

(a) ***Movements in provisions***

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	Make good provision	Director Retirement Benefits
At 1 July 2011	392	-
Reversed during the year	(14)	-
At 30 June 2012	**378**	**-**

NOTE 26: LEASE LIABILITIES

	2012 $'000	2011 $'000
Current lease liabilities	638	573
Non-current lease liabilities	129	741
Total lease liabilities	**767**	**1,314**

NOTE 27: SUBORDINATED DEBT

	2012 $'000	2011 $'000
Balance at the beginning of the year	9,300	9,219
Amortise Fair Value	-	(81)
Write back of debt raising discount	-	162
Balance at end of year	**9,300**	**9,300**

The Credit Union issued subordinated debt instruments in 2006 with an aggregate issuance price of $9.3 million and for net proceeds (after transaction costs) of $9,039,500. Commensurate with the issuance of these subordinated debt instruments to Australian Mutual LT2 Capital Funding No 1 Limited (AMCFL), the Credit Union also agreed to lend AMCFL an amount of $930,000 (being 10% of the aggregate issuance price of the instruments), on terms set out in a loss reserve loan agreement. Refer Note 20.

The subordinated debt instruments were issued on the following terms and conditions:

- issued in Australian dollars;
- unsecured debt instruments;
- may be redeemed by the Credit Union subject to APRA approval;
- interest is payable quarterly in arrears at 90 day AFMA BBSW reference rate + 119 basis points for the initial five years;
- interest is calculated with a step up 50 bps thereafter;
- the instrument may be redeemed after the initial 5 years; and
- matures in 2016.

NOTE 28: PREFERENCE SHARES

	2012 $'000	2011 $'000
Balance at beginning of year	14,418	14,382
Write back of debt raising discount	37	36
Balance at end of year	**14,455**	**14,418**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 28: PREFERENCE SHARES (Continued)

	2012 $'000	2011 $'000

The Credit Union issued preference shares in 2006 year with an aggregate issuance price of $14.6 million and for net proceeds (after transaction costs) of $14,239,160. The preference shares were issued on terms consistent with the provisions of the Credit Union's Constitution, as amended by member resolution at a Special General Meeting held on 24 February 2006. Commensurate with the issuance of the preference shares to Australian Mutual T1 Capital Funding Trust No 1 (AMCFT), the Credit Union also agreed to lend AMCFT an amount of $1.460 million (being 10% of the aggregate issuance price of the shares), on terms set out in a loss reserve loan agreement. Refer Note 20.

These shares have been recognised as equity under the accounting standards. The effective nature of the share issuance transaction, when viewed together with the loss reserve loan advanced by the Credit Union to AMCFT (refer Note 19), is that the Credit Union has issued preference shares with an aggregate issuance price of $14.6 million, but with the amount of the loss reserve loan constituting an unpaid component of the share issue. In the event that the Credit Union does not pay a dividend on the preference shares, the Credit Union is not required to pay, or deliver to the holder of those shares, any amounts or benefits.

The preference shares were issued on the following terms and conditions:
- unsecured and undated;
- 115,000 issued shares, each with an issue price of $100;
- are non-voting in the hands of the holder;
- cannot be redeemed by the holder;
- can be redeemed by the Credit Union after 2016 subject to APRA approval;
- dividends may be payable, subject to available profits and Board approval, at the frequency, and at the rate and amount, as set out in the terms of issue (Refer Note 10(a));
- in respect of payment of dividends, rank ahead of member shares; and
- in the event of a winding-up, rank behind member shares and are unable to participate in any distribution of surplus.

NOTE 29: REDEEMABLE MEMBER SHARES

	2012 $'000	2011 $'000
Opening balance	440	401
Transfer from deposits	65	39
Closing balance	**505**	**440**

Under the Corporations Act 2001 member shares are classified as redeemable preference shares. The redemption of these shares is required under the Act to be made from profits. The value of the shares that have been paid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated.

NOTE 30: RESERVES

	2012 $'000	2011 $'000
Asset revaluation reserve		
Opening balance	734	734
Net increase recognised on revaluation of assets	-	-
Over/under provision for deferred tax on revaluation reserve in prior periods	(2)	-
Balance at end of year	**732**	**734**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 $'000	2011 $'000

NOTE 31: RETAINED EARNINGS

	2012 $'000	2011 $'000
Opening balance	62,131	56,798
Merger retained earnings	-	-
Net profit attributable to members	6,117	6,185
Transfer to member share capital account	440	(39)
Dividends paid	(788)	(813)
Total retained earnings	**67,900**	**62,131**

NOTE 32: CONTRIBUTED EQUITY

	2012 $'000	2011 $'000
Opening balance	8,451	8,451
Contributed equity arising from business combination in the period	10	-
Balance at end of year	**8,461**	**8,451**

NOTE 33: REMUNERATION OF AUDITORS

	2012 $	2011 $
Remuneration of the auditor for:		
● Statutory & Regulatory Audit	211,000	209,500
● Taxation Services	19,250	16,750
● IT Services	-	75,000
Total remuneration of auditors	**230,250**	**301,250**

	2012 $'000	2011 $'000

NOTE 34: STATEMENT OF CASH FLOWS

(a) Reconciliations of cash

For the purposes of the statement of cash flows, cash includes cash on hand and 'at call' deposits, net of overdrafts with other financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Balance Sheet as follows:

	2012 $'000	2011 $'000
Cash liquid assets	101,499	79,864
	101,499	**79,864**

(b) Cash flows presented on a net basis

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

- customer deposits in and withdrawals from savings, money market and other deposit accounts;
- sales and purchases of maturing certificates of deposit;
- provision of member loans and the repayment of such loans.

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

	2012 $'000	2011 $'000
Profit after income tax	6,117	6,185
Non-cash flows in profit after income tax:		
Net gain on sale of property, plant and equipment	-	269
Amortisation	687	1,119
Depreciation	1,048	935
Provision for loan impairment movement	694	1,135
Changes in assets and liabilities:		
Decrease/(increase) in due from other financial institutions	494	3,000
(Increase) in member loans (gross)	(23,077)	(67,454)
Decrease/(increase) in receivables	(305)	16
Increase in deposits	36,985	79,311
Increase in deferred tax arising from prior year revaluation adjustment	-	-
Increase/(decrease) in income taxes payable	(392)	(302)
Increase in deferred tax asset	(48)	(37)
Increase in deferred tax liability	151	(52)
Increase/(decrease) in trade and other payables	3,373	3,753
Increase in other assets	(4,107)	(3,599)
Net cash provided by operating activities	**21,620**	**24,279**

(d) Non-cash Financing and Investing Activities

Property, plant and equipment

During the financial year the Credit Union acquired plant and equipment with an aggregate fair value of $570,293 (2011: $238,044) by means of finance lease. These acquisitions are not reflected in the Statement of Cash Flows.

NOTE 35: MATURITY PROFILE OF FINANCIAL LIABILITIES

Monetary liabilities have differing maturity profiles depending on the contractual term. The following table shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal.

2012	Less than 1 month $'000	1 - 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	Over 5 years $'000	No Maturity $'000	**TOTAL $'000**
Deposits	420,274	266,525	179,473	16,702	-	-	**882,974**
Trade and other payables	20,818	-	-	-	-	-	**20,818**
Lease Liabilities	-	24	94	649	-	-	**767**
Subordinated debt	-	-	9,300	-	-	-	**9,300**
Total Liabilities	441,092	266,549	188,867	17,351	-	-	913,859

2011	Less than 1 month $'000	1 - 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	Over 5 years $'000	No Maturity $'000	**TOTAL $'000**
Deposits	396,662	274,485	92,272	82,570	-	-	**845,989**
Trade and other payables	16,894	-	-	-	-	-	**16,894**
Lease Liabilities		12	107	1,195	-	-	**1,314**
Subordinated debt	-	-	9,300	-	-	-	**9,300**
Total Liabilities	413,556	274,497	101,679	83,765	-	-	873,497

NOTE 36: REPRICING ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

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

2012	Weighted avg interest %	Within 1 month $'000	1 - 3 months $'000	3 - 12 months $'000	1 - 7 years $'000	Non interest bearing $'000	TOTAL $'000
ASSETS							
Cash and cash equivalents	4.50%	45,544	49,707	-	-	6,248	**101,498**
Due from other financial institutions	5.30%	-	-	13,500	-	-	**13,500**
Loans and advances to members	7.39%	660,106	279	7,190	97,517	-	**765,092**
Financial Assets - available-for-sale		-	-	-	-	314	**314**
Financial Assets - held-to-maturity	4.78%	28,597	48,057	11,834	18,416	-	**106,904**
Loss reserve loan	4.97%	-	2,390	-	-	-	**2,390**
Total Assets		**734,247**	**100,433**	**32,524**	**115,933**	**6,562**	**989,699**
LIABILITIES							
Deposits	3.89%	488,343	198,330	179,473	16,702	126	**882,974**
Trade and other payables		-	-	-	-	20,818	**20,818**
Lease Libailities		-	21	82	664	-	**767**
Subordinated debt	6.38%	-	9,300	-	-	-	**9,300**
Total Liabilities		**488,343**	**207,651**	**179,555**	**17,366**	**20,944**	**913,859**

2011	Weighted avg interest %	Within 1 month $'000	1 - 3 months $'000	3 - 12 months $'000	1 - 7 years $'000	Non interest bearing $'000	TOTAL $'000
ASSETS							
Cash and cash equivalents	5.21%	43,665	28,847	-	-	7,352	**79,864**
Due from other financial institutions	6.27%	-	-	3,000	-	-	**3,000**
Loans and advances to members	7.93%	629,412	370	3,943	108,105	-	**741,830**
Financial Assets - available-for-sale		-	-	-	-	312	**312**
Financial Assets - held-to-maturity	5.38%	40,656	58,903	17,416	2,531	-	**119,506**
Loss reserve loan	5.10%	-	2,390	-	-	-	**2,390**
Total Assets		**713,733**	**90,510**	**24,359**	**110,636**	**7,664**	**946,902**
LIABILITIES							
Deposits	4.47%	505,386	165,145	167,902	6,941	615	**845,989**
Trade and other payables		-	-	-	-	16,894	**16,894**
Borrowings	7.97%	-	12	107	1,195	-	**1,314**
Subordinated debt	6.12%	-	9,300	-	-	-	**9,300**
Total Liabilities		**505,386**	**174,457**	**168,009**	**8,136**	**17,509**	**873,497**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying amounts and fair values of the Credit Union's financial instruments that are carried in the financial statements. The table does not include the fair value on non-financial assets and non-financial liabilities.

	Carrying value	Fair value	Unrecognised gain / (loss)	Carrying value	Fair value	Unrecognised gain / (loss)
	2012	2012	2012	2011	2011	2011
	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets						
Cash and cash equivalents	101,499	101,499	-	79,864	79,864	-
Due from other financial institutions	13,500	13,500	-	3,000	3,000	-
Loans and advances to members	765,092	765,092	-	741,830	741,830	-
Financial Assets - held-to -maturity	106,904	106,904	-	119,506	119,506	-
Loss Reserve Loan	2,390	2,390	-	2,390	2,390	-
Financial Liabilities						
Deposits	882,974	882,974	-	845,989	845,989	-
Borrowings	767	767	-	1,314	1,314	-
Subordinated debt	9,300	9,300	-	9,300	9,300	-
Total unrecognised change in unrealised fair value			-			-

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

Liquid assets and receivables from other financial institutions

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

Securities

Financial assets available for sale are carried at cost as its fair value cannot be reliably measured. Refer Note 16.

Financial assets - available for sale

Investments in unlisted equity investments with a carrying value of $314,162 were included in AFS Investments as at 30 June 2012. Due to the unlisted nature of the investments, their fair value could not be reliably measured and they are carried at cost. There is no immediate intention to dispose of these investments.

Loans and advances

The carrying value of loans, advances and other receivables is net of specific provisions for impairment.

For variable and fixed rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of the net fair value. The net fair value for fixed rate loans has not been discounted using cash flow models as the Credit Union considers any adjustment would be immaterial.

Short Term Borrowings

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

	2012 $'000	2011 $'000

NOTE 38: COMMITMENTS

To meet the financial needs of members, the Credit Union enters into various commitments. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Credit Union.

(a) Future capital commitments

The credit union has entered into contracts for the purchase of property, plant and equipment which have not been recognised as a liability and is payable as follows:

	2012 $'000	2011 $'000
Not longer than 1 year	-	30

(b) Finance lease commitments

The credit union has finance leases and hire purchase contracts for various items of plant and equipment. These lease contracts expire within 5 years, with repayment payable monthly in advance. The credit union has the option to purchase the plant and equipment at the expiry of the lease at an agreed residual value. There are no escalation clauses.

Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are as follows:

	Total future minimum payments 2012 $'000	Interest charges 2012 $'000	Present value 2012 $'000	Total future minimum payments 2011 $'000	Interest charges 2011 $'000	Present value 2011 $'000
Not longer than 1 year	638	79	610	573	119	547
Longer than 1 and not longer than 5 years	129	48	118	741	77	666
Minimum lease payments	**767**	**127**	**728**	**1,314**	**196**	**1,213**

(c) Operating Lease Commitments

The credit union has entered into commercial leases on certain commercial properties from which branches operate. These leases have a remaining term of between one and twelve years with a renewal option included at the end of the term of the lease in some of the agreements. There are no restrictions placed upon the credit union by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2012 $'000	2011 $'000
Not longer than 1 year	1,205	1,076
Longer than 1 and not longer than 5 years	5,560	3,430
Longer than 5 years	2,218	1,485
Total operating lease commitments	**8,983**	**5,991**

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitment since most commitments to extend credit are contingent upon members maintaining specific standards. The Credit Union monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

(d) Undrawn Loan Commitments

	2012 $'000	2011 $'000
Loans approved but not funded	5,141	6,571
Undrawn lines of commitment	36,116	32,462

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 $	2011 $

NOTE 39: CONTINGENT LIABILITIES

(a) Credit Union Financial Support System

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

An Industry Support Contract made on the 1 July 1999 between Credit Union Services Corporation (Australia) Limited (CUSCAL), Credit Union Financial Support System Limited and participating credit unions required the Credit Union to execute an equitable charge in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of the Credit Union and secures any advances that may be made to the Credit Union under the scheme.

The balance of the debt at 30 June 2012 was $Nil (2011: $Nil).

(b) Credit Union Services Corporation (Australia) Limited (CUSCAL)

Guarantees are provided by Community Mutual Ltd to Credit Union Services Corporation (Australia) Limited (CUSCAL) to support some members participating in the Bulk Electronic Clearing System for payrolls.

The amount guaranteed at balance date is limited to $300,000 (2011: $300,000).

(c) Financial Guarantees

Letters of guarantee commit the Credit Union to make payments on behalf of customers in the event of a specific act, generally related to contract performance. Guarantees carry the same credit risk as loans. The guarantees committed to by the Credit Union are secured by term deposit.

The amount guaranteed at balance date is limited to $488,835 (2011: $528,356)

NOTE 40: RELATED PARTIES DISCLOSURES

(a) Directors

The names of the directors of the Credit Union who have held office during the financial year are:

Mr Michael G Dennis - Chairman
Mr Graham R Goodman - Director
Mrs Katherine E James - Director
Mr Geoffrey M Thompson - Director
Mr Peter G Olrich - Director
Mr Brian M Goodall - Director
Dr Alison J Sheridan - Director
Mr John B O'Connor - Director
Mr David R Honner - Director

(b) Remuneration of Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any Director of that entity. Key management personnel has been taken to comprise the Directors and members of the Executive Management responsible for the day to day financial management and operational management of the Credit Union.

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

	2012 $	2011 $
● short-term employee benefits	1,533,617	1,899,932
● superannuation contributions	109,634	133,438
Total remuneration of key personnel	**1,643,251**	**2,033,370**

Remuneration shown as short term benefits means (where applicable) wages, salaries, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

	2012 $	2011 $

NOTE 40: RELATED PARTIES DISCLOSURES (Continued)

(c) Loans to Key Management Personnel

All loans disbursed to directors and other key management personnel were approved on the same terms and conditions, which are applicable to members for each class of loan. There are no loans that are impaired in relation to the loan balances with directors and key management personnel.

Key management personnel who are not directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to fringe benefits tax, are included in the remuneration in (b) above.

There are no benefits or concessional terms and conditions applicable to the close family members of the key management personnel. There are no loans that are impaired in relation to the loan balances with close family relatives of directors and key management personnel.

	2012 $	2011 $
(i) The aggregate value of loans to directors and other key management personnel as at balance date amounted to	2,320,316	2,179,828
(ii) The total value of revolving credit facilities to directors and other key management personnel as at balance date amounted to	128,600	124,600
(iii) Less amounts drawn down and included in total loans above	(88,909)	(85,081)
Net balance available	**39,691**	**39,519**
During the year the aggregate value of loans disbursed to key management personnel amounted to:		
(i) revolving credit facilities	76,283	75,042
(ii) term loans	1,365,074	251,359
Total loans disbursed to key personnel	**1,441,357**	**326,401**
Interest and other revenue earned on loans and revolving credit facilities to key management personnel	136,959	197,647

(d) Deposits from Key Management Personnel

	2012 $	2011 $
Total value of term and savings deposits from key management personnel	968,199	431,416
Total interest paid on deposits to key management personnel	32,441	37,847

(e) Other transactions of Directors

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

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

Mr. Kevin Dupe supplied rental property for an amount of $13,550.79 (2011: $0.00). The services are on the same terms and conditions as other contracted services of the Credit Union.

There are no benefits paid or payable to the close family members of the key management personnel.

Apart from the above transactions, there are no service contracts to which key management personnel or their close family members are an interested party.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 41 : DEPENDENCY

The Credit Union has a dependency on the following suppliers of service:

(a) Credit Union Services Corporation (Australia) Limited (Cuscal)

This entity provides the Credit Union with services in the form of settlement with bankers for members' cheques, access to the direct entry system, ATM, EFTPOS and VISA transactions, and the production of Redicards and Visa cards for use by members.

(b) Ultradata

This entity provides and maintains the core banking software utilised by the Credit Union.

(c) Australian Settlements Limited (ASL)

This entity provides the Credit Union with services in the form of settlement with bankers for members' cheques and access to the direct entry system.

(d) Indue Ltd (Indue)

This entity provides the Credit Union with services in the form of settlement with bankers for members' cheques and access to the direct entry system and ATM, EFTPOS and VISA transactions.

(e) Transaction Solutions Limited (TAS)

This entity provides the credit union with facilities management services for production and disaster recovery across information and communication technologies.

(f) ANZ

This entity provides the Credit Union with services in the form of agency clearing and enhanced cheque clearing settlement

NOTE 42: EVENTS AFTER BALANCE SHEET DATE

There have been no other significant events occurring after balance date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

DECLARATION BY DIRECTORS

The Directors of Community Mutual Ltd declare that in the opinion of the Directors:

(a) The financial statements and notes of the Credit Union are in accordance with the Corporations Act 2001, including:

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

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

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

This declaration is made in accordance with a resolution of the Board of Directors.

M G Dennis
Director

P G Olrich
Director

28 September 2012

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Independent auditor's report to the members of Community Mutual Limited

Report on the financial report

We have audited the accompanying financial report of Community Mutual Limited (the company), which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

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Independent auditor's report to the members of Community Mutual Limited

Auditor's opinion

In our opinion:

(a) the financial report of Community Mutual 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 (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2(b).

PricewaterhouseCoopers

PricewaterhouseCoopers

M. Laithwaite

Marcus Laithwaite
Partner

Sydney
28 September 2012

Notes

hunter **mutual** ®

new england **mutual** ®

orana **mutual** ®

at the heart of our community