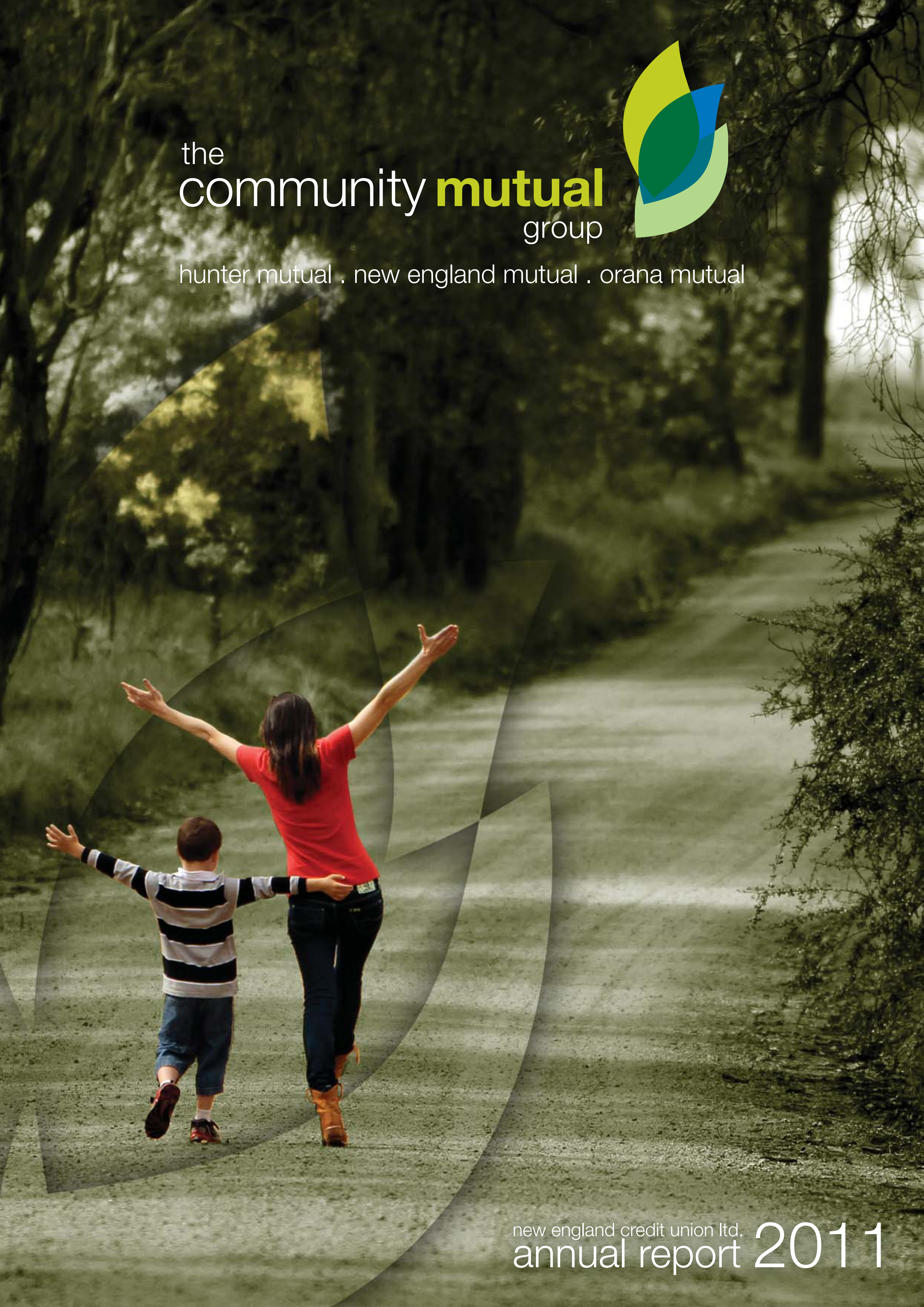
the community mutual group

hunter mutual . new england mutual . orana mutual



new england credit union ltd.

annual report 2011

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

chief executive officer

K.P. Dupé

company secretary

D.L. Munday

registered office

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solicitors

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Level 4, 171 Clarence St
Sydney, NSW, 2000

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

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16 Thesiger Crt
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Australian and New Zealand Banking Group Limited (ANZ)
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Sydney, NSW, 2000

CUSCAL
National Australia Bank Limited
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Indue Ltd.
Level 3 / 601 Coronation Drv
Toowong, QLD, 4066

auditors

PricewaterhouseCoopers
201 Sussex St
Sydney, NSW, 1171

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flexible - supportive - approachable - friendly

chairman's **report**

trusted community banking for over 40 years

2010/11 represented a period of consolidation after the completion of our merger with Hunter Mutual in 2010. It has been a time to reflect and build on our core values within the business to ensure that we continue to service members with the dedication and service that they have grown to expect. These values have been showcased more broadly in the new advertising campaign that began at the end of 2010, in which we continue to reinforce our commitment toward quality member service, local decision making and building our brand identity across the regions of Orana, Hunter and New England.

We have enhanced our commitment to our members through an ongoing engagement program comprising of a number of surveys and focus groups. In early 2011, member groups were assembled from Dubbo, Tamworth, Muswellbrook, Singleton and Scone, of varying demographics. This produced some informative feedback, much of which is beginning to be incorporated into plans at both a strategic and operational level. It has been very timely, particularly after the recent mergers, and it will be an ongoing part of the engagement program to ensure that we remain as close as possible our members.

The continuation of our community support program ensured that over 400 local groups & charities received upwards of $285,000 in sponsored contributions and donations. The creation of the Community Partnership Account (CPA) in 2009 has allowed us to donate an additional $117,000 to local registered community organisations, and is nearly double that of what was raised last year. The initiative has also helped ensure that our community investment remains local as we have continued to grow. It has been a great success for recipient organisations as well as for our business, reinforcing our commitment to the local communities in which we operate. It is anticipated that organisations will continue to embrace this hassle free fundraising initiative as we keep working with members and recipient organisations to ensure its success.

While we have been in a period of considerable growth over the past few years, we have to acknowledge all of this has taken part in a very turbulent environment. The Global Financial Crisis has tightened the economy and led to further regulatory obligations, and there continues to be some uncertainty in the markets and retail sector. Despite this, I am pleased to report a modest surplus that is comparative to that of previous years, and we thank our members for their continued support. Our loans grew by $66.3 million (9.3%) and our savings by $79.3 million (10.3%). Our net operating surplus for the 2011 financial year end was $8.7 million, and this has allowed us to invest in our members, their communities and our business.

The benefit of consolidation is that we've been able to review business practices, giving us the time to embark on some key projects that will be of benefit to both our members and the business. Projects such as mobile banking; electronic statement issue, product review, community investment strategies, and many more. All of which focus on improving member ability to engage with the business and support the communities we operate within. We look forward to reporting on these in the year ahead.

The Board would like to acknowledge the efforts of Kevin Dupé and his Management team. Kevin continues to lead by example, and he along with his Executive and my fellow Board members have provided the time, commitment and skills that will help ensure the success of CMG for years to come.

The Board would also like to thank members for their continued support, and our staff for their tireless dedication to member services.

M.G. Dennis
Chairman

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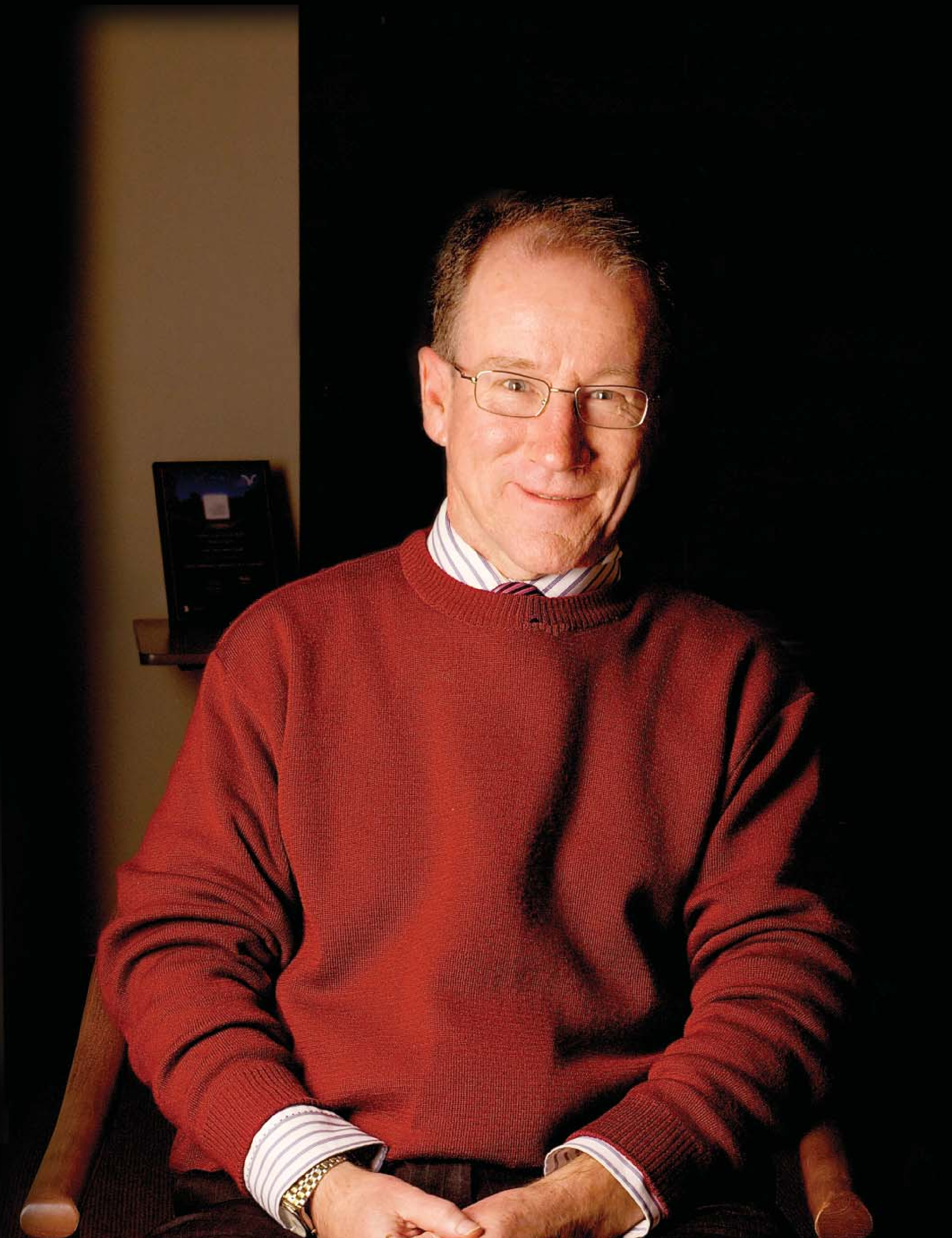


Mr David Honner
Board member since 1995

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 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 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. Key responsibilities include Chair of Corporate Governance Committee.

Dr Alison Sheridan
Board Member since 2003

Alison has extensive experience in education and consulting activities in management. Key responsibilities include Chair of Audit and Risk Committee, which Alison has held for the last six years.

f l e x i b l e - s u p p o r t i v e - a p p r o a c h a b l e - f r i e n d l y

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 sixteen years, the last four as Chairman. Key responsibilities on the Board include ex-officio Member of Corporate Governance Committee and ex-officio Member of Audit and Risk Committee.

Ms 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.

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.

Key responcibilities include 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.

Member of the Audit and Risk Committee.

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 fifteen 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 and Corporate Services / Company Sectretary

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

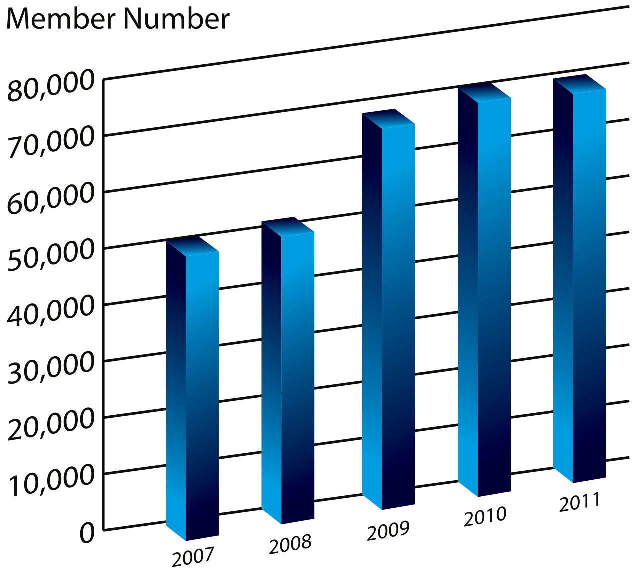
Mr David Fotheringham
Chief Financial Officer

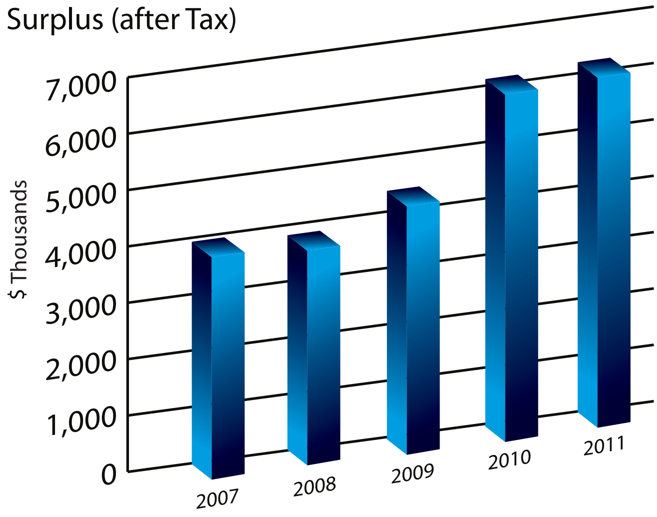
David has over twenty years of experience providing financial, operational and change management assistance across a variety of regulatory environments including broadcasting, stockbroking and financial services. David holds professional qualifications in accounting, finance, corporate governance and project management.

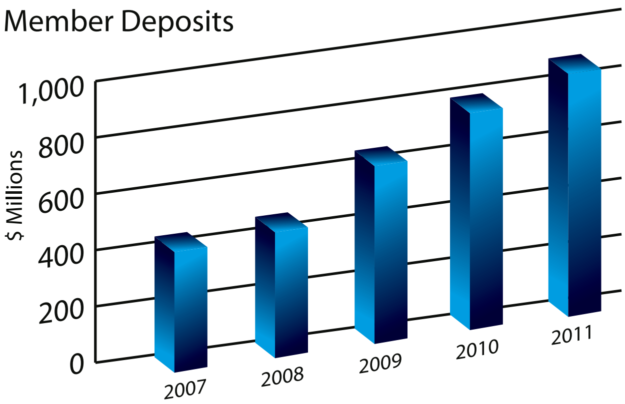
Mr Bill Miller
Executive Manager Member Service

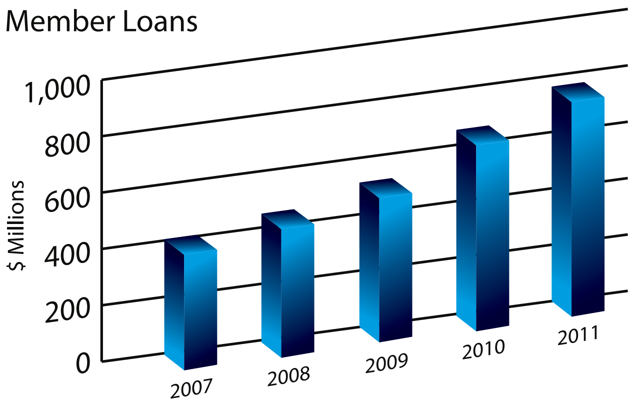
Bill brings thirty years of experience in banking and finance to the Executive Management team. Prior to The Community Mutual Group, Bill held managerial positions with Colonial State Bank and the Commonwealth Bank.

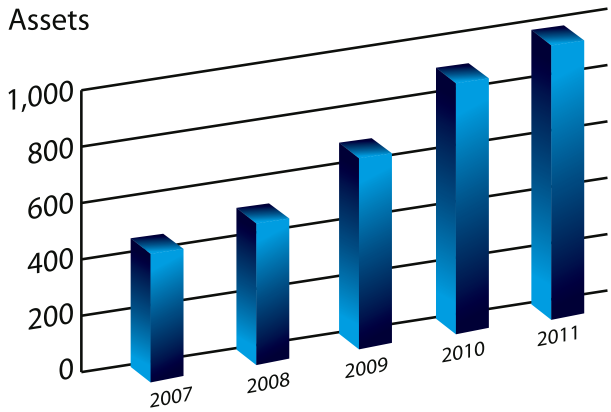
executive management

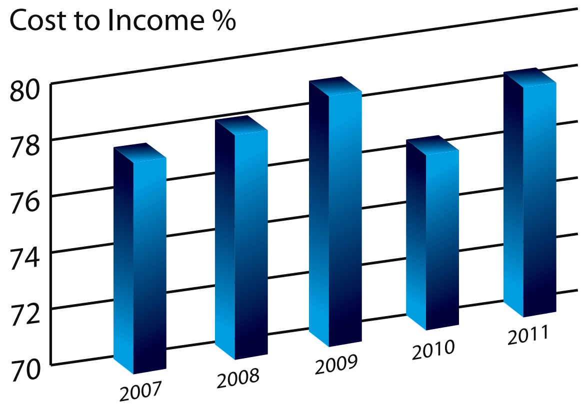

Member Number
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
2007
2008
2009
2010
2011

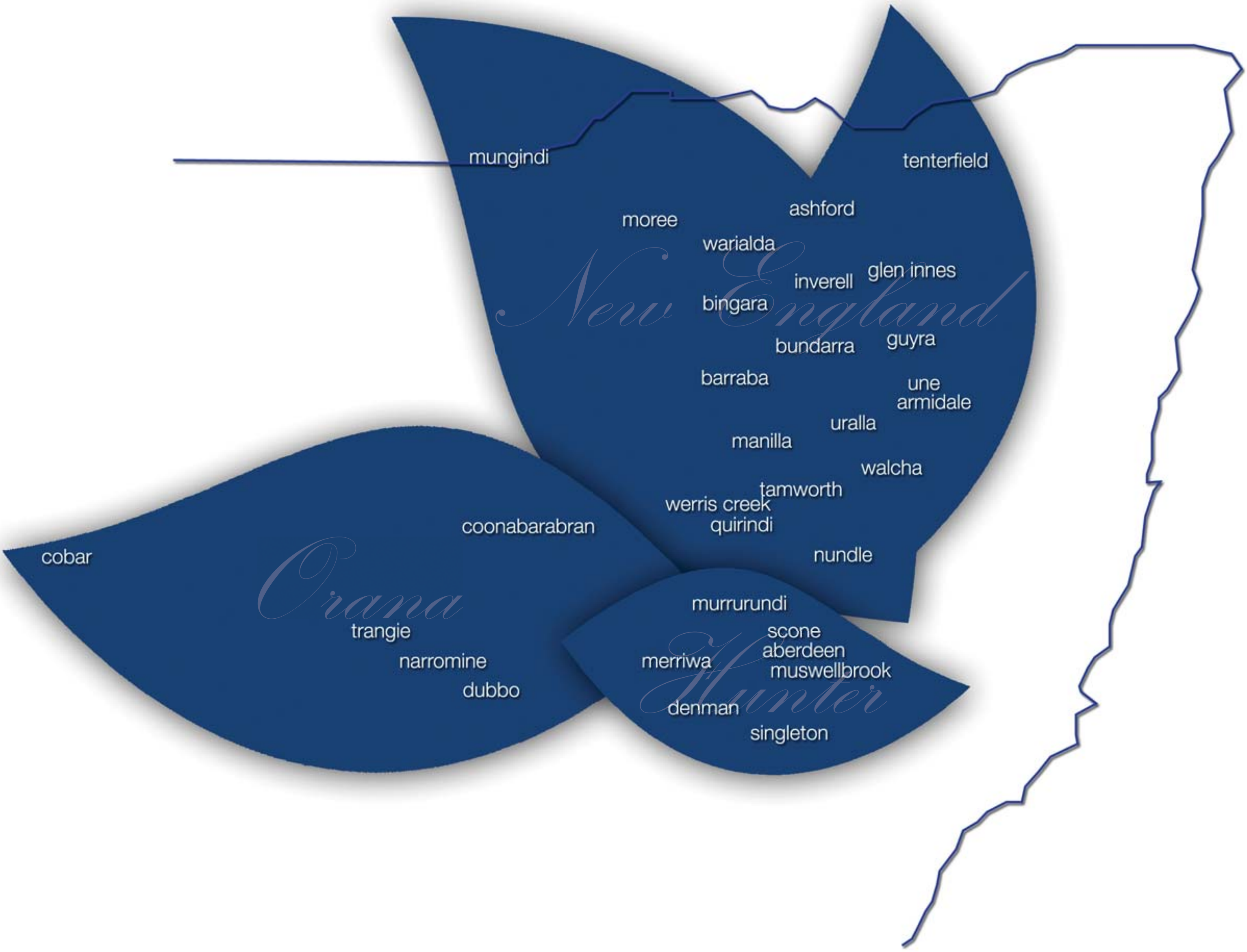

Surplus (after Tax)
$ Thousands
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
2007
2008
2009
2010
2011


Member Deposits
$ Millions
1,000
800
600
400
200
0
2007
2008
2009
2010
2011


Member Loans
$ Millions
1,000
800
600
400
200
0
2007
2008
2009
2010
2011


Assets
1,000
800
600
400
200
0
2007
2008
2009
2010
2011


Cost to Income %
80
78
76
74
72
70
2007
2008
2009
2010
2011



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 is the name used to describe three regional Credit Union brands that have combined to form a strong, regionally based financial institution that retains the unique local decision making and community involvement that sets regional Credit Unions apart from our larger banking competitors.

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.

By combining our resources in this manner we have been able to retain our commitment to providing friendly, local service while achieving cost savings in “non-member facing” activities such as Accounting & Finance, Human Resources, Information Technology and Marketing. These cost savings allow us to continue providing our members with quality products and services and a significant network of branches and agencies throughout regional NSW.

Our organisational purpose is to provide our members with Trusted Community Banking. We employ local people who are empowered to make local decisions; we offer high quality customer service, treat people as individuals and are proud of our involvement in our local communities.

What is Social Responsibility?

“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.”

Building Stronger Communities:

The Community Mutual Group prides itself on operating at the heart of our community and as such provides essential support to community groups each year as part of our Community Support Program. The Community Mutual Group offers a Community Partnership Account (CPA) which assists 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. The Account holder WINS with a competitive transaction account, the community group WINS with financial support and we WIN as we are able to direct more funds back into the communities in which we operate!

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

Our Principles and Priorities

Putting our Members First

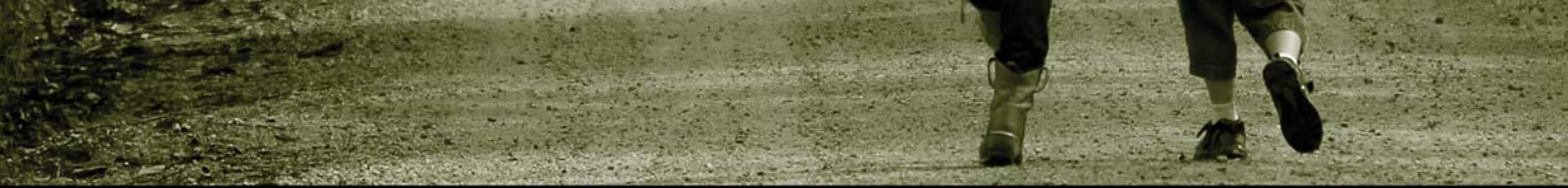
Our commitment to our members is our number one priority. We aim to provide a superior level of member value, ensuring that our members have access to quality service and products. We encourage member participation at all levels from product and service feedback to actively making a difference through a democratic process.

Leading and Developing People

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

Building Community Involvement

Building partnerships with community groups is key to who we are. We aim to provide benefit to the communities in which we operate beyond the provision of financial services through our community development programs, partnerships, sponsorships and donations.



Our Environmental Impact

CMG recognises our responsibility to contribute to conserving resources and maintaining the health of the environment. We are focused on reducing our operational footprint and support environmental initiatives in the community through partnering with like-minded organisations.

"We engage in a continual process of review and improvement and invite all stakeholders to partner with us in achieving our goals."

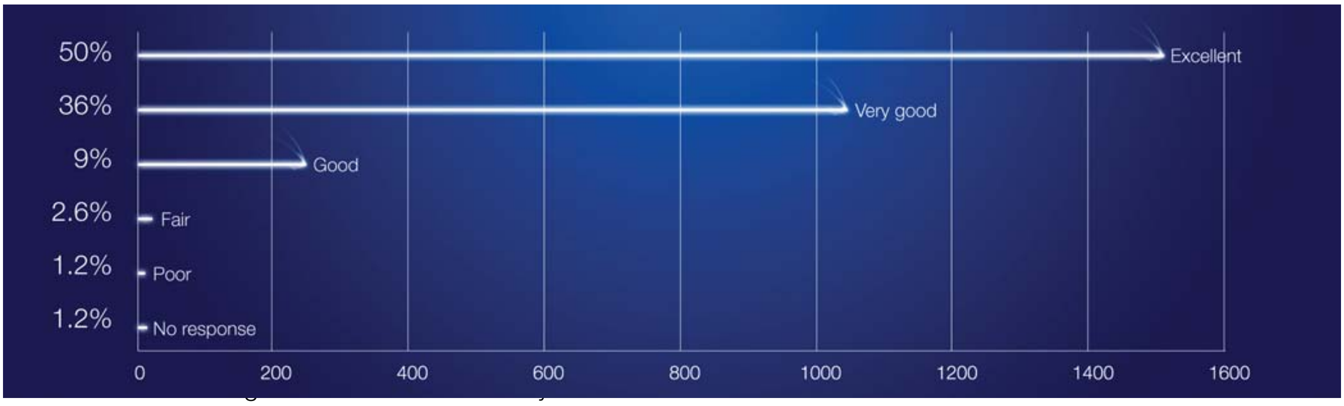
Members

Credit unions are the most popular form of financial cooperative because they are owned and operated by their members. CMG, like many financial cooperatives, offers products and services that are comparable to those offered by the major diversified banks. In addition, CMG differentiates itself by offering above-average service and accessibility. We focus on the needs of our members, embracing new technologies whilst still providing high quality service at all levels.

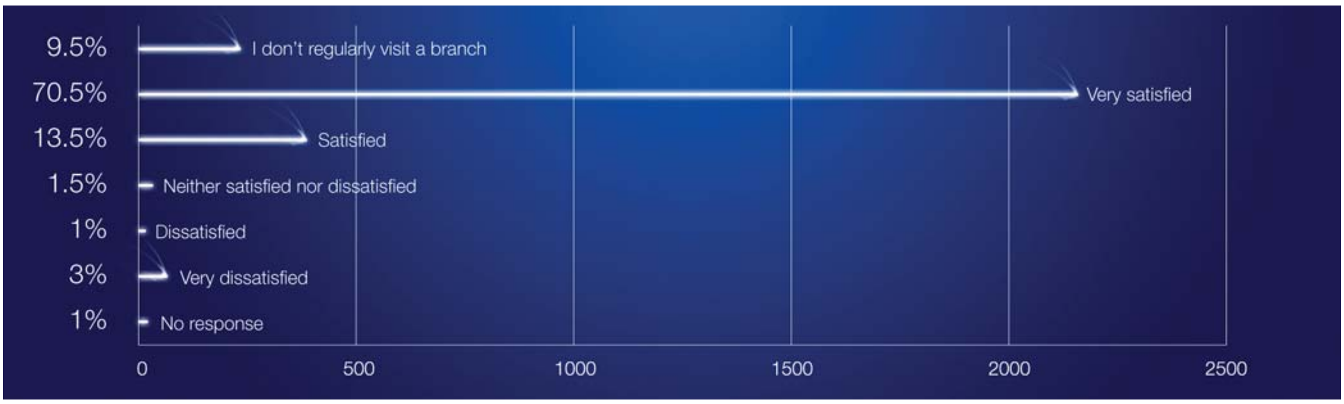
Goal: *Achieve a high member satisfaction rating of over 75%*

Result: Achieved

The Annual Member Survey was distributed in December 2010. Over 3000 responses were received with representation across Hunter, Orana and New England members. The survey results showed that **86**% of members rated 'Overall Quality of Service' with CMG either '**Very Good**' or '**Excellent**'.



There were **70.5**% of members indicating they are '**Very Satisfied**' with service at their local branch and a further **13.5**% '**Satisfied**'.



Above: Member satisfaction at the local branch level

Goal: *Increase Participation rates through Engagement Strategies*

Result: Achieved

A series of Member Focus Groups have been designed to engage members in discussion around the key aspects of service quality and community investment initiatives at the Community Mutual Group. The purpose of the Member Focus Groups is 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 improvement required within the credit union. Since April 2011, eight Focus Groups have been held across the region and there will be an ongoing program to ensure we are engaging with our members more regularly. With between 8 – 15 members in each session, discussions have been held in Dubbo, Muswellbrook, Scone, Tamworth, Armidale and Singleton so far.

Complementing the Focus Groups will be a schedule of Member Functions held throughout November 2011 inviting members to participate in the celebration of the 'Year of the Co-operative'. The events will be held at Dubbo, Moree, Inverell, Tamworth, Armidale and Singleton, with buses provided from other local towns within the region. Members will be encouraged to vote through their AGM proxy forms at these events and local guest speakers from community organisations and the broader membership will be invited to address the audience. A prize draw will be held for members participating in the 'Ideas and Improvements' activity, which will be a creative exercise designed to encourage member suggestions and feedback on the night.

In the year to come, CMG will establish Community Partnership Projects with an emphasis on staff volunteering and member participation in important community projects and initiatives. A number of community partnership projects are planned to be undertaken over the 2011/12 financial year in partnership with existing members and not-for-profit organisations in communities across our network.

One major project, the Tamworth Adventure Playground is underway at the local Marsupial Park in Tamworth. New England Mutual will incorporate both financial support for the project, along with engagement of our staff, member base and the broader community to help build the Playground.

The Playground for children and families has been designed by specialists in the field of community-funded playgrounds in conjunction with local primary school children. Local 'Design Days' have engaged the youth of the area to customise the features of the Playground. Funds will be raised locally through a volunteer committee and the support of New England Mutual as an outlet for the selling fundraiser 'pickets and pavers' which will be personalised features of the Park.

Goal: *Implementing Member Education Programs in each Region*

Result: In Process

This year Community Mutual ran and participated in several member education programs. These include:

- 'Plan It' Mentoring Program for Year 10 students in the New England Mutual region. This will be extended further throughout the network in 2011/2012.
- 'Money Talks' Program co-ordinated by Hunter Valley Youth Express for senior secondary school students in Hunter School. Hunter Mutual will be delivering presentations on such topics as 'How to Open A Bank Account' and 'How to Establish Weekly and Monthly Budgets'.
- 'Banking Change Financial Literacy' at Minimbah School, Armidale. Financial literacy sessions were delivered by Armidale Branch staff throughout Term 4 2010 to students from Kindergarten to year six.

Managers and staff across the CMG network also spoke at local schools and provide assistance in the area of financial literacy as requested. In addition, CMG participated in community awareness raising events, such as the Sustainability Living Expo in Armidale.

CMG takes pride in offering personalised assistance in the branch to educate members about new banking technologies and budgeting.

Our People

We continue to develop our people both professionally and personally so that they can be the best they can be. We are passionate about helping them achieve their potential.

Our success is driven by our people, their ideas, innovation and loyalty. Through coaching, mentoring, learning opportunities and providing staff with the right mix of challenges and experiences we are continually value adding to the organisation and member needs.

As a team we strive to make a real difference both to the services we provide our members and to the communities in which we work and live.

Goal: Achieve a staff satisfaction rating of over 70%

Result: Achieved

This year Community Mutual achieved a staff satisfaction rating of 76%, up from 74% last year.

Goal: Retain a high employee retention rate of 80%

Result: Achieved

Staff turnover at CMG is currently sitting at 17% (Retention Rate of 83%) for this reporting period which is a reduction of 2% compared to last reporting period. CMG aims to consistently be below industry standard by supporting employees through learning and professional development opportunities in conjunction with other CMG benefits.

The industry standard for staff turnover NSW Country is 15%*
The industry standard for staff turnover FTE 201-400 staff is 19%*
CMG staff turnover is 17%

*(Source McGuirk – 2010/2011 Performance Indicators)

Goal: Minimise staff absenteeism and sickness equal to or below the sector average

Result: Not Achieved

Sick leave paid to CMG staff

2010/2011 - 8651.51 hours

This year CMG the average sick leave taken was 5.15 days per FTE. This figure is higher than the sector average. Current credit union sector average for sick leave is 3 days per FTE for organisations with between 201 and 400 staff, or 2 days per FTE in country NSW .

Reasons for higher than average sick leave include an unusual number of long term illnesses experienced this year and an unusually high level of influenza.

CMG will monitor sick leave closely over the next twelve months and will embark on a number of Health and Wellbeing projects as well as developing flexible work options for staff as a means of meeting our goal of being below or equal to sector average.

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.

Result: Achieved

CMG invested $315,879.23 on developing staff during 2010 – 2011 which is well above the 1% of net profit target. Our people are one of our most valuable assets and this type of investment will ensure our future success. 89% of staff were involved in formal Learning and Development activity during the year. All staff were provided opportunity to participate in professional development training. The average spend per staff member was $1174.27

Community

Being a member-owned cooperative, providing support to the communities in which we operate defines who we are. We strive to make a positive contribution to our communities.

Goal: A continued focus and investment of 5% of net profit in our regional communities through active sponsorship and donations program.

Result: Achieved

Sponsorship and donations achieved the target of 5% of net profit; we provided over 400 recipients with donations totalling more than $285,000. CMG provided sponsorship to a range of community groups, events and sporting teams across the CMG network.

Goal: The development and implementation of Community Engagement strategies in partnership with existing members and like organisations

Result: Achieved

This year CMG has focused on researching and designing the model of community engagement which we believe will provide the strongest return on investment, taking into consideration the member feedback gained through the focus groups and has established the Community Investment Unit in order to deliver such projects.

The Community Investment Unit will focus on making sure our social and environmental projects are in the interest of not only our members but also the wider community. The Community Investment Unit will research, design, implement and support projects which meet our social responsibility.

This year CMG has partnered with community organisations to deliver a range of social and environmental projects for the benefit of the community. We have actively supported Clean up Australia Day, Landcare, New England Wind, BackTrack, Beyond Empathy, New England Sustainability Strategy, Citizen's Wildlife Corridors and the Community

Youth Centre Development Group through donations of staff time and expertise and in-kind donations of our facilities.

CMG also takes a special interest in supporting other community cooperatives. This year we have been supporting the Collarenebri community in their quest to form a cooperative.

Goal: The establishment of a Charitable Trust with Deductible Gift Recipient (DGR) status

Result: Partially Achieved

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 financial year.

In addition to the goals set last year we have made many other contributions to the community:

Community Partnership Accounts (CPA)

The CPA offers community-based organisations the opportunity to boost their fundraising activities. Each year Community Mutual donates the equivalent of 1% of supporters' account balances to the chosen community organisation.

Throughout the 2010-11 financial year, CMG has donated a total of $117,688.60 to 400 community organisations, an increase of $58,958 to 289 organisations from last year.

Credit Union Foundation Australia

The Credit Union Foundation Australia (CUFA) is a credit union owned organisation.

We are currently a bronze sponsor of CUFA, contributing to assist in the social and financial well-being of less privileged countries in the region. Many of our staff are CUFA volunteers.

Volunteer Work

CMG staff participate in a broad range of community initiatives. CMG supports all staff to donate one hour a year to a charity.

Many of our staff undertake volunteer work in and outside of work hours. For example, staff from the Telephone Service Centre in Armidale contributed four hours of volunteer labour to Lifeline each week and staff from Moree volunteered with Meals on Wheels throughout this year.

Fundraising

The CMG Staff Foundation, established in 2002, raises funds for various causes through appeals run by staff across the CMG network.

At present the Foundation supports 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. A Cook Book of CMG staff and family recipes has been created to raise funds for this cause.

Staff have also raised funds for charities, including the RSPCA, SIDS, Tour de Cure, Australia's Biggest Morning Tea and Medical Research.

Fundraising

We offer assistance to community groups who require 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 and we offer expertise and office support to several community groups.

Environment

Goal: Reduce electricity usage throughout the CMG branch network by 7.5% through the utilisation of energy efficient practices.

Result: Partially Achieved

This year CMG's electricity use across the branch network decreased by 1.3%. The above goal remains in place for 2011-12.

In addition, we have worked hard to capture the data needed to establish an accurate baseline for our energy, paper and fuel use. This means in years to come we will be able to accurately assess our environmental footprint as a whole network, as well as branch by branch, and clearly identify opportunities to decrease it.

Goal: Minimise the usage of paper throughout the network by 10% through refinement of practices.

Result: Failed

Paper use throughout the CMG network increased in 2010-11 by 6.3% per full time equivalent employee, from 8,303 sheets per FTE in 2009-10 to 8,829 sheets per FTE in 2010-11. If compared to total member numbers paper use went up by 17%, from 25.7 sheets per member in 2009-10 to 30.2 sheets per member in 2010-11.

Goal: Implementation of sustainable waste practices throughout the network.

Result: In progress

CMG has branches in 18 local government areas across NSW. This year CMG has investigated recycling services available at a branch level and began a survey of branch waste practices in order to be able to implement an effective sustainable waste practices in 2011-12. Through this process it has been identified that there is currently a sub-standard level of recycling occurring at branch level and, thus, much room for improvement.

Sustainability Monitoring & Reporting – this year CMG began to develop and implement a sustainability monitoring and reporting system to capture consistent data on our social and environmental performance. This system will allow us to gauge the effectiveness of the environmental and social projects we plan to implement and to identify areas in need of addressing. Under this system, CMG will report to internationally recognised sustainability standards and will provide quality assurance of our performance to our stakeholders.

Community Mutual Conservation Bio-banking Projects – CMG is planning a project to contribute to biodiversity corridor programs in our region. Biodiversity corridors are important tracts of bush land that provide plants and animals important migratory pathways between larger nature reserves, like National Parks. Private landholders who implement conservation agreements on all or parts of their properties can contribute to the creation of these corridors. This year, CMG has developed relationships with local and regional conservation groups and started to identify areas of high need for conservation with the aim of supporting and strengthening biodiversity in our region for the health and enjoyment of our community.

In addition to the goals set last year we made a considerable effort to enhance our environmental commitment:

The Northern Inland Sustainable Business Network (NISBN)

CMG is 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.

Sustainability Advantage

A commitment to sustainable business practice has lead CMG to 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 2011-12, as well as responsible recycling, including electronics.

100% Green Website and Emails

The 100% carbon offset of our website and emails.

This amounts to a total offset of 5 tonnes of carbon emissions per annum.

Green Products

The offering of 'green' products, such as the 'Enviro Loan' and partnering with the Govt's Green Loan scheme to ensure we are able to assist members with their own sustainable practices.

Our Enviro loan is offered to members incentivised with attractive features. The Green Loan scheme allowed members to purchase energy efficient equipment for their home, CMG funded $2,859,976.40 worth of loans through 328 applications.

Area Manager Chris Stace serves breakfast to the Earl Page College students for the Coast Run 2010.

Future Goals

We have set ourselves with ambitious goals for the 2011-2012 year, all of which we are confident can be achieved. We intend to improve on the 2010-2011 performance through the following priorities and goals.

Principles & Priorities	Goal
Putting our Members First	• Achieve a high member satisfaction rating of over 75% • Increase Participation rates through Engagement Strategies • Implementing Member Education Programs in each Region
Leading and Developing People	• Achieve a staff satisfaction rating of over 70% • Retain a high employee retention rate of 80% • Minimise staff absenteeism and sickness equal to below Sector Average
Building Community Involvement	• A continued focus and investment of 5% of net profit in our regional communities through active sponsorship and donations program • The development and implementation of Community Engagement strategies in partnership with existing members and like organisations.
Our Environmental Impact	• Implement Sustainability Policy and a Sustainability Management System to direct and track our environmental impact. • Reduce electricity usage throughout CMG Branch and Office network by utilising energy efficient practices by 5% • Minimise the usage of paper throughout the network through refinement of practices by 5% • Implementation of sustainable waste practices throughout network including responsible recycling of paper and electronics. • Transition to using 50% recycled paper. •
Community Education Programs	• Development and implementation of member focused education programs. • Raising awareness of and support for cooperatives in our community.

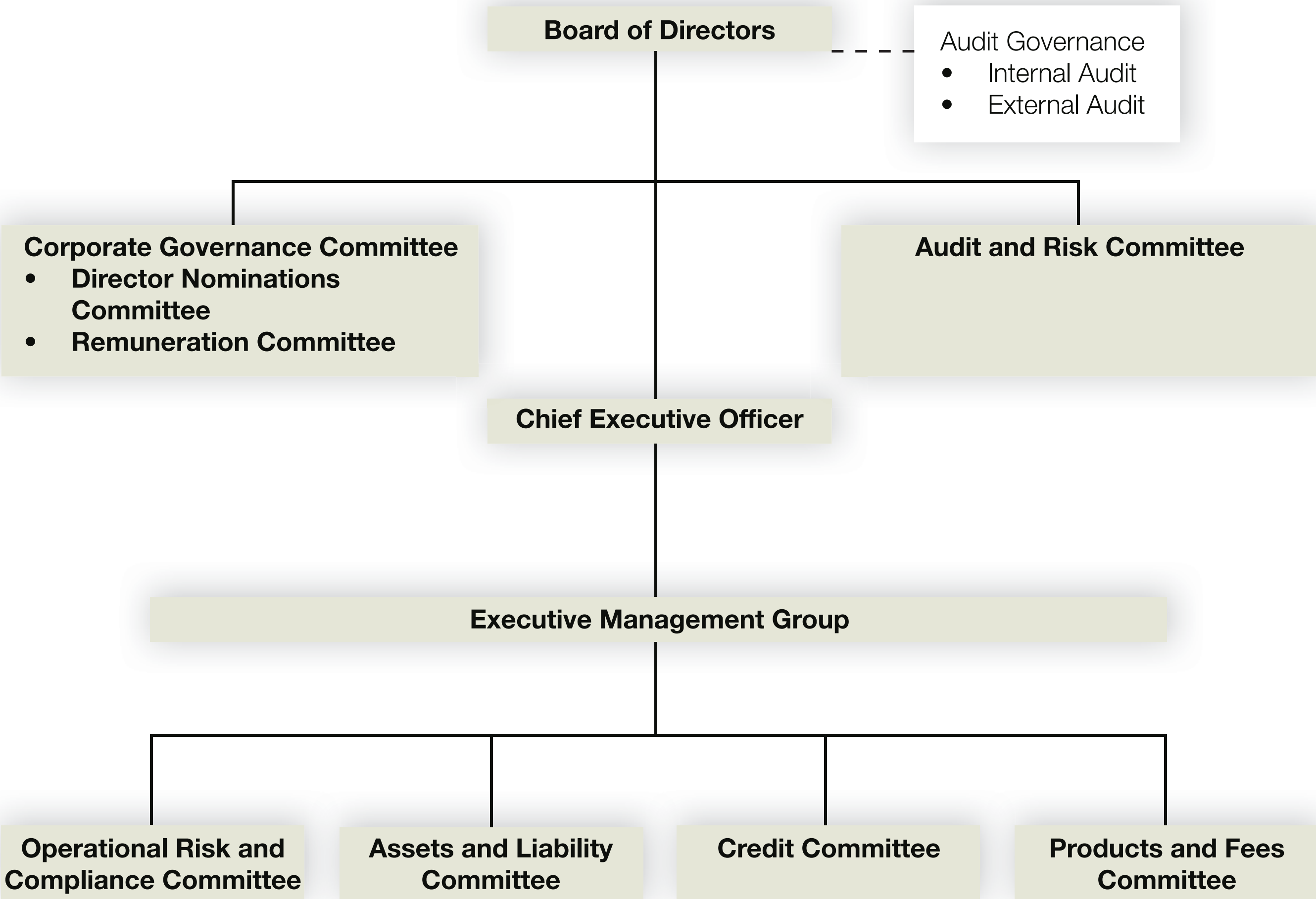
Approach to Corporate Governance

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

At CMG, the Board and staff are responsible for upholding those values which underpin operational activities, provide transparency and protect members' interests: Flexible, Supportive, Approachable and Friendly. These values are important in embracing governance principles and best practice operations.

CMG's minimum foundations of good governance 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 2011.

Foundations for Management and Oversight

The Board is the governing body of CMG. It is the responsibility of the Board to ensure that the foundations for management and oversight of CMG is 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 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 special Board meetings held as required. The Board committees meet 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.

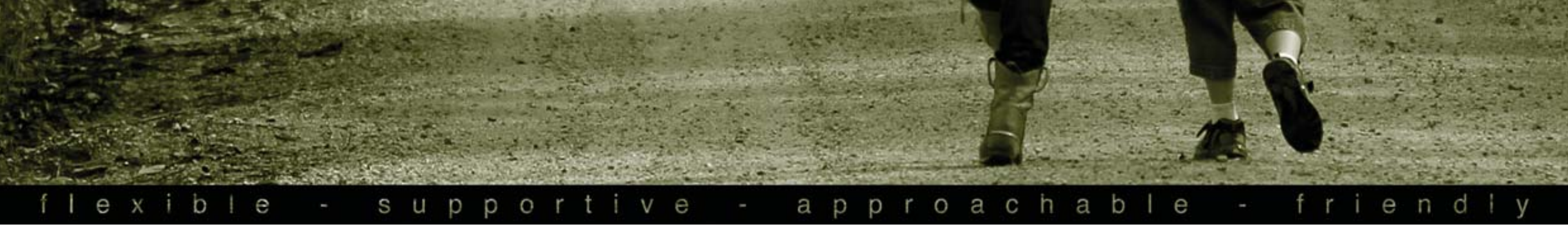
The Board has delegated day to day management of CMG to the Chief Executive Officer. The scope of this delegated authority is clearly documented to ensure effective oversight with appropriate empowerment and accountability.

Structuring the Board to Add Value

The Board ensures that, collectively, Directors have a broad range of relevant financial, industry experience and other skills, and expertise 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 Corporate Governance Committee has been delegated responsibility to review and make recommendations to the Board regarding Board composition, and to assist in relation to the Director nomination process. This committee assists the Board in evaluating potential candidates against criteria such as professional skills, background, personal qualities and experience. 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 APS 520 Fit and Proper.

The CMG Board comprised 8 Directors throughout the 2010 financial year. Details of their experience and qualifications is set out in the Directors Report. The Board seeks to ensure that its membership comprises an appropriate balance of Directors with relevant skills, knowledge and experience.



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 below:

	Committee Membership	
Director	**Audit & Risk**	**Corporate Governance**
Mr Michael G Dennis	Ex-officio Member	Ex-officio Member
Mr John B O'Connor		Member and Chair
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 and Chair	

Each Board committee 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 Board every twelve months. The reporting of the minutes and action items for each committee are included in the Board papers of the following month.

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 carries out the role of the Director Nominations Committee and Remuneration Committee and delegates to the Corporate Governance Committee the role of conducting fit and proper assessments for Director candidates.

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:

- develop and ensure the CEO's Key Performance Indicators are aligned to the strategic plan, and recommend to Board
- 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
- undertake twice yearly reviews of the CEO's performance against agreed Key Performance Indicators
- 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 APS 510 on governance mandates that Authorised Deposit Taking Institutions (ADI's) 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 its 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, with advice from the Corporate Governance Committee, to assess the performance and effectiveness of the Board as a whole and its committees. The performance evaluation is based on a collective performance assessment of the Board as well as the Chairman meeting with each individual Director to undertake an annual assessment of their performance. The Board, from time-to-time, engages an external consultant to carry out the Board performance review and used an external consultant to undertake the review in the 2010 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 a manner reflecting CMG's values and in accordance with approved governance policies. 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 articulated in appropriate policies.

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

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.

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 Executive Management team by remunerating fairly and responsibly by reference to prevailing market benchmarks.

In accordance with the requirements of APRA's Prudential Standard APS 510 on governance, CMG has a framework for managing approval of remuneration for Board, the CEO, direct reports to the CEO and other individuals that are responsible for managing financial performance and risk management.

Throughout the 2010 financial year the Board undertook an independent review of Board remuneration in line with the mutual sector of financial institutions and also used independent benchmarking data to ensure that remuneration practices are consistent with market practices.

financial **report**

Your Directors present their report on the New England Credit Union Limited ("the Credit Union") for the financial year ended 30 June 2011.

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 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	9	9	7	7	1	1
Dr Alison J Sheridan	9	7	*	*	7	5
Mr John B O'Connor	9	7	7	5	*	*
Mr David R Honner	9	9	2	2	5	5
Mr Brian M Goodall	9	8	5	5	2	2
Mr Graham R Goodman	9	9	*	*	7	7
Mrs Katherine E James	9	9	7	7	*	*
Mr Geoffrey M Thompson	9	9	*	*	7	7

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 $8,731,000 (2010: $8,776,000) representing a result on par with the previous year.

Dividend on Tier 1 Shares

Dividends paid during the year on permanent preference shares was $5.58 per share amounting to a total dividend of $813,000 (2010: $653,000).

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	16,750
IT Services	75,000
Total	**91,750**

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

A J Sheridan
Director

30 September 2011

pwc

Auditor's Independence Declaration

As lead auditor for the audit of New England Credit Union Limited for the year ended 30 June 2011, 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 New England Credit Union Limited during the period.

M. Laithwaite

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Sydney
30 September 2011

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 2011

	Notes	2011 $'000	2010 $'000
Interest income	5	69,065	52,747
Interest expense	6	(35,366)	(22,979)
Net interest income		**33,699**	**29,768**
Non-interest income	7	7,497	7,070
Net operating income		**41,196**	**36,838**
Impairment loss on loans and advances	8	(1,135)	(1,219)
Employee benefits expense	8	(15,878)	(13,680)
Occupancy expense	8	(2,464)	(2,045)
Depreciation and amortisation expense	8	(2,054)	(1,704)
Information technology and communication expense	8	(3,262)	(3,208)
Other operating expenses	8	(7,672)	(6,206)
Total operating expenses		(32,465)	(28,062)
Profit before income tax		**8,731**	**8,776**
Income tax expense	9	(2,546)	(2,567)
Net profit after tax attributable to members		**6,185**	**6,209**
Other comprehensive income			
Revaluation reserve	30	-	142
Income tax relating to components of other comprehensive income	9	-	(43)
Other comprehensive income for the year net of tax		**-**	**99**
Total comprehensive income for the year		**6,185**	**6,308**

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

STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
Cash and cash equivalents	11	79,864	100,044
Due from other financial institutions	12	3,000	6,000
Trade and other receivables	13	7,080	3,497
Loans and advances to members	14	741,830	675,511
Financial Assets - available-for-sale	16	312	312
Financial Assets - held-to-maturity	16	119,506	77,636
Property, plant and equipment	17	7,064	7,589
Intangible assets	18	888	1,119
Deferred tax assets	19	1,775	1,686
Loss reserve loan	20	2,390	2,390
Total Assets		**963,709**	**875,784**
LIABILITIES			
Deposits	21	845,989	766,678
Trade and other payables	22	16,894	12,773
Current tax liabilities	23	1,639	1,941
Deferred tax liabilities	24	-	-
Provisions	25	2,399	2,768
Borrowings	26	1,314	1,639
Subordinated debt	27	9,300	9,219
Total Liabilities		**877,535**	**795,018**
Net Assets		**86,174**	**80,766**
EQUITY			
Preference shares	28	14,418	14,382
Redeemable member shares	29	440	401
Reserves	30	734	734
Retained earnings	31	62,131	56,798
Contributed equity	32	8,451	8,451
Total Equity		**86,174**	**80,766**

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

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 30 June 2011

	Contributed Equity $'000	Preference Shares $'000	Member Shares $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2009 (restated)	**-**	**12,393**	**361**	**461**	**51,281**	**64,496**
Total comprehensive income for the year	-	-	-	99	6,209	**6,308**
Amortisation of preference share discount	-	35	-	-	-	**35**
Over/under provision for deferred tax on revaluation reserve in prior periods	-	-	-	174	-	**174**
Transfer to capital account on redemption of shares	-	-	40	-	(40)	**-**
Transfer of business	8,451	1,954	-	-	-	**10,405**
Transactions with preference shareholders	-	-	-	-	(652)	**(652)**
Balance at 30 June 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**

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

STATEMENT OF CASH FLOWS
For the Year Ended 30 June 2011

	Note	2011 $'000	2010 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		69,081	52,583
Dividends received		179	169
Fees and commissions received		7,003	6,550
Other income		313	309
Interest paid		(33,161)	(21,435)
Payments to suppliers and employees		(31,056)	(24,828)
Income taxes paid		(2,937)	(1,917)
(Increase)/Decrease in operating assets			
Net advances from other financial institutions		3,000	7,494
Net increase in member loans		(67,454)	(62,091)
(Increase)/Decrease in operating liabilities			
Net increase in member deposits		79,311	74,703
Net cash provided by operating activities	**34(c)**	**24,279**	**31,537**
CASH FLOW FROM INVESTING ACTIVITIES			
Net cash acquired in transfer of business		-	11,632
Proceeds from sale of available-for-sale financial assets		-	1,202
Payments for held-to-maturity financial assets		(41,870)	(26,320)
Proceeds from sale of property, plant and equipment		212	1,091
Payments for property, plant and equipment		(1,055)	(1,072)
Purchase of intangible assets		(367)	(804)
Net cash (used in) investing activities		**(43,080)**	**(14,271)**
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of finance leases		(565)	(644)
Dividends paid		(814)	(652)
Net cash (used in) financing activities		**(1,379)**	**(1,296)**
Total net increase in cash held		(20,180)	15,970
Cash at the beginning of year		100,044	84,074
Cash and cash equivalents at the end of year	**11**	**79,864**	**100,044**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: CORPORATE INFORMATION

The financial report of the Credit Union for the year ended 30 June 2011 was authorised for issuance in accordance with a resolution of the Directors on 30 September 2011.

New England Credit Union 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 New England Credit Union Limited 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 accrual 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 2011

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 2011

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 2011

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 and exclude call and short term deposits with other Authorised Deposit-taking Institutions (ADIs). 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 2011 is $6,120,940 (2010: $8,528,798).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 2011

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) Borrowings and subordinated debt

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

Borrowing 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.

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 2011 reporting periods. The entity'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 the entity's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Credit Union is yet to assess its full impact. However, initial indications are that it may affect the entity'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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) New accounting standards and interpretations (continued)

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Credit Union has applied the amended standard from 1 January 2011. It is not expected to have any effect on the Credit Union's related party disclosures.

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. New England Credit Union has public accountability as defined in AASB 1053 and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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:

	2011 $'000	2010 $'000
Financial Assets		
Cash and cash equivalents	79,864	100,044
Due from other financial institutions	3,000	6,000
Trade and other receivables	7,080	3,497
Loans and advances to members	741,830	675,511
Financial Assets - available-for-sale	312	312
Financial Assets - held-to-maturity	119,506	77,636
Loss reserve loan	2,390	2,390
	953,982	865,390
Financial Liabilities		
Deposits	845,989	766,678
Trade and other payables	16,894	12,773
Borrowings	1,314	1,639
Subordinated debt	9,300	9,219
	873,497	790,309

(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 2011

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(a) Interest Rate Risk (continued)

	2011 $'000	2010 $'000
VaR exposure at 30 June 2011	498	671
Average monthly VaR exposure	605	593
Maximum monthly VaR exposure	672	678
Minimum monthly VaR exposure	498	458

(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 2010.

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 2011.

1% shift upwards	(870)	(1,228)
1% shift downwards	870	1,228

(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 13.45% 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	79,864	100,044
Due from other financial institutions	3,000	6,000
Trade receivables	7,080	3,497
Loans and advances to members	743,711	677,103
Financial assets - available for sale	312	312
Financial assets - held-to-maturity	119,506	77,636
Loss reserve loan	2,390	2,390
Total on balance sheet	955,863	866,982
Credit risk exposures relating to off balance sheet assets:		
Guarantees	729	749
Undrawn loan commitments	39,033	36,158
Other commitments	7,335	8,266
Total on and off balance sheet	1,002,960	912,155

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 $64,200 of real estate and other assets through the enforcement of security. As at period-end, there are no such 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 2011

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 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	269	94	56	-	**419**
Total	**12,413**	**1,789**	**1,548**	**-**	**15,750**

30 June 2010	1 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	More than 91 days $'000	Total 2010 $'000
Loans and advances to members					
Personal Loans	3,228	443	435	-	**4,106**
Mortgage Loans	10,769	1,073	968	-	**12,810**
Commercial Loans	1,032	297	47	-	**1,376**
Revolving Credit	3,248	48	17	-	**3,313**
Total	**18,277**	**1,861**	**1,467**	**-**	**21,605**

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

	2011			**2010**		
	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	4,845	384	4,461	3,925	344	3,581
Financial assets individually assessed as impaired	**4,845**	**384**	**4,461**	**3,925**	**344**	**3,581**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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):

	2011 $'000	2010 $'000
AAA	11,960	29,639
AA	34,381	50,818
A	17,154	11,389
BBB	76,324	34,651
Unrated	62,551	57,184
	202,370	183,681

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

	Housing $'000	Commercial $'000	Personal $'000	**Total $'000**
Loans	544,071	90,487	77,606	**712,164**
Revolving Credit and Overdrafts	8,942	10,003	12,602	**31,547**
Total Balances	**553,013**	**100,490**	**90,208**	**743,711**
Percentage of portfolio	**74.4%**	**13.5%**	**12.1%**	**100.0%**
Maximum percentage under policy	**100.0%**	**20.0%**	**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:

	2011 %	2010 %
30 June	14.96	15.47
Average during the period	15.17	15.78
Highest	16.46	16.84
Lowest	13.70	13.27

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 2011	$'000	$'000	$'000	$'000	$'000	$'000	**$'000**
Deposits	396,662	281,480	175,562	7,539	-	-	**861,243**
Trade and other payables	16,894	-	-	-	-	-	**16,894**
Borrowings	-	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**
As at 30 June 2010							
Deposits	360,703	278,603	133,953	4,921	-	-	**778,180**
Trade and other payables	12,773	-	-	-	-	-	**12,773**
Borrowings	-	253	409	1,289	-	-	**1,951**
Subordinated debt	-	142	9,726	-	-	-	**9,868**
Total financial liabilities	**373,476**	**278,998**	**144,088**	**6,210**	**-**	**-**	**802,772**
Contingent Liabilities	749	-	-	-	-	**-**	**749**
Commitments	30,447	5,991	1,527	4,237	2,059	**-**	**44,261**
Total contingent liabilities	**31,196**	**5,991**	**1,527**	**4,237**	**2,059**	**-**	**45,010**

(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, New England Credit Union 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 $311,600 were included in Available for Sale Investments as at 30 June 2011. 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.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets is the bid price. These instruments are included in Level 1.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 13%.

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.

	2011 $'000	**2010 $'000**
Tier 1 Capital	75,542	69,241
Tier 2 Capital	13,952	14,432
Total Capital	**89,494**	**83,672**
Risk Weighted Assets	515,198	468,927
Risk-based Capital Ratio	**17.37%**	**17.84%**

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:

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 2011

		2011 $'000	2010 $'000
NOTE 5:	**INTEREST INCOME**		
	Cash and cash equivalents	572	464
	Due from other financial institutions	9,933	6,801
	Loans and advances to members	58,246	45,185
	Interest income accrued on impaired financial assets	191	209
	Other interest income	123	88
	Total interest income	**69,065**	**52,747**
NOTE 6:	**INTEREST EXPENSE**		
	Deposits	34,859	22,579
	Borrowings	13	18
	Subordinated debt	494	382
	Total interest expense	**35,366**	**22,979**
NOTE 7:	**NON-INTEREST INCOME**		
	Loan fees	1,130	1,012
	Transaction fees	3,934	3,719
	Insurance commissions	1,036	991
	Other commissions	1,001	827
	Bad debts recovered	45	56
	Gain on sale of property, plant & equipment	2	43
	Rental income	52	64
	Dividend income	179	169
	Other non-interest income	118	189
	Total non-interest income	**7,497**	**7,070**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 $'000	2010 $'000
NOTE 8: OPERATING EXPENSES		
Bad and doubtful debts		
Change in provision for impairment of loans & advances	289	453
Bad debts written off directly	846	766
	1,135	**1,219**
Employee benefits expense		
Salaries and wages	12,262	10,838
Superannuation expense	1,067	911
Other employee benefits expense	2,549	1,931
	15,878	**13,680**
Office occupancy expense		
Rental expense on operating leases	1,557	1,137
Other office occupancy costs	907	908
	2,464	**2,045**
Depreciation and amortisation expense		
Depreciation of buildings and plant & equipment	935	1,052
Amortisation of finance leases and intangibles	1,119	652
	2,054	**1,704**
Information technology and communications expense		
Hardware and software maintenance	1,052	1,039
Communications expense	1,065	1,054
Other information technology expense	1,145	1,115
	3,262	**3,208**
Other expenses		
Marketing and promotional expenses	1,536	1,506
Loss on disposal of assets	271	121
Board and committee expenses	448	(32)
Membership protection and benefits	763	652
General administrative expenses	2,388	2,182
Loan administration costs	287	86
Motor vehicle expenses	87	100
Member transaction costs	1,638	1,422
Other operating expenses	254	169
	7,672	**6,206**
Total operating expenses	**32,465**	**28,062**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 9: INCOME TAX

		2011 $'000	2010 $'000
(a)	*Income tax expense*		
	Current tax charge	2,824	2,886
	Deferred Tax	(88)	(204)
	Adjustment in respect of current income tax of previous years	(190)	(115)
		2,546	**2,567**
	Deferred income tax (revenue) expense included in the income tax expense comprises:		
	Decrease (increase) in deferred tax assets	(37)	(328)
	(Decrease) increase in deferred tax liabilities	(51)	124
		(88)	(204)
(b)	*Numerical reconciliation of income tax expense to prima facie tax payable:*		
	Profit from continuing operations before income tax expense	8,731	8,776
	Prima facie tax calculated at 30% payable on the profit (2010: 30%)	2,619	2,633
	Add tax effect of:		
	Entertainment	6	2
	Imputation credits	(54)	(51)
	Sundry items	53	98
	Over-provision for income tax in prior year	(78)	(115)
	Income tax attributable to profit	**2,546**	**2,567**
(c)	**Amounts recognised directly in equity**		
	Gains on revaluation of land and buildings	-	43

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:

			2011 $'000	2010 $'000
30-Sep-10	139.56	cents (2010 : 109.04)	204	137
31-Dec-10	141.18	cents (2010 : 112.33)	206	142
31-Mar-11	138.60	cents (2010 : 125.45)	202	183
30-Jun-11	138.25	cents (2010 : 130.60)	201	190
Total dividends paid			**813**	**652**

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 2011.

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% (2010: 30%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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:

	2011 $'000	2010 $'000
Franking account balance as at the end of the financial year at 30% (2009: 30%)	20,317	16,593
Franking credits transferred on merger	-	2,025
Franking credits that will arise from payment of income tax payable as at the end of the financial year	2,998	1,907
Franking debits that will arise from payment of dividends as at the end of the financial year	77	72
Franking credits that will arise from receipt of dividends recognised as receivables as at the end of the financial year	(349)	(280)
Franking account balance for future reporting periods	**23,043**	**20,317**

NOTE 11: CASH AND CASH EQUIVALENTS

	2011 $'000	2010 $'000
Cash on hand	7,213	6,537
Short term deposits	72,651	93,507
Total cash and cash equivalents	**79,864**	**100,044**

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

	2011 $'000	2010 $'000
Deposits with authorised deposit-taking institutions	**3,000**	**6,000**
Maturity analysis		
Longer than 3 months and not longer than 6 months	3,000	5,000
Longer than 6 months	-	1,000
	3,000	**6,000**

NOTE 13: TRADE AND OTHER RECEIVABLES

	2011 $'000	2010 $'000
Interest receivable on deposits	1,178	1,194
Sundry debtors and settlement accounts	5,692	2,117
Prepayments	210	186
Total trade and other receivables	**7,080**	**3,497**

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 2011

NOTE 14: LOANS AND ADVANCES TO MEMBERS

	2011 $'000	2010 $'000
Loans and advances to members		
Personal Loans	77,606	84,286
Mortgage Loans	544,071	489,413
Commercial Loans	90,487	73,928
Revolving Credit	31,547	29,476
Total loans and advances to members	**743,711**	**677,103**
Provision for impairment		
Personal Loans	(1,300)	(1,020)
Mortgage Loans	(180)	(99)
Commercial Loans	(159)	(210)
Revolving Credit	(242)	(263)
Total provision for impairment	**(1,881)**	**(1,592)**
Net loans and advances	**741,830**	**675,511**

(a) Impairment allowance for loans and advances to members

	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

	Personal Loans 2010 $'000	Mortgage Loans 2010 $'000	Commercial Loans 2010 $'000	Revolving Credit 2010 $'000	**Total $'000**
At 1 July 2009	551	297	32	133	**1,013**
Charge for the year	879	(195)	167	230	**1,081**
Recoveries	51	-	-	4	**55**
Amounts written off	(649)	(13)	-	(104)	**(766)**
Interest accrued on impaired loans (Note 5)	188	10	11	-	**209**
At 30 June 2010	**1,020**	**99**	**210**	**263**	**1,592**
Individual impairment	62	54	210	18	**344**
Collective impairment	958	45	-	244	**1,248**
	1,020	**99**	**210**	**263**	**1,592**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	5,226	6,187	1,385	1,006	13,804

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 $'000	2010 $'000
NOTE 14:	LOANS AND ADVANCES TO MEMBERS (Continued)		
(b)	**Maturity Analysis**		
	Not longer than 3 months	4,134	8,726
	Longer than 3 months and not longer than 12 months	4,418	18,155
	Longer than 12 months and not longer than 5 years	93,287	146,669
	Longer than 5 years	641,872	503,553
	Total loans and advances	**743,711**	**677,103**
(c)	**Security dissection**		
	Secured by mortgage over Commercial property	53,675	25,833
	Secured by mortgage over real estate	603,876	558,904
	Partly secured by goods mortgage	70,149	74,185
	Wholly unsecured	16,011	18,181
	Total loans and advances	**743,711**	**677,103**

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:

		2011 $'000	2010 $'000
(d)	**Loan to valuation ratio**		
	Loan to valuation ratio of less than 80%	561,945	470,583
	Loan to valuation ratio of more than 80% but mortgage insured	39,446	39,697
	Loan to valuation ratio of more than 80% but not mortgage insured	56,160	48,624
	Total loans secured by mortgage over real estate and commercial property	**657,551**	**558,904**

(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.

	2011 $'000	2010 $'000
New South Wales	717,664	653,660
Victoria	1,341	1,642
Queensland	19,255	17,661
Western Australia	1,634	1,592
South Australia	163	151
Tasmania	671	628
A.C.T.	1,787	784
N.T.	1,196	985
Total	**743,711**	**677,103**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 15: IMPAIRMENT OF LOANS AND ADVANCES

(a) Provisions for impairment

	2011 $'000	2010 $'000
Opening balance	1,592	1,013
Impairment expense:		
Personal Loans	280	469
Mortgage Loans	81	(198)
Commercial Loans	(51)	178
Revolving Credit	(21)	130
Closing balance	**1,881**	**1,592**

Key assumptions in determining the provision for impairment

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

(b) Impairment expense

	2011 $'000	2010 $'000
Provisions for impairment	289	453
Bad debts written off directly:		
Personal Loans	467	649
Mortgage Loans	7	13
Commercial Loans	106	-
Revolving Credit	266	104
Total impairment expense	**1,135**	**1,219**

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

(c) Interest and other revenue recognised and foregone

	2011 $'000	2010 $'000
Interest foregone on non-accrual and restructured loans	81	46

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 $'000	2010 $'000
NOTE 16:	**FINANCIAL ASSETS**		
(a)	**Available-for-sale**		
	Shares in unlisted companies – at cost		
	Indue Ltd	312	312
	Total available-for-sale	**312**	**312**

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

		2011 $'000	2010 $'000
(b)	**Held-to-maturity**		
	ADI debt securities	100,633	47,997
	Other debt securities	18,873	29,639
	Total Held-to-maturity	**119,506**	**77,636**
NOTE 17:	**PROPERTY, PLANT AND EQUIPMENT**		
(a)	**Fixed assets**		
	Land & buildings		
	At valuation	2,836	2,836
	Less accumulated depreciation	(157)	(67)
		2,679	**2,769**
	Furniture, fittings & leasehold improvements		
	At cost	4,781	4,531
	Less accumulated depreciation	(2,461)	(2,017)
		2,320	**2,514**
	Office equipment		
	At cost	3,192	3,171
	Less accumulated depreciation	(2,246)	(2,224)
		946	**947**
	Motor vehicles		
	At cost	23	95
	Less accumulated depreciation	(14)	(50)
		9	**45**
	Leased plant & equipment		
	Capitalised leased assets	2,706	2,276
	Less accumulated amortisation	(1,596)	(962)
		1,110	**1,314**
	Net Fixed Assets	**7,064**	**7,589**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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.

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**

2010	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	2,713	1,970	614	65	1,134	**6,496**
Merger Acquisitions	900	259	166	131	-	**1,456**
Revaluation	142	-	-	-	-	**142**
Additions	6	698	358	-	696	**1,758**
Disposals	(900)	(21)	-	(129)	(161)	**(1,211)**
Depreciation expense	(92)	(392)	(191)	(22)	(355)	**(1,052)**
Carrying amount	**2,769**	**2,514**	**947**	**45**	**1,314**	**7,589**

(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.

	2011 $'000	2010 $'000
(d) If land and buildings were stated at historical cost, amounts would be as follows:		
Cost	2,709	2,709
Less accumulated depreciation	(1,455)	(1,282)
Net book value	**1,254**	**1,427**
(e) Gross carrying amount of fully depreciated property, plant & equipment		
Furniture & Fittings	752	685
Office Equipment	1,841	1,752
Motor Vehicles	-	-
Gross carrying amount	**2,593**	**2,437**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 $'000	2010 $'000
NOTE 18:	**INTANGIBLE ASSETS**		
(a)	**Intangible assets**		
	Computer software at cost	3,256	2,890
	Less accumulated amortisation	(2,368)	(1,770)
	Net intangible assets	**888**	**1,119**
(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.		
	Written down value balance at the beginning of the year	1,119	800
	Acquisition on transfer of business	-	44
	Additions	367	804
	Disposals	-	-
	Amortisation expense	(598)	(529)
	Carrying amount	**888**	**1,119**
(c)	**Gross carrying amount of fully amortised intangible assets**		
	Software	1,330	1,235
	Gross carrying amount	**1,330**	**1,235**
NOTE 19:	**DEFERRED TAX ASSETS**		
	The balance comprises temporary differences attributable to:		
	Amounts recognised in profit or loss		
	Plant, property and equipment	647	389
	Doubtful debts	564	479
	Employee leave benefits	602	713
	Accrued expenses	160	65
	Other	10	300
		1,983	1,946
	Set-off of deferred tax liabilities pursuant to set-off provisions	(208)	(260)
	Net deferred tax assets	1,775	1,686
	Movements:		
	Opening balance at 1 July	1,946	1,259
	Credited/(charged) to equity	-	-
	Credited/(charged) to the income statement	37	328
	Transferred in from business acquisition	-	359
	Closing balance at 30 June	1,983	1,946
	Deferred tax assets to be recovered after more than 12 months	734	844
	Deferred tax assets to be recovered within 12 months	1,249	1,102
		1,983	1,946

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 $'000	2010 $'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.

		2011 $'000	2010 $'000
NOTE 21:	**DEPOSITS**		
	Member call deposits (including member's shares)	396,662	360,703
	Member term deposits	449,327	405,975
	Total Deposits	**845,989**	**766,678**
(a)	***Maturity analysis***		
	At call	396,662	360,703
	Not longer than 3 months	274,485	272,788
	Longer than 3 months and not longer than 6 months	92,272	87,414
	Longer than 6 months and not longer than 12 months	75,629	41,198
	Longer than 12 months	6,941	4,575
		845,989	**766,678**

(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.

	2011 $'000	2010 $'000
New South Wales	809,677	741,423
Victoria	4,085	3,045
Queensland	24,502	18,147
Western Australia	3,471	1,596
South Australia	1,709	897
Tasmania	1,564	592
Other	981	978
	845,989	**766,678**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 $'000	2010 $'000
NOTE 22:	**TRADE AND OTHER PAYABLES**		
	Accrued interest payable	7,849	5,644
	Prepaid income	363	-
	Sundry creditors and accrued expenses	1,198	1,593
	Clearing accounts	7,484	5,536
	Total trade and other payables	**16,894**	**12,773**
NOTE 23:	**CURRENT TAX LIABILITIES**		
	Income tax payable	1,639	1,941
NOTE 24:	**DEFERRED TAX LIABILITIES**		
	The balance comprises temporary differences attributable to:		
	Amounts recognised in profit or loss		
	Depreciation - land and buildings	96	96
	Preference share costs	54	104
	Other	22	24
		172	224
	Amounts recognised directly in equity	36	36
		208	260
	Set-off of deferred tax liabilities pursuant to set-off provisions	(208)	(260)
	Net deferred tax assets	-	-
	Movements:		
	Opening balance at 1 July	260	235
	Credited/(charged) to equity	-	(133)
	Credited/(charged) to the income statement	(52)	124
	Transferred in from business acquisition	-	34
	Closing balance at 30 June	208	260
	Deferred tax assets to be recovered after more than 12 months	132	132
	Deferred tax assets to be recovered within 12 months	76	128
		208	260
NOTE 25:	**PROVISIONS**		
	Current		
	Annual leave	910	1,019
	Long service leave	828	927
	Directors retirement benefits	-	128
	Non-current		
	Make good	392	392
	Long service leave	269	302
	Total provisions	**2,399**	**2,768**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 $'000	2010 $'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 2010	392	128
Reversed during the year	-	(128)
At 30 June 2011	**392**	**-**

NOTE 26: BORROWINGS

	2011 $'000	2010 $'000
Current lease liabilities	573	508
Non-current lease liabilities	741	1,131
Total borrowings	**1,314**	**1,639**

NOTE 27: SUBORDINATED DEBT

	2011 $'000	2010 $'000
Balance at the beginning of the year	9,219	7,158
Recognised on transfer of business	-	2,078
Amortise Fair Value	(81)	(40)
Write back of debt raising discount	162	23
Balance at end of year	**9,300**	**9,219**

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

	2011 $'000	2010 $'000
Balance at beginning of year	14,382	12,393
Recognised on transfer of business	-	1,954
Write back of debt raising discount	36	35
Balance at end of year	**14,418**	**14,382**

	2011 $'000	2010 $'000

NOTE 28: PREFERENCE SHARES (Continued)

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

	2011 $'000	2010 $'000
Opening balance	401	361
Transfer from retained earnings	39	40
Closing balance	**440**	**401**

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

	2011 $'000	2010 $'000
Asset revaluation reserve		
Opening balance	734	461
Net increase recognised on revaluation of assets	-	142
Provision for deferred tax on revaluation of assets in current period	-	(43)
Over/under provision for deferred tax on revaluation reserve in prior periods	-	174
Balance at end of year	**734**	**734**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 31: RETAINED EARNINGS

	2011 $'000	2010 $'000
Opening balance	56,798	51,281
Merger retained earnings		-
Net profit attributable to members	6,185	6,209
Transfer to member share capital account	(39)	(40)
Merger share capital	-	-
Net transfer (to)/from reserves	-	-
Dividends paid	(813)	(652)
Total retained earnings	**62,131**	**56,798**

NOTE 32: CONTRIBUTED EQUITY

	2011 $'000	2010 $'000
Opening balance	8,451	-
Contributed equity arising from business combination in the period	-	8,451
Balance at end of year	**8,451**	**8,451**

NOTE 33: REMUNERATION OF AUDITORS

	2011 $	2010 $
Remuneration of the auditor for:		
● Statutory & Regulatory Audit	209,500	176,500
● Taxation Services	16,750	16,000
● IT Services	75,000	-
Total remuneration of auditors	**301,250**	**192,500**

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:

	2011 $'000	2010 $'000
Cash liquid assets	79,864	100,044
	79,864	**100,044**

(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

	2011 $'000	2010 $'000
Profit after income tax	6,185	6,209
Non-cash flows in profit after income tax:		
Net gain on sale of property, plant and equipment	269	78
Amortisation	1,119	652
Depreciation	935	1,052
Provision for loan impairment movement	1,135	1,219
Changes in assets and liabilities:		
Decrease/(increase) in due from other financial institutions	3,000	7,494
(Increase) in member loans (gross)	(67,454)	(62,091)
Decrease/(increase) in receivables	16	(164)
Increase in deposits	79,311	74,703
Increase in deferred tax arising from prior year revaluation adjustment	-	131
Increase/(decrease) in income taxes payable	(302)	854
Increase in deferred tax asset	(37)	(328)
Increase in deferred tax liability	(52)	(7)
Increase/(decrease) in trade and other payables	3,753	1,631
Increase in other assets	(3,599)	104
Net cash provided by operating activities	**24,279**	**31,537**

(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 $238,044 (2010: $750,249) 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.

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**
Borrowings	-	12	107	1,195	-	-	**1,314**
Subordinated debt	-	-	9,300	-	-	-	**9,300**
Total Liabilities	413,556	274,497	101,679	83,765	-	-	873,497

2010	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	484,159	149,332	128,612	4,575	-	-	**766,678**
Trade and other payables	-	-	-	-	-	12,773	**12,773**
Borrowings	1	-	39	1,599	-	-	**1,639**
Subordinated debt	-	-	9,219	-	-	-	**9,219**
Total Liabilities	484,160	149,332	137,870	6,174	-	12,773	790,309

NOTE 36: REPRICING ANALYSIS 0F 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.

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**

2010	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	4.69%	42,846	50,661	-	-	6,537	**100,044**
Due from other financial institutions	6.56%	-	1,000	5,000	-	-	**6,000**
Loans and advances to members	8.11%	588,205	3,183	15,629	68,494	-	**675,511**
Financial Assets - available-for-sale		-	-	-	-	312	**312**
Financial Assets - held-to-maturity	5.15%	35,992	31,334	10,310	-	-	**77,636**
Loss reserve loan	5.09%	-	2,390	-	-	-	**2,390**
Total Assets		**667,043**	**88,568**	**30,939**	**68,494**	**6,849**	**861,893**
LIABILITIES							
Deposits	4.15%	491,600	141,296	128,677	4,478	627	**766,678**
Trade and other payables		-	-	-	-	12,773	**12,773**
Borrowings	10.60%	1	-	39	1,599	-	**1,639**
Subordinated debt	4.66%	-	9,219	-	-	-	**9,219**
Total Liabilities		**491,601**	**150,515**	**128,716**	**6,077**	**13,400**	**790,309**

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)
	2011	2011	2011	2010	2010	2010
	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets						
Cash and cash equivalents	79,864	79,864	-	100,044	100,044	-
Due from other financial institutions	3,000	3,000	-	6,000	6,000	-
Loans and advances to members	741,830	741,830	-	675,511	675,511	-
Financial Assets - held-to -maturity	119,506	119,506	-	77,636	77,636	-
Loss Reserve Loan	2,390	2,390	-	2,390	2,390	-
Financial Liabilities						
Deposits	845,989	845,989	-	766,678	766,678	-
Borrowings	1,314	1,314	-	1,639	1,639	-
Subordinated debt	9,300	9,300	-	9,219	9,219	-
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 $311,600 were included in AFS Investments as at 30 June 2011. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 $'000	2010 $'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:

	2011 $'000	2010 $'000
Not longer than 1 year	30	280

(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 2011 $'000	Interest charges 2011 $'000	Present value 2011 $'000	Total future minimum payments 2010 $'000	Interest charges 2010 $'000	Present value 2010 $'000
Not longer than 1 year	573	119	547	508	153	487
Longer than 1 and not longer than 5 years	741	77	666	1,131	158	989
Minimum lease payments	**1,314**	**196**	**1,213**	**1,639**	**311**	**1,476**

(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:

	2011 $'000	2010 $'000
Not longer than 1 year	1,076	1,040
Longer than 1 and not longer than 5 years	3,430	3,248
Longer than 5 years	1,485	2,059
Total operating lease commitments	**5,991**	**6,347**

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

	2011 $'000	2010 $'000
Loans approved but not funded	6,571	5,711
Undrawn lines of commitment	32,462	30,447

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 $	2010 $

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 2011 was $Nil (2010: $Nil).

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

Guarantees are provided by New England Credit Union 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 $201,000 (2010: $190,000).

(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 $528,356 (2010: $559,418)

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 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:

	2011 $	2010 $
● short-term employee benefits	1,899,932	1,617,880
● superannuation contributions	133,438	123,206
● retirement benefits	-	80,780
Total remuneration of key personnel	**2,033,370**	**1,821,866**

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 $	2010 $

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.

	2011 $	2010 $
(i) The aggregate value of loans to directors and other key management personnel as at balance date amounted to	2,179,828	3,339,137
(ii) The total value of revolving credit facilities to directors and other key management personnel as at balance date amounted to	124,600	130,600
(iii) Less amounts drawn down and included in total loans above	(85,081)	(65,041)
Net balance available	**39,519**	**65,559**
During the year the aggregate value of loans disbursed to key management personnel amounted to:		
(i) revolving credit facilities	75,042	54,814
(ii) term loans	251,359	1,240,038
Total loans disbursed to key personnel	**326,401**	**1,294,852**
Interest and other revenue earned on loans and revolving credit facilities to key management personnel	197,647	143,179

(d) Deposits from Key Management Personnel

	2011 $	2010 $
Total value of term and savings deposits from key management personnel	431,416	118,817
Total interest paid on deposits to key management personnel	37,847	9,916

(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. Michael Dennis performed legal services for an amount of $0.00 (2010: $1,688.60). 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 2011

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) First Data International (FDI)

This entity operates the switching computer used to link Redicards and VISA cards operated through Reditellers and other approved ATM suppliers to the Credit Union's host computer.

(c) Ultradata

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

(d) Australian Securities 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.

(e) 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.

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 New England Credit Union Limited 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 2011 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

A J Sheridan
Director

30 September 2011

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Independent auditor's report to the members of
New England Credit Union Limited

Report on the financial report

We have audited the accompanying financial report of New England Credit Union Limited (the company), which comprises the statement of financial position as at 30 June 2011, 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.

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Independent auditor's report to the members of New England Credit Union Limited (continued)

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of New England Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 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
30 September 2011

Notes

hunter **mutual**

new england **mutual**

orana **mutual**

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