

Gateway Credit Union Ltd
and its Controlled Entity
ABN 47 087 650 093

General Purpose
Financial Report
for the year ended
30 June 2013



This page intentionally left blank.

Gateway Credit Union Ltd
and its Controlled Entity
ABN 47 087 650 093

**General Purpose Financial Report
for the year ended 30 June 2013**

Contents

02	Directors' Report
08	Auditor's Independence Declaration
09	Statement of Comprehensive Income
10	Statement of Financial Position
11	Statement of Change in Equity
12	Statement of Cash Flows
13	Notes to the Financial Statements
67	Directors' Declaration
68	Independent Audit Report

Phone: 1300 302 474
Fax: 02 9307 4299
Email: memberservices@gatewaycu.com.au
Web: www.gatewaycu.com.au

Your Directors submit their report for the year ended 30 June 2013.

DIRECTORS

The names and details of Gateway Credit Union's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Catherine M Hallinan (Chairman)
John B Flynn (Deputy Chairman)
Steven R Carritt
Malcolm S Graham
Graham B Raward
Irene H van der Loos
Jennifer M Wicks

Name, qualifications, experience and special responsibilities

Catherine M Hallinan

CHAIRMAN

Qualifications: BA (Hons), MBA, F Fin., GAICD, FAMI.

Experience and special responsibilities:

Catherine joined the Board in June 2006 and was appointed Chairman in May 2012. She is also a director of HCF Life Limited and has over 30 years' experience in banking, finance and management consulting.

- Deputy Chairman (March 2010 to May 2012)

Committee Memberships:

- Risk & Audit
- Nominations & Remuneration

John B Flynn

DEPUTY CHAIRMAN

Qualifications: FAMI.

Experience and special responsibilities:

John joined the Board in January 1989. He is currently a Finance Consultant, with over 41 years' finance experience including 37 years with the Commonwealth Bank of Australia.

- Deputy Chairman (January 1998 to December 2002)
(February 2013 to present)

Committee Memberships:

- Risk & Audit
- Nominations & Remuneration

Steven R Carritt

NON-EXECUTIVE DIRECTOR

Qualifications: BA (Accounting).

Experience and special responsibilities:

Steven joined the Board in July 1992. He has over 38 years' banking and finance experience and was formerly General Manager ALM with the Commonwealth Bank of Australia.

- Chairman (January 2005 to February 2010)

Committee Memberships:

- Convenor Members' Equity Protection
- Risk & Audit

Malcolm S Graham

NON-EXECUTIVE DIRECTOR

Qualifications: MA, F Fin., FAMI.

Experience and special responsibilities:

Mal joined the Board in July 1992 and has over 40 years' banking and finance experience. He currently holds the position of Credit Manager, Uniting Financial Services. Mal is also a director of AM Institute.

- Deputy Chairman (March 2008 to February 2009)
- Chairman (January 1998 to December 2004)
- Deputy Chairman (March 1994 to January 1998)

Committee Memberships:

- Convenor of Risk & Audit

Graham B Raward

NON-EXECUTIVE DIRECTOR

Qualifications: BComm., M Applied Finance.

Experience and special responsibilities:

Graham joined the Board in June 2006 and has over 40 years' banking experience. He is an Executive Manager, Group Funding of the Commonwealth Bank of Australia.

- Deputy Chairman (May 2012 to February 2013)

Committee Memberships:

- Members' Equity Protection

Irene H van der Loos

NON-EXECUTIVE DIRECTOR

Qualifications: GAICD.

Experience and special responsibilities:

Rene joined the Board in February 2008. She is the General Manager, Strategic Marketing & Innovation at NRMA Motoring & Services. Rene has 13 years' banking experience and was formerly a Director of Sydney Ports Corporation (2006 – 2012).

Committee Memberships:

- Nominations & Remuneration
- Members' Equity Protection

Jennifer M Wicks

NON-EXECUTIVE DIRECTOR

Qualifications: BA, GMQ, GAICD.

Experience and special responsibilities:

Jennifer joined the Board in February 2008. She is a Management Consultant with over 21 years' financial services experience.

- Chairman (February 2010 to May 2012)
- Deputy Chairman (March 2009 to February 2010)

Committee Memberships:

- Convener of Nominations & Remuneration
- Members' Equity Protection

COMPANY SECRETARIES

Peter W G Gilmore

Chief Financial Officer

Appointed Company Secretary November 2006

B Bus, CPA.

Jeffrey W Organ

Senior Manager, Risk & Compliance

Appointed Company Secretary April 2010

B Bus.

The Credit Union appoints two Company Secretaries to ensure that there is adequate coverage and continuity for this important role.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

		Board Meetings	Nominations & Remuneration Committee Meetings	Risk & Audit Committee Meetings	Members' Equity Protection Committee Meetings
Catherine M Hallinan	A	9	4	5	
	B	9	4	5	
Graham B Raward	A	8			1
	B	9			1
Steven R Carritt	A	9		5	1
	B	9		5	1
John B Flynn	A	9	4	5	
	B	9	4	5	
Jennifer M Wicks	A	9	4		1
	B	9	4		1
Malcolm S Graham	A	8		5	
	B	9		5	
Irene H van der Loos	A	8	4		1
	B	9	4		1

A - Number of meetings attended

B - Number of meetings held during the time the Director held office during the year.

All Directors requested, and were granted, leave for meetings they were unable to attend.

DIVIDENDS

No dividends have been paid or declared since the end of the previous financial year, nor do the Directors recommend the declaration of a dividend.

CORPORATE INFORMATION

Gateway Credit Union ("Credit Union") is a public company limited by shares incorporated and domiciled in Australia. As at 30 June 2013, the Consolidated Entity comprises of the Credit Union and the Portavia Trust No. 1 Westpac Warehouse ("Portavia Trust No.1"). The Credit Union holds 9 Residual Units in the Portavia Trust, which is a Controlled Entity of the Consolidated Entity.

The Credit Union employed 75 employees at 30 June 2013 (2012: 74).

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year were the provision of financial and associated services to Members of the Credit Union and the Portavia Trust No.1. There have been no significant changes in the nature of these activities during the year.

OPERATING AND FINANCIAL REVIEW

The 2013 financial year's Consolidated Entity results comprises both those of the Credit Union and Portavia Trust No.1 for the full 12 months. The 2012 comparative Consolidated results comprises of the Credit Union results for the full 12 months for that year and the results of the Portavia Trust, since establishment for the period from 9 December 2011 to 30 June 2012.

The Consolidated Entity recorded a profit after income tax for the year ended 30 June 2013 of \$2.451 million (2012: \$1.695 million).

The Consolidated Entity balance sheet assets reached \$873.8 million (2012: \$849.0 million), representing an increase of \$24.8 million (2.92%) over the previous financial year. Total loans grew \$18.7 million (2.54%) to \$755.3 million (2012: \$736.6 million) and total deposits were \$660.5 million (2012: \$667.1 million), being a decrease of \$6.6 million (-0.99%) from the previous year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Consolidated Entity during the 2013 financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 29 August 2013, the Consolidated Entity did not renew the \$50 million committed standby facility with the Commonwealth Bank of Australia. This was a result of Basel III regulatory requirements in regards to Liquidity making such standby arrangements significantly more expensive.

In anticipation of the Basel III regulatory changes, the Credit Union established Portavia Trust No.2 Series 2013-1R ("Portavia Trust No.2") as part of its internal securitisation program in July 2013. The Trust issued \$96.8 million of notes in exchange for \$93.0 million of mortgages and cash reserves of \$3.8 million from Gateway. The Credit Union acts as Servicer, Manager and holds all the notes and participating residual income units in the Trust. It is also the support facility provider for further advances and redraws under the program. On 14 August 2013, the RBA advised that the Class A notes of the program had been accepted as repo eligible securities in the event of an emergency liquidity scenario. Portavia Trust No.2 will be consolidated into the Consolidated Entity.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Consolidated Entity is presently undertaking a due diligence of a mortgage loan portfolio acquisition in the order of \$45 million which it intends to finalise by May 2014. Otherwise, the Directors do not expect any significant changes in the operations or services of the Credit Union which will affect the results of the Credit Union in future years.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity is not subject to any particular or significant environmental regulation under laws of the Commonwealth or of a State or Territory.

SHARE OPTIONS

No option to acquire shares in the Credit Union has been granted to any person. No shares have been issued during the financial year or since the end thereof by virtue of the exercise of any options. There are no unissued shares under option at the date of this report.

DIRECTORS REMUNERATION

No benefits have been received or are due to be received by a Director, a firm of which the Director is a member, or an organisation in which a Director has a substantial financial interest, either during the financial year, or subsequently, under a contract for services rendered to the Credit Union.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the end of the financial year, a premium was paid in respect of a contract insuring Directors and officers (including executive officers, secretary and employees) of the Credit Union against liability.

In accordance with normal commercial practice, disclosure of the total amount of premium payable and the nature of the liabilities covered by the insurance contract is prohibited by a confidentiality clause in the contract.

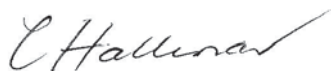
ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable), unless otherwise stated, under the option available to the Credit Union under ASIC Class Order 98/0100. The Credit Union is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

The Directors received an independence declaration from the auditor, Ernst & Young. A copy has been included on page 8 of the report.

Signed in accordance with a resolution of the Directors.



Catherine M Hallinan
Chairman



John B Flynn
Deputy Chairman

Sydney, 17 September 2013



Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Gateway Credit Union Limited

In relation to our audit of the financial report of Gateway Credit Union Limited for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A stylized, handwritten signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature of Andrew Harmer, written in black ink.

Andrew Harmer
Partner

17 September 2013

	Notes	Credit Union		Consolidated	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Interest revenue	5(a)	42,285	48,302	48,109	49,999
Interest expense	5(a)	(26,072)	(32,405)	(30,657)	(33,775)
Net interest revenue		16,213	15,897	17,452	16,224
Non-interest revenue	5(b)	2,626	1,523	1,496	1,342
Total revenue		18,839	17,420	18,948	17,566
Bad and doubtful debts expense	5(c)	(609)	(584)	(609)	(584)
Accommodation expenses		(1,044)	(999)	(1,044)	(999)
Marketing expenses		(437)	(566)	(437)	(566)
IT expenses		(1,386)	(1,321)	(1,386)	(1,321)
Administration expenses		(4,822)	(4,249)	(4,931)	(4,395)
Employee benefits expenses	5(d)	(6,740)	(6,991)	(6,740)	(6,991)
Depreciation and amortisation expenses	5(e)	(270)	(290)	(270)	(290)
Total expenses		(15,308)	(15,000)	(15,417)	(15,146)
Net profit before tax		3,531	2,420	3,531	2,420
Income tax expense	6(c)	(1,080)	(725)	(1,080)	(725)
Net profit after tax attributable to Members		2,451	1,695	2,451	1,695
Other comprehensive income					
Net change on Cash Flow Hedge Reserve	18	158	(87)	191	(215)
Other comprehensive income, net of tax		158	(87)	191	(215)
Total comprehensive income attributable to Members		2,609	1,608	2,642	1,480

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

		Credit Union		Consolidated	
	Notes	2013	2012	2013	2012
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Cash and cash equivalents	7	28,830	29,968	36,662	31,689
Held to maturity financial investments	10	79,614	77,141	77,610	77,141
Loans and advances	8	642,269	648,546	755,331	736,620
Other assets	9	3,346	2,483	2,348	2,199
Property, plant and equipment	11	269	348	269	348
Deferred tax assets	6(d)	748	769	748	769
Intangible assets	12	804	271	804	271
TOTAL ASSETS		755,880	759,526	873,772	849,037
LIABILITIES					
Member deposits	13	660,523	667,118	660,523	667,118
Derivative financial instruments	14	-	226	95	354
Creditors and other liabilities	15	2,627	3,046	3,257	3,461
Interest-bearing loans and borrowings	16	-	-	117,262	89,096
Current tax payables	6(f)	504	(380)	504	(380)
Provisions	17	750	649	750	649
TOTAL LIABILITIES		664,404	670,659	782,391	760,298
NET ASSETS		91,476	88,867	91,381	88,739
MEMBERS' EQUITY					
Retained earnings		91,476	89,025	91,476	89,025
Reserves	18	-	(158)	(95)	(286)
TOTAL MEMBERS' EQUITY		91,476	88,867	91,381	88,739

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

Credit Union	Notes	Retained earnings \$'000	Cash Flow Hedge Reserve \$'000	Total equity \$'000
At 30 June 2011		87,330	(71)	87,259
Profit for the year		1,695	-	1,695
Net change on Cash Flow Hedge Reserve		-	(87)	(87)
Total comprehensive income		1,695	(87)	1,608
At 30 June 2012		89,025	(158)	88,867
Profit for the year		2,451	-	2,451
Net change on Cash Flow Hedge Reserve	18	-	158	158
Total comprehensive income		2,451	158	2,609
At 30 June 2013		91,476	-	91,476

Consolidated	Notes	Retained earnings \$'000	Cash Flow Hedge Reserve \$'000	Total equity \$'000
At 30 June 2011		87,330	(71)	87,259
Profit for the year		1,695	-	1,695
Net change on Cash Flow Hedge Reserve		-	(215)	(215)
Total comprehensive income		1,695	(215)	1,480
At 30 June 2012		89,025	(286)	88,739
Profit for the year		2,451	-	2,451
Net change on Cash Flow Hedge Reserve	18	-	191	191
Total comprehensive income		2,451	191	2,642
At 30 June 2013		91,476	(95)	91,381

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

Statement of Cash Flows
For the year ended 30 June 2013

	Notes	Credit Union		Consolidated	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Cash flows from / (used in) operating activities					
Interest received		42,866	49,193	48,623	50,933
Bad debts recovered		255	296	255	296
Receipts from commissions, fees and other sources		1,392	1,108	1,222	1,065
Interest paid		(27,423)	(33,782)	(31,795)	(34,740)
Net funds advanced to and receipts from members for loans and advances		(34,050)	(114,732)	(19,461)	(112,959)
Payments to suppliers and employees		(14,773)	(14,442)	(14,852)	(14,574)
Income tax paid		(242)	(1,342)	(242)	(1,342)
Net acceptance from and repayment of deposits		(5,657)	32,697	(5,657)	32,697
Net cash flows from / (used in) operating activities	20	(37,632)	(81,004)	(21,907)	(78,624)
Cash flows from investing activities					
Proceeds from redemption of investment		236,275	332,248	236,275	332,248
Proceeds from sale of property, plant and equipment		-	-	-	-
Payments for investments		(238,824)	(329,770)	(238,824)	(329,770)
Purchase of intangible assets		(604)	(165)	(604)	(165)
Purchase of property, plant and equipment		(137)	(213)	(137)	(213)
Net cash flows from investing activities		(3,290)	2,100	(3,290)	2,100
Cash flows used in financing activities					
Net proceeds from sale of loans		39,783	89,755	-	-
Net proceeds from notes issue		-	-	30,170	89,096
Net cash flows used in financing activities		39,783	89,755	30,170	89,096
Net increase in cash and cash equivalents		(1,139)	10,851	4,973	12,572
Cash and cash equivalents at beginning of year		29,968	19,117	31,689	19,117
Cash and cash equivalents at end of year	7	28,829	29,968	36,662	31,689

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

1 CORPORATE INFORMATION

The financial report of the Credit Union and the Consolidated Entity, which includes the Credit Union and its controlled entity, the Portavia Trust No.1 for the year ended 30 June 2013, was authorised for issue in accordance with a resolution of the Directors on 17 September 2013.

Gateway Credit Union is a public company limited by shares incorporated and domiciled in Australia. The address of the Credit Union's registered office is Level 16, 2 Market Street, Sydney, NSW.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for those measured at fair value in the following Notes: Derivatives financial instruments, Trade and Other receivables and Investment and other financial assets. Provisions are also not measured at historical costs but at management's best estimates.

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 Consolidated Entity under ASIC Class Order 98/0100. The Consolidated Entity is an entity to which the Class Order applies.

The Statement of Financial Position is prepared on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non current.

(b) Statement of compliance

The financial report is also in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(c) New Accounting Standards & Interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the annual reporting period ended 30 June 2013.

(i) Changes in Accounting policies and disclosures

Reference	Title	Summary	Application date of standard	Impact on Consolidated Entity financial result	Application date for company*
AASB 2011-9	Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income [AASB 101]	This standard requires entities to group items presented in other comprehensive income. This standard applies to annual reporting periods beginning on or after 1 July 2012, early adoption permitted.	30 June 2013	These amendments will have minimal impact on the Consolidated Entity as the only item in 'Other comprehensive income' is 'Net change on Cash Flow Hedge Reserve'	30 June 2013

(c) New Accounting Standards & Interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective

Reference	Title	Summary	Application date of standard	Impact on Consolidated Entity financial result	Application date for company*
<p>AASB 10</p> <p>AASB 2011-6 (applicable to annual reporting periods beginning on or after 1 July 2013)</p> <p>AASB 2011-7</p>	<p>Consolidated Financial Statements</p> <p>Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASB 127, AASB 128 & AASB 131]</p>	<p>IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group. The new standard is available for early adoption for periods ending on or after 31 December 2011 and is applicable to annual reporting periods beginning on or after 1 January 2013.</p>	<p>31 December 2013</p>	<p>These amendments will have minimal impact on the Consolidated Entity as the Portavia Trust No.1 was deemed a controlled entity under the previous concept of 'control' and will continue to satisfy the new definition.</p>	<p>31 December 2013</p>

(c) New Accounting Standards & Interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard	Impact on Consolidated Entity financial result	Application date for company*
AASB 12	Disclosure of Interests in Other Entities	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. The new standard is available for early adoption for periods ending on or after 31 December 2011 and is applicable to annual reporting periods beginning on or after 1 January 2013.	31 December 2013	These changes will be relevant to the Credit Union to the extent that they apply to the securitisation arrangements with the Portavia Trust.	31 December 2013

(c) New Accounting Standards & Interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard	Impact on Consolidated Entity financial result	Application date for company*
AASB 13 AASB 2011-8	Fair Value Measurement Amendments to Australian Accounting Standards arising from AASB 13 (September 2011) [AASB 1,2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118,119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12 13, 14, 17, 19, 131 & 132]	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. The new standard is available for early adoption for periods ending on or after 31 December 2011 and is applicable to annual reporting periods beginning on or after 1 January 2013.	31 December 2013	The guidance is unlikely to significantly impact Fair Value outcomes for the Consolidated Entity. The Consolidated entity presently applies Fair Value accounting to derivatives used to manage fixed rate risk and takes the fair value adjustments as movements in retained earnings equity rather than through profit or loss.	31 December 2013

(c) New Accounting Standards & Interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard	Impact on Consolidated Entity financial result	Application date for company*
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. Applicable for annual reporting periods beginning on or after 1 January 2013. Early adoption is permitted.	31 December 2013	These amendments will be generally applicable to the Consolidated Entity and will impact classification and treatment of financial instruments held by the Consolidated Entity. The Consolidated Entity has not elected for early adoption of this Standard.	31 December 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	This Standard makes amendments to remove individual key management personnel disclosure requirements from AASB 124. This Standard applies to annual reporting periods beginning on or after 1 July 2013. Early adoption of this Standard is not permitted.	30 June 2014	These amendments will be generally applicable to the Consolidated Entity and will mean the removal of the Key Management Personnel Disclosure Note from the 2014 Annual Accounts.	30 June 2014

(c) New Accounting Standards & Interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard	Impact on Consolidated Entity financial result	Application date for company*
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement. Applicable for annual reporting periods beginning on or after 1 January 2014. Early adoption is permitted.	31 December 2014	These amendments will be generally applicable to the Consolidated Entity and will impact on the presentation of financial instruments held by the Consolidated Entity. The Consolidated Entity has not elected for early adoption of this Standard.	31 December 2014

(c) New Accounting Standards & Interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard	Impact on Consolidated Entity financial result	Application date for company*
AASB 9 AASB 2010-7	Financial Instruments Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] [supersedes AASB 2009-11 which was issued in December 2009]	Simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The new standard also: - simplifies requirements for embedded derivatives. - removes the tainting rules associated with held-to-maturity assets. - provides an opportunity to fair value investments in equity instruments to other comprehensive income, with no separate impairment test, whilst taking dividends to income. - requires entities to reclassify their financial assets when there is a change in the entity's business model. The new standard is available for early adoption for periods ending on or after 31 December 2009 and is applicable to annual reporting periods beginning on or after 1 January 2015, with early application permitted.	31 December 2015	These amendments will be generally applicable to the Consolidated Entity and will impact classification and treatment of financial instruments held by the Consolidated Entity. The Consolidated Entity has not elected for early adoption of this Standard.	31 December 2015

* Designates the beginning of the applicable annual reporting period

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Gateway Credit Union Ltd and its controlled entity as at and for the period ended 30 June 2013, the Consolidated Entity.

Controlled entities are all those entities over which the parent entity, the Credit Union, has the power to govern the financial and operating policies so as to obtain benefits from their activities. Accounting standards deem the Portavia Trust No.1, a special purpose entity, to be a controlled entity of the Credit Union, as it holds all the participating residual income units in its ownership structure, and is therefore consolidated.

The results of the Portavia Trust have been fully consolidated for the full 12 months of the year. During the financial year the Credit Union sold mortgage loans to the Portavia Trust through its loan securitisation program. In preparing the consolidated financial statements, all intercompany balances and transactions have been eliminated in full.

(e) Functional and presentation currency

Both the functional and presentation currency of the Consolidated Entity is Australian dollars (\$).

(f) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and on hand, short-term bills and call 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 changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings on the Statement of Financial Position.

(g) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Consolidated Entity will not be able to collect the debt.

(h) Loans and advances to Members (Classified as Loans and Receivables as per AASB 139)

(i) Basis of inclusion

All loans are initially recognised at fair value.

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Consolidated Entity at balance date, less any allowance or provision for impairment.

(ii) Interest earned

Term Loans and Line of Credit – Interest is calculated on the daily closing balance outstanding and is charged in arrears to a Member's account on the last day of each month.

(iii) Loan fees

Fees for the recovery of costs incurred are allocated against the relevant expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Loan impairment

The Consolidated Entity 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 the loss event (or events) has an impact on the estimated future cash flows of the loans and advances 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 reorganisation and 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 reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'bad debts recovered'.

Bad debts are written-off when identified. Identification may include: bankruptcy, clearout or unlikelihood of recovery. If a provision of 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.

(i) Specific provision

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans. The amount provided for impairment is determined by Management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

(ii) Collective provision

A collective provision is made for groups of loans with similar credit risk characteristics. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss is based upon estimated losses incurred within the portfolio, based upon objective evidence of impairment, the estimated probability of default and the expected loss given default having regard to the historical experience of the Consolidated Entity.

(iii) General reserve for credit losses

The Board has determined that the collective and specific provisions against impaired loans as required under AASB 139 provide sufficient protection for Members against the prospect that some Members will experience loan repayment difficulties. As such, in 2008 the Board determined to transfer the balance of the general reserve for credit losses to retained earnings. The Board believes that the high level of capital retained by the Consolidated Entity provides strength against impaired losses and as such a nominal general provision is of no value. This is consistent with IFRS and industry practice.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Restructured loans

Where possible, the Consolidated Entity seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and 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 the 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 loans' original effective interest rate.

(k) Bad debts written-off

Bad debts are written-off when recovery of the debt is considered unlikely by Management and the Board. Bad debts are written-off as expenses in the Statement of Comprehensive Income.

(l) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit and loss, loans and receivables, 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 at each financial year end, but there are restrictions on reclassifying to other categories.

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

(i) Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Consolidated Entity commits to purchase 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.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Consolidated Entity has a positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. 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 any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit and loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Hedge accounting

The Consolidated Entity uses derivative financial instruments, interest rate swaps, to hedge its risk exposure to interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For the purposes of hedge accounting, hedges are classified as cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction. The Portavia Trust has cash flow hedges attributable to receipt of interest on fixed rate loans.

Cash flow hedges are hedges of the Consolidated Entity's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or to a forecast transaction and that could affect profit and loss. Having met the strict criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit and loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction (finance costs or inventory purchases) when the forecast transaction occurs.

At inception of the hedge relationship, the Consolidated Entity formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and the strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item.

At each reporting date, the Consolidated Entity measures ineffectiveness using the dollar offset method. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where the hedged item is a forecast transaction, the Consolidated Entity assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the Statement of Comprehensive Income.

If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to the Statement of Comprehensive Income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in equity remain in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Derecognition of financial assets and financial liabilities

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Consolidated Entity 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; and
- either (a) the Consolidated Entity has transferred substantially all the risks and rewards of the asset, or (b) the Consolidated Entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Consolidated Entity 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 Consolidated Entity'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 Consolidated Entity could be required to repay.

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 amount is recognised in profit and loss.

(o) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit and loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets at the following rates:

- Plant and equipment - 15% - 33.3%
- Leasehold property improvements - 12.5%

Assets that cost less than \$300 are not capitalised and are expensed in the month of purchase.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property, plant and equipment (continued)

Derecognition

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.

(p) Intangible assets

The intangible assets acquired separately 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.

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 - 20% - 40%

The Consolidated Entity's intangible assets only include the value of computer software.

(q) Leases

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.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Lease make good

A provision has been made for the future cost estimates associated with dismantling furniture & fittings. This is recognised as a provision liability in the Statement of Financial Position, which increases annually over the life of the lease. The calculation of this provision requires assumptions which may result in future actual expenditure differing from the amounts currently provided. The provision is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the Statement of Financial Position by adjusting both the expense and provision.

(r) Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Member deposits

(i) Basis for determination

Member Savings and Term Deposits are quoted at the aggregate amount of moneys owing to depositors.

(ii) Interest payable

Interest on Savings and Term Deposits is calculated on the daily balance and posted to the accounts monthly, half-yearly, annually, or on maturity. Interest on Savings and Term Deposits is brought to account on an accrual basis in accordance with the interest rate, terms and conditions of each Savings and Term Deposit account as varied from time to time. The amount of the accrual is shown as part of Member Deposits.

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

(u) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

(v) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(w) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Consolidated Entity expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee leave benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date 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.

(ii) Long service leave

Liabilities for long service leave have been recognised 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. Consideration has been given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments have been discounted using market yields at the reporting date on national government bonds that match, as closely as possible, the estimated future cash outflows.

(y) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Loan interest is calculated on the basis of the daily closing balance outstanding and is charged in arrears to a Member's account on the last day of each month.

(ii) Fees and commission income

The Consolidated Entity earns fees and commissions from a 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit and loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST)

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(ab) Equity reserves

Cash flow hedge reserves

The cash flow hedge reserves comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Credit Union's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Credit Union's continuing profitability and each individual within the Credit Union is accountable for the risk exposures relating to his or her responsibilities. The Credit Union is exposed to market risk, credit risk, liquidity risk and operational risk.

The risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Credit Union's strategic planning process.

Core Components and Principles

During the year the Credit Union continued to develop its improvement program in relation to its Risk Management Framework.

The Credit Union's Risk Management Framework is embedded throughout the Credit Union's operations and governance process, and incorporates the following core components:

- a suite of policies, procedures and systems which together document the Credit Union's Board-approved Risk Appetite Statement and risk management systems descriptions, establish specific limits and other measures to restrict particular risk exposures, ensure that all categories of risk are actively monitored by the Board and managed by Executive Management and provide for regular review of the Credit Union's risk tolerance;
- human resources practices designed to recruit, train and retain employees with required specialist skills;
- clearly documented delegations of responsibility and accountability of risk management throughout the organisation;
- internal control processes including structured Board and Executive Management reporting, a system of independent review (by Internal and External Audit) and constant Board oversight; and
- an operational philosophy that seeks to anticipate and minimise risks before they occur and that fully investigates, and learns from, any unexpected consequences that should arise.

Roles and Responsibilities

Board of Directors

The Board of Directors is responsible for the overall risk management framework and for approving the risk strategies and principles.

Risk & Audit Committee

The Risk & Audit Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions and the internal and external auditor relationships.

Internal Audit

KPMG is engaged by the Board to review risk management and internal controls in the capacity of independent internal auditor. KPMG provides reports to the Convenor of the Risk & Audit Committee and has full access to staff and information when conducting its reviews.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Roles and Responsibilities (continued)

Chief Executive Officer

The Chief Executive Officer is responsible for the ongoing management of the Risk Management Framework including its periodic review and renewal subject to requisite Board direction and approvals.

Chief Risk Officer and Executive

The Chief Risk Officer and Executive Management team are responsible for implementing the Board-approved risk management strategy and for developing policies, procedures, processes and controls for identifying and managing risks in all areas of activity.

Asset and Liability Committee

The Asset and Liability Committee, chaired by the Chief Executive Officer, is responsible for overseeing the Treasury framework including the setting of deposit and loan rates in the context of monetary policy and market competition; the management of liquidity and development of new liquidity sources; approving the structure of the Statement of Financial Position; optimising the loan mix with the appropriate balance of risk and reward; monitoring the short and long-term capital position; and managing the inherent interest rate risk.

Compliance Committee

The Compliance Committee, chaired by the Chief Executive Officer, oversees the Credit Union's effectiveness in meeting all relevant compliance obligations, as well as developing and reviewing the policy framework for recommendation and approval by the relevant Board Committees and endorsement by the Board.

Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Board of the Credit Union. These limits reflect the business strategy and market environment of the Credit Union as well as the level of risk that the Credit Union is willing to accept.

Information is compiled, examined and processed in order to analyse, control and identify risks early. This information is presented and explained to the Management Committees, the Risk & Audit Committee and the Board of Directors. The reporting includes aggregate credit exposures, delinquency summary, loan security summary, loan type summary, liquidity ratios, VaR, sensitivity analysis and material changes. On a monthly basis detailed reporting takes place. Senior Management assesses the appropriateness of the allowance for impairment on a quarterly basis. The Board receives summarised risk reporting on key risk measures on a monthly basis. More detailed analysis and review of risks is undertaken on a periodic basis by the Risk & Audit Committee with reporting of outcomes to the Board.

Risk Mitigation

The Credit Union actively manages risk through a framework that includes use of collateral, delegations, limit frameworks, review of loan concentrations and interest rate hedging.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Excessive Risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular geographical location (refer note 3 (b)).

(a) Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Credit Union is only exposed to changes in interest rates.

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 monthly basis.

VaR assumptions

The VaR that the Credit Union measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within twenty days' horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

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

The VaR during the year was as follows:

	<i>Consolidated</i>	
	2013	2012
	<u>\$000's</u>	<u>\$000's</u>
30 June	188	218
Average	206	210
Highest	255	251
Lowest	178	181

The balances for the Credit Union and the Consolidated Entity are the same and therefore the Credit Union balances have not been disclosed.

The Credit Union utilises interest rate swaps to minimise exposure to interest rate risk. The Credit Union's exposure to interest rate risk and the effective weighted interest rate for classes of financial assets and financial liabilities are set out below:

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Credit Union

2013	Weighted average interest rate %	Floating interest rate \$000's	Fixed interest rate			Non- interest bearing \$000's	Total \$000's
			1 year or less \$000's	1 to 5 years \$000's	More than 5 years \$000's		
Financial Assets							
Cash and cash equivalents	2.75%	28,829	-	-	-	1	28,830
Held to maturity financial investments	3.35%	2,004	77,610	-	-	-	79,614
Loans and advances	6.03%	642,202	31	36	-	-	642,269
Total financial assets		673,035	77,641	36	-	1	750,713
Financial Liabilities including Equity							
Member deposits	3.49%	202,502	440,341	17,620	-	60	660,523
Derivative financial instruments	0.00%	-	-	-	-	-	-
Creditors and other liabilities	0.00%	-	-	-	-	2,627	2,627
Borrowings	0.00%	-	-	-	-	-	-
Provisions	N/A	-	-	-	-	750	750
Equity	N/A	-	-	-	-	91,476	91,476
Total Financial Liabilities and Equity		202,502	440,341	17,620	-	94,913	755,376
Total Interest Rate Repricing Gap		470,533	(362,700)	(17,584)	-	(94,912)	(4,663)
Cumulative Interest Rate Repricing Gap		470,533	107,833	90,249	90,249	(4,663)	-

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Credit Union

2012	Weighted average interest rate %	Floating interest rate \$000's	Fixed interest rate			Non- interest bearing \$000's	Total \$000's
			1 year or less \$000's	1 to 5 years \$000's	More than 5 years \$000's		
Financial Assets							
Cash and cash equivalents	2.83%	29,967	-	-	-	1	29,968
Held to maturity financial investments	4.38%	-	77,141	-	-	-	77,141
Loans and advances	6.88%	648,440	66	40	-	-	648,546
Total financial assets		678,407	77,207	40	0	1	755,655
Financial Liabilities including Equity							
Members' deposits	4.37%	201,168	450,383	15,504	-	63	667,118
Derivatives financial instruments	0.70%	226	-	-	-	-	226
Creditors and other liabilities	N/A	-	-	-	-	3,046	3,046
Borrowings	N/A	-	-	-	-	-	0
Provisions	N/A	-	-	-	-	649	649
Equity	N/A	-	-	-	-	88,867	88,867
Total Financial Liabilities and Equity		201,394	450,383	15,504	-	92,625	759,906
Total Interest Rate Repricing Gap		477,013	(373,176)	(15,464)	-	(92,624)	(4,251)
Cumulative Interest Rate Repricing Gap		477,013	103,837	88,373	88,373	(4,251)	-

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Consolidated

2013	Weighted average interest rate %	Floating interest rate \$000's	Fixed interest rate			Non- interest bearing \$000's	Total \$000's
			1 year or less \$000's	1 to 5 years \$000's	More than 5 years \$000's		
Financial Assets							
Cash and cash equivalents	2.76%	36,661	-	-	-	1	36,662
Held to maturity financial investments	3.43%	-	77,610	-	-	-	77,610
Loans and advances	5.95%	744,121	9,200	2,010	-	-	755,331
Total financial assets		780,782	86,810	2,010	-	1	869,603
Financial Liabilities including Equity							
Member deposits	3.49%	202,502	440,341	17,620	-	60	660,523
Derivative financial instruments	0.98%	95	-	-	-	-	95
Creditors and other liabilities	0.00%	-	-	-	-	3,257	3,257
Borrowings	3.81%	117,262	-	-	-	-	117,262
Provisions	N/A	-	-	-	-	750	750
Equity	N/A	(95)	-	-	-	91,476	91,381
Total Financial Liabilities and Equity		319,764	440,341	17,620	-	95,543	873,268
Total Interest Rate Repricing Gap		461,018	(353,531)	(15,610)	-	(95,542)	(3,665)
Cumulative Interest Rate Repricing Gap		461,018	107,487	91,877	91,877	(3,665)	-

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Consolidated

2012	Weighted average interest rate %	Floating interest rate \$000's	Fixed interest rate			Non- interest bearing \$000's	Total \$000's
			1 year or less \$000's	1 to 5 years \$000's	More than 5 years \$000's		
Financial Assets							
Cash and cash equivalents	2.85%	31,688	-	-	-	1	31,689
Held to maturity financial investments	4.38%	-	77,141	-	-	-	77,141
Loans and advances	6.79%	725,684	2,491	8,445	-	-	736,620
Total financial assets		757,372	79,632	8,445	0	1	845,450
Financial Liabilities including Equity							
Members' deposits	4.37%	201,168	450,382	15,504	-	64	667,118
Derivatives financial instruments	0.57%	354	-	-	-	-	354
Creditors and other liabilities	N/A	-	-	-	-	3,461	3,461
Borrowings	5.19%	89,096	-	-	-	-	89,096
Provisions	N/A	-	-	-	-	649	649
Equity	N/A	-	-	-	-	88,739	88,739
Total Financial Liabilities and Equity		290,618	450,382	15,504	-	92,913	849,417
Total Interest Rate Repricing Gap		466,754	(370,750)	(7,059)	-	(92,912)	(3,967)
Cumulative Interest Rate Repricing Gap		466,754	96,004	88,945	88,945	(3,967)	-

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

Credit risk is the risk of financial loss if a counterparty fails to meet an obligation under a contract. It arises principally from the loans and receivables. Potential customers and new facilities of existing customers are subjected to the loan approval system of the Credit Union. Credit quality follows the Credit Union's policy which is reviewed regularly and amendments, where necessary, are implemented promptly.

Maximum exposure to credit risk

The Credit Union's maximum credit risk exposure equals the drawdown portion on the Statement of Financial Position and the undrawn portion of all committed facilities of loans and receivables, and is provided by the following table:

	Credit Union		Consolidated	
	2013	2012	2013	2012
	\$000's	\$000's	\$000's	\$000's
Bank balances	28,830	29,968	36,662	31,689
Held to maturity investments	79,614	77,141	77,610	77,141
Loans and advances	642,269	648,546	755,331	736,620
Unused committed loan facilities	72,965	73,535	72,965	73,535
Loans approved but not funded	12,425	18,963	12,425	18,963
	836,103	848,153	954,993	937,948

Collateral and other credit enhancements

Loans and advances, except unsecured lines of credit and personal loans, are backed by collateral. The amount and type of collateral required depends on the assessment of the credit risk of the Member. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for retail lending; mortgages over residential properties
- for commercial lending; charges over real estate properties.

Management monitors the market value of collateral.

The terms and conditions of the collateral 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. The Credit Union does not occupy repossessed properties for business use.

For bank balances and held to maturity investments, the balances are unsecured. The Credit Union has a policy only to invest with counterparties with investment grade ratings and to limit the exposures to them to maximum levels for each counterparty.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk (continued)

Concentrations of credit risk

The Credit Union incurs concentrations of loan credit risk by lending to counterparties primarily in New South Wales. This concentration has not changed materially as shown below.

Concentrations of the Credit Union's credit risk by geographic areas are:

	Credit Union		Consolidated	
	2013	2012	2013	2012
	%	%	%	%
New South Wales	63.7	66.9	63.2	66.2
Victoria	20.0	17.8	20.8	18.6
Queensland	10.1	8.8	10.3	9.2
Western Australia	2.0	2.3	1.7	2.0
South Australia	2.0	1.8	1.8	1.6
Tasmania	0.5	0.5	0.5	0.5
Other	1.7	1.9	1.7	1.9
Total	100.0	100.0	100.0	100.0

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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, the Credit Union has standby 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 incorporating an assessment of expected cash flows.

The Credit Union maintains a portfolio of High Quality Liquid Assets (HQLA) that can be easily liquidated in the event of an unforeseen interruption of cash flow. During the reporting period, the Credit Union also had access to a committed Line of Credit with the Commonwealth Bank of Australia for \$50,000,000 that it could 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 certificates of deposits/bills available for immediate sale.

In the present economic environment, in order to minimise the risk of the liquidity ratio falling below 12% (as presently mandated by APRA), the Board has determined a target liquidity trading range of 14% - 19% and an internal minimum liquidity ratio of 13%. In the event that 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 year was as follows:

	<i>Consolidated</i>	
	2013	2012
	%	%
30 June	15.56	15.27
Average during the period	16.39	15.30
Highest	19.21	19.20
Lowest	13.99	13.29

Refer to Note 13 for maturity analysis of financial liabilities.

The balances for the Credit Union and the Consolidated Entity are the same and therefore the Credit Union balances have not been disclosed.

(d) Operational risk

Operational risk is the risk of loss arising from system 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 these risks to within tolerable limits. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes; including the use of internal audit.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Fair value risk

The Credit Union uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 - the fair value is calculated using quoted prices in active markets.

Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

		<i>Credit Union</i>							
		2013				2012			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Financial Liability</i>									
Interest rate swaps		-	-	-	-	-	226	-	226
		-	-	-	-	-	226	-	226
		<i>Consolidated</i>							
		2013				2012			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Financial Liability</i>									
Interest rate swaps		-	95	-	95	-	354	-	354
		-	95	-	95	-	354	-	354

Quoted market price represents the fair value based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

For financial instruments not quoted in active markets, the Credit Union uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs, or unobservable inputs that are not significant to the overall valuation, include interest rate swaps.

There were no transfers between Level 1 and Level 2 during the year.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(a) Significant accounting judgements

(i) Impairment losses on loans and advances

The Consolidated Entity reviews its problem loans and advances at each reporting date to assess whether a provision 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 provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

In addition to specific provisions against individually significant loans and advances, the Consolidated Entity also makes a collective impairment provision against exposures which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in geographic risk, economic factors, hardship applications or delinquency trends.

(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

The Consolidated Entity assesses impairment of all assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. These include technology, economic and political environments and future expectations. If an impairment trigger exists the recoverable amount of the asset is determined. When management does not consider that the triggers for impairment testing have been significant enough, these assets are not tested for impairment in this financial period.

(v) Taxation

The Consolidated Entity's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(a) Significant accounting judgements (continued)

(v) Taxation (continued)

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future performance, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

(vi) Classification of held to maturity investments

The Consolidated Entity classifies non-derivative financial assets with fixed or determinable payments and a fixed maturity as held to maturity investments. This classification requires significant judgement where management evaluates its intention and ability to hold such investments to maturity.

(b) Significant accounting estimates and assumptions

(i) Estimation of useful lives of non-financial assets

The estimation of the useful lives of assets has been based on historical experience as well as lease terms (for leasehold improvements). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

(ii) Make good provision

The Consolidated Entity makes a provision to cover the cost of restoring the leased office premises at 2 Market Street upon completion of the lease as per the requirements of the lease contract. An estimate of the per metre cost of the restoration is based on market rates. This rate and the adequacy of the provision build up is reviewed on a yearly basis to ensure coverage of the make good liability.

(iii) Fair value of derivatives

The Consolidated Entity uses observable market prices for similar derivative instruments in order to derive a market fair value for existing derivatives.

Credit Union

5 REVENUE AND EXPENSES

(a) Interest revenue and interest expense

Interest revenue 2013

	<i>Average balance \$'000</i>	<i>Interest \$'000</i>	<i>Average interest rate %</i>
Loans and advances to Members	655,669	38,497	5.87
Investment securities	77,249	2,907	3.76
Deposits at call with other financial institutions	29,531	881	2.99
	762,449	42,285	5.55

Interest revenue 2012

Loans and advances to Members	645,461	43,033	6.67
Investment securities	78,458	4,091	5.21
Deposits at call with other financial institutions	27,067	1,178	4.35
	750,986	48,302	6.43

Interest expense 2013

Member deposits	672,909	26,061	3.87
Overdraft	77	11	14.15
Borrowing	-	-	-
	672,986	26,072	3.87

Interest expense 2012

Member deposits	660,805	32,317	4.89
Overdraft	7	1	10.46
Borrowing	1,538	87	5.67
	662,350	32,405	4.90

	<i>Average balance \$'000</i>	<i>Interest \$'000</i>	<i>Average interest rate %</i>
Consolidated			
5 REVENUE AND EXPENSES			
(a) Interest revenue and interest expense			
Interest revenue 2013			
Loans and advances to Members	755,251	44,236	5.86
Investment securities	77,249	2,907	3.76
Deposits at call with other financial institutions	32,694	966	2.95
	865,194	48,109	5.56
Interest revenue 2012			
Loans and advances to Members	673,276	44,720	6.64
Investment securities	78,458	4,091	5.21
Deposits at call with other financial institutions	27,389	1,188	4.34
	779,123	49,999	6.42
Interest expense 2013			
Member deposits	672,909	26,036	3.87
Overdraft	77	11	14.15
Borrowings	101,199	4,610	4.56
	774,185	30,657	3.98
Interest expense 2012			
Member deposits	660,805	32,317	4.89
Overdraft	7	1	10.46
Borrowings	53,558	1,457	5.29
	714,370	33,775	4.91

The Average Balance for Borrowings is calculated as the sum of the average borrowing balances for the Credit Union and the Portavia Trust. For the 2012 comparatives, the Average Balance of Borrowings for the Portavia Trust is calculated over 7 months, being from Trust establishment to end of financial year.

5 REVENUE AND EXPENSES (continued)

(b) Non-interest revenue

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Fees and commissions	442	480	524	483
Bad debts recovered	255	296	255	296
Servicer fee income	246	62	-	-
Trust distribution income	966	140	-	-
Other income	717	545	717	563
Total non-interest revenue	2,626	1,523	1,496	1,342

(c) Bad and doubtful debts expense

(Decrease)/Increase in impairment losses on loans and advances	145	(54)	145	(54)
Bad debts written off directly	464	638	464	638
Total bad and doubtful debts expense	609	584	609	584

(d) Employee benefits expenses

Wages and salaries	5,584	5,733	5,584	5,733
Workers' compensation costs	53	38	53	38
Defined contribution superannuation expense	503	517	503	517
Other employee benefits expense	600	703	600	703
Total employee benefits expense	6,740	6,991	6,740	6,991

(e) Depreciation and amortisation expenses

Depreciation of property, plant & equipment				
Plant and equipment	106	103	106	103
Leasehold property improvements	-	-	-	-
Total depreciation of property, plant & equipment	106	103	106	103
Amortisation of intangible assets				
Computer software	164	187	164	187
Total amortisation of intangible assets	164	187	164	187
Total depreciation and amortisation expenses	270	290	270	290

(f) Other expenses included in the Statement of Comprehensive Income

Minimum lease payments - operating lease	944	910	944	910
Loss on disposal of property, plant and equipment	18	8	18	8

Minimum lease payments - operating leases are included in Accommodation expenses in the Statement of Comprehensive Income. Similarly, loss on disposal of property, plant and equipment are included in Administration expenses.

6 INCOME TAX

	<i>Consolidated</i>	
	2013	2012
	\$'000	\$'000
(a) Income tax expense		
The major components of income tax expense are:		
Statement of Comprehensive Income		
<i>Current income tax</i>		
Current income tax charge	1,080	709
Adjustments in respect of current income tax of previous years	-	16
<i>Deferred income tax</i>		
Income tax expense reported in the Statement of Comprehensive Income	1,080	725
(b) Amounts charged or credited directly to equity		
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Net gain on revaluation of cash flow hedges	-	68
Income tax expense reported in equity	-	68
(c) Numerical reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate		
A reconciliation between tax expense and the product of accounting profit before tax multiplied by the Credit Union's applicable income tax rate is as follows:		
Total accounting profit before income tax	3,531	2,420
At the Credit Union's statutory income tax rate of 30% (2012: 30%)	1,060	726
Adjustments in respect of current income tax of previous years	16	16
Adjustments in respect of deferred tax of previous years	-	(19)
Non-deductible expenses	4	2
Aggregate income tax expense	1,080	725
(d) Recognised deferred tax assets and liabilities		
Deferred tax at 30 June relates to the following:		
Statement of Financial Position		
<i>(i) Deferred tax liabilities</i>		
Other assets	-	-
Gross deferred tax liabilities	-	-

6 INCOME TAX (continued)

	<i>Consolidated</i>	
	2013	2012
	\$'000	\$'000
<i>(ii) Deferred income tax assets</i>		
Loans and advances	224	181
Plant and equipment	96	96
Creditors and other liabilities	237	234
Employee entitlements	191	173
Derivatives	-	68
Unearned revenue	-	17
Gross deferred tax assets	748	769
Set-off of deferred tax assets/(liabilities)	-	-
Net deferred income tax assets	748	769

Statement of Comprehensive Income

Deferred income tax charge

Loans and advances	(44)	17
Plant and equipment	-	(20)
Creditors and other liabilities	(3)	(9)
Employee entitlements	(18)	(3)
Unearned revenue	19	(17)
Derivatives	67	-
Deferred tax (income)/expense	21	(32)

(e) Unrecognised temporary differences

At 30 June 2013, there are no unrecognised temporary differences (2012: \$nil).

(f) Franking credit balance

The amount of franking credits available for the

– franking account balance as at the end of the financial year at 30% (2012: 30%).

– franking credits that will arise from the payment of income tax payable as at the end of the financial year.

– franking debits that will arise from the receipt of income tax receivable as at the end of the financial year.

26,954	26,694
-	-
-	380
26,954	27,074

The balances for the Credit Union and the Consolidated Entity are the same and therefore the Credit Union balances have not been disclosed.

7 CASH AND CASH EQUIVALENTS

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Cash on hand	1	1	1	1
Cash at bank	10,849	9,992	18,681	11,714
Deposits at call with financial institutions	17,980	19,975	17,980	19,974
	28,830	29,968	36,662	31,689

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represents fair value.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Credit Union, and earn interest at the respective short-term deposit rates.

8 LOANS AND ADVANCES

Lines of credit	65,291	72,437	65,960	72,863
Term loans	577,726	576,711	690,119	664,359
Gross loans and advances	643,017	649,148	756,079	737,222
Allowance for impairment loss	(748)	(602)	(748)	(602)
Net loans and advances	642,269	648,546	755,331	736,620

Security dissection

Secured by mortgage	594,889	597,126	707,951	685,200
Secured other	7,728	9,460	7,728	9,460
Unsecured	40,400	42,562	40,400	42,562
	643,017	649,148	756,079	737,222

Purpose dissection

Residential loans	592,494	594,538	705,556	682,611
Personal loans	48,118	52,022	48,118	52,022
Commercial loans	2,405	2,588	2,405	2,589
	643,017	649,148	756,079	737,222

Maturity analysis - gross loans and advances

Not later than three months	10	19	10	19
Later than three months but not later than one year	392	415	392	415
Later than one year but not later than five years	12,960	15,304	12,960	15,304
Later than five years	629,655	633,410	742,717	721,484
	643,017	649,148	756,079	737,222

8 LOANS AND ADVANCES (continued)

(a) Allowance for impairment loss

An increase in allowance for impairment loss of \$146,000 (2012: decrease of \$54,000) has been recognised in the 'Bad and doubtful debts expense' line. This provision is in respect of specific debtors and debtors assessed on a collective basis, as described in note 2(h), for which such evidence exists.

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Movements in the allowance for impairment loss were				
At 1 July	602	656	602	656
Charge for the year	146	(54)	146	(54)
At 30 June	748	602	748	602
At 30 June, the analysis of loans and advances is as follows:				
Neither past due nor impaired*	618,156	630,010	731,218	718,083
Current				
Past due but not impaired**	-	-	-	-
Individually impaired	-	-	-	-
1 - 30 days				
Past due but not impaired**	20,681	18,043	20,681	18,043
Individually impaired	-	-	-	-
30 days - 3 months				
Past due but not impaired**	3,540	688	3,540	688
Individually impaired	-	47	-	47
3 months - 1 year				
Past due but not impaired**	514	341	514	341
Individually impaired	126	19	126	19
	643,017	649,148	756,079	737,222

* The credit quality of the financial assets that are neither past due nor impaired is considered of satisfactory standard. The credit quality of the portfolio is monitored on a continual basis through benchmarking delinquency, bankruptcy and write-off trends against historical and industry levels.

** Payment terms on these amounts have not been renegotiated however credit has been stopped until full payment is made. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Restructured loans (Note 2(j))	53	61	53	61
--------------------------------	-----------	----	-----------	----

The estimation of the fair value of collateral and other security enhancements held against loans and advances is shown below:

Past due 30 days and over but not impaired	6,496	912	6,496	912
Individually impaired	18	-	18	-

Management monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

8 LOANS AND ADVANCES (continued)

(b) Concentration of loans

Individual loans which exceed 5% of Members' funds in aggregate amount to \$nil in 2013 (2012: \$nil).

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Geographic Areas-Residence and/ or Employed Within:				
New South Wales	409,313	433,382	478,101	487,828
Victoria	128,825	115,854	157,485	137,137
Queensland	64,932	57,333	78,229	68,155
Western Australia	12,861	15,088	13,211	15,088
South Australia	13,064	11,429	13,354	11,727
Tasmania	3,532	3,502	3,532	3,502
Other	10,490	12,560	12,167	13,785
	643,017	649,148	756,079	737,222

(c) Fair value

The *carrying amount* of loans and advances are as follows:

Lines of credit	65,291	72,437	65,960	72,863
Term loans	577,726	576,711	690,119	664,359
	643,017	649,148	756,079	737,222

The *fair values* of loans and advances are as follows:

Lines of credit	65,380	72,538	66,050	72,964
Term loans	581,122	580,563	693,934	668,833
	646,502	653,101	759,984	741,797

The fair values are based on cash flows discounted at a rate reflecting current market rates adjusted for counter party credit risk.

9 OTHER ASSETS

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Prepayments	2,286	2,032	2,286	2,032
Sundry debtors	1,060	451	62	167
	3,346	2,483	2,348	2,199

Sundry debtors are neither impaired nor past due. It is expected that these balances will be received when due.

10 HELD TO MATURITY FINANCIAL INVESTMENTS

Negotiable Certificates of Deposits	77,610	77,141	77,610	77,141
Subordinated Notes in Portavia Trust No.1	2,004	-	-	-
Total Investments	79,614	77,141	77,610	77,141

Maturity analysis

< 3 months	62,798	48,101	62,798	48,101
3 months - 6 months	14,812	19,510	14,812	19,510
6 months - 1 year	2,004	9,530	-	9,530
Total	79,614	77,141	77,610	77,141

Due to the short-term nature, the carrying amount of the held-to-maturity financial investments approximate their fair value.

11 PROPERTY, PLANT AND EQUIPMENT

	<i>Consolidated</i>	
	2013	2012
	\$'000	\$'000
<i>Work in Progress</i>		
At cost	-	93
Accumulated depreciation	-	-
Net carrying amount	-	93
<i>Plant and equipment</i>		
At cost	678	609
Accumulated depreciation	(409)	(354)
Net carrying amount	269	255
Total property, plant and equipment		
At cost	678	702
Accumulated depreciation and impairment	(409)	(354)
Net carrying amount	269	348
Reconciliation of carrying amounts at the beginning and end of the period		
<i>Work in Progress</i>		
Balance at the beginning of the year		
At cost	-	102
Accumulated depreciation	-	-
Net carrying amount	-	102
Additions	-	177
Disposals (net of accumulated depreciation)	-	(186)
Depreciation charge for the year	-	-
Balance at the end of the year - Net carrying amount	-	93
<i>Plant and equipment</i>		
Balance at the beginning of the year		
At cost	609	562
Accumulated depreciation	(354)	(269)
Net carrying amount	255	293
Additions	137	73
Disposals (net of accumulated depreciation)	(18)	(8)
Depreciation charge for the year	(105)	(103)
Balance at the end of the year - Net carrying amount	269	255

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Consolidated</i>	
	2013	2012
	\$'000	\$'000
<i>Total Property, plant and equipment</i>		
At cost	609	664
Accumulated depreciation and impairment	(354)	(269)
Net carrying amount	255	395
Additions	137	250
Disposals (net of accumulated depreciation)	(18)	(194)
Depreciation charge for the year	(105)	(103)
Balance at the end of the year - Net carrying amount	269	348

The balances for the Credit Union and the Consolidated Entity are the same and therefore the Credit Union balances have not been disclosed.

12 INTANGIBLE ASSETS

<i>Work in Progress</i>		
At Cost	193	-
Accumulated amortisation	-	-
Net carrying amount	193	-
<i>Computer software</i>		
At Cost	1,502	998
Accumulated amortisation	(891)	(727)
Net carrying amount	611	271

Reconciliation of carrying amount at beginning

<i>Work in Progress</i>		
Balance at the beginning of the year		
At Cost	-	-
Accumulated amortisation	-	-
Net carrying amount	-	-
Additions	193	-
Disposals (net of accumulated depreciation)	-	-
Amortisation	-	-
Balance at the end of the year - Net carrying amount	193	-

12 INTANGIBLE ASSETS (continued)

	<i>Consolidated</i>	
	2013	2012
	\$'000	\$'000
<i>Computer software</i>		
Balance at the beginning of the year		
At Cost	998	712
Accumulated amortisation	(727)	(569)
Net carrying amount	271	143
Additions	504	315
Disposals (net of accumulated depreciation)	-	-
Amortisation	(164)	(187)
Balance at the end of the year - Net carrying amount	611	271
<i>Total Computer software</i>		
Balance at the beginning of the year		
At Cost	998	712
Accumulated amortisation	(727)	(569)
Net carrying amount	271	143
Additions	697	315
Disposals (net of accumulated depreciation)	-	-
Amortisation	(164)	(187)
Balance at the end of the year - Net carrying amount	804	271

The balances for the Credit Union and the Consolidated Entity are the same and therefore the Credit Union balances have not been disclosed.

13 MEMBER DEPOSITS

	<i>Consolidated</i>	
	2013	2012
	\$'000	\$'000
Call deposits	202,502	201,168
Term deposits	457,961	465,886
Withdrawable shares	60	64
	660,523	667,118

(a) Undiscounted Maturity analysis of Member

At call	202,563	201,232
< 3 months	265,486	279,036
3 months - 6 months	123,123	119,185
6 months - 1 year	51,997	52,305
1 - 5 years	17,354	15,360
	660,523	667,118

(b) Concentration of Member deposits

No individual Member deposits represent 5% or more of the total liabilities of the Credit Union.

(c) Fair value

The carrying amount of Member deposits are as

Call deposits	202,502	201,168
Term deposits	457,961	465,886
Withdrawable shares	60	64
	660,523	667,118

The fair values of Member deposits are as follows:

Call deposits	202,502	201,168
Term deposits	459,748	468,881
Withdrawable shares	60	64
	662,310	670,113

Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value.

(d) Interest rate and liquidity risk

Information regarding the liquidity risk and effective interest rate risk of Member deposits is set out in note 3.

The balances for the Credit Union and the Consolidated Entity are the same and therefore the Credit Union balances have not been disclosed.

14 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Consolidated Entity in the normal course of business in order to hedge exposure to fluctuations in interest rates.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate.

During the year interest rate swap contracts have been taken out by the Credit Union and the Portavia Trust No.1 with other financial institutions. The Credit Union and Portavia Trust paid a fixed rate of interest in return for a floating rate receipt. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

At 30 June 2013, the Credit Union had no swaps in place. The swap in the Portavia Trust No.1 has an amortising profile which matches the expected amortising profile of the underlying fixed rate loans and therefore changes over the term of the swap. The Notional Amount included in the table below for the Consolidated Entity represents the notional amount for the Credit Union and the Portavia Trust No.1 as at 30 June 2013.

The following shows the fair values of derivative financial instruments, recorded as liabilities, together with their notional amounts.

Derivative used as cash flow hedges

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Interest rate swaps				
- Fair value liability	-	226	95	354
- Notional amount	-	20,000	11,538	27,172

14 DERIVATIVE FINANCIAL INSTRUMENTS

Cash flow hedges

The Credit Union is exposed to variability in future interest cash flows on non-trading assets and liabilities. The Credit Union uses interest rate swaps as cash flow hedges of these interest rate risks.

Below is a schedule indicating as at 30 June, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	<i>Credit Union</i>		<i>Consolidated</i>	
	Within 1 year \$'000	1 - 3 years \$'000	Within 1 year \$'000	1 - 3 years \$'000
2013				
Cash inflow	-	-	292	65
Cash outflows	-	-	(382)	(93)
Net cash flows	-	-	(90)	(28)
2012				
Cash inflow	479	-	667	225
Cash outflows	(725)	-	(1,031)	(536)
Net cash flows	(246)	-	(364)	(311)

The net gain (loss) on cash flow hedges reclassified to the profit or loss during the year was as follows:

	2013 \$'000	2012 \$'000
Interest expense	(214)	(141)
Taxation	64	42
Net gain (loss) on cash flow hedges accounted for in the profit or loss	(150)	(99)

In 2013, nil (2012: nil) was recognised in the profit or loss due to hedge ineffectiveness from cash flow hedges.

15 CREDITORS AND OTHER LIABILITIES

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Creditors and accruals	2,627	3,046	3,257	3,461
	2,627	3,046	3,257	3,461
Undiscounted Maturity analysis of Creditors and accruals:				
Less than 3 months	2,455	3,046	3,085	3,461
More than 3 months	172	-	172	-
Total	2,627	3,046	3,257	3,461

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

The payables are non-trade, non-interest bearing and have an average term of 14 days.

16 INTEREST-BEARING LOANS AND BORROWINGS

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Bank overdraft	-	-	-	-
Standby facility	-	-	-	-
Bank borrowings	-	-	117,262	89,096
	-	-	117,262	89,096

(a) Undiscounted Maturity analysis of interest bearing loans and borrowings

	<i>Consolidated</i>	
	2013	2012
	\$'000	\$'000
Bank overdraft	-	-
Standby facility	-	-
Bank borrowings	117,262	89,096
	117,262	89,096
Undiscounted Maturity analysis of Bank borrowings:		
Less than 3 months	-	-
3 months - 6 months	117,262	89,096
More than 6 months	-	-
Total	117,262	89,096

16 INTEREST-BEARING LOANS AND BORROWINGS (continued)

(b) Fair values

Due to the short-term nature of these borrowings, the carrying amount of the Consolidated Entity's bank facility balances including overdraft approximate their fair value.

(c) Terms and conditions

The bank overdraft and standby facility are unsecured facilities which have been taken out by the Credit Union with the Commonwealth Bank of Australia. The overdraft may be drawn at any time and 2 days' notice needed to be given on the standby facility for drawings.

The Consolidated Entity's Bank Borrowings relate to notes issued by the Portavia Trust to Westpac Banking Corporation ("Westpac") and are secured by loans purchased from the Credit Union. Two days' notice needs to be given for any notes issuance under this facility and prior approval needs to be sought from the Trustees, Perpetual Corporate Trust Ltd and the Note Subscriber, Westpac. The facility is renewable on its maturity date of 19 December 2013 and due to this short term, the undiscounted value is assumed to approximate the fair value.

(d) Financing facilities available

At reporting date, the following balances facilities were available. Committed facility includes the standby facility and Portavia Trust - Westpac warehouse notes program.

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Total facilities				
Bank overdraft	1,100	1,100	1,100	1,100
Committed facility	50,000	50,000	200,000	150,000
	51,100	51,100	201,100	151,100
Facilities used at reporting date				
Bank overdraft	-	-	-	-
Committed facility	-	-	117,262	89,096
	-	-	117,262	89,096
Facilities unused at reporting date				
Bank overdraft	1,100	1,100	1,100	1,100
Committed facility	50,000	50,000	82,738	60,904
	51,100	51,100	83,838	62,004

(e) Assets pledged as security

At the reporting date, there were no assets pledged as security for interest bearing liabilities.

(f) Interest rate risk

Information regarding the interest rate risk of the interest bearing loans and borrowings is set out in note 3.

(g) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans or loan conditions.

17 PROVISIONS

	<i>Consolidated</i>	
	2013	2012
	\$'000	\$'000
Annual leave	345	329
Long service leave	290	248
Lease make-good	115	72
	750	649
Settlement term (years)		
Long service leave	5	5
Lease make-good	5	6

Movements in provisions

Movements in the provision during the financial year, for long service leave and lease make good, are set out below:

	<i>Lease Make-good</i>	<i>Long Service</i>
	\$'000	\$'000
At 1 July 2012	72	248
Arising during the year	43	67
Adjustment	-	(19)
Utilised	-	(6)
At 30 June 2013	115	290

In accordance with the lease agreement, the Credit Union must restore the leased premises in Sydney to its original condition at the end of the lease term. A provision of \$43,000 was raised during the year ended 30 June 2013 (2012: \$43,000) in respect of the Credit Union's obligation to remove leasehold improvements from leased premises.

Adjustment in relation to the provision for long service leave relates to the movement in the discounting and probability weighting factor of long service leave balances based on the expected service of employees and their years of employment service with the Credit Union.

The balances for the Credit Union and the Consolidated Entity are the same and therefore the Credit Union balances have not been disclosed.

18 RESERVES

	<i>Credit Union</i>	<i>Consolidated</i>
	\$'000	\$'000
Cash flow hedge reserves		
At 30 June 2011	(71)	(71)
Net unrealised gain/(loss) on cash flow hedges	(87)	(215)
Net gain/(loss) on cash flow hedges reclassified to profit or loss	-	-
At 30 June 2012	(158)	(286)
Net unrealised gain/(loss) on cash flow hedges	158	191
Net gain/(loss) on cash flow hedges reclassified to profit or loss	-	-
At 30 June 2013	-	(95)

19 CAPITAL MANAGEMENT

The Credit Union is licensed as an Australian Deposit-Taking Institution (ADI) under the Banking Act and is subject to prudential supervision by APRA. APRA has issued a series of prudential standards to implement the Basel II capital framework. The Credit Union has complied with these requirements since their implementation from 1 January 2008.

The Basel II Standards include CPS 110 Capital Adequacy which:

- a) Imposes on the Board a duty to ensure that the Credit Union maintains an appropriate level and quality of capital commensurate with the level and extent of the risks to which the Credit Union is exposed from its activities; and
- b) Obliges the Credit Union to have in place an Internal Capital Adequacy Assessment Process (ICAAP).

There are three pillars to the Basel II capital framework -

Pillar 1 - involves specific capital charges for credit risk, operational risk, and the risk of financial market trading activities.

Pillar 2 - involves the Credit Union making an assessment of any additional capital necessary to cover other risks not included in Pillar 1.

Pillar 3 - involves increased reporting by the Credit Union to APRA.

The Credit Union's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes general reserves and current year earnings.
- Tier 2 capital, which includes upper tier 2 capital of the general reserve for credit losses.

Various limits are applied to elements of the capital base. APRA may require an ADI to hold more than 50% of its required prudential capital in the form of Tier 1 capital and there are restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Other deductions from capital include deferred tax assets and intangible assets.

	2013	2012
	\$'000	\$'000
Regulatory capital		
Tier 1 capital	87,796	85,465
Tier 2 capital	2,008	2,008
Capital Base	89,804	87,473
 Risk weighted assets	 401,244	 396,285
 Capital adequacy ratios	 22.38%	 22.07%

During the period the Credit Union has complied with all externally imposed capital requirements.

Basel III

The Credit Union continues to monitor developments in regards to APRA's implementation of the Basel III capital requirements on its operations in accordance with APRA's timetable and expectations.

20 CASH FLOW STATEMENT RECONCILIATION

	<i>Credit Union</i>		<i>Consolidated</i>	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Reconciliation of net profit after tax to net cash flows from operations				
Profit for the year	2,451	1,695	2,451	1,695
Adjustments for:				
Depreciation and amortisation	270	290	270	290
Bad debts written off	464	639	464	639
Net (profit)/loss on disposal of property, plant and equipment	18	8	18	8
Movement in allowance for impairment loss	145	(55)	145	(55)
Deferred tax attributed directly to equity	(67)	37	(67)	37
Fair value adjustment on acquired deposits	-	-	-	-
Changes in assets and liabilities				
(Increase)/Decrease in trade and other receivables	-	-		
(Increase)/Decrease in inventories	-	-		
(Increase)/Decrease in other assets	(863)	(1,379)	(579)	(1,095)
(Increase)/Decrease in deferred tax assets	22	(71)	22	(71)
(Increase)/Decrease in accrued interest on investments	74	116	75	116
(Increase)/Decrease in loans and advances	(34,115)	(114,650)	(19,526)	(112,969)
(Decrease)/Increase in current tax liability	884	(584)	884	(584)
(Decrease)/Increase in provisions	102	53	102	53
(Decrease)/Increase in trade creditors and other liabilities	(1,361)	199	(510)	614
(Decrease)/Increase in deposits	(5,656)	32,697	(5,656)	32,697
Net cash flows from / (used in) operating activities	(37,632)	(81,004)	(21,907)	(78,625)

21 COMMITMENTS AND CONTINGENCIES

(a) Commitments

(i) Leasing commitments

Operating lease commitments – Credit Union as lessee

The Credit Union leases office premises at Level 16, 2 Market Street, Sydney. The lease has a life of 8 years expiring on 31 October 2018. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

Comparatives for 2012 Leasing Commitments have been reclassified.

	<i>Consolidated</i>	
	2013	2012
	\$'000	\$'000
Within one year	1,000	962
After one year but not more than five years	4,418	4,248
After more than five years	395	1,565
Total minimum lease payments	5,813	6,775

(ii) Capital expenditure commitments

Contracted but not provided for and payable within one year

-	-
---	---

(iii) Outstanding loan commitments

Member loans approved but not funded

12,425	18,963
---------------	---------------

There is no certainty that all unfunded loans will ultimately be funded.

(iv) Outstanding line of credit commitments

Member line of credit facilities approved but not funded

72,965	73,535
---------------	---------------

The Credit Union retains the right, at any time, to reduce or withdraw an approved line of credit limit or facility.

(b) Contingencies

As at 30 June 2013 and 2012, there are no significant contingent liabilities.

22 AUDITORS' REMUNERATION

The auditor for the Consolidated Entity is Ernst & Young
Comparatives for 2012 have been reinstated.

	<i>Consolidated</i>	
	2013	2012
	\$	\$
• an audit or review of the financial report of the entity	164,194	157,319
• other services in relation to the entity		
- tax compliance	16,429	17,600
- Audit related services	7,648	-
	188,271	174,919

23 KEY MANAGEMENT PERSONNEL

(a) Compensation of Key Management Personnel

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 (whether executive or otherwise).

	<i>Consolidated</i>	
	2013	2012
	\$	\$
Short-term	1,240,493	1,262,763
Termination benefits	-	-
	1,240,493	1,262,763

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Credit Union.

(b) Loans to Key Management Personnel

	<i>Consolidated</i>	
	2013	2012
	\$	\$
(i) The aggregate value of loans to Key Management Personnel as at balance date amounted to:		
Personal loans - secured	11,685	36,524
Term Loans - secured	1,758,866	2,434,591
	1,770,551	2,471,115
(ii) During the year the aggregate value of loans disbursed to Key Management Personnel amounted to:		
Personal loans - secured	160,925	150,980
Term Loans - secured	208,894	1,475,352
	369,819	1,626,332
(iii) During the year the aggregate value of repayments received amounted to:	1,186,672	842,610
(iv) Interest and other revenue earned on loans and revolving credit facilities to Key Management Personnel:	116,290	88,986

Secured loans are secured against residential property. All loans advanced to Key Management Personnel are to be settled in cash and are issued under the same terms and conditions as other Members.

23 KEY MANAGEMENT PERSONNEL (continued)

Terms and conditions of loans

The Credit Union's policy for lending to Key Management Personnel is that all loans are approved and deposits accepted on the same terms and conditions that applied to Members for each class of loan or deposit.

There are no loans that are impaired in relation to the loan balances with Key Management Personnel.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management Personnel. There are no loans which are impaired in relation to the loan balances with close family relatives of Key Management Personnel.

(c) Other transactions and balances with Key Management Personnel and their related parties

	<i>Consolidated</i>	
	2013	2012
	\$	\$
Total value term and savings deposits from Key Management Personnel	964,248	936,262
Total interest paid on deposits to Key Management Personnel	27,458	38,654

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

There are no benefits paid or payable to the close family members of Key Management Personnel.

24 EVENTS AFTER BALANCE SHEET DATE

On 29 August 2013, the Consolidated Entity did not renew the \$50 million committed standby facility with the Commonwealth Bank of Australia. This was a result of regulatory requirements resulting from Basel III reforms making such standby arrangements significantly more expensive.

In anticipation of the Basel III regulatory changes, the Credit Union established Portavia Trust No.2 Series 2013-1R ("Portavia Trust No.2") as part of its internal securitisation program in July 2013. The Trust issued \$96.8 million of notes in exchange for \$93.0 million of mortgages and cash reserves of \$3.8 million from Gateway. The Credit Union acts as Servicer, Manager and holds all the notes and participating residual income units in the Trust. It is also the support facility provider for further advances and redraws under the program. On 14 August 2013, the RBA advised that the Class A notes of the program had been accepted as repo eligible securities in the event of an emergency liquidity scenario. Portavia Trust No.2 will be consolidated into the Consolidated Entity.

25 ECONOMIC DEPENDENCY

The term "economic dependency" means that a change in existing relationships could have an economic effect on the Consolidated Entity. It does not mean that the Consolidated Entity is economically supported by the listed organisations in any way, whether financially or by guarantee, other than by means of normal commercial arrangements.

The Consolidated Entity has an economic dependency on the following:

(a) The Commonwealth Bank of Australia (CBA)

CBA are a provider of banking facilities to the Credit Union.

(b) Westpac Banking Corporation

This company provides a \$150 million debt warehouse facility for the Portavia Trust No.1.

(c) Data Action Pty Limited

This company provides and maintains the application software and internet banking utilised by the Credit Union.

(d) NST Worldwide Pty Limited

This company provides technical management and support for the office IT Infrastructure, office Help Desk and Member internet site (non-banking site only).

(e) Australian Settlements Limited (ASL)

This company provides a range of transactional settlement support processes, particularly in relation to the Credit Union's Visa Debit Card offering. This service has been transitioned from Cuscal Limited during the year.

In accordance with a resolution of the Directors of Gateway Credit Union, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the Credit Union and Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Credit Union's and Consolidated Entity's financial position as at 30 June 2013 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with the International Financial Reporting Standards as disclosed in note 2;
- (c) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Catherine M Hallinan
Chairman



John B Flynn
Deputy Chairman

Sydney, 17 September 2013



Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

Report on the financial report

We have audited the accompanying financial report of Gateway Credit Union Limited, which comprises the statements of financial position as at 30 June 2013, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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



Independence

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

Opinion

In our opinion:

- a. the financial report of Gateway Credit Union Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2013 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).

Ernst & Young

Andrew Harmer
Partner
Sydney
17 September 2013

This page intentionally left blank.

This page intentionally left blank.

Gateway Credit Union Ltd
and its Controlled Entity
ABN 47 087 650 093

ABN 47 087 650 093 AFSL/ACL 238293

Branch/Head Office:
Level 16, 2 Market Street
Sydney NSW 2000

Phone: 1300 302 474

Fax: 02 9307 4299

Email: memberservices@gatewaycu.com.au

Web: www.gatewaycu.com.au

