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Annual Report 2014

cuaTM
Life rich banking

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of our customers we will need
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of the needs of our customers

A.E. Beanland - Chairman

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Highlights

FINANCIAL HIGHLIGHTS

- Reportable net profit after tax decreased by 13.6% to \$49.651 million
- Underlying net profit after tax decreased by 4.6% to \$49.504 million
- Total consolidated assets increased by 3.5% to \$10.307 billion
- Loans settled increased by 16.7% (\$309 million) to \$2.165 billion
- Deposits increased by 3.5% to \$6.783 billion
- Capital adequacy increased to 15.29%
- Membership increased by 0.6% to 423,102

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2014 AND ONWARDS.

A.E. Beanland - Chairman

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KEY INITIATIVES AND ACHIEVEMENTS DURING THE 2014 FINANCIAL YEAR

- CUA's new core banking system and Online Banking successfully launched.
- At the international Celent Model Bank Awards 2014 CUA won the Legacy and Ecosystem Transformation award for the core banking system implementation.
- Successful launch of CUA's new brand 'Life rich banking'.
- New concept branches opened during the year at Brisbane CBD and Figtree near Wollongong. The ongoing refurbishment of other branches continued.
- CUA awarded 'Best Mutual' at the 2014 AB&F Awards.
- At the 2014 Australian Lending Awards, CUA was awarded 'Best Non-Bank' and 'Best Mutual'.
- CUA commenced a new three year community partnership with SIDS and Kids, one of Australia's most iconic charities.
- CUA merged its IT and Business Transformation units in recognition of the changing scope of IT and how it supports and transforms business.
- CUA made a submission to the Government's Financial System Inquiry chaired by David Murray.
- Disaster Relief package made available to customers affected by the October 2013 NSW bushfires.
- CUA's social media presence continued to grow- people can connect with CUA on Facebook, Twitter, LinkedIn, YouTube, Google+ and Instagram. CUA ranks sixth on The Financial Brand's 'Global Social Media Power 100' for credit unions.
- CUA enjoyed a record year in lending with lending issues for the year increasing by 16.7% to \$2,165 million.
- Third year of CUA Community Care - CUA's school grant program - delivered \$75,000 in prizes to school projects, with winners determined by community voting.
- CUA completed the sale of CUA Financial Planning to Bridges Financial Services. The sale involved transitioning our financial planning customers, and the majority of our financial planning staff, to Bridges, with Bridges also becoming our partner for referring customers who need financial advice and services.



TRANSFORMATION

Chairman's Report

A.E. Beanland
Chairman

With this, the fifth report I have had the pleasure of contributing to as Chairman, I am proud that the business wide changes and investments over the last five years have resulted in an organisation which is truly transformed. As I forecast last year, 2014 was indeed marked by more investment, change and a constant search for competitiveness. In line with this, FY2014 was the year which saw the introduction of CUA's replacement core banking system, a move which has positioned CUA for growth by amplifying its competitive abilities. This innovation is an essential piece in the Board's vision for CUA and enables us to believe a transformed organisation is now set to be taken seriously as a challenger brand in financial services. In addition, CUA reached the considerable milestone of \$10 billion in consolidated assets.

THE YEAR IN REVIEW

Although CUA's headline profit result shows a decrease over FY13 the Board still regards the outcome as strong. FY14 was always going to be the year when the investment CUA has made in its core banking system would drag on results, both as a result of the financial investment but also from the significant disruption to staff from the installation testing, the training regime and the aftermath of the go-live period. The Underlying Net Profit after Tax result of \$49.5 million was only 4.6% less YOY. Other pointers within the business were universally positive, record loan settlements, a 3.5% increase in both consolidated assets and deposits, coupled with an improved capital adequacy of 15.29%.

I would like to dwell on the record year for home loan issues. At \$1,994 million this represented a 20% increase on FY13. This was very significant given the tough year market wise with heightened competition from the majors.

CUA's home loan balances grew at 6% overall after reaching an above system growth rate of 6.8% during the second half. The significance comes not just from the record result which could be expected from a booming market as a direct result of continued record low rates, but also that it was achieved in the face of intense competition characterised by an unsustainable level of inducements for customers.

TRANSFORMATION - MUTUAL OF THE FUTURE

If transformation represents a marked change then it is an excellent descriptor for the CUA of 2014 and onwards. Last year I set out the Board's strategy for CUA. A clear strategy is a necessary precursor for success and each step on CUA's journey has represented a carefully thought through initiative aimed at addressing an identified weakness or boosting an existing strength. Within the overall umbrella of remaining a profitable and secure mutual, the Board wishes to see CUA as capable as the second tier banks while also challenging the majors. This strategy brings with it significant capital and human costs as the business innovates and adapts to the organisational, competitive and technological challenges of contemporary financial services. It is vital that we ensure these costs achieve positive outcomes.

BOARD CHANGES

A changing organisation requires a Board which continually adapts through the acquisition of relevant skills and experience in order to provide the necessary strategic and governance focus. Over the last five years the Board has witnessed a very substantial change-over in order to drive the organisational transformation. During the last year we saw the retirements of two long serving Directors in Elizabeth Foster and Kate Greer. Both have provided invaluable service to CUA and their intimate knowledge of the

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organisation and the industry will be missed. Our CEO, Chris Whitehead, has also announced he will be stepping down early in 2015 after five and a half years. Chris has been responsible for significant and continuing transformational change that positions our company extremely well for the next phase of growth and innovation. I am pleased that Chris has agreed to remain as CEO as we seek a successor. As Chairman I have developed a close and effective working relationship with Chris and I wish him the best in his future endeavours.

We have been fortunate to secure the services of Deborah O'Toole and Wayne Stevenson as replacement Directors. Ms O'Toole brings considerable operational finance skills together with wide private sector experience. Mr Stevenson's executive background is in banking and financial services within the major banks. Both add essential skills and experience to the Board and will be instrumental in driving CUA's increased professionalism and development.

LOOKING FORWARD

For the year ahead I can confidently predict more of the same - more change and investment within CUA and a relentless focus on competitiveness in all aspects of CUA's engagement with its customers. There will also be an increased focus on efficiencies as part of our drive to future proof the business. Operationally, we will be looking at the member fee and assessing how this may be an impediment to member growth. It is important that CUA does all it can to remove barriers to embracing the digital economy. Our CEO's report looks in more detail at the digital issue and its likely impact on the business.

We are likely to see an even more intense struggle for market share within the financial services industry, particularly if the interest rate cycle turns upwards during the year and impacts on demand. We are also hopeful that we will see the Murray Financial System Inquiry deliver some solutions to the tilted playing field we currently see in financial services.

Overall, CUA is in a pleasing place operationally with the core banking system bedded down, freeing resources to achieve some breakthrough outcomes. Looking further ahead, in the same way that the CUA of today is demonstrably transformed from the organisation of five years ago, we can be certain that

the CUA of 2019 will be equally different again. Without being too precise, to continue to enrich the lives of our customers we will need to be more competitive, lower cost, more technically advanced and with an intimate knowledge of the needs of our customers. We believe our record in delivering benefits to customers in terms of lower loan interest rates, more responsive products and our community engagement program is strong. Nevertheless, we undertake to be even more responsive to customer needs through embracing new channels of distribution and through a continuing commitment to innovation. Economies of scale are increasingly important in financial services and CUA will continue to seek beneficial alliances and/or innovative but cooperative structures.

Finally, I would like to record my appreciation of the efforts during the year of your Board, of the management team and of all staff. The achievements have been commensurate with the effort.

THE MAJOR ACHIEVEMENTS DURING THE YEAR INCLUDE

- The go-live of CUA's replacement core banking system which has been almost three years in the making and which is expected to deliver a considerable boost to competitiveness.
- Record year for home loan issues of \$1,994 million, which represents a 20% increase on FY13, and total lending issues for the year of \$2,165 million.
- Launch of CUA's new brand 'Life rich banking' and associated marketing strategy.
- Successful application to have the status of CUA Health amended to a 'for-profit' entity but still part of the CUA Group.
- Sale of CUA Financial Planning to Bridges Financial Services.
- Announcement of a three year agreement with SIDS and Kids as CUA's major community partnership.
- Strategic operational initiatives launched in the areas of customer retention, digital transformation and products.
- The commencement of a fundamental redesign of our lending processes to achieve 'best practice' outcomes.
- Restructuring of CUA's call centres to improve efficiency and service.
- Continuing reorganisation of the branch network and development of 'concept' branches.



TRANSFORMATION

CEO's Report

C.M. Whitehead
CEO

Our Chairman's message puts the year's results in context. There is much to be proud of with a solid result during a competitive and challenging year. The point that needs emphasising is that the transformation in CUA's structures, systems and people over recent years has enabled us to achieve such a result even when costs from the transformation have dragged on the outcome. The pay-off from the investment is largely still to come in terms of CUA's ability to deliver substantially improved outcomes for our customers.

TECHNOLOGICAL TRANSFORMATION

It goes without saying that technology is fundamentally changing every aspect of how business and customers interact. This transformation must be embraced and indeed accelerated in order to capture fast emerging trends and opportunities.

Our vision is to increasingly participate as a leader in transformation within the mutual sector. Operationally, we intend to leverage digital technology to:

- Fast-track the delivery of products and services via the internet channel, especially through mobile channels
- Utilise internal and external data and insights to personalise and enhance our customers' experiences with our service
- Grow the incorporation of social media within our customer communication strategies.

As the Chairman acknowledged, the high point of CUA's technology journey came in October 2013 with the go-live of the new core banking system and On-line Banking. Like many financial institutions in Australia, CUA's previous core banking system was over 20 years old. We now have a technology platform that can grow with our business and improve our ability to enrich the lives of our customers into the future.

Customers using our new Online Banking service have experienced immediate benefits. It combines improved appearance, usability, and greater security with a range of useful extra features. After the usual settling-in period, our customers have enthusiastically adopted the service, including rapid uptake of the mobile option. Apart from the external banking service, the new system means that we will be able to improve internal processes and efficiencies, facilitate enhanced customer service and enable the development of better, more flexible products.

An example of this technological transformation in action is the development underway to deliver a best practice lending origination service. CUA lags in this area and, as such, delivers a suboptimal customer experience and below par business performance. This lending fix is technology driven and would not be possible without the investment we have undertaken in a new core banking system. We intend to deliver this fundamental lending revamp in the first half of FY15.

Internally, we made an important change to our organisational structure with the merger of our IT and Business Transformation units into a single division, Business Transformation and Technology. This change recognises that there will be ongoing significant and rapid change to the industry as a result of new technologies and changing customer behaviour and CUA will need to continually respond. There is no longer a 'business as usual' but rather a rapid evolution is underway.

CUA was recognised internationally for its core banking system implementation, winning the 2014 Celent Model Bank Awards for 'Legacy and Ecosystem Transformation'. The Celent Model Bank Awards recognise excellence in banking technology and to be recognised on such a prestigious global stage was a great achievement.

ENRICHING THE LIVES OF CUSTOMERS

A particular highpoint for CUA during the year was the launching of CUA's new brand, 'Life rich banking'. Research has shown that customers want to connect with their financial institution's brand and this led us to refresh the CUA brand. 'Life rich banking' sums up our commitment to helping customers enrich their lives. It is a unique positioning for CUA. Research with our customers demonstrated that it made them feel good, to stop and think, and to be genuinely inquisitive about CUA. Crucially it also enables CUA to accurately portray what it does – provide banking services but in a manner that puts customers first and recognises that families want financial 'breathing space'.

Dovetailing with our 'Life rich banking' promise has been our investment in loan products which we genuinely believe to be top of market – in concept, detail and importantly price. Our Rate Breaker Package continued to deliver value through a 1% discount below the average of the advertised standard variable home loan rates of the four major banks. During the year we also received a Money Magazine award for Cheapest Three-Year Fixed Home Loan (Non Bank).

There were also two significant changes within the CUA Group during the year, both of which are designed to improve efficiency and returns for the benefit of customers. After government approval CUA Health will operate as a 'for profit' fund from 1 July 2014. CUA can now viably invest in CUA Health as we are able to make a financial return on that investment. Investment which will not only help support future growth but also enable us to maintain our competitive product and service offering over the long term.

After careful consideration, we decided to sell CUA Financial Planning to Bridges Financial Services. We took this strategic decision because it is in the long term interests of our customers, financial planning staff and CUA. The sale involved transitioning our financial planning customers, and the majority of our financial planning staff, to Bridges, with Bridges also becoming our partner for referring customers who need financial advice and services.

We selected Bridges because they provide financial planning services to approximately 80% of the mutual industry and, therefore, respect the principle of customer-owned banking which is so important to us and our customers. Bridges also has a much larger network of offices Australia wide, which means that more CUA customers will be able to access financial planning services in their local area. By partnering with Bridges, we are in a much stronger position to enrich the services we can offer customers, a key part of our promise of 'Life rich banking'.

FINANCIAL SYSTEM INQUIRY

CUA's operations are conducted within a financial sector dominated by four major players where mutuals, such as CUA, appear to be restricted to a declining market share. This is not how free and open markets are supposed to operate. Such dominance is not good for the economy and not good for consumers. For this reason CUA welcomed the Government's announcement of the Financial System Inquiry (FSI) chaired by David Murray. CUA has made a submission to the FSI seeking a levelling of the playing field in areas such as the funding advantage for the majors derived from being 'too big to fail', their use of sub-brands, and capital and fee advantages accorded them by our regulators. CUA will continue to monitor and engage with the FSI as the outcomes become apparent and the Government plans its response.

COMMUNITY

Family health issues, childhood education and sport are important to our customers and these values substantially guide CUA's community engagement activities. In line with this, it was my great pleasure in February 2014 to welcome SIDS and Kids as CUA's major community partner. SIDS and Kids is truly an iconic charity in Australia and CUA is proud to be assisting its essential work in the areas of grief and bereavement support, education and preventative action, and advocacy and research. CUA has also continued its successful engagement with the adidas School Fun Run program, including our own school grants program, CUA Community Care. These activities are described in more detail in the CUA and Communities section of this Annual Report.

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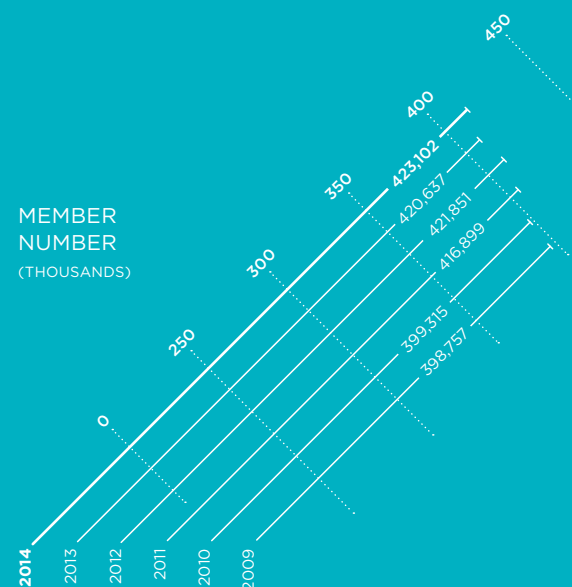
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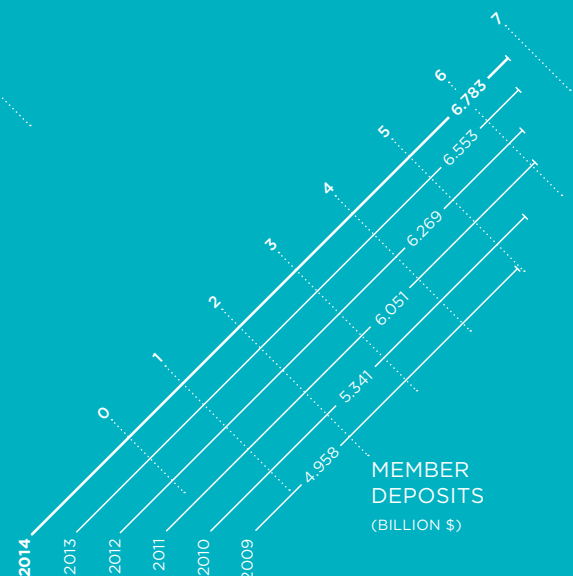
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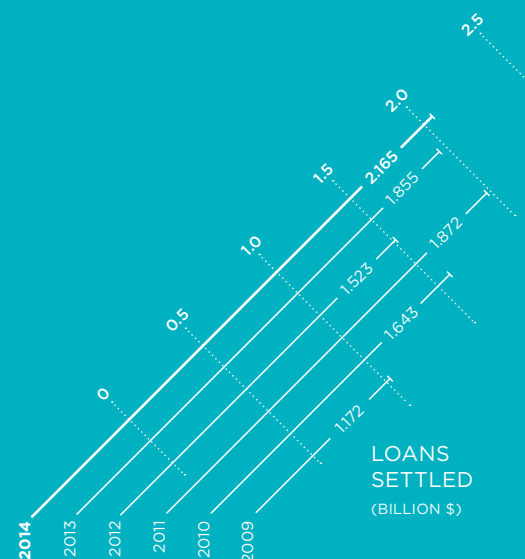
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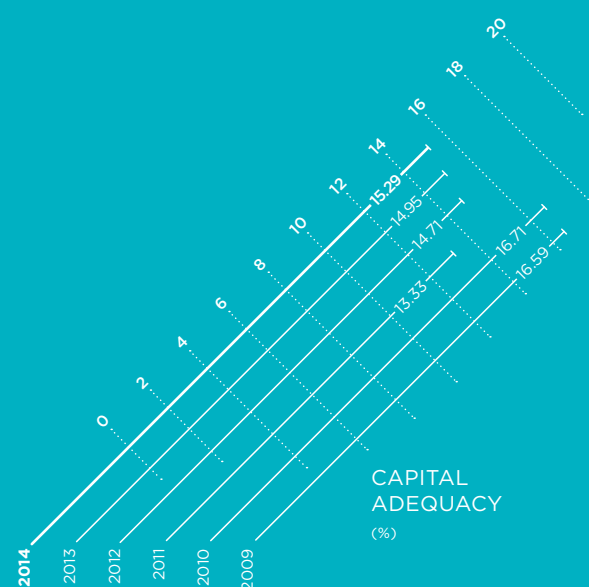
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DEPOSITS
(BILLION \$)



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SETTLED
(BILLION \$)



CAPITAL
ADEQUACY
(%)



Corporate Governance

The Board of Credit Union Australia Ltd (CUA) is responsible for the corporate governance of CUA and its controlled entities. CUA is an Authorised Deposit-taking Institution (ADI) supervised by the Australian Prudential Regulation Authority (APRA) under the Banking Act 1959. CUA is also supervised by the Australian Securities & Investments Commission (ASIC) under the Corporations Act 2001 and has been granted an Australian Financial Services Licence and an Australian Credit Licence.

ROLE OF THE BOARD

The Board's primary role is to protect and enhance long-term member value. To fulfil this role, the Board is responsible for providing strategic guidance to CUA and its related bodies corporate (the "CUA Group"); monitoring and providing effective oversight of CUA management; overseeing CUA's risk management systems; and acting as an interface between CUA and its members.

Responsibility for the operation and administration of CUA has been delegated by the Board to the Chief Executive Officer (CEO) and executive management team.

The Board has adopted a formal Board Charter setting out in further detail its role, responsibilities and structure within CUA's overarching corporate governance framework and operates in compliance with APRA's CPS 510 Governance and CPS 520 Fit and Proper.

The Board is committed to ensuring its composition reflects the appropriate high level skills mix necessary to enable CUA to meet its strategic objectives. Renewal of board skills is carefully managed through an annual review process and formal evaluation of the performance of the Board and of individual directors.

CONFLICT OF INTEREST

In accordance with the Corporations Act 2001 and CUA's constitution, directors must keep the Board advised of any interest that could potentially conflict with the interests of CUA. The Board has developed guidelines to assist directors in annually disclosing potential conflicts of interest.

MEMBER PARTICIPATION

Members have two relationships with CUA, as a customer and as an owner/shareholder. As customers, members exercise choice through their selection of the products and services they believe best suit their individual needs. As owners/shareholders, members have the right, and are encouraged, to participate in appropriate governance activities of their credit union.

ETHICS

To maintain member confidence in the integrity of CUA, directors have adopted and adhere to a Personal Code of Conduct, which is based on the code developed by the Australian Institute of Company Directors. At CUA we place great importance on the confidentiality of our customers' personal information. We take steps to ensure that customer information is not disclosed to, or accessed by, unauthorised persons.

RISK MANAGEMENT

For the CUA Group the management of risk is fundamental to the way we deliver our products and services to our members. To this end the Board is committed to the management of risk throughout the CUA Group through a well-defined business strategy, risk appetite, and risk management strategy. The Board, through the CEO, has established a risk management framework which is based on a strong risk culture, including a 'three lines of defence' model and employees who understand their requirements to manage risk. We focus strongly on managing risk for our members in all our actions and activities, and have a culture that constantly learns and grows in the way we manage risk.

REMUNERATION POLICIES FOR DIRECTORS

In determining director remuneration, the Board obtains independent advice on the appropriateness of remuneration given trends in comparative companies. Remuneration levels are designed to attract and retain appropriately qualified and experienced non-executive directors. Non-executive directors do not receive any performance related remuneration. Non-executive directors may maintain loans and credit facilities from CUA at normal member rates of interest. Subject to meeting specific criteria, directors retiring from the Board may receive a termination payment of up to one year's directors' fees based on the average fees of the last three years.

BOARD COMMITTEES

To assist in the execution of its responsibilities the Board has established a number of committees. The following Board committees operated during the financial year:

- Board Audit Committee
- Board External Audit Selection Committee
- Board Risk Committee
- Board Nucleus Committee
- Board Transformation, Technology & Innovation Committee
- Board Remuneration Committee
- Board Strategy Consultative Committee

Further details on the responsibilities and operation of CUA's current Board committees can be found on the CUA website at: www.cua.com.au

CUA & Communities

CUA has traditionally operated a significant community engagement program focused on long-term partnerships and aimed at supporting CUA's reputation in the community. This reflects CUA's philosophy that it exists to provide better value for its customers – value not just in the price and quality of financial products and services but, importantly, value in how we support the communities that support us. As a credit union, CUA has 'community blood' in its corporate veins. Supporting communities is why we exist and the desire to bring our values to broader communities is behind our growth ambitions.

CUA sees community engagement as an important reflection of its business and brand. There are several key relationships in CUA's community engagement program, partnerships which encapsulate what CUA stands for.

SIDS AND KIDS

SIDS and Kids (SnK) is CUA's latest and largest single community partner. SnK needs little introduction as it is an iconic charity in Australia, with three threads to its core business:

- Providing dedicated grief and bereavement support to families who have experienced perinatal, neonatal or baby/infant loss
- Ongoing education, preventative action and representation through support, training, leadership and promotion, and
- Advocacy and research for SIDS and stillbirth.

As part of the partnership, CUA will provide financial support for the vital research SIDS and Kids undertakes around stillbirth, SIDS and safe sleeping practices. CUA will also be assisting by encouraging community donations for the annual Red Nose Day appeal. CUA will also offer all employees the opportunity to spend one day each year as a volunteer with SnK, and through its national network, engage its customers and the broader community about the invaluable work of SIDS and Kids.

SCHOOL FUN RUN PROGRAM

Child obesity is increasingly seen as a major health issue confronting Australia. Upwards of one in four children are overweight or obese putting them at greater risk of developing chronic conditions

such as diabetes and heart disease. The School Fun Run program was initiated 27 years ago as a way of providing a healthy alternative to chocolate drives for schools around the country. Promoting fun, fitness and nutrition, over 1,200 schools participate in a fun run each year. For many schools, this has become an annual event that represents the majority of their fundraising for the year as it is combined with the annual cross-country or other school event. Over the last 36 months, as the adidas School Fun Run, the program has helped schools to raise \$9.1 million to purchase computers, books, sporting equipment and other vital resources.

CUA has been a proud sponsor of the School Fun Run for seven years and believes that helping schools find wealth in health accords strongly with the values of our customers and their families.

COMMUNITY CARE

For the last three years CUA has been providing schools participating in the School Fun Run program with the added bonus of applying for a \$5,000 grant through CUA's Community Care program. The Community Care concept is relatively simple: School Fun Run participating schools within a set radius of selected CUA branches are given the opportunity of nominating projects for community voting. The community voting period is set at four weeks and a pro-rata voting system ensures a level playing field given the disparate sizes of the schools involved.

Over the last three years, CUA has shared over \$200,000 in Community Care grants with schools and communities as a reward for choosing health-based fundraising and to promote the importance of childhood health.

VOLUNTEERING

CUA encourages staff to actively assist communities through volunteering for charity or similar work. To this end, CUA provides a full day's leave each year to enable staff to volunteer for a worthwhile community assistance opportunity. Such leave is not restricted to the charities CUA directly assists. Recent examples of staff volunteering include:

- Three CUA Divisions, including all of HR, volunteered to assist SIDS and Kids with preparation for the Red Nose Goes Green fund raising initiative;
- Staff assisted the Leukaemia Foundation with its annual door knock kit preparation.

COMMUNITY ASSISTANCE

In addition to these major community engagement programs CUA also provides financial support to a wide range of smaller charitable causes. These range from handicapped or seriously ill children being assisted to attend a circus event to fund raising for larger charities such as Leukaemia Australia. CUA is proud to do what it can to assist the enormous want that exists in communities.

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GROWTH AMBITIONS

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A. E. Beanland

B. Sc., FAICD
Chairman and independent
non-executive director

Mr Beanland joined the Board in September 2009 and was elected Chairman in November 2009. His business experience spans four continents and exceeds four decades with wide experience as a director on diverse boards.

Mr Beanland has extensive experience in a number of industry sectors including financial services, superannuation, life insurance, property and technology. He is currently a director of Colonial Foundation and served as the Chairman of Superpartners (2006-2012) and as a director of Spotless Group Limited (ASX Listed) (2008-2012).

Mr Beanland held senior executive positions with Colonial Mutual for 16 years. In addition to his role as Chairman of the Board, Mr Beanland is also Chairman of the Board Remuneration and Board Strategy Consultative Committees and is a member of the Board Risk, Board Nucleus / Transformation, Technology & Innovation and External Audit Selection Committees. He was also appointed as a director of Credicorp Insurance Pty Ltd on 1 January 2014.



N. I. Ampherlaw

B.Com., FCA, MAICD
Independent non-executive
director

Mr Ampherlaw was appointed a director on 22 March 2011. He is a chartered accountant by profession. He was a Partner of PricewaterhouseCoopers for 22 years where he held a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. He also held a number of senior client Lead Partner roles.

Mr Ampherlaw has extensive experience in risk management, technology, consulting and auditing for financial services institutions in Australia and the Asia- Pacific region.

Mr Ampherlaw is currently the Chair of the Board Audit Committee and the Board Nucleus / Transformation, Technology & Innovation Committee and is also a member of the Board Risk Committee, the Board Strategy Consultative Committee, and Board Remuneration Committee. He is also a director of Australian Red Cross Blood Service, Grameen Foundation Australia, Quickstep Holdings Limited and Elanor Funds Management Limited.



P. J. Bedbrook

B.Sc., FSIA, FAICD
Independent non-executive
director

Mr Bedbrook joined the Board on 3 July 2011.

A former executive with the Dutch global banking, insurance and investment group, ING, for 26 years holding a number of senior positions in the decade to 2010 including: President and CEO, INGDIRECT, Canada; CEO and director of ING Australia, and; Regional CEO, ING Asia Pacific, Hong Kong.

Prior to that, Mr Bedbrook was General Manager Investments & Chief Investment Officer for the Mercantile Mutual (ING) Group in Sydney. Mr Bedbrook has over thirty years' experience in financial services, specifically across the areas of banking, insurance and investment management. He is a member of the Board Remuneration Committee, Chair of CUA Financial Planning Pty Ltd and Credicorp Insurance Pty Ltd, and a director of CUA Health Ltd. He is also a director of Zurich Financial Services Australia and National Blood Authority, Chairman of Elanor Investors Group and Chairman of Disability Sports Australia.



P. G. Dowling

AM, BA (Acc), FCPA, FAICD
Independent non-executive
director

Mr Dowling has been a credit union director for ten years and was previously a partner of international accounting firm Ernst & Young. He is a Fellow of CPA Australia, The Institute of Chartered Accountants in Australia and The Australian Institute of Company Directors.

Mr Dowling received the Centenary of Federation Medal in 2001 and was made a Member of the Order of Australia in 2007 for services to the accounting profession, business, education and the arts. Mr Dowling is a director of Credit Union Foundation Australia, Metro South Health & Hospital Board, TAFE Qld, WorkCover Qld, CPA Australia, The Asset Institute, Lexon Insurance, SPYRUS Pty Ltd and a number of Virgin Blue's aircraft leasing subsidiaries. He is the Chair of the Audit & Risk Committees for the Sunshine Coast Regional Council, Qld Transport & Main Roads, the Qld Department of Energy & Water Supply and the Qld Crime & Corruption Commission.

Mr Dowling is also a member of the Audit & Risk Committees for the Moreton and Redland Councils and the Qld Department of Environment & Heritage and is the Qld Honorary Consul for Botswana. Mr Dowling is a member of the Board Strategy Consultative Committee, a director of CUA Health Ltd and Chair of the CUA Health Ltd Board Audit & Risk Committee until 1 July 2014.



E.A. Foster

B.Bus.(Accounting), FCPA,
GAICD, MAMI
Independent non-executive
director
(resigned 31 July 2014)

Ms Foster has been a credit union director for 23 years. She is a self-employed accountant who has extensive experience in finance, previously working for Telstra in senior management positions. She was also Chief Finance Officer at CPA Australia, a finance consultant at the Catholic Education Office and CEO of RACV Credit Union. She served on the Board of the Credit Union Foundation of Australia (CUFA) from 2003 to 2008. Ms Foster was a member of the Board Audit Committee and Chair of the Credicorp Insurance Pty Ltd Board Audit and Risk Committee. She was also a member of the Board Risk, Board Remuneration and External Audit Selection Committees and a director of Credicorp Insurance Pty Ltd.



D. M. O'Toole

LLB, MAICD
Independent non-executive
director

Ms O'Toole, a qualified lawyer, joined the Board of CUA in March 2014, bringing more than 30 years' experience in mining, resources and rail freight industries, 25 of which have been focused in the finance function including as CFO at Aurizon, Qld Cotton and MIM Holdings.

She served as Chairman of the Audit Committee for CSIRO and the Norfolk Group and also on boards of the M.I.M. Group and the QR National / Aurizon Group. Ms O'Toole currently serves as a director of the Wesley Research Institute and on the Queensland University of Technology Banking and Finance School Advisory Board and in 2013 served as an Advisory Board Member at Pacific Aluminium.

Ms O'Toole is also a director of Credicorp Insurance Pty Ltd, CUA Health Ltd (from 1 July 2014) and a member of the Credicorp Insurance Board Audit and Risk Committee and CUA Health Ltd Board Audit and Risk Committee (from 1 July 2014).



M.T. Pratt

SF Fin, GradDip (Org Beh),
FAICD, FAIM, FAHRI, AMP
(Harvard)
Independent non-executive
director

Mr Pratt has an extensive career in banking and wealth management throughout Australia, New Zealand and Asia. Most recently, he was CEO of Consumer and SME Banking, North East Asia with Standard Chartered Bank based in Shanghai. He is a former President of the Australian Institute of Banking & Finance and was the Inaugural Joint President of Finsia.

Mr Pratt's other previous roles include senior executive positions as Group Executive of Westpac Australia Consumer & Business Banking, CEO National Australia Bank, Australia and CEO, Bank of New Zealand. In all these roles he has driven major change, delivering strong financial results and much improved customer service across multiple channels.

Mr Pratt is also Commissioner for Service in the NSW Government, Deputy Chancellor at the University of Western Sydney and a director of the Bennelong Group. Mr Pratt chairs the Board Risk Committee and is a member of the Board Audit Committee, Board Strategy Consultative Committee and Board Transformation, Technology & Innovation Committee.



W.H. Stevenson

B Com, CA, GAICD
Independent non-executive
director

Mr Stevenson joined the Board of CUA in February 2014, bringing strong expertise of the financial services industry and his almost 15 years in CFO roles involving significant acquisitions, restructures and divestments.

Mr Stevenson's executive background is largely in banking and financial services where he has held several senior positions across Australia, New Zealand and Asia. Most recently he was Group General Manager, Group Strategy, ANZ and prior to that held the role of CFO, Asia Pacific, ANZ.

Mr Stevenson's board credentials are from financial services organisations across Australia and Asia Pacific. He is currently a non-executive director at Onepath General Insurance, Onepath Life Insurance and ANZ Lenders Mortgage Insurance. Mr Stevenson is a member of the Board Audit, Board Risk, Board Nucleus / Transformation, Technology & Innovation and External Audit Selection Committees.



C.M. Whitehead

B.Sc (Hons), FAICD
Chief Executive Officer

Mr Whitehead joined CUA in August 2009, with over 25 years of experience across a broad range of organisations and roles. He commenced his career in the IT industry before moving into General Management roles, including establishing the Australian subsidiary for an international IT services provider. In 1994 Mr Whitehead joined Advance Bank in Sydney as Chief Information Officer, moving to Bankwest in Perth in the same role in 1998.

His role in Bankwest broadened to include payments business and responsibility for innovation strategies with the establishment of a number of new businesses. In 2001, Mr Whitehead was appointed as Chief Executive of Retail Banking and established a successful business transformation and national growth program. In 2007, Mr Whitehead was seconded to the Bank of Scotland as a regional director.

Mr Whitehead has served on a range of boards as a director in the banking, financial planning, funds management and general insurance industries; as well as community and charitable organisations. Mr Whitehead is currently a director of Credit Union Australia Ltd and each of its subsidiaries, and also of Cuscal Limited. Mr Whitehead is also a member of the Board Strategy Consultative Committee.

Our Board



C. M. Whitehead
B.Sc (Hons), FAICD
Chief Executive Officer

Mr Whitehead joined CUA in August 2009, with over 25 years of experience across a broad range of organisations and roles. He commenced his career in the IT industry before moving into General Management roles, including establishing the Australian subsidiary for an international IT services provider. In 1994 Mr Whitehead joined Advance Bank in Sydney as Chief Information Officer, moving to Bankwest in Perth in the same role in 1998. His role in Bankwest broadened to include payments business and responsibility for innovation strategies with the establishment of a number of new businesses. In 2001, Mr Whitehead was appointed as Chief Executive of Retail Banking and established a successful business transformation and national growth program. In 2007, Mr Whitehead was seconded to the Bank of Scotland as a regional director. Mr Whitehead has served on a range of boards as a director in the banking, financial planning, funds management and general insurance industries; as well as community and charitable organisations. Mr Whitehead is currently a director of Credit Union Australia Ltd and each of its subsidiaries, and also of Cuscal Limited. Mr Whitehead is also a member of the Board Strategy Consultative Committee.



Sue Coulter
General Manager,
Business Transformation
& Technology

Sue joined CUA in May 2010 and is responsible for overseeing Information Technology (IT) and the delivery of the CUA portfolio of strategic projects. Sue brings with her over 30 years' experience in financial services across a broad range of senior management and executive positions within Australia and the UK. During this time Sue successfully delivered a number of transformational change programs for HBOS, Bankwest and more recently CUA. Sue has also previously managed large scale back office processing operations as well as digital, product management and strategy development teams. Having recently implemented the new core banking platform Sue's major focus is now on delivering the benefits of the new system, whilst also leveraging new technology capabilities in areas such as Digital, Cloud and Big Data to deliver an enhanced experience for CUA customers.



Philip Fraser
CIMA, CPA
CEO, CUA Health Limited

Philip joined CUA in 2011 after developing his experience and career as Group Financial Controller and Head of Finance in some of UK's leading asset managers and general Insurance providers. Moving to Australia in 2008, he spent time as CFO for a Private Equity owned entity, before moving to a major Queensland Superannuation provider as Head of Finance, assuming responsibility for corporate finance and corporate services. His last few years with the CUA Group have been as Head of Finance, responsible for Board, Regulatory and Business Performance. Philip has a history of creating award-winning teams, which deliver commercial support for diverse areas such as product launches, customer delivery programs and strategy. Philip is responsible for developing and delivering CUA Health's future strategic direction, with a clear belief that customer experience is central to success. CUA Health will place a significant focus on our customer's experience, through simple to understand products, which are competitively priced and that meet their expectations through exceptional delivery.



Dawn Linaker
CAHRI, MAITD
General Manager,
Human Resources

Dawn has more than 20 years' experience in financial service change leadership and human resources (HR) management. Dawn joined CUA in October 2010 after leading the HR function at a leading superannuation company, where she supported the organisation through a significant business transformation. Prior to that spending an extensive and varied career in one of Australia's Tier 1 financial services organisations. Dawn's experience includes consulting and developing HR and learning strategy, design and development, organisation design and change management. Her current focus is supporting the business through its transformational change journey with a specific focus on culture change, talent attraction and retention, learning and development and increasing leadership capability.



Matthew Lobdell
Head of Strategy

Matthew joined CUA in February 2013 and is responsible for overseeing the development of organisational strategy and alliance opportunities, as well as the advancement of CUA's innovation capabilities and solutions. Matthew has over 20 years experience in the Australian financial services industry, including executive roles with some of Australia's leading banking, superannuation and wealth management companies. Immediately prior to joining CUA, Matthew led the redesign of the personal insurance product and service model at one of Australia's leading superannuation funds. He has facilitated a number of merger and acquisition transactions with ANZ, Suncorp and Norwich Union Australia.



Jason Murray
B.Bus, PGDip Mgt, MAICD
General Manager,
Products & Marketing

Jason has developed his financial services industry experience through a career working in Product, Marketing and Innovation roles in Retail and Corporate Banks in both Australia and the UK. After spending 7 years in the UK, where he built a legacy of launching innovative, award-winning and customer focused products, he returned to Australia in 2010 to join CUA. His current areas of responsibility include Products, Marketing, Corporate Affairs, Customer Insights and Digital Strategy. Jason is also a director of Credicorp Insurance Pty Ltd. Jason is passionate about positioning CUA as a genuine alternative to the major banks and believes leveraging and extending our customer centric approach is critical to achieving this objective.



Scott North
B.Com, FCA, MBIT
Chief Risk Officer

Scott joined CUA in July 2013, with over 20 years' experience in risk management, audit, technology, and accounting, with the last 13 years being in the financial services industry. Scott has spent the past eight years as a senior leader in enterprise risk management in financial services, with a strong focus on digital innovation in retail banking. Scott's most recent role, prior to CUA, was with GE Capital as Head of Risk Digital and Head of Enterprise Operational Risk for the Australia and New Zealand businesses. Prior to GE Capital Scott was responsible for enterprise risk management for NAB, working for the NAB Group in driving the evolution of enterprise risk management and then leading the risk approach in their digital banking business, including implementing the enterprise risk management framework for UBank and Direct Banking. Scott has a passion for leveraging innovation and technology to build sustainable and effective enterprise risk management frameworks. Scott is a Fellow of the Institute of Chartered Accountants and a Fellow of the University of Melbourne.



Darrin Northey
General Manager,
Sales & Service


Darrin joined CUA as an Executive in April 2010. With more than 20 years' experience across an extensive range of roles in the banking and finance industry, Darrin has spent the past decade as a senior leader and executive in business and retail banking. Darrin's most recent experience, prior to CUA, was with Westpac as General Manager South Australia/Northern Territory and Head of Local Business Banking for Queensland. Darrin has extensive experience leading distribution businesses, with a strong passion for customer service excellence and specialises in the transformation of sales and service delivery channels. Darrin's areas of responsibility at CUA include, a national branch and mobile lending network, Broker relationships, CUA Financial Planning, CUA Direct customer contact centre. Along with responsibility for CUA's various digital services and digital innovation including www.cuacom.au, mobile banking, CUA's social media presence, Online Banking and our various online services. Darrin is an Executive Director of CUA Financial Planning Pty Ltd.



Tony Taylor
CPA, F.Fin
Chief Financial Officer

Tony joined CUA in October 2011 drawing on more than 30 years' regional experience in financial and management accounting, with the last 13 in CFO roles within the financial services industry. Tony was previously CFO Retail Bankwest where he spent six years improving the financial management of the Retail Division, supporting the east coast expansion program and playing a leading role through the challenges of the GFC and post-Commonwealth Bank acquisition. Prior to that, as CFO of the Papua New Guinea Banking Corporation, Tony lead the vendor due diligence team in its privatisation and post-sale took over the role of CFO Bank South Pacific. A leading role in the post-sale transformation project saw Tony take responsibility for shared services, IT and marketing in addition to his CFO responsibilities.

Executive Management



TRANS FORM ATION

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2014

CREDIT UNION AUSTRALIA LTD
ABN 44 087 650 959

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Directors’ report

The directors have pleasure in presenting their report together with the financial report of Credit Union Australia Ltd (CUA / Credit Union) and of the Group, being CUA and its controlled entities, for the year ended 30 June 2014 and the auditor’s report thereon.

DIRECTORS

The names and details of the directors of CUA 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.

- A.E. Beanland
- N.I. Ampherlaw
- P.J. Bedbrook
- P.G. Dowling
- E.A. Foster (resigned 31 July 2014)
- C.M. Greer (resigned 31 January 2014)
- D.M. O’Toole (appointed 1 March 2014)
- M.T. Pratt
- W.H. Stevenson (appointed 1 February 2014)
- C.M. Whitehead

DETAILS OF DIRECTORS

A.E. Beanland

B.Sc., FAICD

Chairman and independent non-executive director

Mr Beanland joined the Board in September 2009 and was elected Chairman in November 2009. His business experience spans four continents and exceeds four decades with wide experience as a director on diverse boards. Mr Beanland has extensive experience in a number of industry sectors including financial services, superannuation, life insurance, property and technology. He is currently a director of Colonial Foundation and served as the Chairman of Superpartners (2006-2012) and as a director of Spotless Group Limited (ASX Listed) (2008-2012). Mr Beanland held senior executive positions with Colonial Mutual for 16 years. In addition to his role as Chairman of the Board, Mr Beanland is also Chairman of the Board Remuneration and Board Strategy Consultative Committees and is a member of the Board Risk, Board Nucleus / Transformation, Technology & Innovation and External Audit Selection Committees. He was also appointed as a director of Credicorp Insurance Pty Ltd on 1 January 2014.

N.I. Ampherlaw

B.Com., FCA, MAICD

Independent non-executive director

Mr Ampherlaw was appointed a director on 22 March 2011. He is a chartered accountant by profession. He was a Partner of PricewaterhouseCoopers for 22 years where he held a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. He also held a number of senior client Lead Partner roles. Mr Ampherlaw has extensive experience in risk management, technology, consulting and auditing for financial services institutions in Australia and the Asia- Pacific region. Mr Ampherlaw is currently the Chair of the Board Audit Committee and the Board Nucleus / Transformation, Technology & Innovation Committee and is also a member of the Board Risk Committee, the Board Strategy Consultative Committee, and Board Remuneration Committee. He is also a director of Australian Red Cross Blood Service, Grameen Foundation Australia, Quickstep Holdings Limited and Elanor Funds Management Limited.

P.J. Bedbrook

B.Sc., FSIA, FAICD.

Independent non-executive director

Mr Bedbrook joined the Board on 3 July 2011. A former executive with the Dutch global banking, insurance and investment group, ING, for 26 years holding a number of senior positions in the decade to 2010 including: President and CEO, INGDiRECT, Canada; CEO and director of ING Australia, and; Regional CEO, ING Asia Pacific, Hong Kong. Prior to that, Mr Bedbrook was General Manager Investments & Chief Investment Officer for the Mercantile Mutual (ING) Group in Sydney. Mr Bedbrook has over thirty years’ experience in financial services, specifically across the areas of banking, insurance and investment management. He is a member of the Board Remuneration Committee, Chair of CUA Financial Planning Pty Ltd and Credicorp Insurance Pty Ltd, and a director of CUA Health Ltd. He is also a director of Zurich Financial Services Australia and National Blood Authority, Chairman of Elanor Investors Group and Chairman of Disability Sports Australia.

P.G. Dowling

AM, BA (Acc), FCPA, FAICD

Independent non-executive director

Mr Dowling has been a credit union director for ten years and was previously a partner of international accounting firm Ernst & Young. He is a Fellow of CPA Australia, The Institute of Chartered Accountants in Australia and The Australian Institute of Company Directors. Mr Dowling received the Centenary of Federation Medal in 2001 and was made a Member of the Order of Australia in 2007 for services to the accounting profession, business, education and the arts. Mr Dowling is a director of Credit Union Foundation Australia, Metro South Health and Hospital Board, TAFE Queensland, WorkCover Queensland, CPA Australia, The Asset Institute, Lexon Insurance, SPYRUS Pty Ltd and a number of Virgin Blue’s aircraft leasing subsidiaries. He is the Chair of the Audit and Risk Committees for the Sunshine Coast Regional Council, Queensland Transport and Main Roads, the Queensland Department of Energy and Water Supply and the Queensland Crime and Corruption Commission. Mr Dowling is also a member of the Audit and Risk Committees for the Moreton and Redland Councils and the Queensland Department of Environment and Heritage and is the Queensland Honorary Consul for Botswana. Mr Dowling is a member of the Board Strategy Consultative Committee, a director of CUA Health Ltd and Chair of the CUA Health Ltd Board Audit & Risk Committee until 1 July 2014.

Directors’ report

E.A. Foster

B.Bus.(Accounting), FCPA, GAICD, MAMI

Independent non-executive director (resigned 31 July 2014)

Ms Foster has been a credit union director for 23 years. She is a self-employed accountant who has extensive experience in finance, previously working for Telstra in senior management positions. She was also Chief Finance Officer at CPA Australia, a finance consultant at the Catholic Education Office and CEO of RACV Credit Union. She served on the Board of the Credit Union Foundation of Australia (CUFA) from 2003 to 2008. Ms Foster was a member of the Board Audit Committee and Chair of the Credicorp Insurance Pty Ltd Board Audit and Risk Committee. She was also a member of the Board Risk, Board Remuneration and External Audit Selection Committees and a director of Credicorp Insurance Pty Ltd.

C.M. Greer

LLB, Grad.Dip.Legal.Prac., FAICD

Independent non-executive director (resigned 31 January 2014)

Ms Greer was a non-executive director of CUA for ten years. Her professional career has been diverse covering multi-disciplines including law, stockbroking, hospitality and marketing. During the year, she was a member of the Board Audit Committee and Board Remuneration Committee at CUA, and also a member of the Board Nucleus Committee. During her tenure, Ms Greer has been a director of CUA Financial Planning Pty Ltd, CUA Health Ltd and Credicorp Insurance Pty Ltd, and has been a member of the CUA Board Audit Committee. She has been a director of Queensland Events Corporation and Chair of Restaurant Catering Queensland, Brisbane Branch. Ms Greer has also acted in an advisory capacity to the Committee for Economic Development of Australia.

D.M. O’Toole

LLB, MAICD

Independent non-executive director (appointed 1 March 2014)

Ms O’Toole, a qualified lawyer, joined the Board of CUA in March 2014, bringing more than 30 years’ experience in mining, resources and rail freight industries, 25 of which have been focused in the finance function including as CFO at Aurizon, Qld Cotton and MIM Holdings. She served as Chairman of the Audit Committee for CSIRO and the Norfolk Group and also on boards of the M.I.M. Group and the QR National / Aurizon Group. Ms O’Toole currently serves as a director of the Wesley Research Institute and on the Queensland University of Technology Banking and Finance School Advisory Board and in 2013 served as an Advisory Board Member at Pacific Aluminium. Ms O’Toole is also a director of Credicorp Insurance Pty Ltd, CUA Health Ltd (from 1 July 2014) and a member of the Credicorp Insurance Board Audit and Risk Committee and CUA Health Ltd Board Audit and Risk Committee (from 1 July 2014).

M.T. Pratt

SF Fin, GradDip(Org Beh),FAICD, FAIM, FAHRI, AMP (Harvard)

Independent non-executive director

Mr Pratt has an extensive career in banking and wealth management throughout Australia, New Zealand and Asia. Most recently, he was CEO of Consumer and SME Banking, North East Asia with Standard Chartered Bank based in Shanghai. He is a former President of the Australian Institute of Banking & Finance and was the Inaugural Joint President of Finsia. Mr Pratt’s other previous roles include senior executive positions as Group Executive of Westpac Australia Consumer & Business Banking, CEO National Australia Bank, Australia and CEO, Bank of New Zealand. In all these roles he has driven major change, delivering strong financial results and much improved customer service across multiple channels. Mr Pratt is also Commissioner for Service in the NSW Government, Deputy Chancellor at the University of Western Sydney and a director of the Bennelong Group. Mr Pratt chairs the Board Risk Committee and is a member of the Board Audit Committee, Board Strategy Consultative Committee and Board Transformation, Technology & Innovation Committee.

W.H. Stevenson

B Com, CA, GAICD

Independent non-executive director (appointed 1 February 2014)

Mr Stevenson joined the Board of CUA in February 2014, bringing strong expertise of the financial services industry and his almost 15 years in CFO roles involving significant acquisitions, restructures and divestments. Mr Stevenson’s executive background is largely in banking and financial services where he has held several senior positions across Australia, New Zealand and Asia. Most recently he was Group General Manager, Group Strategy, ANZ and prior to that held the role of CFO, Asia Pacific, ANZ. Mr Stevenson’s board credentials are from financial services organisations across Australia and Asia Pacific. He is currently a non-executive director at Onepath General Insurance, Onepath Life Insurance and ANZ Lenders Mortgage Insurance. Mr Stevenson is a member of the Board Audit, Board Risk, Board Nucleus / Transformation, Technology & Innovation and External Audit Selection Committees.

C.M. Whitehead

B.Sc (Hons), FAICD

Chief Executive Officer and Executive Director

Mr Whitehead joined CUA in August 2009, with over 25 years of experience across a broad range of organisations and roles. He commenced his career in the IT industry before moving into General Management roles, including establishing the Australian subsidiary for an international IT services provider. In 1994 Mr Whitehead joined Advance Bank in Sydney as Chief Information Officer, moving to Bankwest in Perth in the same role in 1998. His role in Bankwest broadened to include payments business and responsibility for innovation strategies with the establishment of a number of new businesses. In 2001, Mr Whitehead was appointed as Chief Executive of Retail Banking and established a successful business transformation and national growth program. In 2007, Mr Whitehead was seconded to the Bank of Scotland as a regional director. Mr Whitehead has served on a range of boards as a director in the banking, financial planning, funds management and general insurance industries; as well as community and charitable organisations. Mr Whitehead is currently a director of Credit Union Australia Ltd and each of its subsidiaries, and also of Cuscal Limited. Mr Whitehead is also a member of the Board Strategy Consultative Committee.

Directors’ report

COMPANY SECRETARIES

The Company Secretaries of CUA at any time during or since the end of the financial year are:

A.B. Ong
S.M. Groth (appointed 12 November 2013, resigned 18 July 2014)

A.B. Ong

LL.B (Hons), B.Com

General Counsel & Company Secretary

Mr Ong is a financial services lawyer and compliance professional, with experience gained through serving as a government regulator, an inhouse counsel and a private practitioner. Prior to CUA, Mr Ong held senior roles leading the legal, compliance and risk management departments of diverse leading financial services organisations – with a particular focus on developing and implementing legal and compliance strategy, driving the development of a culture of compliance and overseeing strategies to reduce and manage enterprise risk. Mr Ong also has extensive company secretarial experience and regularly advises on general corporate law, directors’ duties and corporate governance. Mr Ong holds a Bachelor of Laws (Hons) and Bachelor of Commerce (in accounting and finance) from the University of Sydney.

S.M. Groth

LL.B, B.Bus (Accounting)

Company Secretary (appointed 12 November 2013, resigned 18 July 2014)

Ms Groth is a corporate governance, compliance and relationship management professional with extensive experience working with boards, executive management and operating committees. Ms Groth brings over 10 years of experience in corporate governance across a range of sectors and industries, including Government, Property Development and Mining with a strong foundation in legal, financial and commercial roles underpinning her governance expertise. Ms Groth holds a Bachelor of Laws and a Bachelor of Business (Accounting) from the Queensland University of Technology and a Graduate Diploma in Company Secretarial Practice from the Governance Institute of Australia.

DIRECTORS’ MEETINGS

The number of meetings of directors and meetings of Board Committees held during the year and the number of meetings attended by each director was as follows:

A = Number of meetings eligible to attend.
B = Number of meetings attended.

| | Board Meetings* | | Board Audit Committee | | Board Risk Committee | | Board Remuneration Committee | | Board Strategy Consultative Committee | | Board Nucleus Committee** | | Transformation, Technology & Innovation Committee*** | | External Audit Selection Committee# | |
|----------------|-----------------|----|-----------------------|---|----------------------|---|------------------------------|---|---------------------------------------|---|---------------------------|---|--|---|-------------------------------------|---|
| | A | B | A | B | A | B | A | B | A | B | A | B | A | B | A | B |
| A.E. Beanland | 11 | 11 | - | - | 7 | 7 | 9 | 9 | 6 | 6 | 6 | 6 | 1 | 1 | 4 | 4 |
| N.I. Ampherlaw | 11 | 10 | 5 | 4 | 7 | 5 | 2 | 2 | 6 | 5 | 6 | 6 | 1 | 1 | - | - |
| P.J. Bedbrook | 11 | 11 | 1## | 1 | - | - | 9 | 8 | - | - | - | - | - | - | - | - |
| P.G. Dowling | 11 | 10 | - | - | - | - | - | - | 6 | 5 | - | - | - | - | - | - |
| E.A. Foster | 11 | 10 | 5 | 5 | 2 | 2 | 6 | 5 | - | - | - | - | - | - | 4 | 4 |
| C.M. Greer | 6 | 4 | 3 | 2 | - | - | 3 | 3 | - | - | 5 | 4 | - | - | - | - |
| D.M. O'Toole | 4 | 3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| M.T. Pratt | 11 | 9 | 3 | 2 | 7 | 7 | - | - | 6 | 6 | - | - | 1 | 1 | - | - |
| W.H. Stevenson | 5 | 5 | 2 | 2 | 4 | 4 | - | - | - | - | 1 | 1 | 1 | 1 | 4 | 4 |
| C.M. Whitehead | 11 | 11 | - | - | - | - | - | - | 6 | 6 | - | - | - | - | - | - |

* The Board considered six (6) Circulating Board Resolutions during the period.

** The Board Nucleus Committee oversaw the implementation of the new core banking system (Nucleus).

*** The Transformation, Technology & Innovation Committee took over from the Board Nucleus Committee in May 2014.

The External Audit Selection Committee is a special purpose committee formed to oversee the tender and selection process for External Audit services to the Group for the financial year ending 30 June 2015.

P.J. Bedbrook attended the 17 September 2013 Board Audit Committee as an Alternate for N.I. Ampherlaw.

The above table relates to the CUA directors’ meetings. The subsidiaries of CUA have their own Boards and Board Committee meetings attended by the respective subsidiary Board members.

Directors’ report

DIRECTORS’ BENEFITS

During, or since the end of the financial year, no director has received, or become entitled to receive, a benefit by reason of a contract entered into by CUA, or its controlled entities, with the director, a firm of which the director is a member, or an entity in which the director has a substantial financial interest, other than a benefit to which the director is entitled as a member of CUA. All transactions with entities associated with directors are at arm’s length and on commercial terms.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the financial year, CUA paid an insurance premium in respect of an insurance policy for the benefit of directors, secretaries, executive officers and employees of the Credit Union and related entities. The insurance policy grants indemnification in respect of certain liabilities for which the Corporations Act 2001 allows indemnification. The insurance policy does not permit the disclosure of the nature of the liabilities insured nor the amount of the premium. No insurance cover has been provided for the benefit of the auditors of the Credit Union.

FINANCIAL PERFORMANCE DISCLOSURES

Principal activities

The principal activities of the Credit Union during the financial year comprised the raising of funds by deposit and the provision of loans and associated services to members. Through its controlled entities, the Group was also involved in general insurance, private health insurance and financial planning activities.

Review of operations

The Group reported a net profit after income tax for the financial year ended 30 June 2014 of \$49,651,000 (2013: \$57,485,000). The Group incurred non-recurring expenses related to strategic investments such as the core banking platform, product development, front-end system and further improvements and enhancements to digital and telephony capabilities. These investments have also contributed to additional amortisation expenses in the 2014 financial year as disclosed in Note 4 of the financial statements. Additionally, in the 2013 financial year, CUA’s profit benefited from significant one-off contributions from movement in swap revaluation provisions and special dividends which did not recur in the 2014 financial year (refer to non-IFRS information below).

The Group recorded positive growth in loans and advances (gross) at 4.9% year on year, to \$8,998,324,000 from \$8,577,403,000, which has helped contribute to the improvement in net interest income revenue over the year. CUA continued to increase its household deposits in a competitive environment for deposit market share, growing 3.7% year on year to \$6,738,800,000 from \$6,498,578,000.

CUA Health Ltd contributed strongly to the Group result, reporting a net profit after tax of \$7,922,000, mainly through strong customer growth, resulting in strong contribution income growth.

Dividends

The constitution of the parent does not currently allow for the payment of dividends.

Non-IFRS information

The Group provides an additional measure of performance, underlying net profit after tax, which is prepared on a basis other than in accordance with International Financial Reporting Standards (IFRS). The directors believe the non-IFRS information is useful for the users of this document as they reflect the underlying financial performance of the business. A reconciliation of underlying net profit after tax is presented below and the adjustments have been determined on a consistent basis with those made in the prior years. Underlying net profit after tax is not audited; however, the adjustments made in arriving at underlying net profit after tax are included in reportable net profit after tax which is subject to audit within the context of the Group audit opinion.

| | Consolidated | |
|---|--------------|--------|
| | 2014 | 2013 |
| | \$’000 | \$’000 |
| Reportable net profit after tax | 49,651 | 57,485 |
| Less adjustments for specific items: | | |
| After tax gain/(loss) on fair values of derivatives | 147 | 4,425 |
| Special dividends received | - | 1,142 |
| Underlying net profit after tax | 49,504 | 51,918 |

Directors' report

Capital and Remuneration Prudential Disclosures

For ADI Prudential Standard (APS) 330 *Capital Adequacy: Public Disclosure of Prudential Information*, refer to the Prudential Disclosures section of the CUA website (<http://www.cua.com.au/about-cua/corporate-governance/prudential-disclosures>).

Significant changes in the state of affairs

On 23 December 2013, CUA established a new special purpose vehicle, Harvey Warehouse Trust No. 3 as part of CUA's loan securitisation program. CUA also provides arm's length interest rate swap facilities to the Trust. Other than the new Trust, there were no significant changes in the state of affairs of the Group during the financial year.

During the year, CUA achieved successful implementation of its new core banking system. The system was commissioned and deployed on 7 October 2013.

Events after the statement of financial position date

On 1 July 2014, CUA's private health insurance subsidiary, CUA Health Ltd, converted to "For Profit" after receiving prior approval from the Private Health Insurance Advisory Council (PHIAC), as such CUA Health Ltd is subject to taxation for all periods after the conversion date and has the ability to pay dividends. CUA Limited is the sole shareholder of CUA Health Ltd. On 1 July 2014, CUA Health Ltd had a net deferred tax liability of \$1.2 million resulting in a net deferred tax liability of \$0.6 million for the Group after elimination of inter-group commissions.

On 6 July 2014, CUA has given notice to the Credit Union Financial Support System (CUFSS) regarding its intention to withdraw from the scheme. CUA will remain a participant of the scheme for twelve months from the date of notification. Refer to Note 32 of the financial statement for details of the CUFSS scheme.

On 1 July 2014, the sale of the financial planning business of CUA's subsidiary CUA Financial Planning Pty Ltd, was completed. The disposal of the financial planning business is consistent with the Group's intention to focus on its core banking and health insurance operations. Refer to Note 39 of the financial statements for further details.

Likely developments

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

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

Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board believes that the Group is not aware of any breach of environmental requirements as they apply to the Group.

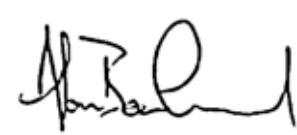
Rounding

Except where indicated, the amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars in accordance with ASIC Class Order 98/100.

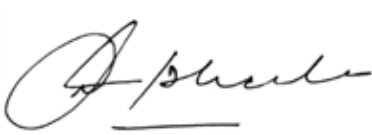
Auditor's independence

The directors have obtained a copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001.

This report is made in accordance with a resolution of the Board of Directors and is authorised for and on behalf of the directors by:



A.E. Beanland
Chairman



N.I. Ampherlaw
Director

Brisbane
27 August 2014

Auditor's independence declaration

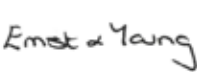


Ernst & Young
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Auditor's independence declaration to the directors of Credit Union Australia Ltd

In relation to our audit of the financial report of Credit Union Australia Ltd for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Paula McLuskie
Partner
27 August 2014

Statement of financial performance

For the year ended 30 June 2014

| | Note | Consolidated | | Parent | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Income | | | | | |
| Interest income | | 508,592 | 548,498 | 506,480 | 546,242 |
| Interest expense | | (300,576) | (350,707) | (301,329) | (351,601) |
| Net interest income | | 208,016 | 197,791 | 205,151 | 194,641 |
| Other revenue | | | | | |
| Fee and commission revenue | | 30,993 | 33,132 | 34,719 | 37,268 |
| Contribution income - CUA Health Ltd | | 101,274 | 91,501 | - | - |
| General insurance income - Credicorp Insurance Pty Ltd | | 3,474 | 3,917 | - | - |
| Total other revenue | | 135,741 | 128,550 | 34,719 | 37,268 |
| Other income | | | | | |
| Net gain on derivatives | 12 | 210 | 6,321 | 210 | 6,321 |
| Other | 4 | 5,213 | 5,992 | 10,299 | 11,106 |
| Total other income | | 5,423 | 12,313 | 10,509 | 17,427 |
| Total income after interest expense | | 349,180 | 338,654 | 250,379 | 249,336 |
| Expenses | | | | | |
| Impairment of loans and advances | 14 | (5,753) | (4,022) | (5,753) | (4,022) |
| Personnel | 4 | (91,733) | (80,501) | (89,509) | (78,765) |
| Occupancy | | (19,133) | (22,796) | (19,133) | (22,796) |
| Depreciation of property, plant and equipment | 4 | (9,130) | (8,959) | (9,091) | (8,893) |
| Amortisation of intangible assets | 4 | (6,254) | (2,396) | (6,224) | (2,370) |
| Benefits paid - CUA Health Ltd | | (88,227) | (77,669) | - | - |
| Claims paid - Credicorp Insurance Pty Ltd | | (450) | (524) | - | - |
| Information technology | | (9,923) | (10,181) | (9,923) | (10,181) |
| Other expenses | 4 | (52,251) | (53,424) | (50,134) | (51,553) |
| Total operating expenses | | (282,854) | (260,472) | (189,767) | (178,580) |
| Profit before income tax expense | | 66,326 | 78,182 | 60,612 | 70,756 |
| Income tax expense | 5 | (17,068) | (20,994) | (16,548) | (20,307) |
| Profit from continuing operations | | 49,258 | 57,188 | 44,064 | 50,449 |
| After tax profit from discontinued operation | 39 | 393 | 297 | - | - |
| Profit for the year | | 49,651 | 57,485 | 44,064 | 50,449 |
| Profit for the period is attributable to: | | | | | |
| Members of the parent | | 49,651 | 57,485 | 44,064 | 50,449 |
| | | 49,651 | 57,485 | 44,064 | 50,449 |

The above statement of financial performance should be read in conjunction with the accompanying notes.

Statement of comprehensive income

For the year ended 30 June 2014

| | Note | Consolidated | | Parent | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Net profit after tax | | 49,651 | 57,485 | 44,064 | 50,449 |
| Other comprehensive Income | | | | | |
| Items that may be reclassified to profit or loss | | | | | |
| Net fair value gain/(loss) on available for sale financial assets | | - | (71) | - | (71) |
| Net gain/(loss) on cash flow hedges taken to members' funds | | 1,183 | 7,829 | 1,183 | 7,829 |
| Income tax on other comprehensive income | 5 | (355) | (2,327) | (355) | (2,327) |
| Other comprehensive income after tax | | 828 | 5,431 | 828 | 5,431 |
| Total comprehensive income | | 50,479 | 62,916 | 44,892 | 55,880 |
| Total comprehensive income for the period is attributable to: | | | | | |
| Members of the parent | | 50,479 | 62,916 | 44,892 | 55,880 |
| | | 50,479 | 62,916 | 44,892 | 55,880 |
| Total comprehensive income for the period attributable to members of CUA arises from: | | | | | |
| Continuing operations | | 50,086 | 62,619 | 44,892 | 55,880 |
| Discontinued operation | | 393 | 297 | - | - |
| | | 50,479 | 62,916 | 44,892 | 55,880 |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June 2014

| | Note | Consolidated | | Parent | |
|---|------|-------------------|------------------|-------------------|------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| Assets | | | | | |
| Cash and cash equivalents | 8 | 97,069 | 66,516 | 86,469 | 66,186 |
| Financial assets - available for sale | 9 | 13,984 | 14,024 | 13,984 | 14,024 |
| Financial assets - fair value through profit or loss | 10 | 57,036 | 45,617 | - | - |
| Financial assets - held to maturity | 11 | 1,037,840 | 1,153,624 | 1,037,840 | 1,153,624 |
| Derivative financial instruments | 12 | - | 147 | - | 147 |
| Loans and advances | 13 | 8,990,958 | 8,571,513 | 8,990,958 | 8,571,513 |
| Other receivables | 15 | 10,343 | 10,035 | 1,147 | 1,870 |
| Investments in controlled entities | 16 | - | - | 800 | 800 |
| Property, plant and equipment | 17 | 35,289 | 78,010 | 35,229 | 77,906 |
| Intangible assets | 18 | 53,331 | 3,729 | 53,328 | 3,691 |
| Deferred tax assets | 5 | 8,718 | 13,357 | 7,768 | 13,263 |
| Other assets | 19 | 1,692 | 1,531 | 1,406 | 1,528 |
| Assets classified as held for sale | 39 | 872 | - | - | - |
| Total assets | | 10,307,132 | 9,958,103 | 10,228,929 | 9,904,552 |
| Liabilities | | | | | |
| Derivative financial instruments | 12 | 10,320 | 12,284 | 10,320 | 12,284 |
| Deposits | 20 | 6,783,104 | 6,553,232 | 6,797,192 | 6,582,295 |
| Borrowings | 21 | 2,633,906 | 2,567,523 | 2,636,887 | 2,567,523 |
| Other payables | 22 | 48,944 | 44,686 | 23,401 | 24,845 |
| Income tax payable | | 5,280 | 6,678 | 4,247 | 6,529 |
| Provisions | 23 | 18,025 | 17,111 | 18,025 | 17,111 |
| Liabilities directly associated with assets classified as held for sale | 39 | 485 | - | - | - |
| Total liabilities | | 9,500,064 | 9,201,514 | 9,490,072 | 9,210,587 |
| Net assets | | 807,068 | 756,589 | 738,857 | 693,965 |
| Members' funds | | | | | |
| Reserves | 24 | 23,507 | 17,900 | 23,507 | 17,900 |
| Retained earnings | 25 | 783,561 | 738,689 | 715,350 | 676,065 |
| Total members' funds | | 807,068 | 756,589 | 738,857 | 693,965 |

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in members' funds

For the year ended 30 June 2014

| | Consolidated | | | Parent | | |
|--|--------------------|--------------------------------|--------------------------------------|--------------------|--------------------------------|--------------------------------------|
| | Reserves \$'000 | Retained Earnings \$'000 | Total Members' Funds \$'000 | Reserves \$'000 | Retained Earnings \$'000 | Total Members' Funds \$'000 |
| Balance at 1 July 2012 | 10,061 | 683,612 | 693,673 | 10,061 | 628,024 | 638,085 |
| Profit for the year after tax | - | 57,485 | 57,485 | - | 50,449 | 50,449 |
| Other comprehensive income after tax | 5,431 | - | 5,431 | 5,431 | - | 5,431 |
| Total comprehensive income for the period | 5,431 | 57,485 | 62,916 | 5,431 | 50,449 | 55,880 |
| Movement in General Reserve for Credit Losses | 2,260 | (2,260) | - | 2,260 | (2,260) | - |
| Movement in Redeemable Preference Share Reserve | 148 | (148) | - | 148 | (148) | - |
| Balance at 30 June 2013 | 17,900 | 738,689 | 756,589 | 17,900 | 676,065 | 693,965 |
| Balance at 1 July 2013 | 17,900 | 738,689 | 756,589 | 17,900 | 676,065 | 693,965 |
| Profit for the year after tax | - | 49,651 | 49,651 | - | 44,064 | 44,064 |
| Other comprehensive income after tax | 828 | - | 828 | 828 | - | 828 |
| Total comprehensive income for the period | 828 | 49,651 | 50,479 | 828 | 44,064 | 44,892 |
| Movement in General Reserve for Credit Losses | 4,667 | (4,667) | - | 4,667 | (4,667) | - |
| Movement in Redeemable Preference Share Reserve | 112 | (112) | - | 112 | (112) | - |
| Balance at 30 June 2014 | 23,507 | 783,561 | 807,068 | 23,507 | 715,350 | 738,857 |

The above statement of changes in members' funds should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2014

| Note | Consolidated | | Parent | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| | Inflows (Outflows) | Inflows (Outflows) | Inflows (Outflows) | Inflows (Outflows) |
| Cash flows from operating activities | | | | |
| Interest received | 507,608 | 554,841 | 504,019 | 555,264 |
| Interest and other borrowing costs paid | (301,603) | (351,907) | (302,356) | (352,801) |
| Other non-interest income received | 144,826 | 136,055 | 40,624 | 43,997 |
| Net increase in members' loans | (425,199) | (483,184) | (425,199) | (483,140) |
| Payments to suppliers and employees | (262,658) | (234,654) | (166,952) | (148,551) |
| Income tax paid | (14,351) | (17,441) | (13,691) | (16,801) |
| Net cash provided by/(used in) operating activities | 28 (351,377) | (396,290) | (363,555) | (402,032) |
| Cash flows from investing activities | | | | |
| Sales/(purchases) of investments | 104,218 | (159,005) | 116,469 | (169,316) |
| Proceeds from sale of plant, equipment and software | 390 | 187 | 390 | 187 |
| Dividends received | 2,564 | 2,540 | 4,214 | 4,340 |
| Payments for plant, equipment and software | (21,497) | (42,194) | (21,496) | (42,131) |
| Net cash provided by/(used in) investing activities | 85,675 | (198,472) | 99,577 | (206,920) |
| Cash flows from financing activities | | | | |
| Proceeds from borrowings | 66,383 | 170,148 | 69,364 | 174,592 |
| Net increase in members' deposits | 229,872 | 284,472 | 214,897 | 294,505 |
| Net cash provided by financing activities | 296,255 | 454,620 | 284,261 | 469,097 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | | |
| Cash at the beginning of the year | 66,516 | 206,658 | 66,186 | 206,041 |
| Cash at the end of the year | 8 97,069 | 66,516 | 86,469 | 66,186 |

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2014

1. CORPORATE INFORMATION

The financial report of Credit Union Australia Ltd (the Company / CUA / Credit Union) and the Group for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 27 August 2014.

Credit Union Australia Ltd is a for profit company incorporated and domiciled in Australia.

The controlling entity in the Group is Credit Union Australia Ltd. The registered office and principal place of business is:

Credit Union Australia Ltd
Level 23
145 Ann Street
Brisbane Qld 4000

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

This financial report has been prepared on an historical cost basis, except for derivative financial instruments, financial assets available for sale, assets classified as held for sale, land and buildings and financial assets held by Credicorp Insurance Pty Ltd and CUA Health Ltd which are carried at fair value through profit or loss.

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 Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

Statement of compliance

The financial report complies with International Financial Reporting Standards (IFRS) which are applicable to the Group as issued by the International Accounting Standards Board.

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2013:

- AASB 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to AASB 7
- AASB 10 Consolidated Financial Statements, AASB 127 Separate Financial Statements
- AASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- AASB 19 Employee Benefits (Revised 2011)
- AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle, and
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

The adoption of the standards or interpretations is described below.

The application of these standards and amendments do not materially impact the annual consolidated financial statements but has resulted in additional disclosures.

The nature and the impact of each new standards and amendments is described below.

AASB 10 Consolidated Financial Statements and AASB 127 Separate Financial Statements

The Group adopted AASB 10 in the current year and assessed its interest and relationship with other entities. Application of AASB 10 has not materially impacted the basis of consolidation for the Group. Other than entities that are already currently consolidated into the Group, there are no other entities which the Company and other entities in the Group that have the ability to use their power to affect the returns from their involvement with those entities.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in AASB 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries and interests in other entities. The Group has no unconsolidated structured entities. The Company securitises loan assets through sale of those assets to Special Purpose Entities (SPEs). These SPEs are not derecognised from the Company's financial statements. AASB 12 disclosures relating to the subsidiaries and these SPEs are provided in Note 33.

Notes to the financial statements

For the year ended 30 June 2014

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of compliance (continued)

AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance under Australian Accounting Standards for all fair value measurements. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under Australian Accounting Standards. AASB 13 defines fair value as an exit price. As a result of the guidance in AASB 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. AASB 13 also requires additional disclosures.

Application of AASB 13 has not materially impacted the fair value measurements of the Group.

Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 17 and 38.

AASB 119 Employee Benefits (Revised 2011)

The revised standard has changed the accounting for the Group's annual leave obligations. As the entity does not expect all annual leave to be taken within 12 months of the respective service being provided, annual leave obligations are now measured on a discounted basis. However, the impact of this change was immaterial since the majority of the leave is still expected to be taken within one year after the end of the reporting period.

Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet effective and have not been early adopted by the Group for the annual reporting period ended 30 June 2014 are outlined in the table below. Based on preliminary assessments, management does not expect significant impacts to arise from these standards and interpretations subject to the Group's further detailed analysis and assessment process.

| Reference | Title | Nature of change to accounting policy | Impact to the Group | Application date of standard* | Application date for Group* |
|--|---|---|---|-------------------------------|-----------------------------|
| 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. | The amendments are not expected to have a material impact on the Group. | 1 January 2014 | 1 July 2014 |
| AASB 2013-3 | Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets | The amendment requires additional disclosures on fair value measurement when recoverable amount is based on fair value less cost of disposal. | The amendments to impairment disclosure requirements are not expected to have a material impact on the Group. | 1 January 2014 | 1 July 2014 |
| AASB 2013-4 | Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139] | Amendment to AASB 139 to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations | The amendments are not expected to have a material impact on the Group. | 1 January 2014 | 1 July 2014 |
| Interpretation 21 | Levies | This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. | The Group is assessing this Interpretation but is not expecting a material impact resulting from the application. | 1 January 2014 | 1 July 2014 |
| Annual improvement 2010 – 2012 cycle **, *** | Annual improvement to IFRS 2010 – 2012 cycle **, *** | Amendments to clarify minor points in various accounting standards including IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24. | The Group is assessing these amendments but is not expecting a material impact resulting from the application. | 1 July 2014 | 1 July 2014 |
| Annual improvement 2011 – 2013 cycle **, *** | Annual improvement to IFRS 2011 – 2013 cycle **, *** | Amendments to clarify minor points in various accounting standards including IFRS 1, IFRS 3, IFRS 13 and IAS 40. | The Group is assessing these amendments but is not expecting a material impact resulting from the application. | 1 July 2014 | 1 July 2014 |

Notes to the financial statements

For the year ended 30 June 2014

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of compliance (continued)

| Reference | Title | Nature of change to accounting policy | Impact to the Group | Application date of standard* | Application date for Group* |
|-------------------------|--|---|---|--|---|
| AASB 1031, AASB 2013-9 | Australian Conceptual Framework amendments and Materiality | Incorporates guidance from the IASB's framework on the objective and qualitative characteristics of financial reporting and removes Australian specific guidance on materiality from AASB 1031 | The Group is assessing these standards but is not expecting a material impact resulting from the application. | AASB 2013-9: periods commencing on or after 20 December 2013 AASB 1031: periods commencing on or after 1 January 2014 | 1 July 2014 1 July 2014 |
| AASB 9 / IFRS 9 **, *** | Financial Instruments | AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting. On 24 July 2014, the IASB has announced the finalised IFRS 9 Financial Instruments standard which incorporates a new forward looking "expected loss" impairment model. | The Group is in the process of assessing the impact of the new standard. | 1 January 2018 (The Australian equivalent to this standard is yet to be issued, however it is expected to be incorporated into the Australian Accounting Standards by the AASB without modification and as soon as practicable) | 30 June 2019 (refer to the previous column for details) |
| IFRS 15 **, *** | Revenue from contracts with customers | The IASB has issued a new standard for the recognition of revenue. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. | The Group is in the process of assessing the impact of the new standard. | 1 January 2017 (The Australian equivalent to this standard is yet to be issued, however it is expected to be incorporated into the Australian Accounting Standards by the AASB without modification and as soon as practicable) | 30 June 2018 (refer to the previous column for details) |

The following standards and interpretations which are not applicable to the Group have been issued by the AASB but are not yet effective for the period ended 30 June 2014:

| Reference | Title | Application date of standard* | Application date for Group* |
|------------------------------------|--|-------------------------------|-----------------------------|
| Amendments to IAS 19 ** | Employee contributions (to defined benefit plans) | 1 January 2014 | 30 June 2015 |
| AASB 2013-5 | Exemption from consolidation for investment entities | 1 January 2014 | 30 June 2015 |
| AASB 2013-7 | Consolidation and interest of policy holders (life insurance entities applying AASB 1038) | 1 January 2014 | 30 June 2015 |
| Amendments to IFRS 11 ** | Accounting for acquisitions of interest in joint operations | 1 January 2016 | 30 June 2017 |
| Amendments to IAS 16 and IAS 38 ** | Clarification of acceptable methods of depreciation and amortisation (for entities currently depreciating or amortising assets using a revenue method) | 1 January 2016 | 30 June 2017 |
| AASB 1056 | Superannuation entities | 1 July 2016 | 30 June 2017 |

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

** Assuming the AASB adopts these amendments and application dates without modification.

*** These IFRS amendments have not yet been adopted by the AASB. In order to claim compliance with IFRS these amendments are noted in the financial statements.

Notes to the financial statements

For the year ended 30 June 2014

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

(a) Basis of consolidation

The parent entity financial statements comprise the financial statements of Credit Union Australia Ltd and the Harvey Securitisation Trusts. As the Company remains exposed to the residual risk of the Special Purpose Entities (SPE's), which is mitigated by the Group's interest rate risk policy, the SPE's underlying loans, swaps, revenues and expenses have not been derecognised and are reported in the Credit Union's statement of financial performance and statement of financial position.

The consolidated financial statements comprise the financial statements of Credit Union Australia Ltd and all of its controlled entities (the Group). Controlled entities are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Controlled entities are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All inter-company balances and transactions between entities in the Group, including any unrealised profit or losses, have been eliminated on consolidation. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The financial statements of controlled entities are prepared for the same accounting period as the parent company.

Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Income tax

The charge for income tax expense is based on the profit for the year adjusted for any non-assessable or non-deductible items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of financial performance except where it relates to items that may be credited directly to members' funds, in which case the deferred tax is adjusted directly against members' funds.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Financial assets and liabilities

There have been no reclassification or derecognition of financial assets during the year.

Cash and cash equivalents

Receivables from other financial institutions are cash on hand and any call amounts due from banks, building societies and other credit unions and exclude term deposits with other Authorised Deposit taking Institutions (ADIs). They are brought to account at the gross value of the outstanding balance. Interest is brought to account using the effective interest rate method.

Financial assets – available for sale

Financial assets classified as available for sale represent commercial paper, selected deposits with ADIs that have been designated as available for sale at inception and shares in non-controlled companies.

Gains and losses on available for sale investments are recognised in members' funds as an available for sale reserve until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in members' funds is included in the statement of financial performance. Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate.

Shares that are held in this category are in non-listed entities and therefore have no active market. They are carried at cost and impairment is tested annually.

Financial assets - fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading. Derivatives are classified as held for trading unless they are designated as hedges. The group of financial assets are managed and their performance is evaluated on a fair value basis where related liabilities are also managed on this basis.

Notes to the financial statements

For the year ended 30 June 2014

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Financial assets – held to maturity

Financial assets classified as held to maturity represent selected deposits with ADIs and residential mortgage backed securities and are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate. Gains and losses are recognised in the statement of financial performance when the financial assets are derecognised or impaired, as well as through the amortisation process.

Derivatives held for trading

CUA uses interest rate swaps to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For derivatives which do not qualify for hedge accounting, changes in fair value are recorded in 'net gain or loss on derivatives at fair value through profit or loss'. Interest earned or incurred is accrued in interest income or expense respectively, according to the terms of the contract.

Hedge accounting

For the purposes of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is expected to be 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 designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in members' funds in the 'cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the statement of financial performance.

When the hedged cash flow affects the statement of financial performance, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the statement of financial performance. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in members' funds at that time remains in members' funds and is recognised when the hedged forecast transaction is ultimately recognised in the statement of financial performance. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in members' funds is immediately transferred to the statement of financial performance.

Loans and advances

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the statement of financial performance in 'impairment on loans and advances'.

Deposits and borrowings

All deposits and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

(d) Investments in controlled entities

Investments in controlled entities are carried at cost and eliminated on consolidation.

(e) Revenue and expenses

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

Interest revenue and expense

Interest revenue and expense is recognised as interest accrues using the effective interest rate method. The effective interest method is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

When a loan is classified as impaired the Group ceases to recognise interest revenue and other income earned but not yet received.

Notes to the financial statements

For the year ended 30 June 2014

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Interest on loans and advances is not brought to account by the Group if a loan has been transferred to a debt collection agency or a judgment has been obtained. No interest is charged on loans where repayments are in arrears and the prospects of a contribution from the member are minimal. However, accrued interest may be recovered as part of the recovery of the debt.

Fee and commission revenue

Fees and commission revenue are brought to account on an accrual basis over the period that they cover once a right to receive consideration has been attained. Financial service fees are recognised as and when the service is provided.

(f) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of loans and advances

All loans are subject to continuous management review to assess whether there is any objective evidence that any specific loan or group of loans is impaired.

Specific provisions for impairment losses are measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Short term balances are not discounted. Impairment losses are recognised in the statement of financial performance.

Bad debts are written off when identified. If a specific provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses directly in the statement of financial performance.

In addition to the specific provision, a collective provision is calculated for the credit risk inherent within the loan portfolio. The collective provision applies a loss rate approach that uses historical loss experience to calculate incurred but not reported losses on the performing portfolio. A collective provision is also calculated on past due loans that have been specifically assessed as non-impaired. The loss rates are based on the arrears severity of the loans, and other default indicators.

All loans and advances are reviewed and graded according to the anticipated level of credit risk and the following classifications have been adopted:

“**Restructured loans**” are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members.

“**Past due but not impaired loans**” are loans for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

“**Impaired loans**” are loans and advances where the full recovery of outstanding principal and interest is considered doubtful.

(g) Securitisation

As part of its operational activities, the Company securitises loan assets, generally through the sale of these assets to SPE's which issue securities to investors and borrow from lenders (for Warehouses). As the Company remains exposed to the residual risk of the SPE's, which is mitigated by the Group's interest rate risk policy, the SPE's underlying loans, swaps, revenues and expenses have not been derecognised and are reported in the Credit Union's statement of financial performance and statement of financial position.

(h) Disposal groups held for sale and discontinued operations

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the disposal group is recognised at the date of de-recognition.

The assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

Notes to the financial statements

For the year ended 30 June 2014

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of financial performance.

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

(i) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(j) Property, plant and equipment

Property

Freehold land and buildings are measured at fair value less subsequent depreciation and impairment losses. It is the policy of the Group to have an independent valuation undertaken at least every four years, with annual appraisals being made by the directors.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

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

Depreciation

All property, plant and equipment including buildings and capitalised leased assets but excluding freehold land, is depreciated over their expected useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Depreciation is calculated using the straight-line method to write down the cost of the asset to their residual values over their estimated useful lives. The estimated useful lives are as follows:

| Asset category | |
|--------------------------------|------------|
| Buildings | 40 years |
| Motor vehicles | 5 years |
| Computer hardware | 4 years |
| Office furniture and equipment | 5 years |
| Leasehold improvements | 5-10 years |

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Assets under \$300 are not capitalised.

An item is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of financial performance.

Revaluations of land and buildings

Any revaluation increment is credited to the asset revaluation reserve included in members' funds, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Notes to the financial statements

For the year ended 30 June 2014

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

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

(k) Intangible assets

Amortisation is calculated using the straight-line method to write down the cost of the asset to their residual values over their estimated useful lives. The estimated useful lives are as follows:

| Asset category | |
|---------------------------------------|----------|
| Major banking infrastructure software | 10 years |
| Other computer software | 3 years |

(l) Capital work in progress

Research costs are expensed as incurred. Development expenditures on individual projects are recognised in Capital work in progress when the Group can demonstrate:

- The technical feasibility of completing the capital project so that it will be available for use or sale;
- Its intention to complete and its ability to use the capital project;
- How the capital project will generate future economic benefits;
- The availability of resources to complete the capital project; and
- The ability to measure reliably the expenditure during the development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated depreciation/amortisation and accumulated impairment losses. Depreciation/amortisation of the asset begins when development is complete and the asset is available for use and occurs over the period of expected future benefit.

(m) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses over the period of the lease on a straight-line basis unless another systematic basis is more representative of the time pattern of the benefits.

The accounting for an arrangement in the legal form of a lease must reflect the substance of the arrangement. All aspects and implications of the arrangement must be evaluated to determine its substance, with weight given to those aspects and implications that have an economic effect. All aspects of an arrangement that does not, in substance, involve a lease under AASB 117 Leases must be considered in determining the appropriate disclosures that are necessary to understand the arrangement and the accounting treatment adopted.

All lease incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

(n) Provisions

Employee benefits

Employee provisions comprise liabilities for employee benefits arising from services rendered by employees to balance date. Employee benefits have maturities of both less than one year and greater than one year and have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

Superannuation contributions are made by the Group to defined contribution superannuation funds and are charged as expenses when incurred.

Make good provision

A provision is made for the anticipated costs of restoring all leased premises to their original condition at the end of the lease term in current dollar values. The provision is assessed at each balance date for new, amended and expired leases. The estimate of the costs has been calculated using historical costs.

Notes to the financial statements

For the year ended 30 June 2014

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

(o) Insurance accounting policies

CUA Health Ltd

CUA Health Ltd is a wholly owned subsidiary of CUA.

Contribution income

Contribution income comprises contributions received from members, inclusive of Government rebate. Contribution income is recognised when earned over the period of the membership. Members are expected to pay on due dates according to method of payment. Contributions in advance amounts are recognised as revenue as the income is earned.

Benefits paid and claims liabilities

Benefits are recognised as an expense on approval of a valid claim. Unprocessed claims held by CUA Health Ltd and not yet entered into the processing system are provided for on a monthly basis.

The claim liabilities provide for the expected future payments in relation to claims reported but not yet paid and claims incurred but not yet reported with an allowance for claims handling expenses. The liability is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. The claim liabilities are measured as the central estimate of the expected future payments against claims incurred but not settled as at the reporting date under insurance contracts issued by CUA Health Ltd, with an additional risk margin to allow for inherent uncertainty in the central estimate. It assumes that the development pattern of the current claims will be consistent with historical experience. Due to the short term nature of claims payments, no discount rate is applied to the calculation.

The liability also allows for an estimate of claims handling costs, which include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. The allowance for claims handling costs at 30 June 2014 is 1.99% of the claims liability (2013: 1.95%).

Under the provision of the private health insurance legislation, all private health insurers must participate in the Risk Equalisation Trust Fund. Through the Risk Equalisation Trust Fund, all private health insurers share the cost of proportions of the eligible claims of all persons aged 55 years and over and claims meeting the high cost claims criteria.

The amount payable to or receivable from the Risk Equalisation Trust Fund is determined by the Private Health Insurance Administration Council (PHIAC) after the end of each quarter. Estimated provisions for amounts payable or receivable are provided for periods of which determinations have not yet been made, including an estimate of risk equalisation for unrepresented and outstanding claims.

Deferred acquisition cost

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the profit or loss in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Credicorp Insurance Pty Ltd

Credicorp Insurance Pty Ltd is a wholly owned subsidiary of CUA.

Unearned premium liability

Premium revenue received and receivable but not earned is recognised as an unearned premium liability.

Liability adequacy test

The carrying value of the unearned premium liability is assessed at each reporting date by carrying out a "liability adequacy test". This test assesses whether the net unearned premium liability less any deferred acquisition costs is sufficient to cover future claims costs for current insurance contracts. Future claims costs are calculated as the present value of the expected cash flows relating to future claims and include a risk margin to reflect the inherent uncertainty in the central estimate.

The assessment is carried out on a portfolio basis for contracts that are subject to broadly similar risks and are managed as a single portfolio. If a "liability adequacy test" deficiency occurs, it is recognised in the statement of financial performance with a corresponding impact on the statement of financial position recognised through the write down of the related "deferred acquisition costs" asset. Any remaining balance would be recognised as an unexpired risk liability on the statement of financial position.

Notes to the financial statements

For the year ended 30 June 2014

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Claims liability

The claim liabilities provide for the expected future payments in relation to claims reported but not yet paid or assessed and claims incurred but not yet reported with an allowance for claims handling expenses. The claim liabilities are measured as the central estimate of the expected future payments against claims incurred but not settled as at the reporting date under insurance contracts issued by the Credicorp Insurance Pty Ltd, with an additional risk margin to allow for inherent uncertainty in the central estimate. It assumes that the development pattern of the current claims will be consistent with historical experience. Due to the short term nature of claims payments, no discount rate is applied to the calculation.

The liability also allows for an estimate of claims handling costs, which include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. The allowance for claims handling costs on the business generated from Credicorp Insurance Pty Ltd at 30 June 2014 is 35.00% of the claims liability (2013: 35.00%). No allowance is held against business generated elsewhere as this is considered immaterial.

Insurance risk assumptions

The estimation of outstanding claims liabilities is based largely on the assumption that past claims settlement patterns are an appropriate predictor of expected future claims settlement patterns and involves a variety of techniques that analyse experience, trends and other relevant factors. The process for establishing the outstanding claims provision is reviewed annually.

The outstanding claims provision comprises a central estimate and risk margin. The central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. The risk margin is added to the central estimate of outstanding claims to achieve a desirable probability of adequacy.

Central estimates for each class of business are determined based on analysis of historical cost experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgmental consideration of the results and qualitative information.

The overall risk margin is determined after consideration of the uncertainty of the outstanding claims estimate with the objective of achieving at least 75% probability of adequacy (2013: 75%). The risk margin applied at 30 June 2014 is 20% (2013: 20%) which equates to \$131,826 (2013: \$140,366).

Financial assumptions used to determine outstanding claims provision

Due to the short term nature of the Credicorp Insurance Pty Ltd's claims expense, discounting is not used in the outstanding claims liability methodology.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(q) Comparative figures

Where necessary, comparative figures have been reclassified and repositioned for consistency with the current year disclosures.

(r) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether members' funds instruments or other assets are acquired. Cost is measured as the fair value of the assets given or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less cost to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Transaction costs have been expensed through the statement of financial performance.

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(t) Financial guarantees

Financial guarantee contracts are recognised as financial liabilities at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

Notes to the financial statements

For the year ended 30 June 2014

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of financial performance. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired, and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, historical performance and economic outlook). The accounting policy for impairment loss on loans and advances is disclosed in more detail in Note 2(f).

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available these assets are valued using valuation techniques based on non-observable data. Refer to Note 38 for additional disclosures.

Insurance claims payable

A liability is recorded at the end of the year for the estimated cost of claims incurred but not yet settled at the reporting date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established. Refer to Note 2(o) for additional disclosures.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with tax planning strategies. Refer to Note 5 for additional disclosures.

Useful life of major banking infrastructure software

The Group has recently completed the development of a new core banking platform. As at 30 June 2014, the carrying amount of this software was \$48.2 million (2013: nil). The Group estimates the useful life of the software to be at least 10 years based on the expected technical obsolescence of such assets and benchmark comparison of other similar platforms. However, the actual useful life may be shorter or longer than 10 years, depending on technical innovations and competitor actions. If it were only 7 years, the carrying amount would be \$46.7 million as at 30 June 2014. If the useful life were estimated to be 12 years, the carrying amount would be \$48.8 million.

Refer to Note 2(k) for additional disclosures.

Notes to the financial statements

For the year ended 30 June 2014

4. PROFIT BEFORE INCOME TAX EXPENSE

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Other income | | | | |
| Dividends revenue | 2,564 | 2,540 | 4,214 | 4,340 |
| Bad debts recovered | 686 | 584 | 686 | 584 |
| Net gain on financial assets designated at fair value through profit or loss | 98 | - | - | - |
| Rental income | 34 | 3 | 453 | 419 |
| Other | 1,831 | 2,865 | 4,946 | 5,763 |
| | 5,213 | 5,992 | 10,299 | 11,106 |
| Personnel | | | | |
| Salaries, wages and other personnel costs | (85,920) | (75,257) | (83,800) | (72,303) |
| Superannuation | (5,813) | (5,244) | (5,709) | (6,462) |
| | (91,733) | (80,501) | (89,509) | (78,765) |
| Depreciation | | | | |
| Depreciation of buildings | (46) | (42) | (46) | (42) |
| Depreciation of plant and equipment | (9,084) | (8,917) | (9,045) | (8,851) |
| | (9,130) | (8,959) | (9,091) | (8,893) |
| Amortisation | | | | |
| Amortisation of core banking platform | (5,231) | (570) | (5,231) | (570) |
| Amortisation of other software | (1,023) | (1,826) | (993) | (1,800) |
| | (6,254) | (2,396) | (6,224) | (2,370) |
| Other expenses | | | | |
| Fee and commission expense | (17,366) | (17,069) | (17,072) | (16,867) |
| General administrative expenses | (34,632) | (35,115) | (32,821) | (33,451) |
| Net loss on disposal of assets | (253) | (1,240) | (241) | (1,235) |
| | (52,251) | (53,424) | (50,134) | (51,553) |

Notes to the financial statements

For the year ended 30 June 2014

5. INCOME TAX

The components of income tax expense for the years ended 30 June 2014 and 2013 are:

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Income tax expense is attributable to: | | | | |
| Profit from continuing operations | 17,068 | 20,994 | 16,548 | 20,307 |
| Profit from discontinued operation (Note 39) | 168 | 156 | - | - |
| | 17,236 | 21,150 | 16,548 | 20,307 |
| Current tax | | | | |
| Current income tax | 16,517 | 19,328 | 14,960 | 18,486 |
| Adjustments in respect of current income tax of previous year | (3,565) | (725) | (3,552) | (788) |
| Deferred tax | | | | |
| Relating to origination and reversal of temporary differences | 4,284 | 2,547 | 5,140 | 2,609 |
| | 17,236 | 21,150 | 16,548 | 20,307 |
| Deferred income tax expense included in income tax expense comprises: | | | | |
| Decrease/(increase) in deferred tax assets | (1,400) | 589 | (548) | 651 |
| (Decrease)/increase in deferred tax liabilities | 5,684 | 1,958 | 5,688 | 1,958 |
| | 4,284 | 2,547 | 5,140 | 2,609 |

A reconciliation between the tax expense and the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Accounting profit before tax from continuing operations | 66,326 | 78,182 | 60,612 | 70,756 |
| Profit before tax from a discontinued operation (Note 39) | 561 | 453 | - | - |
| Accounting profit before income tax | 66,887 | 78,635 | 60,612 | 70,756 |
| At Australia's statutory income tax rate of 30% (2013: 30%) | 20,066 | 23,591 | 18,184 | 21,227 |
| Adjust for tax effect of: | | | | |
| Other non-allowable expenses | 62 | 58 | 62 | 55 |
| CUA Health Ltd's net profit | (2,377) | (2,028) | - | - |
| Fully franked dividends received | (769) | (762) | (1,264) | (1,302) |
| Under/(over) provision in prior year | 254 | 291 | (434) | 327 |
| | 17,236 | 21,150 | 16,548 | 20,307 |
| Deferred income tax related to items charged or credited to other comprehensive income during the year is as follows: | | | | |
| Net gain/(loss) on financial assets - available for sale | - | (18) | - | (18) |
| Net gain/(loss) on cash flow hedges | 355 | 2,345 | 355 | 2,345 |
| | 355 | 2,327 | 355 | 2,327 |

Notes to the financial statements

For the year ended 30 June 2014

5. INCOME TAX (CONTINUED)

Deferred income tax recorded on the statement of financial position relates to the following:

| | Consolidated | | Parent | |
|--|--------------|--------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Deferred tax assets comprise temporary differences attributable to: | | | | |
| Doubtful debts | 5,403 | 4,960 | 5,403 | 4,960 |
| Employee benefits | 4,436 | 4,146 | 4,436 | 4,146 |
| Provisions and accruals | 2,075 | 1,774 | 1,998 | 1,700 |
| Derivatives | 2,954 | 3,372 | 2,954 | 3,372 |
| Capital gains | 858 | - | - | - |
| Other | 158 | 232 | 147 | 212 |
| Total deferred tax assets | 15,884 | 14,484 | 14,938 | 14,390 |
| Deferred tax liability comprise temporary differences attributable to: | | | | |
| Securitisation setup costs | 1,068 | 1,035 | 1,068 | 1,035 |
| Property, plant and equipment and intangible assets | 6,098 | 92 | 6,102 | 92 |
| Total deferred tax liabilities | 7,166 | 1,127 | 7,170 | 1,127 |
| Net deferred tax assets | 8,718 | 13,357 | 7,768 | 13,263 |
| Unused tax losses for which no deferred tax asset has been recognised | 892 | 874 | - | - |
| Potential tax benefit @ 30% | 268 | 262 | - | - |

All unused tax losses were incurred by Credicorp Finance Pty Ltd, an Australian entity that is not part of a tax consolidated group.

| | Consolidated | | Parent | |
|--------------------------|--------------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Franking account balance | 199,778 | 184,126 | 195,753 | 180,242 |

The ability to use these franking credits is restricted by the Constitution of CUA Ltd which does not currently permit dividend payment.

6. REMUNERATION OF AUDITORS

The auditor of CUA Ltd is Ernst & Young.

| | Consolidated | | Parent | |
|---|--------------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$ | \$ | \$ | \$ |
| <i>Amounts received or due and receivable by Ernst & Young for:</i> | | | | |
| An audit or review of the financial report of the entity and any other entity in the consolidated group | 394,367 | 450,598 | 344,661 | 376,167 |
| Other services in relation to the entity and any other entity in the consolidated group | | | | |
| Tax compliance | 44,007 | 86,205 | 32,787 | 73,720 |
| Regulatory | 225,231 | 114,833 | 158,101 | 46,951 |
| Other | 214,130 | 49,643 | 198,130 | 49,643 |
| | 877,735 | 701,279 | 733,679 | 546,481 |

Notes to the financial statements

For the year ended 30 June 2014

7. KEY MANAGEMENT PERSONNEL

(a) Compensation of CUA directors and key management personnel

Compensation shown as short term benefits means (where applicable) wages and salaries, paid annual leave and paid sick leave, bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements. CUA directors and key management personnel are only remunerated by the parent entity.

| | Directors | | KMP | |
|--|-----------|--------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| The aggregate compensation of key management persons during the year comprising amount paid or payable or provided for was as follows: | | | | |
| I. short term employee benefits | 820 | 655 | 3,571 | 3,432 |
| II. post employment benefits – superannuation | 72 | 49 | 159 | 198 |
| III. other long term benefits | - | - | 446 | 427 |
| IV. termination benefits | 93 | 85 | 176 | 7 |
| | 985 | 789 | 4,352 | 4,064 |

(b) Loans to CUA directors and key management personnel

CUA's policy for lending to CUA directors and KMP is that all loans are approved under the same lending criteria applicable to members. All loans to CUA directors are at lending rates applicable to members. The KMP may receive concessional rates of interest on their loans and facilities. These benefits are subject to fringe benefits tax with the total value of the benefit included in the compensation figures above.

There are no loans that are impaired in relation to the loan balances with CUA directors and KMP.

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

| | Parent | |
|---|--------|--------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Aggregate of loans to CUA directors and KMP as at balance date amounted to: | 6,608 | 7,859 |
| The total value of revolving credit facilities to CUA directors and KMP as at balance date amounted to: | 874 | 879 |
| Less amounts drawn down | (704) | (667) |
| Net balance available | 170 | 212 |
| During the year the aggregate value of loans disbursed to CUA directors and KMP amounted to: | | |
| Revolving credit | - | 35 |
| Term loans | 1,340 | - |
| Interest and other revenue earned on loans and revolving credit facilities to CUA directors and KMP | 322 | 470 |
| Total value of savings and term deposits from CUA directors and KMP as at balance date | 2,052 | 2,349 |
| Total interest paid on deposits to CUA directors and KMP | 59 | 65 |

Notes to the financial statements

For the year ended 30 June 2014

7. KEY MANAGEMENT PERSONNEL (CONTINUED)

(c) Other transactions with CUA directors

CUA directors have received interest on deposits with CUA during the financial year as detailed above. Interest has been paid on terms and conditions no more favorable than those available on similar transactions to members of CUA.

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

There are no service contracts to which KMP or their close family members are an interested party. This note should be read in conjunction with Note 33 and 35 of the financial statements.

8. CASH AND CASH EQUIVALENTS

| | Consolidated | | Parent | |
|---|--------------|--------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash on hand | 4,969 | 4,701 | 4,969 | 4,701 |
| Deposits on call due from Authorised Deposit Institutions | 92,100 | 61,815 | 81,500 | 61,485 |
| | 97,069 | 66,516 | 86,469 | 66,186 |

Cash and cash equivalents include restricted balances of \$60.9 million (2013: \$47.8 million). The restricted cash represents deposits of \$60.9 million (2013: \$47.8 million) held in securitisation trust collection accounts which are not available to CUA.

9. FINANCIAL ASSETS – AVAILABLE FOR SALE

| | Consolidated | | Parent | |
|---|--------------|--------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Shares in unlisted entities - carried at cost | 13,984 | 14,024 | 13,984 | 14,024 |

10. FINANCIAL ASSETS – FAIR VALUE THROUGH PROFIT OR LOSS

| | Consolidated | | Parent | |
|---|--------------|--------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Deposits with Authorised Deposit Institutions | 24,762 | 45,617 | - | - |
| Unlisted securities with other financial institutions | 32,274 | - | - | - |
| | 57,036 | 45,617 | - | - |

11. FINANCIAL ASSETS – HELD TO MATURITY

| | Consolidated | | Parent | |
|---|--------------|-----------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Deposits with Authorised Deposit Institutions | 1,037,840 | 1,153,624 | 1,037,840 | 1,153,624 |

Notes to the financial statements

For the year ended 30 June 2014

12. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swap contracts

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or the credit risk:

| | Assets 2014 \$'000 | Liabilities 2014 \$'000 | Notional Amount 2014 \$'000 | Assets 2013 \$'000 | Liabilities 2013 \$'000 | Notional Amount 2013 \$'000 |
|--------------------------------------|--------------------------|-------------------------------|--------------------------------------|--------------------------|-------------------------------|--------------------------------------|
| Derivatives used as cash flow hedges | | | | | | |
| Interest rate swaps | - | 10,320 | 1,830,000 | 147 | 12,284 | 1,340,000 |
| | - | 10,320 | 1,830,000 | 147 | 12,284 | 1,340,000 |

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

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.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Cash flow hedges

The Group is exposed to variability in the future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. Below is a schedule indicating as at 30 June 2014, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

| 2014 | Within 1 year \$'000 | 1-2 years \$'000 | 2-3 years \$'000 | 3-4 years \$'000 | 4-5 years \$'000 |
|----------------|----------------------------|---------------------|---------------------|---------------------|---------------------|
| Cash inflows | - | 2 | 435 | 8 | - |
| Cash outflows | (7,485) | (3,198) | (82) | - | - |
| Net cash flows | (7,485) | (3,196) | 353 | 8 | - |
| 2013 | Within 1 year \$'000 | 1-2 years \$'000 | 2-3 years \$'000 | 3-4 years \$'000 | 4-5 years \$'000 |
| Cash inflows | 31 | 22 | 203 | - | - |
| Cash outflows | (10,270) | (2,096) | (27) | - | - |
| Net cash flows | (10,239) | (2,074) | 176 | - | - |

The net gain on derivatives through the statement of financial performance during the year was as follows:

| | 2014 \$'000 | 2013 \$'000 |
|--|----------------|----------------|
| Net gain on derivatives reclassified through profit or loss | 103 | 6,294 |
| Net gain on ineffective hedges | 107 | 27 |
| Net gain on derivatives at fair value through profit or loss | 210 | 6,321 |

Notes to the financial statements

For the year ended 30 June 2014

13. LOANS AND ADVANCES

| Note | Consolidated | | Parent | |
|--------------------------|--------------|-----------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Overdrafts | 175,288 | 201,391 | 175,288 | 201,391 |
| Term loans | 8,823,036 | 8,376,012 | 8,823,026 | 8,376,002 |
| Gross loans and advances | 8,998,324 | 8,577,403 | 8,998,314 | 8,577,393 |
| Provision for impairment | (7,366) | (5,890) | (7,356) | (5,880) |
| Net loans and advances | 8,990,958 | 8,571,513 | 8,990,958 | 8,571,513 |

14. IMPAIRMENT OF LOANS AND ADVANCES

| | Consolidated | | Parent | |
|---------------------------------|--------------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Provision for impairment | | | | |
| Individual provision | | | | |
| Opening balance | 1,803 | 2,216 | 1,793 | 2,159 |
| Impairment charge for the year | 3,424 | 3,173 | 3,424 | 3,173 |
| Bad debts written off | (4,277) | (3,586) | (4,277) | (3,539) |
| Closing balance | 950 | 1,803 | 940 | 1,793 |
| Collective provision | | | | |
| Opening balance | 4,087 | 3,238 | 4,087 | 3,238 |
| Impairment charge for the year | 2,329 | 849 | 2,329 | 849 |
| Closing balance | 6,416 | 4,087 | 6,416 | 4,087 |
| Total provision for impairment | 7,366 | 5,890 | 7,356 | 5,880 |

15. OTHER RECEIVABLES

| | Consolidated | | Parent | |
|----------------|--------------|--------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Accrued income | - | 162 | - | 162 |
| Sundry debtors | 10,343 | 9,873 | 1,147 | 1,708 |
| | 10,343 | 10,035 | 1,147 | 1,870 |

16. INVESTMENTS IN CONTROLLED ENTITIES

| | Consolidated | | Parent | |
|----------------------|--------------|--------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Shares in subsidiary | - | - | 800 | 800 |

This note should be read in conjunction with Note 33 of the financial statements.

Notes to the financial statements

For the year ended 30 June 2014

17. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | | Parent | |
|-------------------------------------|--------------|----------|----------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Land and buildings - at fair value | 8,497 | 8,497 | 8,497 | 8,497 |
| Accumulated depreciation | (196) | (150) | (196) | (150) |
| Land and buildings - at fair value | 8,301 | 8,347 | 8,301 | 8,347 |
| Plant and equipment - at cost | 55,881 | 59,364 | 55,692 | 59,079 |
| Accumulated depreciation | (32,292) | (30,656) | (32,163) | (30,475) |
| Plant and equipment | 23,589 | 28,708 | 23,529 | 28,604 |
| Capital work in progress | 3,399 | 40,955 | 3,399 | 40,955 |
| Total property, plant and equipment | 35,289 | 78,010 | 35,229 | 77,906 |

Reconciliation of carrying amounts

| | Consolidated | | Parent | |
|--|--------------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Land - carrying amount at beginning of financial year | 6,649 | 6,649 | 6,649 | 6,649 |
| Additions | - | - | - | - |
| Revaluations | - | - | - | - |
| Land - carrying amount at end of financial year | 6,649 | 6,649 | 6,649 | 6,649 |
| Buildings - carrying amount at beginning of financial year | 1,698 | 1,512 | 1,698 | 1,512 |
| Depreciation expense | (46) | (42) | (46) | (42) |
| Additions | - | 228 | - | 228 |
| Buildings - carrying amount at end of financial year | 1,652 | 1,698 | 1,652 | 1,698 |
| Total net carrying amount of land and buildings | 8,301 | 8,347 | 8,301 | 8,347 |
| Plant and equipment - carrying amount at beginning of financial year | 28,708 | 17,082 | 28,604 | 16,994 |
| Depreciation expense | (9,084) | (8,917) | (9,045) | (8,851) |
| Additions | 4,277 | 22,377 | 4,282 | 22,280 |
| Disposals | (312) | (1,834) | (312) | (1,819) |
| Plant and equipment - carrying amount at end of financial year | 23,589 | 28,708 | 23,529 | 28,604 |

Capital work in progress

During the year the development of the core banking system has been finalised and commissioned. Amounts previously carried in capital work in progress have been transferred to intangible assets and amortised in accordance with the accounting policy detailed in Note 2(k).

| | Consolidated | | Parent | |
|---|--------------|----------|----------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Capital work in progress - carrying amount at beginning of financial year | 40,955 | 22,628 | 40,955 | 22,627 |
| Additions | 20,361 | 38,253 | 20,361 | 38,254 |
| Transfers to plant and equipment | (2,485) | (19,926) | (2,485) | (19,926) |
| Transfers to intangible assets | (55,432) | - | (55,432) | - |
| Capital work in progress - carrying amount at end of financial year | 3,399 | 40,955 | 3,399 | 40,955 |

Notes to the financial statements

For the year ended 30 June 2014

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Revaluation of freehold land and freehold buildings

The fair values of freehold land and freehold buildings have been determined by reference to director valuations, based upon independent valuations previously obtained. Fair value of the properties was determined using market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property. As at the date of revaluation (30 June 2012), the properties' fair values are based on valuations performed by Herron Todd White, an accredited independent valuer. It is the policy of the Group to have an independent valuation undertaken at least every four years. In 2014, the directors have determined based on external commercial property market data that there are no circumstances requiring an independent valuation and the current carrying value remains appropriate as at 30 June 2014.

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

| | Consolidated | | Parent | |
|----------------------------|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost | 5,559 | 5,559 | 5,559 | 5,559 |
| Accumulated depreciation | (524) | (447) | (524) | (447) |
| Net carrying amount | 5,035 | 5,112 | 5,035 | 5,112 |

The revalued land and buildings consist of office properties in Australia. Management determined that these constitute one class of asset under AASB 13 *Fair Value Measurement*, based on the nature, characteristics and risks of the property.

Fair value hierarchy

The fair value measurement for the properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

| | |
|--|-----------------|
| <i>Significant unobservable valuation input:</i> | <i>Range</i> |
| Price per square metre | \$781 - \$5,000 |

Significant increases/(decreases) in estimated price per square metre in isolation would result in a significantly higher/(lower) fair value.

18. INTANGIBLE ASSETS

| | Consolidated | | Parent | |
|---|--------------|---------|----------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Computer software at cost | 67,093 | 12,348 | 67,008 | 12,272 |
| Accumulated amortisation | (13,762) | (8,619) | (13,680) | (8,581) |
| | 53,331 | 3,729 | 53,328 | 3,691 |
| Reconciliation of carrying amounts | | | | |
| Computer software | 3,729 | 3,663 | 3,691 | 3,566 |
| Additions | 462 | 2,462 | 455 | 2,495 |
| Transfers from capital work in progress | 55,432 | - | 55,432 | - |
| Disposals | (38) | - | (26) | - |
| Amortisation expense | (6,254) | (2,396) | (6,224) | (2,370) |
| Net carrying amount | 53,331 | 3,729 | 53,328 | 3,691 |

For the amount transferred from capital work in progress, refer to Note 17 for further details.

19. OTHER ASSETS

| | Consolidated | | Parent | |
|-------------|--------------|--------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Prepayments | 1,692 | 1,531 | 1,406 | 1,528 |

Notes to the financial statements

For the year ended 30 June 2014

20. DEPOSITS

| | Consolidated | | Parent | |
|------------------------|--------------|-----------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Members' shares | 3,619 | 3,602 | 3,619 | 3,602 |
| Members' call deposits | 3,492,614 | 3,157,967 | 3,496,454 | 3,162,956 |
| Members' term deposits | 3,246,186 | 3,340,611 | 3,256,350 | 3,364,531 |
| Interest payable | 40,685 | 51,052 | 40,769 | 51,206 |
| | 6,783,104 | 6,553,232 | 6,797,192 | 6,582,295 |

There is no concentration of customer or industry groups, which represent 10% or more of total liabilities.

The value of member shares above represents the amounts contributed for the purchase of a single voting share held by each member.

21. BORROWINGS

| | Consolidated | | Parent | |
|-------------------------------------|--------------|-----------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Securitisation trust borrowings | 1,221,178 | 1,557,683 | 1,221,178 | 1,557,683 |
| Securitisation warehouse borrowings | 463,688 | 274,910 | 463,688 | 274,910 |
| Term borrowings | 949,040 | 734,930 | 952,022 | 734,930 |
| | 2,633,906 | 2,567,523 | 2,636,888 | 2,567,523 |

Term borrowings are at both fixed and floating interest rates and the majority mature within the six months following the statement of financial position date. Refer to Note 36 for further details on the nature of these borrowings.

22. OTHER PAYABLES

| | Consolidated | | Parent | |
|------------------------------|--------------|--------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade creditors and accruals | 34,384 | 30,893 | 23,401 | 24,845 |
| Insurance claims payable | 8,082 | 6,357 | - | - |
| Unearned premiums | 6,478 | 7,436 | - | - |
| | 48,944 | 44,686 | 23,401 | 24,845 |

Insurance claims payable relates to CUA Health Ltd and Credicorp Insurance Pty Ltd. This amount represents a combination of a central estimate, risk margin and a probability of adequacy of at least 75% (2013: 75%) for both companies. The risk margins are 15.5% (2013: 12.5%) and 20% (2013: 20%) respectively for CUA Health Ltd and Credicorp Insurance Pty Ltd.

23. PROVISIONS

| | Consolidated | | Parent | |
|---------------------------------|--------------|---------|--------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Employee benefits | 14,787 | 13,820 | 14,787 | 13,820 |
| Make good provision | | | | |
| Opening balance | 3,291 | 3,225 | 3,291 | 3,225 |
| Additional provision recognised | 544 | 1,812 | 544 | 1,812 |
| Amounts used during the year | (597) | (1,746) | (597) | (1,746) |
| Net carrying amount | 3,238 | 3,291 | 3,238 | 3,291 |
| Total provisions | 18,025 | 17,111 | 18,025 | 17,111 |

Make good provision

CUA is required to restore the leased premises of its branches and hub offices to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

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For the year ended 30 June 2014

24. RESERVES

| | Consolidated | | Parent | |
|--|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| General reserve for credit losses | | | | |
| Balance at beginning of financial year | 11,511 | 9,251 | 11,511 | 9,251 |
| Net increase in reserve | 4,667 | 2,260 | 4,667 | 2,260 |
| Total general reserve for credit losses | 16,178 | 11,511 | 16,178 | 11,511 |
| Redeemable preference share reserve | | | | |
| Balance at beginning of financial year | 2,447 | 2,299 | 2,447 | 2,299 |
| Net increase in reserve | 112 | 148 | 112 | 148 |
| Total redeemable preference share reserve | 2,559 | 2,447 | 2,559 | 2,447 |
| Available for sale reserve | | | | |
| Balance at beginning of financial year | - | 50 | - | 50 |
| Net decrease in reserve | - | (50) | - | (50) |
| Total business combination reserve | - | - | - | - |
| Asset revaluation reserve | | | | |
| Balance at beginning of financial year | 2,086 | 2,086 | 2,086 | 2,086 |
| Net increase in reserve | - | - | - | - |
| Total asset revaluation reserve | 2,086 | 2,086 | 2,086 | 2,086 |
| Cash flow hedge reserve | | | | |
| Balance at beginning of financial year | (7,734) | (13,215) | (7,734) | (13,215) |
| Net gain on cash flow hedges taken to members' funds | 828 | 5,481 | 828 | 5,481 |
| Total cash flow hedge reserve | (6,906) | (7,734) | (6,906) | (7,734) |
| Business combination reserve | | | | |
| Balance at beginning of financial year | 9,590 | 9,590 | 9,590 | 9,590 |
| Net increase in reserve | - | - | - | - |
| Total business combination reserve | 9,590 | 9,590 | 9,590 | 9,590 |
| Total reserves | 23,507 | 17,900 | 23,507 | 17,900 |

Nature and purpose of reserves

General reserve for credit losses

CUA is required by the Australian Prudential Regulation Authority (APRA) to maintain a general reserve for credit losses. The general reserve for credit losses and collective provision for impairment are aggregated for the purpose of reporting the general reserve for credit losses to APRA.

Redeemable preference share reserve

Under the Corporations Act 2001, redeemable preference shares (member shares) may only be redeemed out of the Credit Union's profit or through the new issue of shares for the purpose of the redemption. The Credit Union therefore has transferred the value of member shares redeemed since 1 July 1999 (the date that the Corporations Act 2001 applied to the Credit Union), from retained earnings to the redeemed preference share reserve. The value of member shares for existing members is disclosed as a liability in Note 20.

Available for sale reserve

Comprises changes in fair value of available for sale investments.

Asset revaluation reserve

Represents gain on revaluation of property owned by the Group.

Notes to the financial statements

For the year ended 30 June 2014

24. RESERVES (CONTINUED)

Nature and purpose of reserves (continued)

Cash flow hedge reserve

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.

Business combination reserve

This reserve is used to record mergers with other mutual entities. Identifiable assets and liabilities of the "acquired" mutual entities are recognised at their fair value at the date of the merger. The excess of the fair value of assets taken up over liabilities assumed is taken directly to members' funds as a business combination reserve.

25. RETAINED EARNINGS

| | Consolidated | | Parent | |
|---|--------------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at beginning of financial year | 738,689 | 683,612 | 676,065 | 628,024 |
| Net profit after tax | 49,651 | 57,485 | 44,064 | 50,449 |
| Transfer to credit loss reserve | (4,667) | (2,260) | (4,667) | (2,260) |
| Transfer to redeemable preference share reserve | (112) | (148) | (112) | (148) |
| Balance at end of financial year | 783,561 | 738,689 | 715,350 | 676,065 |

Notes to the financial statements

For the year ended 30 June 2014

26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Consolidated - 2014

| | Less than 12 months | Over 12 months | Total |
|---|---------------------|------------------|-------------------|
| | \$'000 | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | 97,069 | - | 97,069 |
| Financial assets - available for sale | - | 13,984 | 13,984 |
| Financial assets - fair value through profit or loss | 57,036 | - | 57,036 |
| Financial assets - held to maturity | 812,667 | 225,173 | 1,037,840 |
| Derivative financial instruments | - | - | - |
| Loans and advances | 52,483 | 8,938,475 | 8,990,958 |
| Other receivables | 10,343 | - | 10,343 |
| Property, plant and equipment | - | 35,289 | 35,289 |
| Intangible assets | - | 53,331 | 53,331 |
| Deferred tax assets | - | 8,718 | 8,718 |
| Other assets | 1,692 | - | 1,692 |
| Assets classified as held for sale | 872 | - | 872 |
| Total assets | 1,032,162 | 9,274,970 | 10,307,132 |
| Liabilities | | | |
| Derivative financial instruments | 2,228 | 8,092 | 10,320 |
| Deposits | 6,562,581 | 220,523 | 6,783,104 |
| Borrowings | 1,567,608 | 1,066,298 | 2,633,906 |
| Other payables | 45,232 | 3,712 | 48,944 |
| Income tax payable | 5,280 | - | 5,280 |
| Provisions | 13,298 | 4,727 | 18,025 |
| Liabilities directly associated with assets classified as held for sale | 485 | - | 485 |
| Total liabilities | 8,196,712 | 1,303,352 | 9,500,064 |

Notes to the financial statements

For the year ended 30 June 2014

26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

Consolidated - 2013

| | Less than 12 months | Over 12 months | Total |
|--|---------------------|------------------|------------------|
| | \$'000 | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | 66,516 | - | 66,516 |
| Financial assets - available for sale | - | 14,024 | 14,024 |
| Financial assets - fair value through profit or loss | 45,617 | - | 45,617 |
| Financial assets - held to maturity | 978,557 | 175,067 | 1,153,624 |
| Derivative financial instruments | - | 147 | 147 |
| Loans and advances | 144,406 | 8,427,107 | 8,571,513 |
| Other receivables | 10,035 | - | 10,035 |
| Property, plant and equipment | - | 78,010 | 78,010 |
| Intangible assets | - | 3,729 | 3,729 |
| Deferred tax assets | - | 13,357 | 13,357 |
| Other assets | 1,531 | - | 1,531 |
| Total assets | 1,246,662 | 8,711,441 | 9,958,103 |
| Liabilities | | | |
| Derivative financial instruments | 6,025 | 6,259 | 12,284 |
| Deposits | 6,339,225 | 214,007 | 6,553,232 |
| Borrowings | 1,278,459 | 1,289,064 | 2,567,523 |
| Other payables | 39,777 | 4,909 | 44,686 |
| Income tax payable | 6,678 | - | 6,678 |
| Provisions | 12,725 | 4,386 | 17,111 |
| Total liabilities | 7,682,889 | 1,518,625 | 9,201,514 |

Notes to the financial statements

For the year ended 30 June 2014

26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

Parent - 2014

| | Less than 12 months | Over 12 months | Total |
|---------------------------------------|---------------------|------------------|-------------------|
| | \$'000 | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | 86,469 | - | 86,469 |
| Financial assets - available for sale | - | 13,984 | 13,984 |
| Financial assets - held to maturity | 812,667 | 225,173 | 1,037,840 |
| Derivative financial instruments | - | - | - |
| Loans and advances | 52,483 | 8,938,475 | 8,990,958 |
| Other receivables | 1,147 | - | 1,147 |
| Investments in controlled entities | - | 800 | 800 |
| Property, plant and equipment | - | 35,229 | 35,229 |
| Intangible assets | - | 53,328 | 53,328 |
| Deferred tax assets | - | 7,768 | 7,768 |
| Other assets | 1,406 | - | 1,406 |
| Total assets | 954,172 | 9,274,757 | 10,228,929 |
| Liabilities | | | |
| Derivative financial instruments | 2,228 | 8,092 | 10,320 |
| Deposits | 6,576,669 | 220,523 | 6,797,192 |
| Borrowings | 1,570,589 | 1,066,298 | 2,636,887 |
| Other payables | 23,401 | - | 23,401 |
| Income tax payable | 4,247 | - | 4,247 |
| Provisions | 13,298 | 4,727 | 18,025 |
| Total liabilities | 8,190,432 | 1,299,640 | 9,490,072 |

Notes to the financial statements

For the year ended 30 June 2014

26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

Parent - 2013

| | Less than 12 months | Over 12 months | Total |
|---------------------------------------|---------------------|------------------|------------------|
| | \$'000 | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | 66,186 | - | 66,186 |
| Financial assets - available for sale | - | 14,024 | 14,024 |
| Financial assets - held to maturity | 978,557 | 175,067 | 1,153,624 |
| Derivative financial instruments | - | 147 | 147 |
| Loans and advances | 144,406 | 8,427,107 | 8,571,513 |
| Other receivables | 1,870 | - | 1,870 |
| Investments in controlled entities | - | 800 | 800 |
| Property, plant and equipment | - | 77,906 | 77,906 |
| Intangible assets | - | 3,691 | 3,691 |
| Deferred tax assets | - | 13,263 | 13,263 |
| Other assets | 1,528 | - | 1,528 |
| Total assets | 1,192,547 | 8,712,005 | 9,904,552 |
| Liabilities | | | |
| Derivative financial instruments | 6,025 | 6,259 | 12,284 |
| Deposits | 6,368,288 | 214,007 | 6,582,295 |
| Borrowings | 1,278,458 | 1,289,065 | 2,567,523 |
| Other payables | 24,320 | 525 | 24,845 |
| Income tax payable | 6,529 | - | 6,529 |
| Provisions | 12,725 | 4,386 | 17,111 |
| Total liabilities | 7,696,345 | 1,514,242 | 9,210,587 |

Notes to the financial statements

For the year ended 30 June 2014

27. COMMITMENTS

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| (a) Lease expenditure commitments not provided for: | | | | |
| Operating leases (non-cancellable) for office and branch properties | | | | |
| - not later than one year | 15,097 | 13,181 | 15,097 | 13,181 |
| - later than one and not later than five years | 43,182 | 33,848 | 43,182 | 33,848 |
| - later than five years | 21,356 | 22,718 | 21,356 | 22,718 |
| | 79,635 | 69,747 | 79,635 | 69,747 |
| (b) Outstanding loan commitments not provided for: | | | | |
| Loan and credit facilities approved but not funded or drawn at the end of the financial year | | | | |
| - loans approved but not funded | 316,678 | 181,706 | 316,678 | 181,706 |
| - undrawn overdrafts and credit facilities at call | 201,126 | 234,459 | 201,126 | 234,459 |
| | 517,804 | 416,165 | 517,804 | 416,165 |

(c) Capital Commitments

At 30 June 2014, the Group had a commitment of \$1.2 million (2013: \$2.9 million) predominantly relating to IT related projects.

28. STATEMENT OF CASH FLOWS RECONCILIATION

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Reconciliation of net profit after tax to net cash flows from operations: | | | | |
| Profit after tax from continuing operations | 49,258 | 57,188 | 44,064 | 50,449 |
| Profit after tax from discontinued operation (Note 39) | 393 | 297 | - | - |
| | 49,651 | 57,485 | 44,064 | 50,449 |
| Adjustments: | | | | |
| Depreciation and amortisation | 15,384 | 11,355 | 15,315 | 11,263 |
| Impairment of loans and advances | 5,753 | 4,022 | 5,753 | 4,022 |
| Derivative financial instruments | (989) | (6,321) | (989) | (6,321) |
| (Gain)/loss on sale of plant, equipment and software | (40) | 1,647 | (52) | 1,632 |
| Dividend received | (2,564) | (2,540) | (4,214) | (4,340) |
| Capitalised borrowing costs | (681) | (1,200) | (681) | (1,200) |
| (Increase)/decrease other receivables | (993) | 1,654 | 78 | 4,153 |
| Increase/(decrease) other payables and other non-cash items | 4,742 | 10,763 | (1,443) | 11,621 |
| (Increase)/decrease loans and advances | (425,199) | (483,184) | (425,199) | (483,140) |
| (Increase)/decrease other assets | (161) | 162 | 122 | 165 |
| Increase/(decrease) income tax payable | (1,398) | 3,021 | (2,282) | 2,799 |
| (Increase)/decrease deferred tax asset | 4,639 | 4,934 | 5,494 | 4,953 |
| Increase/(decrease) provisions | 479 | 1,912 | 479 | 1,912 |
| Net cash provided by/(used in) operating activities | (351,377) | (396,290) | (363,555) | (402,032) |

Cash flows presented on a net basis

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

- movement in members' deposits;
- sales and purchases of investment securities;
- movement in borrowings; and
- provision of member loans and repayments.

Notes to the financial statements

For the year ended 30 June 2014

29. SUPERANNUATION COMMITMENTS

CUA contributes to a number of defined contribution superannuation funds, which provide benefits for employees on retirement, death or disability. Employees may contribute additional amounts of their gross income to their respective superannuation fund. CUA has no financial interest in any of the funds and is not liable for their performance or their obligations.

30. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 1 July 2014, CUA's private health insurance subsidiary, CUA Health Ltd, converted to "For Profit" after receiving prior approval from the Private Health Insurance Advisory Council (PHIAC), as such CUA Health Ltd is subject to taxation for all periods after the conversion date and has the ability to pay dividends. CUA Limited is the sole shareholder of CUA Health Ltd. On 1 July 2014, CUA Health Ltd had a net deferred tax liability of \$1.2 million resulting in a net deferred tax liability of \$0.6 million for the Group after elimination of inter-group commissions.

On 1 July 2014, the sale of the financial planning business of CUA's subsidiary CUA Financial Planning Pty Ltd, was completed. The disposal of the financial planning business is consistent with the Group's intention to focus on its core banking and health insurance operations. Refer to Note 39 for further details.

On 6 July 2014, CUA has given notice to the Credit Union Financial Support System (CUFSS) regarding its intention to withdraw from the scheme. CUA will remain a participant of the scheme for twelve months from the date of notification. Refer to Note 32 for details of the CUFSS scheme.

No other matters or circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

31. STANDBY BORROWING FACILITIES

In the normal course of business CUA enters into various types of contracts which give rise to the following standby facilities:

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Standby and overdraft arrangements | | | | |
| (i) Overdraft | | | | |
| Approved limit | 10,000 | 10,000 | 10,000 | 10,000 |
| Amount utilised | - | - | - | - |
| (ii) Wholesale Funding | | | | |
| a) Cuscal Limited | | | | |
| Approved limit | 75,000 | 75,000 | 75,000 | 75,000 |
| Amount utilised | - | 50,000 | - | 50,000 |
| b) Questor Financial Services Ltd | | | | |
| Approved limit | - | 40,000 | - | 40,000 |
| Amount utilised | - | 39,000 | - | 39,000 |
| (iii) Waratah Finance Pty Ltd | | | | |
| Approved limit | 500,000 | 1,000,000 | 500,000 | 1,000,000 |
| Amount utilised | 336,174 | 184,532 | 336,174 | 184,532 |
| (iv) Westpac Banking Corporation | | | | |
| Approved limit | 150,000 | - | 150,000 | - |
| Amount utilised | 124,973 | - | 124,973 | - |
| (v) Reserve Bank Australia (internal securitisation) | | | | |
| Approved limit | 384,600 | 405,207 | 384,600 | 405,207 |
| Amount utilised | - | - | - | - |

Cuscal Limited undertakes settlement services on behalf of CUA and provides some of the standby and overdraft arrangements detailed above. Security for these banking facilities is supported by way of a fixed and floating charge over the assets and undertakings of CUA. The value of calls made under this charge during the financial year was nil (2013: nil).

During the year, CUA utilised its existing borrowing facilities and entered into additional facilities primarily for the establishment of Harvey Warehouse Trust No. 3.

Notes to the financial statements

For the year ended 30 June 2014

32. CONTINGENT ASSETS AND LIABILITIES

CUA is a participant in the CUFSS. The purpose of the scheme is to protect the interests of credit union members, increase stability in the industry and to provide emergency liquidity support. As a participant in the CUFSS, CUA:

- (a) May be required to advance funds of up to 3% (excluding permanent loans) of total assets to another credit union requiring financial support;
- (b) May be required to advance permanent loans of up to 0.2% of total assets per financial year to another credit union requiring financial support; and
- (c) Agrees, in conjunction with other members, to fund the operating costs of the CUFSS.

There were no contingent assets during the financial year.

33. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

The consolidated financial statements include the financial statements of the ultimate parent Credit Union Australia Ltd and the subsidiaries listed in the following table:

Investments in controlled entities

| Name of entity | Equity interest % | | Investment \$'000 | |
|--------------------------------|-------------------|------|-------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| CUA Health Ltd | 100% | 100% | | |
| Credicorp Finance Pty Ltd | 100% | 100% | 800 | 800 |
| Credicorp Insurance Pty Ltd | 100% | 100% | | |
| CUA Financial Planning Pty Ltd | 100% | 100% | | |
| | | | 800 | 800 |

All entities are incorporated in Australia.

The following securitisation trusts are controlled by CUA:

- Series 2006-1 Harvey Trust
- Series 2007-1 Harvey Trust
- Series 2009-1 Harvey Trust
- Series 2010-1 Harvey Trust
- Series 2012-1R Harvey Trust
- Series 2013-1 Harvey Trust
- Harvey Warehouse Trust No. 1
- Harvey Warehouse Trust No. 3 (established on 23 December 2013)

This note should be read in conjunction with Note 16 and 35 of the financial statements.

Significant restrictions

The regulatory frameworks within which the health and general insurance subsidiaries operate require those subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with various ratio requirements. The significant restrictions imposed by the regulatory frameworks are the only restrictions on CUA transferring the cash or other assets of the subsidiaries. The carrying amount of these subsidiaries assets and liabilities are \$91.4 million and \$23.6 million respectively (2013: \$78.1 million and \$18.0 million respectively).

34. ECONOMIC DEPENDENCY

CUA has significant service contracts with Cuscal Limited. This entity provides CUA with rights to the VISA card system in Australia and provides settlement services with other financial institutions for ATM, VISA card transactions, BPay, cheque processing and direct entry transactions.

CUA has an agreement with Tata Consulting Services Limited for the perpetual licence, maintenance and support of CUA's core banking platform TCS BaNCS.

Notes to the financial statements

For the year ended 30 June 2014

35. RELATED PARTIES

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year. These transactions were all carried out under normal commercial terms and where possible are benchmarked against industry averages. This note should be read in conjunction with Note 16 and 33 of the financial statements.

Transactions with controlled entities for the last two years to 30 June included:

| | Parent | |
|-------------------------------|-----------|-----------|
| | 2014 | 2013* |
| | \$ | \$ |
| Dividend revenue | 1,650,000 | 1,800,000 |
| Commission revenue | 3,881,284 | 4,332,466 |
| Net management fees | 2,465,543 | 2,470,493 |
| Net interest income/(expense) | (753,180) | (886,678) |
| Operating lease revenue | 419,382 | 416,542 |

The net amounts receivable from / (payable to) controlled entities for the last two years to 30 June were:

| | Parent | |
|--------------------------------|--------------|--------------|
| | 2014 | 2013* |
| | \$ | \$ |
| CUA Health Ltd | (10,648,311) | (21,511,177) |
| Credicorp Finance Pty Ltd | (103,952) | (105,488) |
| Credicorp Insurance Pty Ltd | (1,590,537) | (2,759,589) |
| CUA Financial Planning Pty Ltd | (6,761,708) | (3,337,042) |

* To improve the presentation of related party information, we have grouped transactions and balances between CUA and its controlled entities which are similar in nature. Comparatives in 2013 have been reclassified to achieve consistency in presentation.

36. RISK MANAGEMENT

Introduction and overview

There are ten key risk classes associated with the Group's core activities which include credit risk, non-traded market risk and liquidity risk. In addition the Group is exposed to insurance risk through the provision of private health insurance through its subsidiary CUA Health Ltd and general insurance through its subsidiary Credicorp Insurance Pty Ltd.

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, including the risk appetite for CUA. CUA has established the Enterprise Risk Committee (ERCO) and the Asset and Liability Management Committee (ALCO), which are responsible for monitoring the Group's risk management framework.

The Board Audit Committee (BAC) and the Board Risk Committee (BRC) oversee how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The BAC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

The Risk Management function, headed by the Chief Risk Officer, contributes towards the progressive development of the Group's risk management policies, risk management strategies, controls and processes. The function also provides management and the Board with risk reporting and maintains the regulatory compliance framework in line with regulator expectations.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Details on the Group's approach to managing risks are outlined below.

Notes to the financial statements

For the year ended 30 June 2014

36. RISK MANAGEMENT (CONTINUED)

Market risk and hedging policy

CUA is not exposed to currency risk or members' funds risk and the Credit Union does not trade in the financial instruments it holds on its books. CUA is exposed to interest rate risk arising from changes in market interest rates. As part of its financial risk management, CUA partakes in Pay Fixed Receive Floating Swaps to hedge the interest rate risk associated with offering longer term fixed rate loans funded by shorter term liabilities. In transacting the swaps, movements in the shorter term funding are offset with the floating leg of the swap.

CUA uses the Value at Risk (VaR) methodology for quantifying interest rate risk in terms of the potential for loss given the statistical worst-case probability of a shift in the underlying interest rates. The VaR Model uses the variance/covariance approach with underlying assumptions of the model including a 20 day holding period at a 99% confidence level for a 250 day observation period.

The VaR includes assumptions around prepayment risk. Prepayment risk is the risk that the Credit Union will incur a financial loss because its members and counterparties repay or request repayment earlier than expected, such as fixed interest rates when interest rates fall. The level of repayments used in the model are monitored and reviewed monthly. A change to the modeled prepayment speeds will be considered by the ALCO whenever a "significant change" in the actual prepayment speeds is identified. A "significant change" would be one in which the monthly monitoring of actual prepayment speeds indicated that the present speeds may be at least 10% different from the modeled speeds. A ten basis point move in prepayment speeds with all other assumptions remaining constant alters the VaR result by 0.09%.

The policy of the Group is to set a maximum benchmark VaR as a percentage of its capital that is acceptable to the Board given its risk attitude and objectives. Derivatives being interest rate swaps, are used to hedge certain interest rate exposures. These hedges assist in maintaining the VaR within acceptable limits as set by the Board.

The below table represents the average, maximum and minimum VaR over the financial year for interest rate risk.

| Credit Union | | | | | | |
|--------------|---------|-------------|-------|---------|-------------|-------|
| | Average | 2014 Max | Min | Average | 2013 Max | Min |
| VaR% | 1.14% | 1.50% | 0.78% | 0.79% | 1.05% | 0.66% |

Notes to the financial statements

For the year ended 30 June 2014

36. RISK MANAGEMENT (CONTINUED)

Market risk and hedging policy (continued)

The Group is exposed to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities. These assets and liabilities are included at carrying amount and categorised by contractual repricing dates.

| Consolidated Repricing period at 30 June 2014 | At call/ variable | Fixed interest rate maturing | | | Non interest sensitive \$'000 | Total \$'000 |
|--|----------------------|------------------------------|-----------------|-----------------|--|---------------------|
| | | Within 1 year | 1 to 5 years | Over 5 years | | |
| | | \$'000 | \$'000 | \$'000 | | |
| Assets | | | | | | |
| Cash and cash equivalents | 92,100 | - | - | - | 4,969 | 97,069 |
| Financial assets - available for sale | - | - | - | - | 13,984 | 13,984 |
| Financial assets - fair value through profit or loss | - | 57,036 | - | - | - | 57,036 |
| Financial assets - held to maturity | - | 1,037,840 | - | - | - | 1,037,840 |
| Derivative financial instruments | - | - | - | - | - | - |
| Loans and advances (Gross - Note 13) | 4,972,824 | 874,758 | 3,071,405 | 79,337 | - | 8,998,324 |
| Total assets | 5,064,924 | 1,969,634 | 3,071,405 | 79,337 | 18,953 | 10,204,253 |
| Liabilities | | | | | | |
| Derivative financial instruments | 10,320 | - | - | - | - | 10,320 |
| Deposits | 3,496,258 | 3,063,564 | 223,282 | - | - | 6,783,104 |
| Commitments (Note 27) | 517,804 | - | - | - | 79,635 | 597,439 |
| Borrowings | 1,684,866 | 949,040 | - | - | - | 2,633,906 |
| Total liabilities | 5,709,248 | 4,012,604 | 223,282 | - | 79,635 | 10,024,769 |

| Consolidated Repricing period at 30 June 2013 | At call/ variable | Fixed interest rate maturing | | | Non interest sensitive \$'000 | Total \$'000 |
|--|----------------------|------------------------------|-----------------|-----------------|--|-----------------|
| | | Within 1 year | 1 to 5 years | Over 5 years | | |
| | | \$'000 | \$'000 | \$'000 | | |
| Assets | | | | | | |
| Cash and cash equivalents | 61,815 | - | - | - | 4,701 | 66,516 |
| Financial assets - available for sale | - | - | - | - | 14,024 | 14,024 |
| Financial assets - fair value through profit or loss | - | 45,617 | - | - | - | 45,617 |
| Financial assets - held to maturity | - | 1,153,624 | - | - | - | 1,153,624 |
| Derivative financial instruments | - | 147 | - | - | - | 147 |
| Loans and advances (Gross - Note 13) | 5,031,325 | 1,623,925 | 1,894,916 | 27,237 | - | 8,577,403 |
| Total assets | 5,093,140 | 2,823,313 | 1,894,916 | 27,237 | 18,725 | 9,857,331 |
| Liabilities | | | | | | |
| Derivative financial instruments | - | 12,284 | - | - | - | 12,284 |
| Deposits | 3,161,597 | 3,181,231 | 210,404 | - | - | 6,553,232 |
| Commitments (Note 27) | 416,165 | - | - | - | 69,747 | 485,912 |
| Borrowings | 1,746,837 | 819,682 | 1,004 | - | - | 2,567,523 |
| Total liabilities | 5,324,599 | 4,013,197 | 211,408 | - | 69,747 | 9,618,951 |

Notes to the financial statements

For the year ended 30 June 2014

36. RISK MANAGEMENT (CONTINUED)

Market risk and hedging policy (continued)

| Parent Repricing period at 30 June 2014 | At call/ variable | Fixed interest rate maturing | | | Non interest sensitive \$'000 | Total \$'000 |
|--|----------------------|------------------------------|------------------|-----------------|--|---------------------|
| | | Within 1 year | 1 to 5 years | Over 5 years | | |
| | | \$'000 | \$'000 | \$'000 | | |
| Assets | | | | | | |
| Cash and cash equivalents | 81,500 | - | - | - | 4,969 | 86,469 |
| Financial assets - available for sale | - | - | - | - | 13,984 | 13,984 |
| Financial assets - held to maturity | - | 1,037,840 | - | - | - | 1,037,840 |
| Derivative financial instruments | - | - | - | - | - | - |
| Loans and advances (Gross - Note 13) | 4,972,814 | 874,758 | 3,071,405 | 79,337 | - | 8,998,314 |
| Total assets | 5,054,314 | 1,912,598 | 3,071,405 | 79,337 | 18,953 | 10,136,607 |
| Liabilities | | | | | | |
| Derivative financial instruments | - | 10,320 | - | - | - | 10,320 |
| Deposits | 3,500,097 | 3,073,813 | 223,282 | - | - | 6,797,192 |
| Commitments (Note 27) | 517,804 | - | - | - | 79,635 | 597,439 |
| Borrowings | 1,684,866 | 952,021 | - | - | - | 2,636,887 |
| Total liabilities | 5,702,767 | 4,036,154 | 223,282 | - | 79,635 | 10,041,838 |

| Parent Repricing period at 30 June 2013 | At call/ variable | Fixed interest rate maturing | | | Non interest sensitive \$'000 | Total \$'000 |
|--|----------------------|------------------------------|------------------|-----------------|--|---------------------|
| | | Within 1 year | 1 to 5 years | Over 5 years | | |
| | | \$'000 | \$'000 | \$'000 | | |
| Assets | | | | | | |
| Cash and cash equivalents | 61,485 | - | - | - | 4,701 | 66,186 |
| Financial assets - available for sale | - | - | - | - | 14,024 | 14,024 |
| Financial assets - held to maturity | - | 1,153,624 | - | - | - | 1,153,624 |
| Derivative financial instruments | - | 147 | - | - | - | 147 |
| Loans and advances (Gross - Note 13) | 5,031,315 | 1,623,925 | 1,894,916 | 27,237 | - | 8,577,393 |
| Total assets | 5,092,800 | 2,777,696 | 1,894,916 | 27,237 | 18,725 | 9,811,374 |
| Liabilities | | | | | | |
| Derivative financial instruments | - | 12,284 | - | - | - | 12,284 |
| Deposits | 3,166,584 | 3,205,306 | 210,405 | - | - | 6,582,295 |
| Commitments (Note 27) | 416,165 | - | - | - | 69,747 | 485,912 |
| Borrowings | 1,746,837 | 819,682 | 1,004 | - | - | 2,567,523 |
| Total liabilities | 5,329,586 | 4,037,272 | 211,409 | - | 69,747 | 9,648,014 |

Notes to the financial statements

For the year ended 30 June 2014

36. RISK MANAGEMENT (CONTINUED)

Credit risk

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. The Group sets aside provisions for loans in accordance with its internal policies and procedures, which comply with AASB 139 and the Australia Prudential Regulation Authority's Prudential Standard APS 220 Credit Quality. The fair value of the collateral held against past due or impaired loans is capped at the loan amount outstanding to the extent that CUA is obliged to repay the surplus to the member.

The table represents an ageing analysis of assets past due but not impaired as at 30 June:

| 2014 | Past due but not impaired | | | |
|------------------------------|-----------------------------|----------------------|-----------------------------|-----------------|
| <i>Class of Asset</i> | Less than 28 days \$'000 | 28-90 days \$'000 | More than 90 days \$'000 | Total \$'000 |
| Loans held at amortised cost | 167,230 | 47,322 | 8,970 | 223,522 |

| 2013* | Past due but not impaired | | | |
|------------------------------|-----------------------------|----------------------|-----------------------------|-----------------|
| <i>Class of Asset</i> | Less than 28 days \$'000 | 28-90 days \$'000 | More than 90 days \$'000 | Total \$'000 |
| Loans held at amortised cost | 140,331 | 61,087 | 4,006 | 205,424 |

Credit risk – counterparty concentration

Counterparty concentration risk is monitored daily by the Treasury and Risk Departments and monthly by the Asset and Liability Committee ("ALCO"). Limits are set by the Board based on credit ratings and the duration of the investment. These limits adhere to APRA's APS 221 – Large Exposure Standard. There have been no breaches of APS 221 during the financial year. The maximum exposure is limited to the carrying amount in the statement of financial position.

To facilitate the requirements of participation in CUFSS (refer Note 32), CUA has deposits and investments with Cuscal Limited of \$213 million (2013: \$261 million).

Credit risk – loan portfolio

The following table shows CUA's Loan to Value Ratio's (LVR) on its residential term loan portfolio.

| | Consolidated | |
|---------------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Loan to Value Ratio | | |
| LVR 0% - 60% | 2,104,542 | 2,078,463 |
| LVR 60.01% - 80% | 4,262,660 | 4,130,531 |
| LVR 80.01% - 90% | 1,273,883 | 1,162,575 |
| LVR 90.01% - 100% | 959,854 | 754,398 |
| LVR > 100% | 17,848 | 26,082 |
| | 8,618,787 | 8,152,049 |

During the year, CUA took possession of properties with a carrying value of \$4.34 million (2013: \$2.76 million).

Notes to the financial statements

For the year ended 30 June 2014

36. RISK MANAGEMENT (CONTINUED)

Credit quality by class of financial assets

CUA manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on CUA's internal credit rating system. The amounts are presented gross of impairment allowances.

| Consolidated - 2014 | Neither past due nor impaired | | | | | |
|--|-------------------------------|------------------|--------------------|---------------------------|---------------|-------------------|
| | High grade | Standard grade | Sub-standard grade | Past due but not impaired | Impaired | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Assets | | | | | | |
| Cash and cash equivalents | 97,069 | - | - | - | - | 97,069 |
| Financial assets - available for sale | 13,984 | - | - | - | - | 13,984 |
| Financial assets - fair value through profit or loss | 57,036 | - | - | - | - | 57,036 |
| Financial assets - held to maturity | 1,037,840 | - | - | - | - | 1,037,840 |
| Derivative financial instruments | - | - | - | - | - | - |
| Loans and advances: | | | | | | |
| Residential mortgages | - | 8,026,165 | 352,859 | 203,026 | 36,737 | 8,618,787 |
| Commercial lending | - | 40,838 | 6,103 | 1,406 | 30 | 48,377 |
| Personal lending | - | 292,665 | 14,845 | 19,090 | 4,560 | 331,160 |
| Total | 1,205,929 | 8,359,668 | 373,807 | 223,522 | 41,327 | 10,204,253 |

| Consolidated - 2013* | Neither past due nor impaired | | | | | |
|--|-------------------------------|------------------|--------------------|---------------------------|---------------|------------------|
| | High grade | Standard grade | Sub-standard grade | Past due but not impaired | Impaired | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Assets | | | | | | |
| Cash and cash equivalents | 66,516 | - | - | - | - | 66,516 |
| Financial assets - available for sale | 14,024 | - | - | - | - | 14,024 |
| Financial assets - fair value through profit or loss | 45,617 | - | - | - | - | 45,617 |
| Financial assets - held to maturity | 1,153,624 | - | - | - | - | 1,153,624 |
| Derivative financial instruments | 147 | - | - | - | - | 147 |
| Loans and advances: | | | | | | |
| Residential mortgages | - | 7,725,293 | 211,444 | 170,504 | 44,808 | 8,152,049 |
| Commercial lending | - | 47,699 | 228 | 14,566 | 84 | 62,577 |
| Personal lending | - | 323,942 | 14,821 | 20,354 | 3,660 | 362,777 |
| Total | 1,279,928 | 8,096,934 | 226,493 | 205,424 | 48,552 | 9,857,331 |

Notes to the financial statements

For the year ended 30 June 2014

36. RISK MANAGEMENT (CONTINUED)

Credit quality by class of financial assets (continued)

| Parent - 2014 | Neither past due nor impaired | | | | | |
|---------------------------------------|-------------------------------|------------------|--------------------|---------------------------|---------------|-------------------|
| | High grade | Standard grade | Sub-standard grade | Past due but not impaired | Impaired | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Assets | | | | | | |
| Cash and cash equivalents | 86,469 | - | - | - | - | 86,469 |
| Financial assets - available for sale | 13,984 | - | - | - | - | 13,984 |
| Financial assets - held to maturity | 1,037,840 | - | - | - | - | 1,037,840 |
| Derivative financial instruments | - | - | - | - | - | - |
| Loans and advances: | | | | | | |
| Residential mortgages | - | 8,026,165 | 352,859 | 203,026 | 36,737 | 8,618,787 |
| Commercial lending | - | 40,838 | 6,103 | 1,406 | 30 | 48,377 |
| Personal lending | - | 292,655 | 14,845 | 19,090 | 4,560 | 331,150 |
| Total | 1,138,293 | 8,359,658 | 373,807 | 223,522 | 41,327 | 10,136,607 |

| Parent - 2013* | Neither past due nor impaired | | | | | |
|---------------------------------------|-------------------------------|------------------|--------------------|---------------------------|---------------|------------------|
| | High grade | Standard grade | Sub-standard grade | Past due but not impaired | Impaired | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Assets | | | | | | |
| Cash and cash equivalents | 66,186 | - | - | - | - | 66,186 |
| Financial assets - available for sale | 14,024 | - | - | - | - | 14,024 |
| Financial assets - held to maturity | 1,153,624 | - | - | - | - | 1,153,624 |
| Derivative financial instruments | 147 | - | - | - | - | 147 |
| Loans and advances: | | | | | | |
| Residential mortgages | - | 7,725,293 | 211,444 | 170,504 | 44,808 | 8,152,049 |
| Commercial lending | - | 47,699 | 228 | 14,566 | 84 | 62,577 |
| Personal lending | - | 323,932 | 14,821 | 20,354 | 3,660 | 362,767 |
| Total | 1,233,981 | 8,096,924 | 226,493 | 205,424 | 48,552 | 9,811,374 |

* As a result of the commissioning and deployment of the new core banking system in October 2013, there were improvements in the data capture process resulting in better quality and more timely information in relation to the credit quality disclosures. Comparatives in 2013 have been reclassified to achieve consistency in presentation.

Notes to the financial statements

For the year ended 30 June 2014

36. RISK MANAGEMENT (CONTINUED)

Credit risk – geographical analysis

CUA is of the opinion that there is no undue concentration of risk by way of geographical area or account holder groupings. Specific risk reports are prepared and distributed in order to ensure that the business has access to necessary and comprehensive information. The table below shows the geographical split of gross loans and advances of the Group.

| State | 2014 | | 2013 | |
|--------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | Housing loans \$'000 | Other loans \$'000 | Housing loans \$'000 | Other loans \$'000 |
| New South Wales | 2,425,869 | 107,036 | 2,268,982 | 109,793 |
| Victoria | 1,734,956 | 64,653 | 1,675,460 | 79,584 |
| Queensland | 3,959,974 | 178,740 | 3,685,225 | 210,737 |
| South Australia | 30,112 | 989 | 26,383 | 811 |
| Western Australia | 356,056 | 11,486 | 337,843 | 16,547 |
| Tasmania | 11,675 | 559 | 12,454 | 608 |
| Northern Territory | 13,541 | 1,084 | 17,722 | 1,012 |
| ACT | 85,589 | 3,121 | 85,109 | 4,139 |
| Other | 1,015 | 11,869 | 42,871 | 2,123 |
| Total | 8,618,787 | 379,537 | 8,152,049 | 425,354 |

The risk of losses from loans granted is primarily reduced by the nature and quality of the security taken. That is, the security for all loans is fully insured. This is initially achieved on the financing of a loan, by proof of insurance being required before funding occurs. The borrower is then required to maintain this insurance, however to enable full coverage to be maintained at all times, an independent mortgagee coverage has also been taken out by the parent entity CUA. The maximum exposure is no different to the carrying values of the loans.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due to a mismatch in cash flows. The primary liquidity objective is to fund in a way that will facilitate growth in core business under a wide range of market conditions.

ALCO maintains oversight of asset and liability management including liquidity management. The Group's liquidity policies are approved by the Board on the recommendation of ALCO. Policies and limits are consistent with the requirements of APRA's APS 210 Liquidity. During the past year the Credit Union did not breach these requirements.

Funding and liquidity management is performed centrally within the Treasury Department, with oversight from the Risk Department, ALCO and Board. Treasury manages liquidity on a daily basis and Risk provides daily information to the Chief Financial Officer and Chief Risk Officer, and monthly information to both ALCO and the Board. To facilitate the liquidity management process, investments are placed with approved deposit taking institutions (ADIs) regulated by APRA. The extent to which CUA will invest its liquid investments in any one institution is based upon predetermined exposure limits with reference to the ADIs independent credit rating.

The following table shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the below dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

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For the year ended 30 June 2014

36. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

| Consolidated - 2014 | Within 1 month \$'000 | 1-3 months \$'000 | 3-12 months \$'000 | 1-5 years \$'000 | Over 5 years \$'000 | No maturity \$'000 | Total \$'000 |
|----------------------------------|-----------------------------|-------------------------|--------------------------|---------------------|---------------------------|--------------------------|-----------------|
| Liabilities | | | | | | | |
| Derivative financial instruments | 749 | 1,419 | 5,317 | 2,835 | - | - | 10,320 |
| Members' shares | - | - | - | - | - | 3,619 | 3,619 |
| Members' call deposits | 3,492,639 | - | - | - | - | - | 3,492,639 |
| Members' term deposits | 433,142 | 641,099 | 1,989,323 | 223,282 | - | - | 3,286,846 |
| Borrowings | 377,838 | 592,078 | 702,782 | 935,399 | 25,809 | - | 2,633,906 |
| Total financial liabilities | 4,304,368 | 1,234,596 | 2,697,422 | 1,161,516 | 25,809 | 3,619 | 9,427,330 |

| Consolidated - 2013 | Within 1 month \$'000 | 1-3 months \$'000 | 3-12 months \$'000 | 1-5 years \$'000 | Over 5 years \$'000 | No maturity \$'000 | Total \$'000 |
|----------------------------------|-----------------------------|-------------------------|--------------------------|---------------------|---------------------------|--------------------------|-----------------|
| Liabilities | | | | | | | |
| Derivative financial instruments | 2,231 | 2,615 | 5,796 | 1,780 | - | - | 12,422 |
| Members' shares | - | - | - | - | - | 3,602 | 3,602 |
| Members' call deposits | 3,157,993 | - | - | - | - | - | 3,157,993 |
| Members' term deposits | 407,895 | 785,622 | 1,987,715 | 210,405 | - | - | 3,391,637 |
| Borrowings | 256,777 | 451,649 | 570,033 | 715,870 | 573,194 | - | 2,567,523 |
| Total financial liabilities | 3,824,896 | 1,239,886 | 2,563,544 | 928,055 | 573,194 | 3,602 | 9,133,177 |

| Parent - 2014 | Within 1 month \$'000 | 1-3 months \$'000 | 3-12 months \$'000 | 1-5 years \$'000 | Over 5 years \$'000 | No maturity \$'000 | Total \$'000 |
|----------------------------------|-----------------------------|-------------------------|--------------------------|---------------------|---------------------------|--------------------------|-----------------|
| Liabilities | | | | | | | |
| Derivative financial instruments | 749 | 1,419 | 5,317 | 2,835 | - | - | 10,320 |
| Members' shares | - | - | - | - | - | 3,619 | 3,619 |
| Members' call deposits | 3,496,479 | - | - | - | - | - | 3,496,479 |
| Members' term deposits | 443,390 | 641,099 | 1,989,323 | 223,282 | - | - | 3,297,094 |
| Borrowings | 377,838 | 595,060 | 702,782 | 935,399 | 25,809 | - | 2,636,888 |
| Total financial liabilities | 4,318,456 | 1,237,578 | 2,697,422 | 1,161,516 | 25,809 | 3,619 | 9,444,400 |

| Parent - 2013 | Within 1 month \$'000 | 1-3 months \$'000 | 3-12 months \$'000 | 1-5 years \$'000 | Over 5 years \$'000 | No maturity \$'000 | Total \$'000 |
|----------------------------------|-----------------------------|-------------------------|--------------------------|---------------------|---------------------------|--------------------------|-----------------|
| Liabilities | | | | | | | |
| Derivative financial instruments | 2,231 | 2,615 | 5,796 | 1,780 | - | - | 12,422 |
| Members' shares | - | - | - | - | - | 3,602 | 3,602 |
| Members' call deposits | 3,162,982 | - | - | - | - | - | 3,162,982 |
| Members' term deposits | 410,776 | 789,744 | 2,004,786 | 210,405 | - | - | 3,415,711 |
| Borrowings | 256,777 | 451,649 | 570,033 | 715,870 | 573,194 | - | 2,567,523 |
| Total financial liabilities | 3,832,766 | 1,244,008 | 2,580,615 | 928,055 | 573,194 | 3,602 | 9,162,240 |

Notes to the financial statements

For the year ended 30 June 2014

36. RISK MANAGEMENT (CONTINUED)

Insurance risk

Private Health Insurance

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 (The Act) which is premised on the fundamental principal of community rating.

Community rating is the system by which premiums for Australian Private Health Insurance (PHI) are set. In principle, this is a system where the premium charged for a particular group of people does not depend on the risk profile of that particular group. The intention is to achieve one premium rate irrespective of age, gender, occupation, health status, smoking status, number of dependents, pre-existing illness or other common risk-rating factors. The "principles of community rating" are referred to in the Act.

Given the regulated nature of private health insurance in Australia, compliance with the regulations is included in the Group's risk management strategy and is a way that the Group mitigates its exposure to insurance risk.

The key policies in place to mitigate risks in health insurance include:

- Operation of the Risk Equalisation Trust Fund;
- Use of actuarial models based on historical data to calculate claims;
- Monitoring of fund rules and changes as appropriate;
- Industry policies and PHIAC requirements.

There is concentration of private health insurance risk into the areas where we have a higher than average membership, for example, Queensland. Because of the Community Rating Principle we are unable to set different prices based on an individual's age or to reflect their previous claims history. As such we are unable to directly mitigate these concentrations of private health insurance risks.

General Insurance

General insurance contracts are defined as a contract under which Credicorp Insurance Pty Ltd accepts significant insurance risk from another party by agreeing to compensate those insured from a specified uncertain event that adversely affects them. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once insurance cover has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduced significantly during the period. Credicorp Insurance Pty Ltd has determined that all insurance cover provided are insurance contracts.

Credicorp Insurance Pty Ltd has concentration of general insurance risk exposure with unemployment and accident insurance services. These exposures are reviewed each year in assessing provisions for insurance liabilities.

Collateral

CUA has advanced \$11.5 million as collateral in relation to interest rate swaps for securitisation trusts under the usual terms and conditions applying to such agreements. The funds will be returned at maturity of the interest rate swap contract.

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37. CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of the Group's capital management strategies are to ensure that the Credit Union maintains sufficient capital resources to support the Group's business activities and operational requirements and to ensure continuous compliance with externally imposed capital ratios. The Credit Union uses capital to reinvest in the business to enhance products and services supplied to the members of the Credit Union.

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by APRA in supervising the Credit Union. During the past year, the Credit Union has complied in full with all its externally imposed capital requirements.

| | Consolidated | |
|-------------------------------------|-----------------|-----------------|
| | As at June 2014 | As at June 2013 |
| Risk weighted capital ratios | | |
| Tier 1 | 14.89% | 14.66% |
| Tier 2 | 0.40% | 0.29% |
| Total capital ratio | 15.29% | 14.95% |
| | \$'000 | \$'000 |
| Qualifying capital | | |
| Tier 1 | 652,671 | 620,093 |
| Tier 2 | 17,598 | 12,261 |
| Total qualifying capital | 670,269 | 632,354 |
| Total risk weighted assets | 4,352,838 | 4,230,712 |

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific financial instruments.

Fair value: The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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 objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

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For the year ended 30 June 2014

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Cash and cash equivalents: The carrying amount approximates fair value as they are short term in nature or are receivable on demand.

Financial assets - available for sale: The assets in this category relate to shares in non-listed entities and therefore have no active market. They are brought to account at cost as fair value cannot be measured reliably. Impairment is tested annually.

Financial assets - fair value through profit or loss: These assets relate to general insurance assets backing general insurance liabilities and are therefore designated at fair value through profit or loss to reduce the accounting mismatch between assets and related liabilities. These assets are valued based on quoted market prices; where these are not available the following alternative valuation techniques are used:

- Floating Rate Notes - external broker valuations,
- Retail Mortgage Backed Securities - external broker valuations,
- Term Deposits - the amortised cost is deemed to represent fair value, due to their short term nature (all mature are within 3 months of year end) and the lack of fluctuations in the market interest rates or credit quality of the counterparts since their inception.

Financial assets - held to maturity: The fair value for financial assets held to maturity is calculated by reference to the current investment rate that would be obtained at balance date for investment based on the number of days remaining until maturity. Financial assets held to maturity are carried at amortised cost as these assets are intended to be held until maturity.

Derivative financial instruments: The fair value for derivative financial instruments are from quoted closing market prices at balance date, discounted cash flow models or option pricing models as appropriate. Where there is no market value, the fair value is determined using valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly. The fair values of derivative financial instruments take into account both credit valuation adjustments (CVA) and debit valuation adjustment (DVA) when market participants take this into consideration in pricing the derivatives.

Loans and advances: The carrying value of loans, advances and other receivables is net of provisions for impairment. The fair value is determined by adjusting the fixed rate loan portfolio for current market rates as at balance date.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of the net fair value. The net fair value for fixed rate loans was calculated by utilising discounted cash flow models based on the maturity of the loans and creditworthiness of the customer. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June 2014.

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

Deposits: The net fair value for deposits was calculated by utilising discounted cash flow models based on the maturity of the deposits. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at 30 June 2014.

The net fair value of non-interest bearing, call and variable rate deposits repriced within twelve months is the carrying value as at 30 June 2014.

Discounted cash flow models based upon deposit types and related maturities were used to calculate the net fair value of the other term deposits.

Financial instruments measured at fair value – fair value hierarchy: The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

Notes to the financial statements

For the year ended 30 June 2014

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments measured at fair value – fair value hierarchy (continued)

| Consolidated - 2014 | Fair value | | | | Carrying amount \$'000 |
|--|------------|---------|---------|--------|---------------------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Financial assets | | | | | |
| Financial assets - fair value through profit or loss | - | 57,036 | - | 57,036 | 57,036 |
| Derivative financial instruments | - | - | - | - | - |
| Total financial assets at fair value | - | 57,036 | - | 57,036 | 57,036 |
| Financial liabilities | | | | | |
| Derivative financial instruments | - | 10,320 | - | 10,320 | 10,320 |
| Total financial liabilities at fair value | - | 10,320 | - | 10,320 | 10,320 |

| Consolidated - 2013 | Fair value | | | | Carrying amount \$'000 |
|--|------------|---------|---------|--------|---------------------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Financial assets | | | | | |
| Financial assets - fair value through profit or loss | - | 45,617 | - | 45,617 | 45,617 |
| Derivative financial instruments | - | 147 | - | 147 | 147 |
| Total financial assets at fair value | - | 45,764 | - | 45,764 | 45,764 |
| Financial liabilities | | | | | |
| Derivative financial instruments | - | 12,284 | - | 12,284 | 12,284 |
| Total financial liabilities at fair value | - | 12,284 | - | 12,284 | 12,284 |

| Parent - 2014 | Fair value | | | | Carrying amount \$'000 |
|--|------------|---------|---------|--------|---------------------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Financial assets | | | | | |
| Derivative financial instruments | - | - | - | - | - |
| Total financial assets at fair value | - | - | - | - | - |
| Financial liabilities | | | | | |
| Derivative financial instruments | - | 10,320 | - | 10,320 | 10,320 |
| Total financial liabilities at fair value | - | 10,320 | - | 10,320 | 10,320 |

| Parent - 2013 | Fair value | | | | Carrying amount \$'000 |
|--|------------|---------|---------|--------|---------------------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Financial assets | | | | | |
| Derivative financial instruments | - | 147 | - | 147 | 147 |
| Total financial assets at fair value | - | 147 | - | 147 | 147 |
| Financial liabilities | | | | | |
| Derivative financial instruments | - | 12,284 | - | 12,284 | 12,284 |
| Total financial liabilities at fair value | - | 12,284 | - | 12,284 | 12,284 |

Notes to the financial statements

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38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments not measured at fair value – fair value hierarchy: The following table sets out the fair value of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each instrument is categorised:

| Consolidated - 2014 | Fair value | | | | Carrying amount \$'000 |
|-------------------------------------|------------|-----------|-----------|-----------|---------------------------|
| | Level 1 | Level 2 | Level 3* | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Financial assets | | | | | |
| Financial assets - held to maturity | - | 1,037,840 | - | 1,037,840 | 1,037,840 |
| Loans and advances | - | - | 8,779,295 | 8,779,295 | 8,990,958 |
| Total financial assets | - | 1,037,840 | 8,779,295 | 9,817,135 | 10,028,798 |
| Financial liabilities | | | | | |
| Deposits | - | 6,771,403 | - | 6,771,403 | 6,783,104 |
| Total financial liabilities | - | 6,771,403 | - | 6,771,403 | 6,783,104 |

| Consolidated - 2013 | Fair value | | | | Carrying amount \$'000 |
|-------------------------------------|------------|-----------|-----------|-----------|---------------------------|
| | Level 1 | Level 2 | Level 3* | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Financial assets | | | | | |
| Financial assets - held to maturity | - | 1,153,624 | - | 1,153,624 | 1,153,624 |
| Loans and advances | - | - | 8,463,090 | 8,463,090 | 8,571,513 |
| Total financial assets | - | 1,153,624 | 8,463,090 | 9,616,714 | 9,725,137 |
| Financial liabilities | | | | | |
| Deposits | - | 6,541,818 | - | 6,541,818 | 6,553,232 |
| Total financial liabilities | - | 6,541,818 | - | 6,541,818 | 6,553,232 |

Notes to the financial statements

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38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments not measured at fair value – fair value hierarchy (continued)

| Parent - 2014 | Fair value | | | | Carrying amount \$'000 |
|-------------------------------------|------------|-----------|-----------|-----------|---------------------------|
| | Level 1 | Level 2 | Level 3* | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Financial assets | | | | | |
| Financial assets - held to maturity | - | 1,037,840 | - | 1,037,840 | 1,037,840 |
| Loans and advances | - | - | 8,779,295 | 8,779,295 | 8,990,958 |
| Total financial assets | - | 1,037,840 | 8,779,295 | 9,817,135 | 10,028,798 |
| Financial liabilities | | | | | |
| Deposits | - | 6,785,491 | - | 6,785,491 | 6,797,192 |
| Total financial liabilities | - | 6,785,491 | - | 6,785,491 | 6,797,192 |

| Parent - 2013 | Fair value | | | | Carrying amount \$'000 |
|-------------------------------------|------------|-----------|-----------|-----------|---------------------------|
| | Level 1 | Level 2 | Level 3* | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Financial assets | | | | | |
| Financial assets - held to maturity | - | 1,153,624 | - | 1,153,624 | 1,153,624 |
| Loans and advances | - | - | 8,463,090 | 8,463,090 | 8,571,513 |
| Total financial assets | - | 1,153,624 | 8,463,090 | 9,616,714 | 9,725,137 |
| Financial liabilities | | | | | |
| Deposits | - | 6,571,107 | - | 6,571,107 | 6,582,295 |
| Total financial liabilities | - | 6,571,107 | - | 6,571,107 | 6,582,295 |

* Where observable market transactions are not available to estimate the fair value of loans and advances, fair value is estimated using valuation models such as discounted cash flow techniques. For more details on the valuation of loans and advances and inputs to the valuation, refer to page 55 and 56.

Financial assets - available for sale

No fair value disclosures have been provided for financial assets – available for sale (equity investment securities) of \$14 million (2013: \$14 million) that are measured at cost because their value cannot be reliably measured. This is an investment in Cuscal Limited, an entity that provides products and services such as transaction processing, settlement services and ATM network services to members and other financial institutions. The Group does not intend to dispose of this investment.

Notes to the financial statements

For the year ended 30 June 2014

39. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATION

(a) Disposal of financial planning business

On 7 May 2014, the CUA Board approved the sale of the financial planning business of its subsidiary CUA Financial Planning Pty Ltd (CUA FP). The disposal of the financial planning business is consistent with the Group's intention to focus on its core banking and insurance operations.

The sale agreement was finalised on 4 June 2014 with the sale effective on 1 July 2014 when all completion requirements stipulated by the sale agreement had been finalised and control passed to the acquirer.

At 30 June 2014, the financial planning business is classified as a disposal group held for sale and as a discontinued operation. The proceeds of sale exceeded the carrying amount of the related net assets and, accordingly, no impairment losses were recognised on the reclassification of the financial planning business as held for sale.

(b) Assets and liabilities classified as held for sale

The major classes of assets and liabilities of the financial planning business classified as held for sale as at 30 June 2014 are as follows:

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| Assets | | |
| Fees and other receivables | 872 | - |
| Liabilities | | |
| Sundry creditors | 485 | - |
| Net assets directly associated with disposal group | 387 | - |

(c) Analysis of profit for the year from discontinued operation

The results of the financial planning business for the year are presented below:

| | 2014 \$'000 | 2013 \$'000 |
|--|----------------|----------------|
| Revenue | 6,025 | 4,982 |
| Expenses | (5,464) | (4,529) |
| Profit before income tax | 561 | 453 |
| Income tax expense (Note 5) | (168) | (156) |
| Profit after income tax of discontinued operation | 393 | 297 |

(d) Cash flow from discontinued operation

The net cash flows incurred by the financial planning business are as follows:

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| Net cash inflow/(outflow) from operating activities | 95 | 604 |
| Net cash inflow/(outflow) from investing activities | - | - |
| Net cash inflow/(outflow) from financing activities | - | - |
| Net increase in cash generated by the division | 95 | 604 |

Directors' declaration

In accordance with a resolution of the directors of the Credit Union Australia Ltd, we declare that:

In the opinion of the directors:

- (a) the financial statements and notes of the Credit Union and of the Group are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Credit Union's and the Group's financial position as at 30 June 2014 and of their performance for the year ended on that date;
 - (ii) complying with Australian Accounting Standards and Corporations Regulations 2001; and
 - (iii) the financial statements and notes to the financial statements are prepared in compliance with international financial reporting standards as made by the International Accounting Standards Board.
- (b) there are reasonable grounds to believe that the Credit Union and the Group will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

A.E. Beanland
Chairman

N.I. Ampherlaw
Director

Brisbane
27 August 2014



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Independent auditor's report to the members of Credit Union Australia Ltd

Report on the financial report

We have audited the accompanying financial report of Credit Union Australia Ltd (the company), which comprises the statements of financial position as at 30 June 2014, the statements of financial performance, the statements of comprehensive income, the statements of changes in members funds 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 entities 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 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 judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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.



Opinion

In our opinion:

- a. the financial report of Credit Union Australia Ltd 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 2014 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.

Ernst & Young

Ernst & Young

PMcLuskie

Paula McLuskie
Partner
Brisbane
27 August 2014

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