Railways
CREDIT UNION

...it's all about Exceptional Service

2012

Annual Member Report

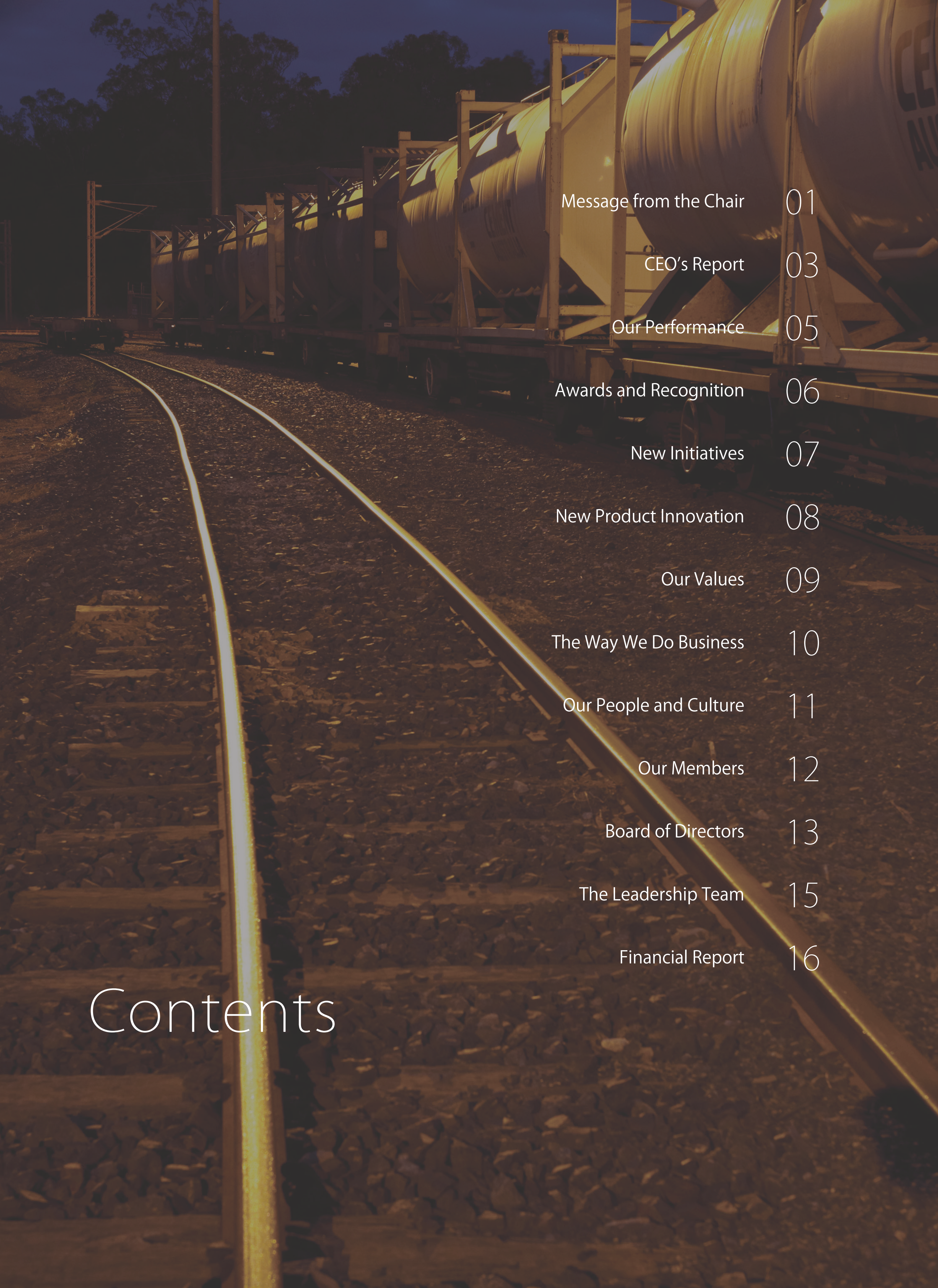
Annual Member Report

Railways Credit Union Ltd

ABN 91 087 651 090

Railways Credit Union Limited Information

Registered Office	Level 1, 179 Ann Street
	Brisbane QLD 4000
ABN	ABN 91 087 651 090
AFSL/Australian Credit	
License No.	234536
Postal Address	GPO Box 648, Brisbane QLD 4001
Phone	1300 362 216
Facsimile	(07) 3221 1672
Email	info@railwayscreditunion.com.au
Website	www.railwayscreditunion.com.au
Member Care Centre	Central Station, Brisbane
	QR National Administration Building, Rockhampton *(by appointment only)*
Auditors	BDO Audit Pty Ltd
Bankers	National Australia Bank Queen Street Brisbane
Affiliated with	Abacus Australian Mutuals
Board of Directors	Graeme Sang - *Chair*
	John Harnischfeger - *Vice Chair*
	Kellie Dyer
	Andrew Haynes
	Andrew Hughes
	Michael Scanlan
	Henry Scheuber
Credit Union Management	Julianne Plath - *Chief Executive Officer*
	Gavin Burkhardt - *Executive Manager Commerce & Marketing*
	Grant Freeman - *Executive Manager Operations*
	Ross Dadswell - *ICT Manager*
	Matt Hogno - *Corporate Relations Manager*
	Nikki Hutson - *HR Manager*
	Bernard Luton - *Legal & Compliance Manager and Company Secretary*
	Margaret McGrath - *Sales Manager*
	Stephen Shorten - *Support Services Manager*
	Noeline Stewart - *Project Manager*
	Jeff Urquhart - *Finance Manager*



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Message *from the Chair*

Graeme Sang Chair

"This financial year has seen new directions and innovations for Railways Credit Union. It has been an exciting period and we are proud to be recognised through industry awards and member engagement."

This year our focus has been on three key aspects. Firstly, continuing to build on our relationship with Queensland Rail and QR National. Secondly, the introduction of new products and services to maintain our product innovation, and thirdly, the redevelopment of our digital communication channels to facilitate greater member engagement.

We have adopted this focus to ensure that Railways Credit Union remains relevant, competitive and at the forefront of the financial services sector. I can report that our team has delivered an outstanding result in all of these areas.

Railways Credit Union values very highly our relationship with Queensland Rail and QR National. Great relationships continue to develop with the staff and management of our bonded organisations. We maintain these ties through a dedicated relationship management resource and mutual co-operation between the organisations. While there is always more to be done, the relationship continues to develop through events, on-site regional visits and management co-operation.

Our engagement with the Credit Union's business partners and the industry associations and bodies requires strong commitment from the Credit Union's executives as well as your directors. Financial products and services, delivered by Railways Credit Union for the membership, continue to be among the best in market. In addition, the Credit Union's financial performance ensures that a strong focus is maintained on the safety and security of member funds.

This year Railways Credit Union has developed a number of new product and service offerings, which will drive real member benefits and continue to position Railways Credit Union as a premium supplier in the savings and loans marketplace. Our product portfolio is very important to our members. We have taken your feedback and introduced both new products and facilities.

In line with our digital communication strategy, members now have greater access to information through web, mobile, email and social media applications. This will ensure that members are educated, informed, and able to take advantage of our latest services and products. Members are now able to communicate and engage with our services through multiple channels, making it even easier to do business with Railways Credit Union.

This is part of our on-going pledge to make banking with us easier and more convenient.

Highlights

Highlights for the year include industry-wide recognition of our loan and savings products, with national awards presented to our organisation. This is evidence of our product leadership in the financial services sector.

Also worthy of mention is our new Advantage Offset facility, which allows members to make great savings through linking their loan and savings account.

You may have also noticed that our brand and the way we present ourselves has been refreshed. Our organisation has taken the opportunity to not only update our website but completely refresh our marketing and the brand look and feel. We hope you agree that our updated image is in line with our desire to be a contemporary, leading financial services organisation that members will want to engage with.

Performance

Our performance has been consistent in the challenging business environment. We continue to focus on our members and the benefits of mutuality.

Our overall loan growth of 3%, whilst modest, masks the fantastic result of a 12% increase in loans to first home buyers, and an 8% increase in loans to members who are building their wealth by purchasing investment homes.

In general, RCU members are no different to other consumers when it comes to personal debt. However, this year we have seen a reduction in personal lending debt with this part of our portfolio having negative 8% growth. Despite this, we have seen deposit growth of 10%. This means that more members are choosing RCU as a safe and secure place to grow their savings.

The reduction in profit is both a product of the lower interest rate and low credit growth, and high savings environment together with an increase in expenses. The Board believes that investment in the Credit Union is necessary for longer term sustainability and is excited about the initiatives that the team has delivered this year in support of the Board's strategic positioning.

Railways Credit Union continues to explore avenues to diversify its funding arrangements to assure financial prudence, risk management, and that the most competitive rates are delivered for our members.

Business Environment

We recognise that the current budget review by the new state government has led to a period of uncertainty within the public sector. In response to this, your Credit Union's commitment is that our products and services will be highly competitive and flexible and will continue to help and support our members now and in the new economic environment.

Interest rates of the Reserve Bank of Australia (RBA) were stable but in slight decline. This has been good news for our members seeking mortgages and other loans.

Although we are not immune to changes in the business environment, the steps we have taken continue to build on our platform to provide a bright outlook for the future. We consistently strive to perform as a leader in the mutual lending market.

Structural Changes

This year Railways Credit Union has been taking steps to change the governance structure for directorships, to constantly allow for innovative and refreshed thinking, with new ideas to react to ever changing market forces.

Further, we are seeking support from you the members to make constitutional changes this year which will stipulate that a director of Railways Credit Union is limited to 12 years service.

Farewell

In line with the Directors' Board Charter and the proposed constitutional change, this will be my last report. At this years AGM I will have completed 12 years on the Board. It has been my pleasure and privilege to serve as Chair of Railways Credit Union over the last five years.

For this, I would first like to thank the members for their continued support and engagement with Railways Credit Union. It has been rewarding to see how the organisation has grown and progressed.

Thank you to our CEO, Julianne Plath, for her hard work and determination in providing sound direction and for always being focussed on delivering tangible benefits to our members.

Thank you to my Deputy Chair, John Harnischfeger, for his unwavering support, and also to my fellow directors for their dedication to what we all believe is a fantastic opportunity to provide financial security for you the member.

I would also like to thank the senior managers and staff for their continuing efforts to exemplify the core values of our Credit Union—integrity, commitment, exceptional service, innovation and mutuality.

I have great confidence in the current management, directors and our business partners. The organisation has a solid foundation of innovation, product development and service excellence. I am convinced that the future will hold bright prospects for Railways Credit Union.

Finally, again I want to thank the members of Railways Credit Union. Through your support and engagement you have ensured that we are, and continue to be, a great member-focussed financial services organisation.

Graeme Sang Chair

CEO's *Report*

Julianne Plath CEO

"We believe in offering competitive, feature-rich products and services, underpinned with exceptional service, honesty and integrity."

The past 12 months at RCU have been a challenging and exciting time with many projects being initiated, planned and delivered. At the heart of everything we do is improving the experience members have when dealing with us - whether that's by increasing the choice of products or making it easier for you to do business with us. RCU launched a number of new initiatives throughout the year, all aimed at supporting our members.

Industry Award Recognition

The Australian Lending Awards are the recognised benchmark in quality mortgage lending. The Lending Awards provide the most rigorous guide as to which lenders are excelling in the provision of mortgage products and services.

Winning an Australian Lending Award is the highest accolade in the Australian mortgage industry. Railways Credit Union was absolutely delighted to receive the award for "Best Mutual Lender 2012". This is real evidence of our commitment to providing high quality products and services for our members.

At RCU we don't just provide borrowing products for our members. During the year, our Express Saver account won a number of awards including:

- Money Magazine's "Best of the Best" Award for 2012 as the best savings account and the best regular deposit savings account
- Your Money Magazine's top prize for the best Straight Up Online product
- 5 Star Cannex rating

RCU also picked up Money Magazine's "Best of the Best" Short Term term deposit award.

So whether you chose to borrow or save with RCU you can expect access to award winning products.

New Products

February saw the launch of the Wealth Builder loan. This product is fantastic for anyone who is buying an investment property and has at least 20% equity. The great thing about it is that the 20% doesn't need to be cash! Equity you have in your own home can be used to enable you to not only purchase your investment property but to also obtain a great rate, helping to build your wealth faster than ever before.

Following the successful launch of the Wealth Builder Loan, the new Advantage Offset product was released in June. This product allows borrowing members to maintain their 'nest egg' whilst benefiting from using that money to reduce the interest they pay on their loan. The result is repaying the loan faster and still maintaining easy access to your savings, anytime, anywhere.

New Website and Social Media

Last year I mentioned that we were in the process of undertaking a project to redesign and restructure our website. It would be fair to say that once we got into the detail it took longer than we anticipated. I hope you agree that the wait was worth it. The new site is a reflection of a more contemporary look and feel with simplified navigation to best represent our brand and make it easier for members. In an online survey conducted shortly after the launch, 90% of members indicated they were either satisfied or very satisfied with the new site.

At the same time the new website was unveiled, RCU also launched our Facebook page and Twitter presence. Social media is a fantastic way for us to communicate with our members, however, more importantly, it is also a fantastic way for our members to communicate with us and each other. So if you haven't 'liked' us yet or aren't 'following us', simply go onto our website and click on the Facebook and Twitter symbols and join the conversation.

New Mobile Banking site

Hot on the heels of the new website, the launch of the new mobile website and mobile banking facility has been warmly received by those members, who until then, were using our normal website on their smart phones. If you haven't already checked it out, then I recommend you take a look. The mobile site is easy to use and the mobile banking application is a great way to do your banking on the go. Both are compatible with almost any brand of smartphone and internet browser.

Easier Ways of Joining - Easyjoin

As part of our direction to encourage new members to join our Credit Union, we introduced a simplified new member registration service, Easyjoin. During our regular field visits and people interactions, we often have people expressing an interest in joining our organisation. Easyjoin allows the potential member to quickly register their interest without needing to go through formalities on the spot.

Our consultants then follow up at a time that's convenient for them to join formally. It's available on our website, and has been well received as the first step in becoming an RCU member.

New BSB and Visa Cards

During the year we have also updated our systems and commenced the challenging task of changing our BSB and upgrading our Visa Cards. Affectionately known as the 'payments project', when completed, RCU will own the new BSB. This will enable the Credit Union to be in a much better position to negotiate future contracts with any benefit received allowing the revision of pricing to our members. Upgrading our Visa Card will give our members greater functionality and security with the addition of payWave services and the new embedded chip. In keeping with our newly refreshed image, we have taken the opportunity to refresh the look of the Visa card to something more contemporary.

Thank You

The 2011-2012 financial year has delivered yet another busy and challenging time, however it has also been an extremely rewarding and satisfying year as well. Staff are justifiably proud of the awards and achievements. However what brings me the most personal satisfaction is the delivery of new products and services that truly benefit our members.

My first and biggest thank you goes to our members for once again making the last year a success for the Credit Union. If not for our members choosing RCU to partner with them for their financial services needs, we would not be in the position we are today. I am proud to lead a wonderful team of people who live our values everyday and who strive to be the best they can be in order to deliver Exceptional Service to our members. I would also like to take this opportunity to thank our members for their co-operation and patience whilst we complete the payments project.

I would also like to thank the Board for their continued support and guidance over the last 12 months. Their strong leadership, strategic vision and willingness to make difficult decisions has set the direction for the coming years and will ensure the future success of RCU.

The success of the Credit Union is also attributable to the commitment and expertise of the leadership team who take the vision and turn it into reality. During the past year we have welcomed Margaret, Jeff, Nikki, Stephen and Ross into the leadership team as well as Grant Freeman having been promoted to Executive Manager. I am very excited to be working with an extremely capable and dedicated team and look forward with anticipation to what the team can deliver. Working with the leadership team is a group of equally committed and focussed individuals who draw together as the one RCU team to deliver the Exceptional Service our members have come to expect everyday. The team at RCU do this whilst living our values, which together with Exceptional Service, recognise Integrity, Commitment, Innovation and Mutuality as the cornerstones of how we do business. It is my privilege to come to work and experience the energy and commitment staff bring to their jobs and to see the vision and our values come alive through their actions.

My final thank you goes to Graeme Sang, who for five of my six years as CEO has been the Chair of RCU. The success of any company can in part be attributable to the relationship between Chair and CEO. I thank Graeme for his honesty, guidance and his unwavering passion in driving the vision that RCU be the best financial institution for our members. I wish Graeme every success for his life after RCU and I'm sure that whatever challenge he takes on in the future he will be just as successful.

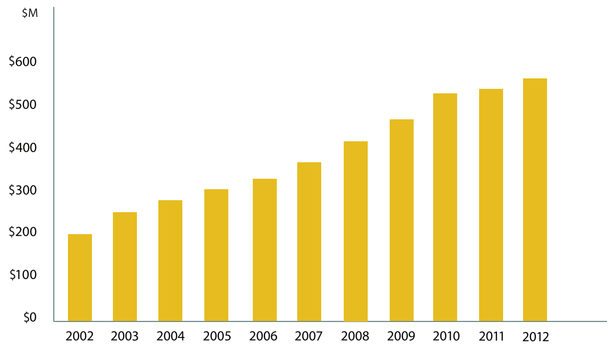
The future for the Credit Union is one that is very exciting as we continue to grow and be shaped by the needs of our members and the positioning of both Queensland Rail and QR National. I look forward to giving you an update this time next year, on what the team has delivered and how it has benefitted our members.

Your CEO

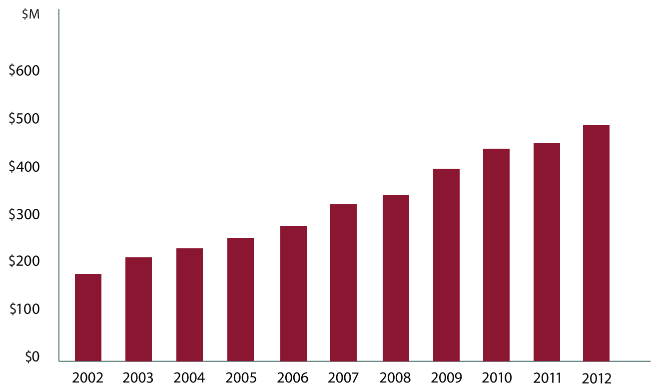
Julianne Plath CEO

Our Performance

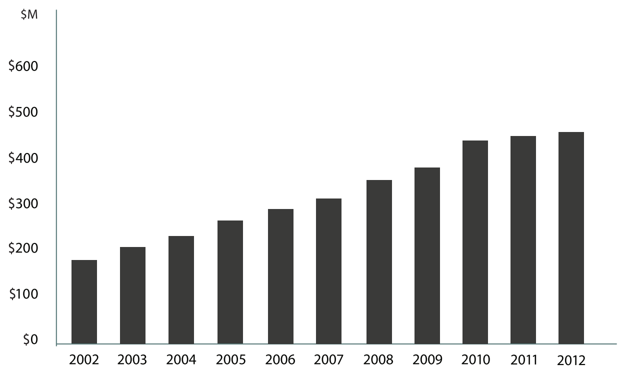
Assets ($m)



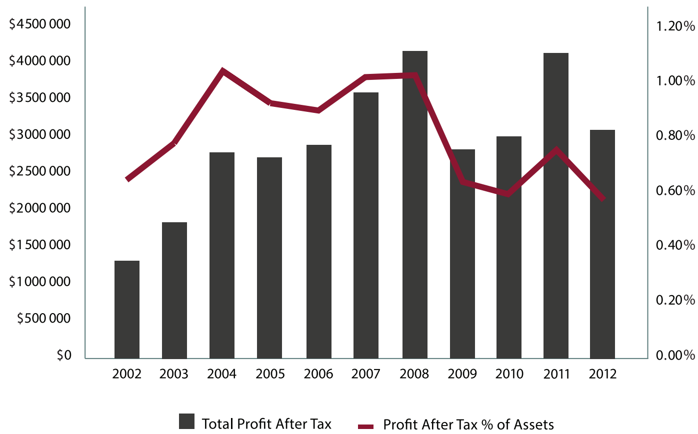
Deposits ($m)



Members Loans ($m)



Profit After Tax



Awards and Recognition

And the winner is… Railways Credit Union, Best Mutual Lender 2012!

Railways Credit Union was absolutely delighted to receive this year's award for "Best Mutual Lender 2012" .

Australian Lending Awards 2012

The Australian Lending Awards are the recognised benchmark in quality mortgage lending. The awards are based on the opinions of 5,000 borrowers and close to 500 mortgage brokers and take into account the actual user experiences.

Money Magazine's "Best of the Best" Awards 2012

Early in the year Railways Credit Union was awarded three of Money Magazine's "Best of the Best" Awards for 2012. The award categories were Best Savings Account; Best Regular Deposit Savings Account and Best Term Deposits - Short Term.

On our Best Savings Account Award, Money Magazine says, "this award is for accounts that are typically free and convenient and you can easily transfer money from your transaction account into the online savings account".

We are very proud to accept these awards and take it as recognition that our loans and savings products are best of breed and focussed on delivering member benefits.

New Initiatives

Web and Mobile Site

It was with great excitement that we unveiled our new website for members.

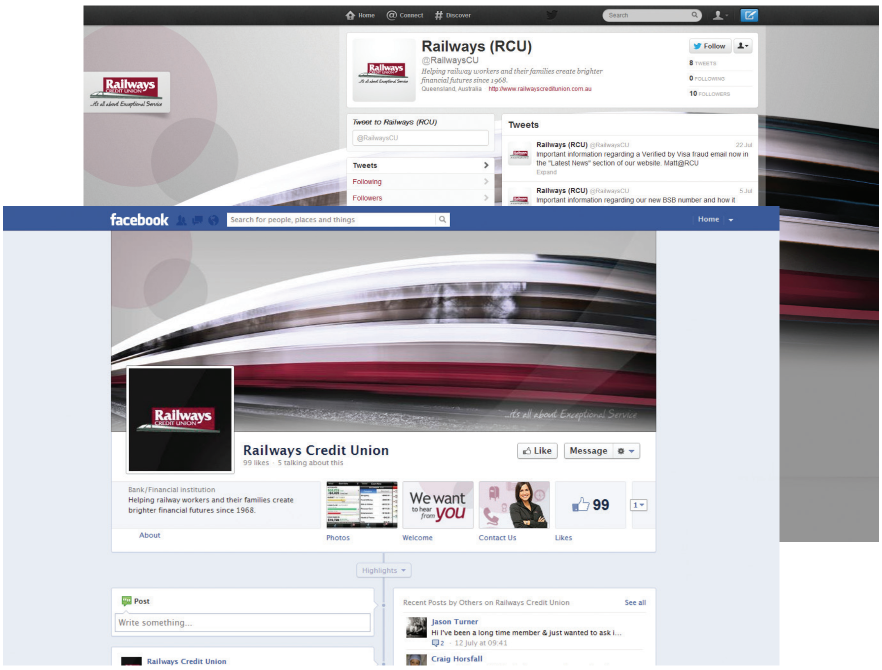
During the year, RCU released our new website, with a new design including interactive features, clear messaging and improved functionality. It is engaging and simple to use. Members will benefit from relevant updates on products and services.

The mobile site provides a clear, simplified website specially designed for smartphones. It's great for doing banking on the move. We can also keep you updated on exciting new products and services. We think you'll like the new digital applications and it's just another way we love to serve our members.

Facebook and Twitter

As a further part of our digital strategy we launched our presence on social media platforms namely Facebook and Twitter.

Our Social Media strategy seeks to build relationships with our members, provide updates and events. More importantly it allows our members to engage and provide valued feedback to our organisation. It's been a great initiative and our fans are growing daily.



New Product Innovation

Wealth Builder Loan

Our new loan product Wealth Builder, gives our loan products portfolio flexibility, and since being released we have seen great member interest and take-up of the new product. Simply, members that are eligible receive the same great rate as their home loan for the purpose of property investment. Offering our great home loan rates for property investment assists our members in creating an investment portfolio with greater bottom-line returns.

Advantage Offset Facility

It's simple; it's a facility that enables members to offset their savings account balance against their loan balance for the calculation of interest.

New Debit Cards

During the year we redesigned and upgraded our Visa Debit Card. The new card now features Visa payWave.

The Visa payWave Debit Card allows members to make quick transactions, without the need for a PIN or signature. This applies for expenses under $100 only. Simply touch your payWave card against the card reader and the transaction is complete.

Cardholders can also rest easier with extra security from the new embedded chip. This card will add real benefits and convenience for our members.

Our Values

The RCU Core Values

- Integrity
- Commitment
- Exceptional Service
- Innovation
- Mutuality

Our values are very important. They create the cultural context in which we work; they define how we interact with other employees; and they shape attitudes we adopt towards our members. Many members choose to use our services because of the values we uphold and have chosen to pursue.

Railways Credit Union's values are essential for the day-to-day approach that employees adopt in the workplace. RCU has clearly defined policies on employee conduct and behaviour, which is put in place to create a united direction of how we behave, interact and represent ourselves as an organisation.

Members should have great confidence in the knowledge that they are doing business with a highly ethical, committed and innovative organisation.

Mutual Banking Code of Practice

In addition to our own values we adhere to the Mutual Banking Code of Practice. This is the public expression of our commitment to these fundamental principles.

At the core of this are our 10 key promises to you as a Railways Credit Union member:

1. We will be fair and ethical in our dealings with you
2. We will focus on our members
3. We will give you clear information about our products and services
4. We will be responsible lenders
5. We will deliver high customer service and standards
6. We will deal fairly with any complaints
7. We will recognise member rights as owners
8. We will comply with our legal and industry obligations
9. We will recognise our impact on the wider community
10. We will support and promote this Code of Practice

The Way We Do Business

Open Communication

We believe in transparency and keeping an open dialogue with our members. Our channels of communication are always open and we are always interested in your feedback. Railways Credit Union can be contacted by phone, email, Facebook or Twitter, or in person.

We even have a direct link for members to talk with our CEO. This option is available from our website by simply clicking 'Feedback to the CEO'.

Fairness and Equity

At Railways Credit Union we understand the objection to high fees and unnecessary additional charges. We want to help members minimise or even avoid these charges altogether. Advice for doing this is communicated in our monthly newsletters, as well as our website, and in person if you want to contact us to discuss your current financial situation.

Representation

Railways Credit Union considers representation to be steadfastly important. Accordingly, we send a Regional Member Care Consultant throughout regional Queensland to ensure that member needs continue to be met. Our Regional Member Care Consultant represents our organisation onsite, to better service and develop relationships with current and potential members.

Our Community

Railways Credit Union provides the community with both monetary and non-monetary support.

We believe that it is important to give back to our members' communities and we do this in the following ways:

Partnership programs

Railways Credit Union has continued to develop a number of partnership programs with both Queensland Rail and QR National including the Vocational Excellence Awards for Apprentices and Trainees, the Graduate, Apprentice and Trainee Showcase event, along with the Celebrating Our People event and concurrent Grad trek programs.

Goodwill events

Railways Credit Union continues to provide monetary, promotional and in-kind support to a wide range of locally based events right across the state of Queensland. This includes golf and bowls carnivals, charity fundraisers and dinners, fun runs, and the support of locally based organisations including Queensland Rail Institute (QRI) clubs and the Permanent Way Institute (PWI) events. Railways Credit Union has also been a major supporter of the CEO's First Aid Awards for both Queensland Rail and QR National right across the state, culminating in the state finals event held in October each year.

Meet-and-greets

As part of RCU's program of on-site visits and employee events, we regularly host both BBQ and morning/afternoon tea events for staff from both organisations. These include regional locations such as Cairns, Townsville, Mackay, Rockhampton as well as Brisbane metropolitan sites and work depots. These events are great opportunities for members to meet with RCU staff and for those interested in membership to find out more about the Credit Union and the benefits it offers. In August 2012, RCU also co-hosted the first Railway Technical Society of Australasia (RTSA) Young Professional networking event in Brisbane, which is designed to bring together like-minded rail professionals from across the industry.

The Go program

RCU has a regular presentation slot on Queensland Rail's GO program for employee inductions. This presentation allows RCU to make new employees of Queensland Rail aware of the range of products and services that we offer to them and their families. Railways Credit Union also supplies membership information packs to QR National, which are distributed to new employees via their Enterprise Induction program, and has included new employees in interstate locations including NSW and Western Australia. All of these events afford members an opportunity to meet, share their ideas and engage with the Credit Union.

Our People and Culture

Railways Credit Union employs around 60 staff members across Queensland.

Our staff has a culture of working together to achieve great member outcomes, whether working on a complex mortgage settlement, assisting a member with a new financial product selection, or simply answering an enquiry, Railways Credit Union staff strive to deliver member satisfaction.

Railways Credit Union is a great place to work

Elodie Bariseau

Support Services Officer

Time with RCU: 1.5 years

"Railways Credit Union has a terrific culture with lots of great people. There is plenty of opportunity to learn and develop new skills. The enjoyable part is putting them into practice to better serve our members."

Railways Credit Union is focussed on delivering benefits to our members

Tegan Cole

Support Services Officer

Time with RCU: 2 years

"I have been working as a Support Services Officer for Railways Credit Union for the last two years and I enjoy working here because of the great team environment. The members are always our focus and the staff is like one big family. I have developed some close friends over my time at RCU."

The environment at Railways Credit Union is professional, welcoming and friendly

Alison Unwin

Sales Consultant

Time with RCU: 10 months

"What I love about Railways Credit Union is the friendly team culture. When I joined RCU earlier this year everyone was very welcoming. What stood out was the focus on members and delivery of exceptional service. I work part-time at RCU and it's a great, flexible workplace."

Our Members

Throughout the year, our members have given us some great feedback regarding their RCU experiences.

For us, this is strong evidence that our values are entrenched within our staff and are contributing strongly to benefit members.

Railways Credit Union has provided me with excellence in financial services

Shane Doyle

Time with RCU: 28 years

"I have been a member at Railways Credit Union all my working life, having joined when I commenced my employment with Queensland Rail in 1984. The RCU has provided me with on-going excellence in financial services for over 28 years. RCU assisted me with the purchase of my very first home, car and a holiday. I highly recommend Railways Credit Union to anyone for their loans and savings needs."

It's great to have an alternative, and independence from the big banks

Bruce Hamlet

Time with RCU: 6 months

"I recently re-joined the Railways Credit Union after previously being a member many years ago. It's great to be back and once again enjoying the great service and friendly staff. I have always found Railways Credit Union easy to do business with."

I can't say enough about the helpful and friendly staff at the RCU branch... special mention to Gay, she's fantastic

Andy Daly

Time with RCU: 13 years

"I am not a technical person, but I have found the new website and online banking to be simple and easy to use. RCU has some great savings accounts that really helped me to save for my retirement. With good and convenient service, it's 'no problem' at Railways Credit Union."

Board of Directors

We've brought together an accomplished team of Directors whose mission it is to deliver on our promise of offering railway workers and their families the very best in financial services, via competitive products, understanding and first-class member service.

Each of our Directors has a wealth of experience across a range of business, financial and mutual banking areas. They are responsible to each and every member when it comes to the protection of the Credit Union's assets and upholding RCU's values and ethics.

Graeme Sang

Chair

Member of Audit & Compliance Committee

Member of Performance & Risk Management Committee

Member of Remuneration Committee

Member of Australian Institute of Company Directors

Member of Australasian Mutuals Institute

Graeme has served on the Board since 2000 and is a member of the Audit & Compliance Committee, Performance & Risk Management Committee and the Remuneration Committee. Graeme was elected to the position of Chair in November 2008. Graeme commenced his career with QR in 1976 as a fettler at the Wacol depot. He transferred to the clerical grade in early 1977. He has worked in many divisions within QR and currently holds the position of Manager of Service Planning in Queensland Rail. Graeme said his desire to represent his fellow employees on the Board was borne from a personal interest in seeing how Railways worked for its members.

Graeme's interests are wide and varied. He has been a keen sportsman but now enjoys sports watching rather than active participation.

John Harnischfeger

Vice Chair

Member of Audit & Compliance Committee

Member of Performance and Risk Management Committee

Member of Remuneration Committee

Bachelor of Commerce - University of Queensland

Australian Institute of Company Directors

Australian Society of Certified Practicing Accountants

Member of Australasian Mutuals Institute

John began on the Board in February, 2005 and is a member of the Audit & Compliance Committee, Performance and Risk Management Committee, and the Remuneration Committee. John was elected to the position of Vice Chair of the Board in November, 2008.

John was employed with QR for nine years until 2009 and is now employed by a Federal Government agency. Prior to joining QR, John held financial management roles in the aviation and maritime transport industry, as well as local government and the banking industry.

His interests outside of work include music, woodwork, outdoor activities such as bush walking and skiing, and spending time with family.

Kellie Dyer

Director

Chair of Performance & Risk Management Committee

Member of Remuneration Committee

Master of Business Administration
Bachelor of Business (Marketing)

Graduate Diploma of Management

Graduate of Australian Institute of Company Directors

Member of Australasian Mutuals Institute

Kellie commenced her position on the Board in 2009. Kellie is currently working as an Adoption and Commercialisation Manager for CRC for Rail Innovation.

Kellie's experience in both business administration and management, combined with a strong business acumen and 12 years' experience within QR, ensures that she has not only an extensive rail and business knowledge, but also holds a strong skill set in communication and teamwork.

As a Director, Kellie enjoys contributing in an innovative and creative way to Railways Credit Union.

Andrew Haynes
Director

Member of Performance & Risk Management Committee

Member of Remuneration Committee

Bachelor of Arts

Bachelor of Laws

Postgraduate Diploma in International Studies

Attorney of the High Court of South Africa

Fellow of Chartered Secretaries Australia

Graduate of Australian Institute of Company Directors

Member of Australasian Mutuals Institute
Justice of the Peace (Qualified)

Andrew was admitted as an Attorney of the High Court of South Africa in 1994 and worked in the areas of personal injury litigation and tax before migrating to Australia in 1997.

Andrew has worked in a number of senior governance, legal, commercial and compliance roles in the private and public sectors in Australia, most recently as Company Secretary of QR Limited.

Andrew is currently Director Group Governance at UnitingCare Queensland, one of the largest non-profit organisations in Australia.

Andrew Hughes
Director

Member of Audit & Compliance Committee

Member of Remuneration Committee

Master of Commerce, Accounting

Bachelor of Commerce

Qualified Certified Practicing Accountant

Associate Diploma in Civil Engineering

Graduate of Australian Institute of Company Directors

Member of Australasian Mutuals Institute

Andrew commenced on the Board in 2009. Andrew is currently working as Group Finance Manager, Network Business for Queensland Rail and holds a Master of Commerce, specialising in Accounting, and is a Certified Practicing Accountant. Additionally, he holds an Associate Diploma in Civil Engineering.

Andrew has also run his own sole trader business for a period of four years and is an avid participant in both the stocks and property markets.

Michael Scanlan
Director

Committee Chair of Remuneration Committee

Member of Audit & Compliance Committee

Bachelor of Engineering

Post Graduate in Management

Master of Business Administration

Fellow of Australian Institute of Company Directors

Fellow of Australian Institute of Management

Fellow of Chartered Institute of Logistics and Transport

Fellow of Australian Marketing Institute

Member of the Institution of Engineers

Member of Australasian Mutuals Institute

Mike is the Chair of the Remuneration Committee and a member of the Audit & Compliance Committee. He is also a director of the RT health fund, a family superannuation fund and has previous board experience in tourism and public transport-related entities.

Mike enjoyed a good reputation throughout his diverse 34-year career at QR. He held executive positions that were responsible for a diverse range of business units including Network, Passengers, Q-Link, Regional Freight and Coal businesses. Mike now works as a part-time company director and rail specialist consultant.

Henry Scheuber
Director

Committee Chair of Audit & Compliance Committee

Member of Remuneration Committee

Bachelor of Business

Fellow CPA Australia

Graduate of Australian Institute of Company Directors

Member of Australasian Mutuals Institute

Henry began on the Board in 2006 and is currently the Committee Chair of the Audit & Compliance Committee and a member of the Remuneration Committee. An accountant by profession, Henry holds a Bachelor of Business Degree from the Central Queensland University, is a Fellow of CPA Australia, and is a Graduate of the Australian Institute of Company Directors.

During Henry's work history, he has spent over 20 years in cost and managerial accounting positions in Government and private organisations. Henry has recently retired, following a period of 18 months as the Finance Manager of a college in Rockhampton. Henry has spent his life in, and is passionate about, regional Queensland.

The Leadership Team

The Railways Credit Union Leadership Team represents a wealth of collective experience, covering a broad range of specialised skills and knowledge related to the financial services industry.

The team has an intricate understanding of Credit Unions and the importance of mutuality to all members.

Julianne Plath

Chief Executive Officer

Julianne commenced work at Railways Credit Union in October, 1984. Since then she has worked throughout the organisation holding various positions, obtaining her first managerial position in July, 1996; soon after Julianne gained an Advanced Diploma of Business (Accounting) in August, 1996.

In February, 2009, Julianne obtained a Diploma from the Australian Institute of Company Directors upon completion of the Company Directors course.

Julianne was promoted to the role of Deputy CEO in March, 2003 and was responsible for managing all member-related services, both the front line and support services area. Following this appointment, Julianne became Chief Executive Officer of the organisation in February, 2007.

Julianne is fully committed to delivering products and services that have a tangible member benefit and doing so within the mutual framework and RCU's values.

Gavin Burkhardt

Executive Manager Commerce & Marketing

Gavin Burkhardt started in the retail financial services industry over 26 years ago, of which three years were spent in the UK financial services market.

Gavin holds a Masters in Business Administration (MBA) and is a Graduate from the Australian Institute of Company Directors.

In his current role, Gavin forms part of the executive oversight for the Credit Union. This oversight involves both the strategic and operational performance of the Credit Union. Gavin also has oversight and responsibility for the Marketing, Promotion and Corporate Relationship activities.

Gavin enjoys working at Railways Credit Union because he relates to the mutual concept and the ability to tangibly "make a difference". He appreciates the fact that Railways Credit Union is an organisation with progressive ideas and approaches to both members and staff, and he enjoys being surrounded by positive people with a 'can do' approach to life.

Grant Freeman

Executive Manager Operations

Grant oversees the Information Technology, Project Management and Support Services sections of the Credit Union. Within Operations, the Credit Union's infrastructure and processing needs are incorporated to ensure that we are providing our members with exceptional service.

Having been with the Credit Union since 1993, Grant has played a role in a number of the Information Technology and Processing improvements that have occurred during this time.

As a member of the executive team Grant will be working to further improve the way the Credit Union functions internally to deliver member benefits as well as ensuring that strategically, the Credit Union is well positioned for the future.

In 2006, Grant completed his Bachelor's degree in Information Technology at the Queensland University of Technology (QUT).

Financial Report 2012

Directors' Report

Your Directors submit their report on the Railways Credit Union Ltd (the 'Credit Union') for the financial year ended 30 June 2012.

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

DIRECTORS
The names of the Directors in office at any time during or since the end of the year are:

Graeme G Sang (Chair)
John P Harnischfeger (Vice Chair)
Kellie L Dyer
Andrew R Haynes
Andrew J Hughes
Michael (Mike) G Scanlan
Henry C Scheuber

The names of the Company Secretaries in office at any time during or since the end of the year are:
Bernard Luton (Company Secretary)
Sam Carroll (Company Secretary) (Resigned: 28 July 2011)
Julianne Plath (Company Secretary) (Appointed: 29 February 2012)

Qualifications, experience and special responsibilities
Graeme G Sang MAMI, MAICD, AMI Qld/NZ Reg Council Member
Position: Manager Service & Planning - Queensland Rail
Graeme has been a director of the Credit Union since 2000. He is the Chairman of the Board and a member of the Performance and Risk Management Committee, the Audit & Compliance Committee and the Remuneration Committee.

John P Harnischfeger B.Com, CPA, MAMI, GAICD
Position: Employee of a Federal Government Agency
John has been a director of the Credit Union since 2005. He is Vice Chairman of the Board, a member of the Audit & Compliance Committee, a member of the Performance and Risk Management Committee and a member of the Remuneration Committee.

Kellie L Dyer Bachelor of Business (Marketing), MBA (Tech Mgt), Graduate Diploma of Management, MAMI, GAICD
Position: Adoption & Commercialisation Manager - CRC for Rail Innovation
Kellie has been a director of the Credit Union since 2009. She is the Chair of the Performance and Risk Management Committee and is a member of the Remuneration Committee.

Andrew R Haynes B.A., LL.B., H Dip IS, Cert Legal Practice, FCIS, GAICD, MAMI, JP (Qual)
Position: Director Group Governance - UnitingCare Queensland
Andrew has been a director of the Credit Union since 2009. Prior to his current employment he was the Company Secretary of QR Limited. He is a member of the Performance and Risk Management Committee and the Remuneration Committee.

Andrew J Hughes B.Com., CPA, Master of Commerce (Accounting), Associate Diploma in Civil Engineering, GAICD, MAMI
Position: Group Finance Manager, Network Business - Queensland Rail
Andrew has been a director of the Credit Union since 2009. He is a member of the Audit & Compliance Committee and the Remuneration Committee.

Directors' Report (continued)

Qualifications, experience and special responsibilities (continued)

Michael (Mike) G Scanlan B.Eng, Grad Dip - Management, MBA, FAICD, MAMI, FAIM, FCILT, MIE, FAMI
Position: Transportation Consultant and Company Director
Mike has been a company director for 15 years, including Railways Credit Union Ltd 1989-90, 1991-96 and since November 2009. He is a member of the Audit & Compliance Committee and is Chair of the Remuneration Committee.

Henry C Scheuber B.Bus, FCPA, GAICD, MAMI
Position: Company Director
Henry has been a company director for 11 years, including being a director of the Credit Union since 2006. He is the Chair of the Audit & Compliance Committee and a member of the Remuneration Committee.

Company Secretaries:
Qualifications and experience
Bernard Luton Bachelor of Laws, Grad Dip Applied Corporate Governance, MAICD
Position: Company Secretary
Bernard was the Company Secretary of the Credit Union from 2003 - 2006. He was re-appointed as Company Secretary on 13 November 2009.

Sam Carroll Bachelor of Commerce, Bachelor of International Finance, Bachelor of Laws
Position: Company Secretary
Sam was appointed Company Secretary of the Credit Union on 5 March 2007 and resigned from this position on 28 July 2011.

Julianne Plath Advanced Diploma of Business (Accounting)
Position: Company Secretary
Julianne was appointed Company Secretary of the Credit Union on 29 February 2012.

DIVIDENDS
No dividends have been paid or declared since the beginning of the financial year and no dividends have been recommended or provided for by the Directors of the Credit Union.

PRINCIPAL ACTIVITIES
The principal activities of the Credit Union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

OPERATING RESULTS
Review of operations
The results of the Credit Union's operations from its activities of providing financial services to its members did not change significantly from the previous financial year.

Operating Results for the Year
The net profit of the Credit Union for the year ended 30 June 2012 after providing for income tax was $3,095,664 (2011: $4,068,978).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS
In the opinion of the Directors there have been no significant changes in the state of affairs during the year.

Directors' Report (continued)

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

The Credit Union has entered into a contract for the supply of payment products with a new provider (Indue Ltd). The transition to Indue Ltd from the previous provider will be implemented over the first two quarters of the 2012/13 financial year.

No other matters or circumstances have arisen since the end of the reporting period which have significantly affected, or may significantly affect, the operations, the results of those operations or the state of affairs of the Credit Union in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the operations of the Credit Union and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Credit Union.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

OPTIONS

No options over unissued shares or interests in the Credit Union were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

PROCEEDINGS

No person has applied for leave of the Court to bring proceedings on behalf of the company or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings. The company was not a party to any such proceedings during the year.

INSURANCE AND INDEMNIFICATION OF OFFICERS OR AUDITOR

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

No insurance cover has been provided for the benefit of the auditor of the Credit Union. No indemnities have been given to the officers or auditor.

Directors' Report (continued)

DIRECTORS' MEETINGS

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

		Meetings of committees		
	Board	Performance & Risk	Audit & Compliance	Remuneration
Number of meetings held:	11	6	6	5
Number of meetings attended:	Attended/Eligble to attend	Attended/Eligble to attend	Attended/Eligble to attend	Attended/Eligble to attend
Graeme G Sang (Chair)	10/11	4/6	6/6	4/5
John P Harnischfeger (Vice Chair)	11/11	6/6	6/6	5/5
Kellie L Dyer	10/11	6/6	n/a	5/5
Andrew R Haynes	11/11	5/6	n/a	5/5
Andrew J Hughes	11/11	n/a	6/6	4/5
Michael (Mike) G Scanlan	10/11	n/a	6/6	5/5
Henry C Scheuber	11/11	n/a	6/6	5/5

AUDITOR INDEPENDENCE

The directors received an independence declaration from the auditor, BDO Audit Pty Ltd. A copy has been included on the following page of the report.

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

Graeme G Sang
Chair

John P Harnischfeger
Vice Chair

Brisbane, 20 September 2012

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Fax: +61 7 3221 9227
www.bdo.com.au

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Brisbane QLD 4000,
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY PAUL GALLAGHER TO THE DIRECTORS OF RAILWAYS CREDIT UNION LTD

As lead auditor of Railways Credit Union Ltd for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

P A Gallagher

Director

BDO Audit Pty Ltd

Brisbane, 20 September 2012

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 $	2011 $
Interest income	5(a)	**38,526,906**	38,795,033
Interest expense	6(a)	**(27,556,404)**	(27,386,898)
Net interest income		**10,970,502**	11,408,135
Other revenue and income	5(b)	**2,814,382**	2,932,122
Employee benefits expense	6(b)	**(4,758,334)**	(4,361,685)
Depreciation and amortisation expense	6(c)	**(626,850)**	(601,483)
Impairment loss on loans and advances	6(d)	**(154,533)**	(102,106)
Other expenses	6(e)	**(3,896,346)**	(3,576,411)
Profit before income tax		**4,348,821**	5,698,572
Income tax expense	7	**(1,253,157)**	(1,629,594)
Net profit for the year		**3,095,664**	4,068,978
Other comprehensive income			
Net gain on revaluation of land and buildings		**-**	473,550
Other comprehensive income for the year net of income tax		**-**	473,550
Total comprehensive income for the year		**3,095,664**	4,542,528

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

Statement of Financial Position

As at 30 June 2012

	Note	2012 $	2011 $
ASSETS			
Cash and cash equivalents	8	**18,712,239**	3,971,702
Financial assets available for sale or at cost	9	**825,840**	825,840
Other receivables	10	**928,447**	1,985,351
Financial assets held to maturity	11	**59,407,286**	60,000,000
Loans and advances	12	**476,784,103**	462,929,315
Property, plant and equipment	14	**5,494,093**	5,871,440
Intangible assets	15	**302,508**	242,864
Other assets		**154,491**	134,631
TOTAL ASSETS		**562,609,007**	535,961,143
LIABILITIES			
Deposits	16	**495,257,476**	461,166,304
Other payables	17	**813,753**	898,075
Short term borrowings	18	**15,000,000**	25,000,000
Income tax payable		**3,808**	464,944
Provisions	19	**572,773**	586,826
Deferred tax liabilities	7	**394,323**	373,784
TOTAL LIABILITIES		**512,042,133**	488,489,933
NET ASSETS		**50,566,874**	47,471,210
EQUITY			
Redeemed preference share capital	20	**141,910**	134,650
Reserves	21	**50,424,964**	47,336,560
TOTAL EQUITY		**50,566,874**	47,471,210

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

Statement of Changes in Equity

For the year ended 30 June 2012

	Redeemed preference share capital $	*Retained earnings* $	*Reserves (note 21)* $	*Total equity* $
At 1 July 2011	**134,650**	**-**	**47,336,560**	**47,471,210**
Profit for the year	**-**	**3,095,664**	**-**	**3,095,664**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**3,095,664**	**-**	**3,095,664**
Transfers between reserves and retained earnings				
Redeemed preference share capital	**7,260**	**(7,260)**	**-**	**-**
Transfers to/(from) reserves (Note 21)	**-**	**(3,088,404)**	**3,088,404**	**-**
At 30 June 2012	**141,910**	**-**	**50,424,964**	**50,566,874**

	Redeemed preference share capital $	*Retained earnings* $	*Reserves (note 21)* $	*Total equity* $
At 1 July 2010	128,780	-	42,799,902	42,928,682
Profit for the year	-	4,068,978	-	4,068,978
Other comprehensive income	-	-	473,550	473,550
Total comprehensive income for the year	-	4,068,978	473,550	4,542,528
Transfers between reserves and retained earnings				
Redeemed preference share capital	5,870	(5,870)	-	-
Transfers to/(from) reserves (Note 21)	-	(4,063,108)	4,063,108	-
At 30 June 2011	134,650	-	47,336,560	47,471,210

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2012

	Note	2012 $	2011 $
Operating activities			
Interest received		**38,969,893**	38,464,004
Payments to suppliers and employees		**(8,772,915)**	(7,900,868)
Dividends received		**177,540**	277,148
Fees and commissions received		**3,195,813**	1,992,320
Other income		**54,946**	15,378
Interest and other costs of finance paid		**(27,556,404)**	(27,386,898)
Income tax paid		**(1,693,754)**	(1,432,079)
Net movement in financial assets held to maturity		**592,714**	(4,000,000)
Net movement in loans and advances		**(14,009,321)**	(15,574,454)
Net movement in deposits		**34,091,172**	10,635,903
Proceeds from borrowings		**(10,000,000)**	-
Net cash flows from/(used in) operating activities	22	**15,049,684**	(4,909,546)
Investing activities			
Purchase of property, plant and equipment and intangible assets		**(309,147)**	(1,357,256)
Net cash flows used in investing activities		**(309,147)**	(1,357,256)
Financing activities			
Net cash flows from financing activities		**-**	-
Net increase/(decrease) in cash and cash equivalents		**14,740,537**	(6,266,802)
Cash and cash equivalents at 1st July		**3,971,702**	10,238,504
Cash and cash equivalents at 30th June	8	**18,712,239**	3,971,702

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 2012

1 CORPORATE INFORMATION

The financial report covers Railways Credit Union Ltd (the 'Credit Union') for the financial year ended 30 June 2012 and was authorised for issue in accordance with a resolution of the directors on 20 September 2012.

Railways Credit Union Ltd is an unlisted public company limited by shares, incorporated and domiciled in Australia.

For the purpose of preparing the financial report, the Credit Union is a for profit entity.

The registered office and principal place of business of the Credit Union is: Level 1, 179 Ann Street, Brisbane, QLD 4000.

The nature of the operations and principal activities of the Credit Union are described in the directors' report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

The financial statements have been prepared on an accruals basis and are based on historical costs except for land and buildings and certain financial assets and financial liabilities that are measured at fair value. The presentation currency of the financial statements is Australian Dollars.

(b) Compliance with IFRS

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

(c) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures.

The accounting policies adopted are consistent with those of the previous financial year except as follows:

► AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] effective for accounting periods starting after 1 January 2011.

► AASB 124 Related Party Disclosures (amendment) effective for accounting periods starting after 1 January 2011

► AASB 1054 Australian Additional Disclosures relocates all Australian specific disclosures from other standards to one place and revises disclosures pertaining to:
- compliance with Australian Accounting Standards;
- the statutory basis or reporting framework for financial statements;
- whether the entity is for profit or not for profit;
- whether the financial statements are general purpose or special purpose;
- audit fees; and
- imputation credits.

The standard is effective for accounting periods starting after 1 July 2011

The adoption of these standards has only affected the disclosure in the financial statements. There has been no affect on profit and loss or the financial position of the entity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective.

Certain Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Credit Union for the annual reporting period ended 30 June 2012. These are outlined in the table below. The directors have assessed the impact of these new or amended standards (to the extent relevant to the Credit Union) and interpretations. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Credit Union financial report	Application date for Credit Union*
AASB 9	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments:* Recognition and Measurement into AASB 9. These include the requirements relating to: · Classification and measurement of financial liabilities; and · Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	1 January 2013	The Credit Union does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.	1 July 2013
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	For investment property measured using the fair value model, deferred tax assets and liabilities will be calculated on the basis of a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. However, this presumption cannot be rebutted for the land portion of investment property which is not depreciable.	1 January 2012	The Credit Union does not have any investment property measured using the fair value model. There will therefore be no impact on the financial statements when these amendments are first adopted.	1 July 2012

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Credit Union financial report	Application date for Credit Union*
AASB 10	Consolidated Financial Statements	Introduces a single 'control model' for all entities, including special purpose entities (SPEs)	1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the Credit Union does not have any special purpose entities.	1 July 2013
AASB 11	Joint Arrangements	Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement). Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method (proportionate consolidation no longer allowed). However, where terms of the contractual arrangement, or other facts and circumstances indicate that the parties have rights to assets and obligations for liabilities of the arrangement, rather than rights to net assets, the arrangement will be treated as a joint operation and joint venture parties will account for the assets, liabilities, revenues and expenses in accordance with the contract.	1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the Credit Union has not entered into any joint arrangements.	1 July 2013

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Credit Union financial report	Application date for Credit Union*
AASB 13	Fair Value Measurement	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.	1 January 2013	Due to the recent release of this standard, the Credit Union has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by AASB 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013.	1 July 2013
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP.	1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on amounts recognised for transactions and balances for 30 June 2014 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).	1 July 2013

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Credit Union financial report	Application date for Credit Union*
AASB 119	Employee Benefits	Main changes include: · Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans · Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods · Subtle amendments to timing for recognition of liabilities for termination benefits · Employee benefits expected to be settled (as opposed to due to be settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.	1 January 2013	The Credit Union currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.	1 July 2013

Notes to the Financial Statements (continued)
For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)
(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Credit Union financial report	Application date for Credit Union*
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 January 2012	When this standard is first adopted for the year ended 30 June 2013, there will be no impact on transactions and balances recognised in the financial statements. This will result in additional disclosure pertaining to those transactions affected.	1 July 2012
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements. This will result in additional disclosure pertaining to those transactions affected.	1 July 2013

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Credit Union financial report	Application date for Credit Union*
Annual Improvements 2009-2011 Cycle	Annual Improvements to IFRSs 2009-2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. The following items are addressed by this standard: IAS 1 Presentation of Financial Statements ‣ Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment ‣ Classification of servicing equipment IAS 32 Financial Instruments: Presentation ‣ Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting ‣ Interim financial reporting and segment information for total assets and liabilities	1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements. This will result in additional disclosure pertaining to those transactions affected.	1 July 2013

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Credit Union financial report	Application date for Credit Union*
AASB 2012-4	Amendments to Australian Accounting Standards – Government Loans	AASB 2012-4 adds an exception to the retrospective application of Australian Accounting Standards under AASB 1 First-time Adoption of Australian Accounting Standards to require that first-time adopters apply the requirements in AASB 139 Financial Instruments: Recognition and Measurement (or AASB 9 Financial Instruments) and AASB 120 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans (including those at a below-market rate of interest) existing at the date of transition to Australian Accounting Standards.	1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements. This will result in additional disclosure pertaining to those transactions affected.	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following: ‣ repeat application of AASB 1 is permitted (AASB 1); and ‣ clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements. This will result in additional disclosure pertaining to those transactions affected.	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	When this standard is first adopted for the year ended 30 June 2015, there will be no impact on transactions and balances recognised in the financial statements. This will result in additional disclosure pertaining to those transactions affected.	1 July 2014

* designates the beginning of the applicable annual reporting period

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Railways Credit Union Ltd is Australian dollars ($).

(e) Financial assets and financial liabilities

Introduction

(i) Initial recognition

The Credit Union initially recognises loans and advances to members, deposits, debt securities and sub-ordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit and loss) are initially recognised on trade date when the related contractual rights or obligations exist.

(ii) De-recognition

The Credit Union de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Credit Union is recognised as a separate asset or liability.

The Credit Union de-recognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

(iii) Off-setting

Financial assets and liabilities are set off and the net amount presented in the Statement of Financial Position when, and only when, the Credit Union has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Identification and measurement of impairment

Refer Note 2(f) for details.

Application

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held in banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risks of changes in their value, and are used by the Credit Union in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and financial liabilities (continued)

Application (continued)

Loans and advances to members

Loans and advances to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Credit Union does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Refer to Note 2(f) for impairment of loans and advances.

Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available for sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has a positive intent and ability to hold to maturity.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Credit Union from classifying investment securities as held-to-maturity for the current and the following two financial years.

Impairment losses are measured as the difference between the investment's carrying amount and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the investment's original effective interest rate. Impairment losses are recognised in profit or loss.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial asset.

After initial recognition, available-for-sale investments are measured at fair value. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gains or losses arising from changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income in the available-for-sale investments revaluation reserve. On sale, the amount held in the available-for-sale reserve associated with that asset is recognised in profit or loss as a reclassification adjustment. Realised gains and losses on available-for-sale financial assets are classified as gains and losses on disposal in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and financial liabilities (continued)
Application (continued)
Investment securities (continued)

Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset below its cost (which constitutes objective evidence of impairment) the full amount of the impairment loss including any amount previously charged to other comprehensive income is recognised in profit or loss. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be reversed through profit or loss. Reversals of impairment losses on debt instruments classified as available-for-sale can be reversed through profit or loss where the reversal relates to an increase in the fair value of the debt instrument occurring after the impairment loss was recognised in profit or loss.

Interest income from available-for-sale investments is recognised in profit or loss using the effective interest method. Dividend income from available-for-sale investments is recognised in profit or loss when the Credit Union becomes entitled to the dividend.

Deposits
Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Interest on deposits is brought to account on an accrual basis. Interest accrued at the end of the reporting period is shown as a part of deposits.

Borrowings
Refer to note 2(l) for details.

(f) Impairment - loans & advances
A provision for losses on impaired loans is recognised when there is objective evidence that impairment of a loan has occurred. 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. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

Impairment losses on loans and advances are measured as the difference between the carrying amount of loans and advances and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan and advances original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment - loans & advances (continued)

The amount provided for impairment of loans is determined by Management and the Board. The Prudential Standards issued by APRA enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the Credit Union. Management and the Board also make a provision for loans in arrears where the collectability of the debt is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. The critical assumptions used in the calculation are set out in Note 13. Note 3(c) details the credit risk management approach to loan impairment.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

Bad debts are written off, as determined by Management and the Board, when it is reasonable to expect that the recovery of the loan is unlikely. All write-offs are on a case-by case basis, taking into account the exposure at the date of the write-off. On secured loans, the write-off takes place following ultimate realisation of collateral value.

Bad debts are written off against the provision for impairment where an impairment has previously been recognised in relation to a loan. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses in profit or loss.

Renegotiated 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. Facilities that are classified as renegotiated are either past due but not impaired, or neither past due nor impaired and interest continues to accrue to income.

(g) Securitisation

The Credit Union does not conduct a loan securitisation program whereby housing mortgage loans are sold as securities to Trusts.

(h) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are measured at their fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm’s length transaction, less subsequent depreciation. It is the policy of the Credit Union to have an independent valuation every three 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.

Notes to the Financial Statements (continued)
For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment (continued)

A revaluation increase is credited to the asset revaluation reserve included within equity unless it reverses a revaluation decrease on the same asset previously recognised in profit or loss. A revaluation decrease is recognised in profit or loss unless it directly offsets a previous revaluation increase on the same asset in the asset revaluation reserve. On disposal, any revaluation surplus relating to sold assets is transferred to retained earnings.

Plant and Equipment

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

Depreciation

The depreciable amount of all property, plant and equipment including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives to the Credit Union 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.

Property, plant and equipment is depreciated on a straight-line basis. A summary of the rates used is:

Buildings: 4%
Computer Hardware: 33.3%
Leasehold improvements: 10% - 48.5%
Office furniture and equipment: 10% - 15%
Motor vehicles: 20%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit or loss.

(i) Leases

Lease payments for operating leases, where substantially all the risks and benefits incidental to ownership of the asset remain with the lessor, are recognised as expenses (net of incentives) on a straight line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and are amortised on a straight-line basis over the life of the lease term.

Notes to the Financial Statements (continued)
For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (excluding financial assets)

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired.

If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives, if applicable.

(k) Intangibles

Computer Software

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets with a finite life. Computer software is amortised on a straight line basis over the expected useful life of the software. These lives range from 2 – 5 years.

(l) Borrowings and subordinated debt

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

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. 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 that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(n) Employee leave benefits

Provision is made for the liability of employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year 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 – accumulation fund

Contributions are made by the Credit Union to employee superannuation funds and are charged as expenses when incurred.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the members loan account on the last day of each month. Loan interest revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the asset.

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

Loan interest is generally not brought to account if a loan has been transferred to a debt collection agency, a judgement has been obtained, or where repayments are in arrears and the prospect of a contribution from the member is minimal. However, accrued interest may be recovered as part of the recovery of the debt.

Loan origination fee income and loan transaction costs that are direct and incremental to the establishment of loans are deferred and amortised as a component of the calculation of the effective interest rate in relation to the originated loans.

Net deferred loan fee income is amortised on a straight-line basis over the calculated average life of the loan portfolio to which the loan fee income applies. The average life and interest recognition pattern of loan portfolios is reviewed annually to ensure the amortisation methodology is appropriate.

Fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

Investment interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Fees and commission are recognised on an accrual basis once a right to receive the consideration has been attained or when service to the customer has been rendered.

All revenue is stated net of the amount of goods and services tax (GST).

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

(q) Goods and Services Tax (GST)

Income, 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT

By their nature, the activities of the Credit Union are principally related to the use of financial instruments. The Credit Union accepts deposits at both fixed and floating rates for various periods. Surplus liquidity is invested in high quality assets. Accordingly, the activities of the Credit Union expose it to the following key financial risks; market risk (including interest rate risk), credit risk and liquidity risk.

Treasury risk management is carried out by an appropriately skilled and trained management team and is monitored by an independent Performance and Risk Management Committee, under Board mandated and approved risk policies. The management team identifies, evaluates and if deemed appropriate, hedges financial risk, in close co-operation with the operating units. The Board approves written principles for overall risk management, as well as detailed policies covering specific areas, such as mitigating interest and credit risk, specific large credit exposures and loan arrears.

(a) Risk management

Oversight of risk management is the responsibility of the Performance and Risk Management Committee operating in accordance with formal risk policies approved by the Board. The Performance and Risk Management Committee, which meets regularly, comprises independent non-executive directors. It recommends to the Board the risk management policies which the Audit and Compliance Committee monitor. This includes the identification, assessment and reporting of risks. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Audit and Compliance Committee, which comprises independent non-executive directors, oversees the testing and assessment of internal controls implemented by management to manage material risk. The internal audit program is approved by this committee, and it considers the outcome of both internal and external audit reports. The committee monitors compliance with Board policies as well as prudential and statutory requirements. The committee reviews annual financial statements prior to sign off by the Board, and oversees breach reporting to regulatory bodies such as APRA and ASIC.

The Chief Executive Officer (CEO) annually certifies to APRA that senior management and the Board have identified key risks facing the Credit Union, established systems to monitor those risks, including setting and requiring adherence to a series of prudential limits and adequate, timely reporting processes, and they ensure that these risk management systems are operating effectively and are adequate having regard to the risks they are designed to control. Any breaches in compliance are reported to the Board in a timely manner in accordance with the applicable policy.

(b) Market risk

Market risk is the potential adverse change in the Credit Union's income or the value of the Credit Union's net worth arising from movements in interest rates or other market prices. The objective of the Credit Union is to manage and control market risk exposure in order to minimise risk and optimise return.

The Credit Union is not exposed to currency risk or any other significant price risk. It does not trade in the financial instruments it holds on its books and is only exposed to interest rate risk arising from changes in market interest rates.

The management of market risk is the joint responsibility of the Finance Manager and Chief Executive Officer (CEO).

Notes to the Financial Statements (continued)
For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used to measure interest rate risk include interest rate repricing gap analysis, sensitivity analysis and interest rate risk management profiles conducted by an independent risk management consultancy. Refer to 3(e) below for the detail of these policies and for quantitative disclosures in respect of interest rate risk.

(c) Credit risk

Credit risk is the risk of financial loss as a result of a default by counterparties to discharge contractual obligations. The Credit Union assumes credit risk predominantly from its lending activities. Exposure also arises from investment activities and off balance sheet financial instruments such as loan commitments.

Credit risk policy

Credit risk, being the most significant risk faced by the Credit Union, is managed to ensure exposure is minimised while supporting sound growth.

(i) Loans and advances

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter. The credit policy has been endorsed by the Board to ensure that loans are only made to members who are considered capable of meeting loan repayments. A regular review of compliance with these policies is conducted as part of the scope of internal audit.

(ii) Liquid investments

Credit risk in relation to liquid investments is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Credit Union. Refer to note 3(d).

Credit risk management

(i) Loans and advances

Concentrations of risk arise when loans are extended to customers of similar risk characteristics, such as industry and geographic location. Credit risk is minimised by dealing with a large number of individual members. A sizeable portion of the loan book is represented by residential mortgages. The primary means of reducing the risk on these loans is the acquisition of security, which is normally residential property in Australia.

The Credit Union has a concentration in retail lending to members who are employees of Queensland Rail and QR National. This concentration is considered acceptable as the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

It is the policy of the Credit Union to allow members with a secured loan or advance reasonable assistance and opportunity to rectify a breach prior to recovery procedures being initiated. However, if a counterparty has failed to make a payment when contractually due, various actions are triggered such as re-negotiation, enforcement of covenants or legal proceedings and the impairment and provisioning policies are actioned.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

Credit risk management (continued)

Concentrations of credit risk on loans greater than 10% of capital currently arise in the following categories:

	Maximum credit exposure			
	% of total loans		$	
Industry	**2012**	2011	**2012**	2011
QR National and Queensland Rail employees	**60.48%**	62.03%	**288,888,034**	287,765,206

At the balance date there were no concentrations of credit risk on loans to individual members (including associated members) greater than 10% of capital.

(ii) Liquid investments

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal Limited (S&P Credit Rating: A+). To limit the concentration of risk, the Credit Union follows these investment guidelines:

- As a contracted recipient of banking, investment and borrowing facilities from Cuscal Ltd, the Credit Union must, under the terms of the Central Banking Facilities Letter:
  - maintain a minimum of 120% of Committed Facilities on deposit with Cuscal Ltd; and
  - be a participant in the Credit Union Financial Support Scheme (CUFSS)

- Under the terms of the Industry Support Contract with CUFSS the Credit Union must maintain a minimum of 3.2% of its on balance sheet assets on deposit with Cuscal Ltd or other CUFSS approved ADIs.

- High quality liquid assets (HQLA) in excess of the Credit Unions' obligations to Cuscal Ltd and CUFSS may be invested with authorised deposit taking institutions (ADI's) as follows:

	Eligible Capital Base	
	Investment in an individual ADI	Investment in a number of ADIs
S&P Credit Rating	**Maximum**	**Maximum**
Cuscal Ltd (AA- to A-)	106%*	n/a
AAA to A-	50%	150%
BBB+ to BBB-	25%	75%
Unrated	5%	15%

* A minimum of 120% of committed facilities must be invested with Cuscal Ltd

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

Measurement of credit risk

(i) Loans and advances

Lending conditions are continually monitored to compare the position of the Credit Union to the rest of the market to ensure that opportunities are maximised and the Credit Union is prepared for downturns.

Comprehensive reports are tabled on a regular basis to the Board and senior executive dissecting the loan book balance into various risk profiles. For example, in relation to retail loans risk characteristics such as geographic distribution of loans, security type, occupancy type, valuation type, and mortgage insurance percentages are detailed.

Stress testing is an integral tool in the management of credit risk exposure, by projecting financial impacts of movements in market conditions, particularly movements in interest rates and property values. Stress testing of the loan book is performed following interest rate movements and falls in property prices. Detailed results of this stress testing are provided to the Board. Recent stress testing has indicated that the Credit Union is resistant to moderate interest rate fluctuations and moderate falls in property values.

(ii) Liquid investments

The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure. Acceptable ADI's include 1st and 2nd tier banks and Building Societies or Credit Unions who are contracted with CUFSS.

Prior to placing an investment with an acceptable unrated ADI, Management must ensure sufficient due diligence is undertaken to satisfy it that the unrated ADI is a financially viable and stable entity. As part of this process, Management will review the unrated ADI’s most recent annual report, and such other financial information as may be available. Management will also ensure the unrated ADI is licensed with APRA and has licenses appropriate to the nature of its business.

The carrying values associated with each credit quality step for the Credit Union are as follows:

	2012	*2011*
	Carrying value	*Carrying value*
	$	*$*
Cuscal Limited	**27,516,720**	18,847,034
ADI’s – rated AA and above	**-**	2,000,000
ADI’s– rated below AA	**52,407,286**	44,000,000
Total	**79,924,006**	64,847,034

Impairment and provisioning policies

(i) Loans and advances

The Credit Union recognises an impairment allowance for impairment losses in relation to loans based on losses that have been incurred at balance date using objective evidence for impairment. In addition, a collectively assessed impairment allowance is provided for portfolios of homogeneous assets for the losses that have been incurred but have not yet been identified. These losses are estimated using historical data for assets of similar risk characteristics.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

Impairment and provisioning policies (continued)

Once a loan is past due by 89 days (13 days for overdrafts) it is considered impaired unless other factors indicate that the impairment should be recognised sooner. Management make judgements about a counterparty's financial situation and the net realisable value of any underlying collateral to estimate future cash flows.

Due to the different methodologies used, the allowance for impairment losses calculated for the purposes of Australian Accounting Standards is significantly different to the required prescribed provision as determined for APRA reporting purposes.

Key assumptions in determining the provision for impairment
In the course of the preparation of the financial statements, the Credit Union has determined the likely impairment loss on loans and overdrafts which have not maintained loan repayments in accordance with the contract, or where there is other evidence of potential impairment such as bankruptcy, industrial restructuring, job losses or economic circumstances.

In identifying the impairment likely from these events the Credit Union is required to estimate the potential impairment, using the length of time the loan is in arrears, and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

The provision calculated on a specific identification basis is prescribed by the Prudential Standards and is broadly on the following basis:

	Unsecured Overdrafts	Unsecured Loans	Secured Loans and Overdrafts
Period of impairment	% of balance	% of balance	% of balance
Less than 14 days	-	-	-
14 to 89 days	40%	-	-
90 days to 181 days	75%	40%	5%
182 days to 272 days	100%	60%	10%
273 days to 364 days	100%	80%	15%
Over 364 days	100%	100%	20%

Quantitative disclosures in respect of the calculation and aging analysis of loans and advances is set out in Note 13.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

Credit risk exposure

The Credit Union's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position where the maximum credit risk exposure is $561,929,906 (2011: $518,995,455).

In relation to loans, the maximum credit exposure is the value of the Statement of Financial Position plus the undrawn facilities (loans approved not advanced, overdraft limits). Details of undrawn facilities are shown in Note 23(b). Details of collateral held as security are disclosed in Note 13(i).

(d) Liquidity risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments eg borrowing repayments or member withdrawal demands. It is the policy of the Board that the Credit Union maintains adequate cash reserves so as to meet the member withdrawal demands when requested.

Liquidity risk management

The Credit Union manages liquidity risk by:

► Continuously monitoring actual daily cash flows and longer term forecast cash flows;
► Monitoring the maturity profiles of financial assets and liabilities;
► Maintaining adequate reserves, liquidity support facilities and borrowing facilities; and
► Monitoring the prudential liquidity ratio daily.

The Credit Union has a long standing arrangement with the industry liquidity support scheme, CUFSS, which can access industry funds to provide support to the Credit Union should this be necessary at short notice.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours under the APRA Prudential Standards. The Credit Union's policy is to apply an operational minimum of 12.5% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the Management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits and the borrowing facilities available. Note 26 describes the borrowing facilities as at balance date.

The ratio of liquid funds over the past year is set out below:

APRA	***2012***	*2011*
To total adjusted liabilities		
- As at 30 June	**15.09%**	13.01%
- Average for the year	**14.07%**	14.27%
- Minimum during the year	**12.74%**	12.47%
To total deposits:		
- As at 30 June	**15.95%**	13.49%

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

Maturity profile of financial liabilities

The table below shows the undiscounted cash flows on the entity's financial liabilities, including unrecognised loan commitments on the basis of the earliest possible contractual maturity.

These values will not agree to the statement of financial position.

The entity's expected cash flows on financial liabilities vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance and unrecognised loan commitments are not all expected to be drawn down immediately.

To manage the liquidity risk arising from financial liabilities, the entity holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the entity believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable the users to evaluate the nature and extent of liquidity risk.

The maturity profile of the entity's financial liabilities is shown in the following table:

Year ended 30 June 2012	*Carrying value*	*Within 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*No maturity*	*Gross nominal outflows*
	$	*$*	*$*	*$*	*$*	*$*	*$*
FINANCIAL LIABILITIES							
Short term borrowings	**15,000,000**	**5,035,057**	**10,107,083**	**-**	**-**	**-**	**15,142,140**
Deposits	**495,257,476**	**371,469,570**	**62,116,680**	**63,651,930**	**3,650,020**	**-**	**500,888,200**
Other payables	**813,753**	**609,904**	**-**	**-**	**-**	**203,849**	**813,753**
Total financial liabilities	**511,071,229**	**377,114,531**	**72,223,763**	**63,651,930**	**3,650,020**	**203,849**	**516,844,093**
Off balance sheet items undrawn (note 23(b)).	**-**	**84,232,065**	**-**	**-**	**-**	**-**	**84,232,065**

Year ended 30 June 2011	*Carrying value*	*Within 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*No maturity*	*Gross nominal outflows*
	$	*$*	*$*	*$*	*$*	*$*	*$*
FINANCIAL LIABILITIES							
Short term borrowings	25,000,000	5,056,575	20,227,068	-	-	-	25,283,643
Deposits	461,166,304	358,832,386	43,940,953	60,769,708	4,112,977	-	467,656,024
Other payables	898,075	687,521	-	-	-	210,554	898,075
Total financial liabilities	487,064,379	364,576,482	64,168,021	60,769,708	4,112,977	210,554	493,837,742
Off balance sheet items undrawn (note 23(b)).	-	83,980,287	-	-	-	-	83,980,287

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

(e) Interest rate risk

Interest rate risk is the risk or variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates.

The policy of the Credit Union is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The Credit Union aims to limit any loss due to a change in interest rates to be no greater than 3% of total equity. The gap is measured quarterly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposit liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivative transactions to match the interest rate risks.

A review of the interest rate risk management profile is conducted by an independent risk management consultancy. The Board monitors interest rate risk through these reviews and other Management reports.

Based on calculations as at 30 June 2012, the profit before tax and equity impact for a 1% (2011: 1%) movement in interest rates would be $577,200 (2011: $440,500).

The method used in determining the sensitivity is to evaluate the profit impact based on the timing of the interest repricing on the banking book of the Credit Union for the next 12 months. In doing the calculation the assumptions applied were that:

- ► the interest rate change would be applied equally to the loan products, term deposits and savings
- ► the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- ► the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable;
- ► savings deposits would all reprice in the event of a rate change within 30 days;
- ► mortgage loans would all reprice to the new interest rate within 30 days;
- ► personal loans would reprice to the new interest rate within 30 days;
- ► all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms); and
- ► the value and mix of call savings to term deposits will be unchanged.
- ► the value and mix of personal loans to mortgage loans will be unchanged.

There has been no significant change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures interest rate risk in the reporting period.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk maturity profile

The Credit Union's exposure to interest rate risk on classes of financial assets and financial liabilities, is as follows:

Repricing period at 30 June 2012

		Fixed interest rate maturing					
	Floating interest rate	*Within 1 year*	*1 to 5 years*	*Over 5 years*	*Non interest sensitive*	*Total*	*Effective interest rate*
Assets	*$*	*$*	*$*	*$*	*$*	*$*	
Cash and cash equivalents	**18,712,239**	**-**	**-**	**-**	**-**	**18,712,239**	**3.25%**
Financial assets available for sale or at cost	**-**	**-**	**-**	**-**	**825,840**	**825,840**	**N/A**
Other receivables	**-**	**-**	**-**	**-**	**928,447**	**928,447**	**N/A**
Financial assets held to maturity	**-**	**59,407,286**	**-**	**-**	**-**	**59,407,286**	**4.62%**
Loans and advances	**476,784,103**	**-**	**-**	**-**	**-**	**476,784,103**	**6.82%**
	495,496,342	**59,407,286**	**-**	**-**	**1,754,287**	**556,657,915**	
Liabilities							
Short term borrowings	**-**	**15,000,000**	**-**	**-**	**-**	**15,000,000**	**4.55%**
Deposits	**337,752,019**	**154,027,557**	**3,477,900**	**-**	**-**	**495,257,476**	**4.84%**
Other payables	**-**	**-**	**-**	**-**	**817,966**	**817,966**	**N/A**
	337,752,019	**169,027,557**	**3,477,900**	**-**	**817,966**	**511,075,442**	

Repricing period at 30 June 2011

		Fixed interest rate maturing					
	Floating interest rate	*Within 1 year*	*1 to 5 years*	*Over 5 years*	*Non interest sensitive*	*Total*	*Effective interest rate*
Assets	*$*	*$*	*$*	*$*	*$*	*$*	%
Cash and cash equivalents	3,971,702	-	-	-	-	3,971,702	3.97%
Financial assets available for sale or at cost	-	-	-	-	825,840	825,840	N/A
Other receivables	-	-	-	-	1,985,345	1,985,345	N/A
Financial assets held to maturity	-	60,000,000	-	-	-	60,000,000	6.12%
Loans and advances	462,929,315	-	-	-	-	462,929,315	7.72%
	466,901,017	60,000,000	-	-	2,811,185	529,712,202	
Liabilities							
Short term borrowings	-	25,000,000	-	-	-	25,000,000	5.91%
Deposits	308,443,274	148,782,147	3,940,883	-	-	461,166,304	5.83%
Other payables	-	-	-	-	898,075	898,075	N/A
	308,443,274	173,782,147	3,940,883	-	898,075	487,064,379	

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

(f) Operational risk

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to legal compliance, business continuity, data infrastructure, outsourced services, fraud, and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact.

Systems of internal control are enhanced through:

- The segregation of duties between employee duties and functions, including approval and processing duties;
- Documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- Implementation of whistle blowing policies to promote a compliance culture and awareness of duty to report exceptions by staff;
- Education of members to review their account statements and report exceptions to the Credit Union promptly;
- Effective dispute resolution procedures to respond to member complaints;
- Effective insurance arrangements to reduce the impact of losses;
- Contingency plans for dealing with loss of functionality of systems or premises or staff; and
- The use of a software system designed to manage controls and compliance related tasks.

Fraud

Fraud can arise from Visa cards and internet banking where either PIN or passwords are being compromised and are not protected adequately by the member. It can also arise from other system failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail ADIs fraud is potentially a real cost to the Credit Union. Fraud losses have arisen from Visa card transactions and internet banking activity.

IT Systems

The Credit Union manages its own IT environment with the contracted support of specialist organisations. The Credit Union's investment in its IT environment and training of the IT staff is significant so as to ensure that the Credit Union is able to meet member expectations and service requirements. Other network suppliers are engaged on behalf of the Credit Union by Cuscal Limited to service the settlements with other financial institutions for direct entry, Visa cards, member chequing and BPay.

The Credit Union's disaster recovery site is sufficiently equipped to mitigate the risk of a disaster having a significant impact on the Credit Union's financial position.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

(g) Capital management

The Credit Union is regulated by APRA. As a result the Credit Union must, for capital adequacy purposes, hold the minimum levels of capital required by Australian Prudential Standard (APS) 110 Capital Adequacy. As part of these requirements the Credit Union must hold Tier 1 capital and may also include tier 2 capital as part of its required capital holding up to certain prescribed limits.

Tier 1 capital comprises the highest quality components of capital that fully satisfy the following essential characteristics:
(a) provide a permanent and unrestricted commitment of funds;
(b) are freely available to absorb losses;
(c) do not impose any unavoidable servicing charge against earnings; and
(d) rank behind claims of depositors and other creditors in the event of winding up.

For the purpose of calculating the Credit Union's capital base, Tier 1 capital consists of retained earnings, realised reserves and current year earnings.

Tier 2 capital includes other components that, to varying degrees, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of an institution as a going concern. Tier 2 capital consists of available for sale reserve (which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year) and a general reserve for credit losses.

The Credit Union’s asset revaluation reserve on the land and buildings is discounted to 45% of its value.

Capital in the Credit Union is made up as follows:

	2012	*2011*
Tier 1 Capital	**$**	$
General reserve	**43,245,913**	39,211,698
Retained earnings	**3,095,666**	4,068,973
Prescribed deductions	**(715,428)**	(655,784)
Net Tier 1 capital	**45,626,151**	42,624,887
Tier 2 Capital		
Reserve for credit losses	**955,449**	927,951
Asset revaluation reserve on property	**1,407,570**	1,407,570
Prescribed deductions	**(412,920)**	(412,920)
Net Tier 2 capital	**1,950,099**	1,922,601
Total Tier 1 & Tier 2 Capital	**47,576,250**	44,547,488
Less deductions from total capital	**-**	-
Total Capital	**47,576,250**	44,547,488

Credit Unions are required to maintain a minimum Tier 1 capital level of 8% of risk weighted assets at any given time in accordance with APRA Prudential Standards.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

(g) Capital management (continued)

The capital ratio as at the end of the financial year and for the past 4 years was as follows:

2012	2011	2010	2009	2008
17.45%	16.28%	15.41%	15.56%	15.60%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board and the regulator if the capital ratio falls below 14%. Further, a 3 year projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

The capital ratio requirements were met at all times during the financial year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

(i) Significant accounting judgements

Impairment of non-financial assets

The Credit Union assesses impairment of all assets at each reporting date by evaluating conditions specific to the Credit Union and to the particular asset that may lead to impairment. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period.

No impairment indicators were noted during this review.

Taxation

The Credit Union's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(ii) Significant accounting estimates and assumptions

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment), remainder of lease term (for leasehold improvements) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation charges are included in Note 14.

Impairment of financial assets

Refer to note 3(c) for policies regarding impairment of financial assets.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

5 INCOME

		2012 $	2011 $
(a)	**Interest income on assets carried at amortised cost**		
	Financial assets held to maturity	**3,852,184**	4,122,221
	Loans and advances	**34,674,722**	34,672,812
	Total interest income	**38,526,906**	38,795,033
(b)	**Non-interest income**		
	Fees and commissions	**2,581,896**	2,639,596
	Dividends received - other corporations	**177,540**	277,148
	Bad debts recovered	**50,197**	14,102
	Frauds recovered	**3,832**	332
	Other	**917**	944
		2,814,382	2,932,122
	TOTAL INCOME	**41,341,288**	41,727,155

6 EXPENSES

		2012 $	2011 $
(a)	**Interest expense on liabilities carried at amortised cost**		
	Borrowings	**918,682**	1,441,078
	Deposits	**26,637,722**	25,945,820
	Total interest expense	**27,556,404**	27,386,898
(b)	**Employee benefits expense**		
	Wages, salaries and other employee benefits expense	**4,395,301**	4,012,790
	Workers' compensation costs	**11,982**	6,314
	Defined contribution superannuation expense	**351,051**	342,581
	Total employee benefits expense	**4,758,334**	4,361,685
(c)	**Depreciation and amortisation expense**		
	Depreciation of non-current assets		
	Buildings	**117,996**	111,000
	Plant and equipment	**332,435**	315,715
	Total depreciation of non-current assets	**450,431**	426,715
	Amortisation of non-current assets		
	Computer software	**176,419**	174,768
	Total amortisation of non-current assets	**176,419**	174,768
	Total depreciation and amortisation expense	**626,850**	601,483

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

6 EXPENSES (continued)

	2012 $	2011 $
(d) Impairment		
Impairment of financial assets	**154,533**	102,106
	154,533	102,106
(e) Other expenses		
Member withdrawal expenses	**971,976**	862,570
Loss on disposal of property, plant and equipment	**-**	33,067
Minimum lease payments - operating lease	**122,366**	115,482
Other occupancy expenses	**142,352**	137,645
Other expenses	**2,659,652**	2,427,647
Total other expenses	**3,896,346**	3,576,411

7 INCOME TAX

	2012 $	2011 $
(a) Income tax expense		
The major components of income tax expense are:		
Statement of comprehensive income		
Current income tax		
Current income tax charge	**1,230,361**	1,544,473
Adjustments in respect of current income tax of previous years	**2,251**	132
Deferred income tax		
Relating to origination and reversal of temporary differences	**20,545**	84,989
Income tax expense reported in the statement of comprehensive income	**1,253,157**	1,629,594

(b) Numerical reconciliation of income tax expense to primae facie tax payable

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

	2012 $	2011 $
Accounting profit before tax	**4,348,821**	5,698,572
At Company's statutory income tax rate of 30% (2011: 30%)	**1,304,647**	1,709,572
Adjustments in respect of current income tax of previous years	**3**	132
Non-deductible entertainment	**10,714**	10,212
Rebateable fully franked dividends	**(53,262)**	(83,144)
Tax building depreciation/building allowance	**(8,945)**	(8,945)
Other	**-**	1,767
Aggregate income tax expense	**1,253,157**	1,629,594

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

7 INCOME TAX (continued)

(c) Recognised deferred tax assets and liabilities

Deferred income tax at 30 June relates to the following:

	2012	2011
	$	$
(i) Deferred tax liabilities		
Land & buildings - recognised in other comprehensive income	**202,950**	202,950
Land & buildings - recognised in profit or loss	**709,404**	744,802
Gross deferred tax liabilities	**912,354**	947,752
(ii) Deferred tax assets		
Provisions	**427,448**	465,009
Deferred application fees	**20,150**	48,160
Depreciation	**57,833**	44,152
Other	**12,600**	16,647
Gross deferred tax assets	**518,031**	573,968

(d) The movement in deferred tax assets and liabilities for each temporary difference during the year is as follows:

	2012	2011
	$	$
(i) Deferred tax liabilities		
Prepayments and sundry debtors		
Opening balance	**-**	(1,349)
Change recognised in profit or loss	**-**	1,349
Closing balance	**-**	-
Land & buildings – recognised in other comprehensive income		
Opening balance	**202,950**	778,102
Change recognised in other comprehensive income	**-**	(575,152)
Closing balance	**202,950**	202,950
Land & buildings – recognised in profit or loss		
Opening balance	**744,802**	-
Change recognised in profit or loss	**(35,398)**	744,802
Closing balance	**709,404**	744,802
Gross deferred tax liabilities	**912,354**	947,752

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

7 INCOME TAX (continued)

(d) The movement in deferred tax assets for each temporary difference during the year as follows (continued):

	2012	*2011*
	$	*$*
(ii) Deferred tax assets		
Provisions		
Opening balance	**465,009**	487,193
Change recognised in profit or loss	**(37,561)**	(22,184)
Closing balance	**427,448**	465,009
Deferred application fees		
Opening balance	**48,160**	100,859
Change recognised in profit or loss	**(28,010)**	(52,699)
Closing balance	**20,150**	48,160
Depreciation		
Opening balance	**44,152**	101,413
Change recognised in profit or loss	**13,681**	(57,261)
Closing balance	**57,833**	44,152
Other		
Opening balance	**16,647**	1,448
Change recognised in profit or loss	**(4,047)**	15,199
Closing balance	**12,600**	16,647
Gross deferred tax assets	**518,031**	573,968

	2012	*2011*
	$	*$*
(e) Franking credit balance		
Balance of the franking account at year-end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the end of the reporting period based on a tax rate of 30% (2011: 30%)		
	18,412,525	16,671,497
	18,412,525	16,671,497

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

8 CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Deposits with ADI's	**18,712,239**	3,971,702
	18,712,239	3,971,702

(a) Reconciliation to Statement of Cash Flows

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

	2012 $	2011 $
Deposits with ADI's	**18,712,239**	3,971,702
	18,712,239	3,971,702

(b) Fair value

Refer to Note 29(b) for details of the fair value of these financial instruments.

9 FINANCIAL ASSETS AVAILABLE-FOR-SALE OR AT COST

	2012 $	2011 $
At Cost		
Shares in other entities	**825,840**	825,840
	825,840	825,840

	2012 $	2011 $
Amount of financial assets availalble for sale expected to be recovered more than 12 months after the reporting date	**825,840**	825,840

Fair value

Refer to Note 29(b) for details of the fair value of these financial instruments.

10 OTHER RECEIVABLES

	2012 $	2011 $
Accrued interest	**738,106**	1,181,093
Sundry debtors	**190,341**	804,258
	928,447	1,985,351

Fair value

Refer to Note 29(b) for details of the fair value of these financial instruments.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

11 FINANCIAL ASSETS HELD TO MATURITY

	2012 $	2011 $
Deposits with Cuscal Limited	**16,000,000**	14,000,000
Bank interest bearing deposits	**43,407,286**	46,000,000
	59,407,286	60,000,000

	2012 $	2011 $
Amount of financial assets held to maturity expected to be recovered more than 12 months after the reporting date	-	-

Fair value
Refer to note 29(b) for details of the fair value of these financial instruments.

12 LOANS AND ADVANCES

	2012 $	2011 $
Overdrafts	**151,886,316**	161,661,117
Term loans	**325,811,525**	302,287,547
Gross loans and advances	**477,697,841**	463,948,664
Deferred application fees	**(346,790)**	(345,137)
Specific provisions for impairment (note 13)	**(566,948)**	(674,212)
Net loans and advances	**476,784,103**	462,929,315

	2012 $	2011 $
Amount of loans and advances expected to be recovered more than 12 months after the reporting date	**456,354,709**	443,987,367

Fair value
Refer to note 29(b) for details of the fair value of these financial instruments.

13 IMPAIRMENT OF LOANS AND ADVANCES

	2012 $	2011 $
(a) Provisions for impairment		
Opening balance	**674,212**	817,141
Doubtful debts (income)/expense	**(107,264)**	(142,929)
Closing balance	**566,948**	674,212

Details of credit risk management are set out in Note3(c).

	2012 $	2011 $
(b) Provision for impairment calculation		
Provision prescribed by Prudential Standards	**461,814**	541,550
Additional specific provision	**105,134**	132,662
Closing balance	**566,948**	674,212

Notes to the Financial Statements (continued)
For the year ended 30 June 2012

13 IMPAIRMENT OF LOANS AND ADVANCES (continued)

(c) Impairment expense on loans and advances

	2012 $	2011 $
Movement in provision for impairment	**(107,264)**	(142,929)
Bad debts written off directly to profit or loss	**261,797**	245,035
	154,533	102,106

(d) Assets acquired from loan recovery
There were no assets acquired by the Credit Union during the financial year. The policy of the Credit Union is to sell the assets via auction at the earliest opportunity, after the measures to assist the members to repay the debts have been exhausted.

(e) Loans and advances by impairment class

	2012 $	2011 $
Net impaired loans	**553,380**	330,199
Past due but not impaired	**1,764,405**	1,577,955
Neither past due or impaired	**474,466,317**	461,021,161
Net loans and advances	**476,784,102**	462,929,315

(f) Impaired loans and advances

	2012 $	2011 $
Impaired loans	**1,120,328**	1,004,411
Provision for impairment	**(566,948)**	(674,212)
	553,380	330,199

Impaired loans are generally not secured.

Individually impaired loans and advances to members at reporting date

Purpose analysis	2012 $	2011 $
Personal including revolving credit	**1,120,328**	1,004,411
Provision for impairment	**(566,948)**	(674,212)
Carrying amount	**553,380**	330,199

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

13 IMPAIRMENT OF LOANS AND ADVANCES (continued)

(g) Past due but not impaired loans and advances

These loans are not considered impaired as the value of the related security over residential property is in excess of the loan due. Refer Note 13(i) for details of security held. Past due values are the 'on-balance sheet' loan balances.

Aging analysis	***2012*** $	*2011* $
Past due [0-90] days in arrears	**1,764,405**	1,577,955
Past due [90-180] days in arrears	**-**	-
Past due [180-270] days in arrears	**-**	-
Carrying amount	**1,764,405**	1,577,955

(h) Purpose analysis

Year ended 30 June 2012	Neither past due nor impaired	Past due but not impaired	Net impaired	TOTAL
<u>**Purpose Analysis**</u>				
Housing	**421,314,525**	**1,372,766**	**-**	**422,687,291**
Personal	**53,151,792**	**391,639**	**1,120,328**	**54,663,759**
Provision for impairment	**-**	**-**	**(566,948)**	**(566,948)**
TOTAL	**474,466,317**	**1,764,405**	**553,380**	**476,784,102**

Year ended 30 June 2011	Neither past due nor impaired	Past due but not impaired	Net impaired	TOTAL
<u>**Purpose Analysis**</u>				
Housing	402,952,850	1,120,381	-	404,073,231
Personal	58,068,312	457,574	1,004,410	59,530,296
Provision for impairment	-	-	(674,212)	(674,212)
TOTAL	461,021,162	1,577,955	330,198	462,929,315

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

13 IMPAIRMENT OF LOANS AND ADVANCES (continued)

(i) Collateral held

The Credit Union holds collateral against loans and advances to customers as detailed below:

	2012 $	2011 $
Loans and advances with no collateral	**31,643,811**	33,930,706
Loans and advances with collateral	**446,054,030**	430,017,958
Gross loans and advances	**477,697,841**	463,948,664

Where collateral is held, it is in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. The fair value of the collateral is measured at the time of providing the loan or advance and is required to be no less than 100% of the loan or advance not including capitalised fees and insurances. The fair value of the collateral is generally not updated except when a loan or advance is individually assessed as impaired. Collateral is usually not held over loans and advances to, or deposits with, other financial institutions. Collateral is usually not held against investment securities.

14 PROPERTY, PLANT AND EQUIPMENT

	2012 $	2011 $
Land and buildings		
At valuation - 2011	**4,450,000**	4,450,000
Accumulated depreciation	**(117,996)**	-
Net carrying amount	**4,332,004**	4,450,000
Plant and equipment		
At cost	**2,774,684**	2,701,600
Accumulated depreciation	**(1,612,595)**	(1,280,160)
Net carrying amount	**1,162,089**	1,421,440
Total property, plant and equipment		
At valuation - 2011	**4,450,000**	4,450,000
At cost	**2,774,684**	2,701,600
	7,224,684	7,151,600
Accumulated depreciation and impairment	**(1,730,591)**	(1,280,160)
Net carrying amount	**5,494,093**	5,871,440

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

14 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Reconciliation of carrying amounts at the beginning and end of the period

	2012	*2011*
	$	*$*
Land and buildings		
Net carrying amount at beginning of the year	**4,450,000**	3,884,500
Revaluations	**-**	676,500
Depreciation charge	**(117,996)**	(111,000)
Balance at the end of the year	**4,332,004**	4,450,000
Plant and equipment		
Net carrying amount at beginning of the year	**1,421,440**	494,648
Additions	**73,084**	1,275,573
Write-off at written down value	**-**	(33,066)
Depreciation charge for the year	**(332,435)**	(315,715)
Balance at the end of the year	**1,162,089**	1,421,440

(b) Revaluation of land and buildings

The valuations of freehold land and buildings were based on the assessment of their current market value. The independent revaluations on 21 June 2011 were carried out by John Watt and Associates Valuers and Development Consultants.

The revaluations of freehold land and buildings were based on the capitalisation of estimated net return.

The revaluation was made in accordance with a policy to revalue land and buildings every three years.

Land and buildings were re-valued to $4,450,000 as at 30 June 2011 based upon this independent valuation.

(c) If revalued land and buildings were stated at historical cost, amounts would be as follows:

	2012	*2011*
	$	*$*
Cost	**1,347,967**	1,347,967
Accumulated depreciation	**(833,797)**	(800,542)
Net book value	**514,170**	547,425

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

15 INTANGIBLE ASSETS

	2012	2011
	$	$
Computer software		
At cost	**1,228,834**	992,771
Accumulated amortisation	**(926,326)**	(749,907)
Net carrying amount	**302,508**	242,864

(a) Reconciliation of carrying amount at beginning and end of the period

	2012	2011
	$	$
Computer software		
Balance at the beginning of the year		
At cost	**992,771**	911,089
Accumulated amortisation	**(749,907)**	(575,139)
Net carrying amount	**242,864**	335,950
Additions	**236,063**	81,682
Amortisation expense	**(176,419)**	(174,768)
Balance at the end of the year	**302,508**	242,864

16 DEPOSITS

	2012	2011
	$	$
Current		
Call deposits (including withdrawable shares)	**337,752,019**	308,443,274
Term deposits	**157,505,457**	152,723,030
	495,257,476	461,166,304

	2012	2011
	$	$
Amount of deposits from members expected to be settled more than 12 months after the reporting date	**3,477,900**	3,940,883

(a) Concentration of deposits

The following groups represent concentrations of deposits in excess of 10% of total liabilities

Queensland Rail and QR National employees - % of total deposits	**15.46%**	15.14%
- Balance of deposits	**75,704,384**	69,798,233

(b) Fair value

Refer to note 29(b) for details of the fair value of these financial instruments.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

17 OTHER PAYABLES

	2012	*2011*
	$	*$*
Annual leave	**203,849**	210,554
Sundry creditors and accrued expenses	**609,904**	687,521
	813,753	898,075

Fair value
Refer to Note 29(b) for details of the fair value of these financial instruments.

18 SHORT TERM BORROWINGS

	2012	*2011*
	$	*$*
Wholesale funding - Cuscal Limited	**15,000,000**	25,000,000
	15,000,000	25,000,000

(a) **Borrowing facilities**
Refer to Note 26 for details of the borrowing facilities.

(b) **Fair value**
Refer to Note 29(b) for details of the fair value of these financial instruments.

19 PROVISIONS

	2012	*2011*
	$	*$*
Long service leave and associated costs	**572,773**	586,826
	572,773	586,826

20 REDEEMED PREFERENCE SHARE CAPITAL

	2012	*2011*
	$	*$*
Redeemed preference share capital	**141,910**	134,650
	141,910	134,650

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

21 RESERVES

	Credit loss reserve (a)	*Asset revaluation reserve (b)*	*General reserve (c)*	*Total*
	$	*$*	*$*	*$*
At 1 July 2010	897,341	2,654,383	39,248,178	42,799,902
Transfers				
- credit loss reserve	30,610	-	-	30,610
- revaluation of 179 Ann St property (Note 14(b))	-	676,500	-	676,500
- general reserve	-	-	4,032,498	4,032,498
- income tax on items taken directly to equity	-	(202,950)	-	(202,950)
At 30 June 2011	927,951	3,127,933	43,280,676	47,336,560
				-
Transfers				-
- credit loss reserve	**27,498**	**-**	**-**	**27,498**
- revaluation of 179 Ann St property (Note 14(b))	**-**	**-**	**-**	**-**
- general reserve	**-**	**-**	**3,060,906**	**3,060,906**
- income tax on items taken directly to equity	**-**	**-**	**-**	**-**
At 30 June 2012	**955,449**	**3,127,933**	**46,341,582**	**50,424,964**

Nature and purpose of reserves

(a) *Credit loss reserve*

The credit loss reserve records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards as set down by APRA.

(b) *Asset revaluation reserve*

The asset revaluation reserve records revaluations of non-current assets.

(c) *General reserve*

The general reserve records funds set aside for future expansion of the Credit Union.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

22 CASH FLOW STATEMENT RECONCILIATION

(a) 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:

(a) Deposits in and withdrawals from savings, money market and other deposit accounts;
(b) Sales and purchases of dealing securities;
(c) Sales and purchases of maturing certificates of deposit;
(d) Short-term borrowings; and
(e) Provision of member loans and the repayment of such loans.

	2012	*2011*
	$	*$*
(b) Reconciliation of net profit after tax to net cash flows from operating activities		
Net profit	**3,095,664**	4,068,978
Adjustments for:		
Depreciation	**450,431**	426,715
Amortisation	**176,419**	174,768
Impairment and write -off of non-current assets	**154,533**	102,106
Net loss on disposal of property, plant & equipment	**-**	33,067
Changes in assets and liabilities		
(Increase)/Decrease in other receivables	**1,056,904**	(978,305)
(Increase)/Decrease in financial assets held to maturity	**592,714**	(4,000,000)
(Increase)/Decrease in loans and advances	**(14,009,321)**	(15,574,454)
(Increase)/Decrease in other assets	**(19,860)**	(27,745)
(Decrease)/Increase in short-term borrowings	**(10,000,000)**	-
(Decrease)/Increase in current tax payable	**(461,136)**	112,521
(Decrease)/Increase in provisions	**(14,053)**	45,137
(Decrease)/Increase in other payables	**(84,322)**	(13,231)
(Decrease)/Increase in deferred tax liabilities	**20,539**	84,994
(Decrease)/Increase in deposits	**34,091,172**	10,635,903
Net cash flows from/(used in) operating activities	**15,049,684**	(4,909,546)

23 COMMITMENTS

(a) Leasing commitments

Operating lease commitments

Non cancellable operating leases contracted for but not capitalised in the financial statements, payable monthly in advance:

	2012	*2011*
	$	*$*
Within one year	**122,136**	119,239
After one year but not more than five years	**193,289**	318,581
After more than five years	**-**	-
Total minimum lease payments	**315,425**	437,820

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

23 COMMITMENTS (continued)

(a) Leasing commitments (continued)

Operating lease commitments comprise 3 leases:

(i) Central Railway Station, Brisbane - a five year lease with monthly payments in advance. The lease expires on 30 April 2014.

(ii) Ground Floor, 179 Ann Street, Brisbane - a five year lease with monthly payments in advance. The lease contains an option to extend a further 5 years at the expiry of the lease on 30 June 2015.

(iii) Rockhampton Regional Office - a five year lease with monthly payments in advance. The lease expires on 30 April 2013.

(b) Outstanding loan commitments

Loans and credit facilities approved but not funded or drawn at the end of the financial year:

	2012	*2011*
	$	*$*
Loans approved but not funded	**8,611,761**	10,325,000
Undrawn overdrafts	**75,620,304**	73,655,287

24 CONTINGENCIES

Credit Union Financial Support Scheme (CUFSS)

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

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

25 AUDITORS' REMUNERATION

The auditor of Railways Credit Union Ltd is BDO Audit Pty Ltd.

	2012	*2011*
	$	*$*
Amounts received or due and receivable by BDO Audit Pty Ltd for:		
• An audit or review of the financial report of the entity	**62,000**	59,250
• Regulatory or prudential audits	**33,750**	32,250
• Other services	**-**	45,097
	95,750	136,597

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

26 STANDBY BORROWING FACILITIES

The Credit Union has a gross borrowing facilitiy of:

	Approved Facility	Current Borrowing	Net Available
	$	$	$
2012			
Pre-approved loan facility			
Overdraft facility (Cuscal)	**1,000,000**	-	**1,000,000**
Corporate Online Funds Transfer (NAB)	**500,000**	-	**500,000**
	1,500,000	**-**	**1,500,000**
2011			
Pre-approved loan facility			
Overdraft facility (Cuscal)	1,000,000	-	1,000,000
Corporate Online Funds Transfer (NAB)	500,000	-	500,000
	1,500,000	-	1,500,000

Cuscal borrowings and credit facilities are secured by an equitable mortgage over all assets of the Credit Union. There are no restrictions in relation to these loan facilities.

27 KEY MANAGEMENT PERSONNEL

(a) Directors

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

Graeme G Sang
John P Harnischfeger
Kellie L Dyer
Andrew R Haynes
Andrew J Hughes
Michael (Mike) G Scanlan
Henry C Scheuber

(b) Remuneration of Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

KMP comprises the Directors and the members of the Executive Management responsible for the day-to-day financial and operational management of the Credit Union.

The names of the KMP in addition to the Directors of the Credit Union who have held office during the financial year are:

Julianne Plath	Chief Executive Officer
Gavin Burkhardt	Executive Manager Commerce & Marketing
Sam Carroll	Executive Manager Compliance (Resigned 28 July 2011)
Grant Freeman	Executive Manager Operations (Appointed 1 January 2012)

Notes to the Financial Statements (continued)
For the year ended 30 June 2012

27 KEY MANAGEMENT PERSONNEL (continued)

(b) Remuneration of Key Management Personnel (continued)

The aggregate compensation of KMP during the year comprising of amounts paid, payable or provided for was as follows:

	Directors		*Other KMP*	
	2012	*2011*	***2012***	*2011*
	$	*$*	***$***	*$*
Short-term	**218,928**	216,784	**744,480**	662,737
Post employment	**19,704**	19,511	**55,707**	53,581
Other Long-term	**-**	-	**27,251**	16,127
	238,632	236,295	**827,438**	732,445

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

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

(c) Loans to Key Management Personnel and their Close Family Members

All loans disbursed to KMP were approved on the same terms and conditions applicable to members for each class of loan, with the exception of those KMP who are not Directors. There are no loans that are impaired in relation to the loan balances with KMP.

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

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

	2012	*2011*
	$	*$*
The aggregate value of loans	**791,767**	267,621

	2012	*2011*
	$	*$*
The total value of revolving credit facilities to KMP as at the balance date amounted to:	**768,600**	1,796,000
Less amounts drawn down and included in the above balance	**(653,829)**	(1,188,147)
Net balance available	**114,771**	607,853
During the year the aggregate value of loans disbursed to KMP amounted to:		
Revolving credit facilities	**-**	70,399
Term loans	**975,902**	28,046
	975,902	98,445
During the year the aggregate value of revolving credit facility limits granted or increased to KMP amounted to:	**-**	50,000
Interest and other revenue earned on loans and revolving credit facilities to KMP and related parties	**102,526**	113,140

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

27 KEY MANAGEMENT PERSONNEL (continued)

(d) Other Transactions of KMP's and their Close Family Members

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

	2012	*2011*
	$	*$*
Total value term and savings deposits at year end	**612,150**	1,279,444
Total interest paid on deposits	**33,142**	81,780

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

There are no benefits paid or payable to the close family members of the KMP. There are no service contracts to which KMP or their close family members are an interested party.

28 EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

The Credit Union has entered into a contract for the supply of payment products with a new provider (Indue Ltd). The transition to Indue Ltd from the previous provider will be implemented over the first two quarters of the 2012/13 financial year.

No other matters or circumstance have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations, the results of those operations, or the state of affairs of the Credit Union in subsequent financial years.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

29 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments by class - carrying value

	2012	*2011*
	$	*$*
Loans and receivables - measured at amortised cost		
Cash and cash equivalents	**18,712,239**	3,971,702
Other receivables	**928,447**	1,985,351
Loans and advances	**476,784,103**	462,929,315
	496,424,789	468,886,368
Held to maturity investments - measured at amortised cost		
Financial assets held to maturity	**59,407,286**	60,000,000
Financial assets available for sale or at cost		
Financial assets	**825,840**	825,840
Financial liabilities measured at amortised cost		
Short term borrowings	**15,000,000**	25,000,000
Deposits	**495,257,476**	461,166,304
Other payables	**813,753**	898,075
	511,071,229	487,064,379

(b) Fair value of financial instruments

(i) The fair value estimates were determined by the following methodologies and assumptions:

Liquid assets

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

Investments

Financial assets comprising shares in other entities are held at cost. Fair value is not reasonably determinable due to the unpredictable nature of cashflow and lack of suitable method of arriving at a reliable fair value.

Financial assets held to maturity are carried at amortised cost. Carrying values approximate fair values due to the short-term maturities of these investments.

Loans and advances

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

For variable rate loans the carrying amount is a reasonable estimate of net fair value.

Deposits

The fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans. The fair values of these instruments are not materially different from their carrying amounts.

The fair value of call and variable rate deposits, and fixed rate deposits repriced within twelve months, is the carrying value as at 30 June 2012.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

29 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Fair value of financial instruments (continued)

Short-term borrowings, payables due to other financial institutions and other payables.

The carrying value approximates their fair value as they are short term in nature.

(ii) The table below summarises instances where the carrying value of financial assets or financial liabilities differs from the fair value.

		2012		*2011*	
		Carrying value	*Fair value*	*Carrying value*	*Fair value*
	Note	*$*		*$*	
Financial Assets					
Cash and cash equivalents	8	**18,712,239**	**18,712,239**	3,971,702	3,971,702
Other receivables	10	**928,447**	**928,447**	1,985,351	1,985,351
Financial assets held to maturity	11	**59,407,286**	**59,407,286**	60,000,000	60,000,000
Loans and advances	12	**476,784,103**	**476,784,103**	462,929,315	462,929,315
Financial assets available for sale or at cost (iii)	9	**825,840**	**825,840**	825,840	825,840
Financial Liabilities					
Deposits	16	**495,257,476**	**496,442,218**	461,166,304	461,915,243
Short term borrowings	18	**15,000,000**	**15,022,037**	25,000,000	25,035,327
Other payables	17	**813,753**	**817,966**	898,075	898,075

The values reported have not been adjusted for the changes in credit ratings of the assets.

(iii) The shareholding in Cuscal is measured at cost as its fair value cannot be measured reliably. This Company was created by credit unions to supply services to the shareholding credit unions. Originally shares were held to enable the Economic Entity to receive essential banking services. The shares are not publicly traded and are not redeemable.

The financial reports of Cuscal record net tangible assets backing of these shares exceeding their cost value. Based on net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily. Shares may be sold to another shareholder of the Company. The Economic Entity does not currently intend to dispose of these shares.

Directors' Declaration

The directors of Railways Credit Union Ltd declare that:

(a) The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:

(i) comply with Accounting Standards and the Corporations Regulations 2001; and

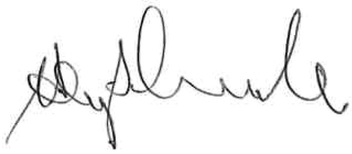
(ii) give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date.

(b) The Credit Union has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards: and

(c) In the directors' opinion, there are reasonable grounds to believe that Railways Credit Union Ltd will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the directors in accordance with a resolution of the Board of Directors

Graeme G Sang
Chair
Brisbane



Henry C Scheuber
Chair - Audit & Compliance Committee
Brisbane

Dated this 20th day of September 2012.

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INDEPENDENT AUDITOR'S REPORT

To the members of Railways Credit Union Ltd

We have audited the accompanying financial report of Railways Credit Union Ltd (the Credit Union), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Credit Union are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and 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 control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Railways Credit Union Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

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Opinion

In our opinion:

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

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

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies *with International Financial Reporting Standards* as disclosed in Note 2.

BDO Audit Pty Ltd

BDO

P A Gallagher

Director

Brisbane, 20 September 2012

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The Credit Union Prayer

Lord, make us instruments of Thy peace
Where there is hatred let us sow love;
Where there is injury, pardon;
Where there is despair, hope;
Where there is darkness, light;
And where there is sadness, joy.

O Devine Master, grant that we
may not so much seek to be consoled, as to console;
To be understood, as to understand;
To be loved, as to love;
For it is in the giving that we receive;
It is in the pardoning that we are pardoned;
And it is in the dying that we are born to eternal life
AMEN

Positioning Statement

Railways Credit Union... it's all about Exceptional Service.

Our Values

Railways Credit Union

Integrity | *Commitment* | *Exceptional Service* | *Innovation* | *Mutuality*

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AFSL/Australian Credit License number 234 536
ABN 91 087 651 090

Our Values

...it's all about Exceptional Service

2012