SUBMISSION TO THE REVIEW OF REFORMS FOR COOPERATIVES, MUTUALS & MEMBER-OWNED FIRMS

Holiday Coast Credit Union Ltd
ABN: 64 087 650 164

Registered Office:
1 Commerce Street, Wauchope NSW 2446

Submission Prepared by:

Neville Parsons
CEO

19 May 2017

Attention: Mr Greg Hammond OAM (Review Chair)

Overview of Holiday Coast Credit Union & Why this submission

Holiday Coast Credit Union is a mutual ADI servicing the NSW mid north coast and Maitland regions, with 29,500 members and total assets of $588m.

The credit union started at the local Dairy Cooperative in Wauchope in September 1967 as Hastings Rural Credit Union to serve the savings and lending needs of the suppliers to and the employees of the local Dairy Cooperative.

Holiday Coast Credit Union as the credit union has been known since 1996 has always known and continues to respect that it exists to provide affordable and caring financial services for its members who are its owners and customers.

Although the means of providing products and services has changed over the last 50 years the reason for the credit union's existence has not. Holiday Coast Credit Union exists to enhance the financial and social wellbeing of its members and their community.

As a business, we focus on providing our members, as customers, with quality products and services with a continuing emphasis on the education of members in the benefit of saving and the wise use of credit.

In addition to this, and in the true spirit of a mutual organisation, we also provide much needed funding to local community groups who, like us, work to make our communities a great place to live, work and play.

Our "giving back" to our community has seen Holiday Coast Credit Union since 2005 give back to over 440 community groups at total of more that $1.62million with another $70,000 to 30 community groups to be allocated early June 2017. This support of and engagement with our local communities is part of our Strategic Focus and indeed a key part of our Holiday Coast Credit Union difference.

Our ability to continue to deliver on our community giving and engagement will be dependent on our having the ability to raise additional Capital through means other than retained earnings.

In 2000 Holiday Coast Credit Union, as an individual credit union with the assistance of Cuscal (the Association representing credit unions at that time) pioneered the issuance of tier 1 capital for credit unions that maintained the Principles of Mutuality as prescribed by ASIC and met the then requirements of APRA in terms of being the highest level of capital available for a mutual.

We issued irredeemable non-cumulative preference shares that had the approval of APRA, ASIC and the ATO as eligible Tier 1 capital at that time, that enabled the release of franking credits on the dividends paid to the member holders of those shares.

The reason for our treading this new ground in 2000 was to underpin the growth and development of the credit union and to strengthen our capital base.

Regulatory & legislative barriers

- **Direct issuance of CET1**
Customer owned banking institutions are not permitted under APRA's Basel III prudential framework to directly issue capital instruments that qualify as the highest quality form of regulatory capital: Common Equity Tier 1 (CET1). The only directly-issuable capital instruments that qualify as CET1 are 'ordinary shares'. Customer owned banking institutions cannot issue ordinary shares without demutualising.

- **Uncertainty with Part 5 Schedule 4 Corporations Act - 'Demutualisation' provisions**
Under Part 5 of Schedule 4 of the Corporations Act, any issue of shares by a customer owned banking institution potentially creates the risk that ASIC will deem the share issue is a demutualisation of the company.

  ASIC has the power to rule that a share issue is not a demutualisation but entities can't be absolutely certain of ASIC's view on any particular proposal.

  For a mutual financial institution that seeks to issue shares to raise regulatory capital there is required more clarity and certainty to ensure that any such issuance will not trigger the demutualisation provisions within Part 5 Schedule 4 of the Corporations Act.

  We note that this could be achieved by:
  - *ASIC adopting a positive and supportive approach to customer owned banking institutions wishing to issue capital instruments that are consistent with the mutuality tests in RG 147, or*
  - *Legislative changes to reduce ASIC's discretion and provide greater certainty.*

  A legislative solution to the uncertainty about what does, and what does not, constitute a demutualisation could be achieved by amending the Corporations Act to embed in the law the tests of mutuality set out in RG 147 or any modernized version of that Regulatory Guide.

- **Understanding and recognition of the mutual – cooperative business model**
Government must take steps to require regulators to consider how their regulations impact on the mutual – cooperative model and to ensure that regulations do not create competitive disadvantage for the mutual – cooperative business model as against the non mutual business model.

  The starting point should be a required recognition by Regulators of the core differences between mutual and non-mutual business models to ensure that the current notion of CET1 only being available via "Ordinary Shares" is never repeated in future legislative or regulatory prescriptions.

  Our experience over the time that we have engaged with APRA and ASIC is that there has been a lack of appreciation of these fundamental structural differences and the recognition of mutuals – cooperatives as efficient and effective business models, especially at the Policy setting level of the Regulators.

  Specifically, there should be certainty within Corporations Act to identify and promote the same capabilities in business for mutuals – cooperatives that is provided to non-mutuals in a way that is recognised and prescribed as preserving mutuality.

Our Submission

Holiday Coast Credit Union makes this specific submission to ensure that mutual ADIs can directly issue Common Equity Tier 1 (CET1) Capital and also to seek a change in APRA Policy that is now requiring Holiday Coast to write off for capital purposes (since January 2013)our current Irredeemable Non- Cumulative Preference Shares at the rate of 10% per annum.

Accordingly, after January 2017 Holiday Coast Credit Union can now only count half of our issued capital that until Basel III interpretation and application by APRA was counted as Tier 1 Capital.

This is problematic for Holiday Coast in that the very instrument that was approved by ASIC and APRA as maintaining the Principles of Mutuality is now retained in our Balance Sheet as irredeemable non cumulative preference shares as to the full amount but currently only half counting as capital and will have zero capital counting by January 2022.

The current situation of a mutual financial institution not being able to issue Common Equity Tier 1 Capital propose is inequitable and fails to provide mutual ADIs with the same capability for the issuance of CET1 as non-mutual ADIs.

Holiday Coast Credit Union has also a more urgent need for this capacity to directly issue CET1 as our initially endorsed Tier 1 Capital that we have on issue is now being amortised for capital treatment for APRA Regulatory purposes as a result of APRA not considering the irredeemable non-cumulative preference shares as CET1 and also not allowing the direct issuance of CET1by mutual ADIs.

The specific issue that I raise is that the current application of capital requirements by Regulators is not competitively neutral. We also note that “competitive neutrality” is one of the things APRA has to balance as legislated in the APRA Act - Part 2, 8(2) of the APRA Act 1998:

“In performing and exercising its functions and powers, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.”

The aspect of issuance of capital is not competitively neutral as a result of the mutual structure of Mutual ADIs and specifically the drafting of the APRA Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.

The crux of the Prudential Regulation drafting in APS 111 is that for any direct issuance of Common Equity Tier 1 (CET1) Capital the language used is “paid–up ordinary shares” which is in itself language that is relevant to a non-mutual corporation and contrary to the structural requirements of a mutual ADI as determined by the Principles of Mutuality as prescribed within ASIC Regulatory Guide 147.

It is considered important for the future growth and continued viability of Mutual ADIs in the Basel III world to have the ability to issue as a means of Capital Raising CET 1 Capital that maintains the Principles of Mutuality as prescribed within ASIC

Regulatory Guide 147.

It is my proposition that the real area of lack of competitive neutrality in relation to capital is indeed this lack of ability for Mutual ADIs to directly issue CET 1 Capital.

Mutual ADIs must have the ability to issue CET1 as a means to underpin future growth, viability and relevance. Especially given that at present there is no capacity for mutual ADIs to directly issue CET1 within the current APRA Prudential Standard.

Such access would enable mutual ADIs to utilize the raising of additional CET1 capital through means other than retained earnings and therefore release some of the currently generated profits to become more competitive with product pricing to benefit members and or to invest in future technologies to better meet the needs of members and or invest further back in to their respective communities of interest.

A financial system that does not provide the opportunity for mutual ADIs to issue CET1 as a means of underpinning future growth and investment is not fair and I believe that this can simply be addressed through the recognition of the specific requirements for a mutual ADI within the APRA Prudential Standard and specifically within the context of issuance of CET1 capital.

It is important that customer-owned ADIs have the ability to issue regulatory capital in the form of CET1 and are able to do so without compromising their mutuality.

Pre- Basel III, customer-owned ADIs were able to issue all forms of regulatory capital.

Indeed, we at Holiday Coast Credit Union issued what was classed under Basel II as Tier 1 Capital via an Offer Information Statement that was issued to members on 11 September 2000.

We negotiated with APRA and ASIC, prior to the formal issuance of that Offer Information Statement, the requirements to create, offer and issue to our members an eligible Tier 1 Capital instrument that met the APRA requirements at that time together with the ASIC requirements for Mutuality.

The Instrument that we created and issued to our members is an irredeemable non-cumulative preference share which from the credit union industry research at the time as undertaken by Cuscal was the highest form of capital instrument that we could issue and not breach our mutuality.

The share has been serviced since inception and has 6 monthly received a fully franked dividend. This share has allowed us to release some of our franking credits that we have accumulated, but we still accrue more franking credits each year than we release through the imputation credits relating to the dividend payments.

We have on issue 3,815,000 of these shares (of $1 value each) and as a result of the new APRA Standard and interpretations we are now forced to amortise these at 10% per annum on and from 1 January 2013 for Capital purposes.

In addition APRA will not allow these to count as AT1 Capital under Basel III without implementing a series of changes requiring Holiday Coast Credit Union Constitutional change and the need therefore for existing holders to agree to those changes.

We have also held off any specific requirement to change our Constitution while awaiting the outcomes of the Financial System Inquiry as well as the Senate Committee Review of Cooperatives, Mutuals and Member-owned firms. This is because we feel that any transition required from our existing capital ought to be to an eligible CET1 instrument once we get such change and capacity from APRA through these Inquiries and the Government direction.

Thus, as a result of the APRA application of Basel III, a Capital instrument that we developed with the engagement of both APRA and ASIC in 2000 is now not counted as CET1 from an APRA perspective, but continues to be an irredeemable non-cumulative preference share that is subject to the terms and conditions as to dividend payment as per the issuing Offer documents and the Holiday Coast Credit Union Constitution.

Unfortunately, APRA's implementation of the Basel III capital framework does not allow issuance of mutual capital instruments that qualify as CET1 capital, which is the highest form of regulatory capital.

As a consequence, under Basel III, customer- owned ADIs can now only raise CET1 capital through retained earnings restricting their ability to raise capital more effectively, inhibiting their ability to diversify their capital base and constraining their ability to grow and compete.

In our negotiations with APRA in 2012 the brick wall we encountered was the fact that as we did not have "ordinary shares" then we could not issue CET1 capital. The other frustration was that there seemed to be a lack of appreciation of just what irredeemable non-cumulative preference shares were and how they would operate in the event of a wind up event for Holiday Coast.

We had lodged with ASIC on 21 October 2011 an Offer Information Statement to seek to raise the balance of our irredeemable non-cumulative preference shares as had been approved for issuance by members in 2000. This Offer Information Statement was accepted by ASIC, but was withdrawn even though fully subscribed in January 2012 as a result of APRA advising that issuance would not be CET1 under Basel III and that further we would need to amortise the already issued capital over 10 years.

I attach for your reference the following documents:

- A copy of the Offer Information Statement dated 21 October 2011 that provides a very good overview of the instruments and the conditions for our Irredeemable non-cumulative preference shares
- A comparison of these existing shares against the APRA Prudential Standard APS 111 that CEO Neville Parsons prepared for reference in negotiations with APRA in November 2012.

In 2000 Holiday Coast Credit Union issued irredeemable non cumulative preference shares and we ensured that we met the requirements of mutuality in that we could not pay dividends in any one year other than out of that year's profits and that any dividend was constrained to be no more than 30% of current years profit after tax so that we did not frustrate the mutuality purpose test of being for our members.

We also restricted the issuance to only being available to existing members and also further strengthened to be members of at least 6 months tenure.

As referenced in the Customer Owned Banking Association (COBA) March 2014 Submission to the Financial System Inquiry the DAE report *Competition in Banking found that denying mutuals access to Common Equity Tier 1 instruments could also have the following impacts:*

- *Customer-owned ADIs will not have the ability to manage and grow their balance sheets flexibly and in a manner that best serves their members' interests;*
- *Growth will be constrained to the uneven rate at which organic capital can be generated from retained earnings;*
- *Organic capital will not be able to be generated quickly to respond to sudden increases in capital requirements;*
- *Customer-owned ADIs will be less able to lend in a downturn and will be less able to provide effective competition to listed banks;*
- *The competitive disadvantage in relation to banks resulting from lack of access to Common Equity Tier 1 risks reducing supply, and increasing the cost, of credit to customers by the mutual sectors; and*
- *Ratings agencies may take a negative view of the customer-owned banking sector, given its restricted access to Common Equity Tier 1 capital and its increasing dependence on the economic cycle—this would have a knock-on effect on the ability of customer-owned ADIs to access senior funding.*

Customer-owned ADIs have considerably less flexibility than they had prior to the Basel III reforms. In contrast, listed ADIs have been accommodated under the Basel III capital rules and are able to issue all forms of regulatory capital in Australia.

This outcome appears due to APRA taking a highly cautious approach to Basel III implementation, and concerns within the prudential regulator that accommodating the customer-owned mutual model may result in some departure "from its longstanding policy of applying a common set of prudential requirements across the ADI industry."

It is our proposition that providing APRA accommodate the mutual ADI difference in terms of the Principles of Mutuality within the Capital Standard then there is the ability to accommodate an eligible mutual CET1 capital share.

The Basel Committee on Banking Supervision (BCBS) prepared rules on capital primarily for listed, internationally-active banks, but incorporated an allowance for 'national discretion' in the hands of local regulators. This discretion allows a regulator to adapt certain rules to particular legal forms, such as customer-owned ADIs, due to the different characteristics inherent in their structure and focus.

The BCBS, when designing the new rules, recognised this by acknowledging that the constitutional and legal structure of mutuals needed to be considered in the context of 'common shares' under the CET1 definition.

The BCBS took the position of leaving it to each national regulator to make the necessary adjustments. While the BCBS makes reference to this requirement in relation to common shares only, the principle carries equal weight to all relevant aspects of new framework.

However, APRA instead applied the Basel III capital rules to all ADIs without utilising the 'national discretions' allowed by the Basel Committee.

By taking a less flexible approach than the Basel Committee would have envisaged, APRA has significantly reduced the capacity of customer-owned ADIs to issue regulatory capital.

We at Holiday Coast Credit Union together with COBA and its members appreciate the importance of Basel III in enhancing the robustness of the international banking system and the objectives of raising the quality, quantity and consistency of capital in the international banking system. However, by applying the rules in such an inflexible manner, they effectively give preferential treatment to the listed ADI sector over the mutual ADI sector.

This is a perverse outcome, given that the Basel III capital framework was designed for large, listed, systemically important banks that have a substantial international focus, rather than for smaller, locally-focused mutuals that carry a much lower systemic risk and have limitations on the ways in which they raise capital.

In contrast to the Australian experience, it is known that other jurisdictions have successfully accommodated the mutual model into the Basel III capital framework. Some examples are as follows:

- in the UK, Nationwide (a large UK Building Society), launched a CET1 capital offering of "core capital deferred shares" under Basel III in November 2013;

- In the Netherlands, Rabobank recently undertook a 1.5 billion euro offering of CET1 instruments to investors. Rabobank Certificates are the most deeply subordinated capital of Rabobank and qualify as CET1 capital. Distributions on the Rabobank Certificates are discretionary and based on the nominal value of the certificate.

  https://www.rabobank.com/en/investors/irnews_research/investor_news/2017/Rabobank_increases_capital_buffers_by_issuing_EUR_1.5_billion_new_Rabobank_Certificates.html

- In Canada, the Office of the Superintendent of Financial Institutions recently revised its Capital Adequacy Requirements guidelines to provide exemptions from certain Basel III CET1 criteria for federal credit unions[1]

- Canadian mutuals (except in Saskatchewan) are allowed to count member

[1] See 2.1.1.1 para 5 http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/CAR17_chpt2.aspx#ToC211CommonEquityTier1Capital

shares and investment shares as the highest form of capital, provided certain conditions are met as highlighted by Dave Grace & Associates, *Competitive Dynamics in Retail Banking: An International Comparison,* March 2014, p. 14

While APRA has acknowledged the need to provide customer-owned ADIs with the capacity to issue AT1 and T2 instruments, the Basel III capital standards took effect in Australia more than a year before APRA provided the sector with this flexibility.

Furthermore, today mutual ADIs remain unable to directly issue CET1 capital.

It is essential that listed ADIs and mutual ADIs receive equivalent treatment under the Basel III capital rules. Failure to provide mutual ADIs with the capacity to issue the same forms of capital as listed ADIs will continue to harm competition, choice and diversity for no prudential benefit.

This capacity for mutual ADIs to issue capital of equivalent status in capital terms to retained earnings is not new as I have already highlighted in this submission.

We at Holiday Coast Credit Union negotiated with APRA, ASIC and ATO in 2000 to create an eligible Tier 1 Capital instrument that met the APRA requirements at that time together with the ASIC requirements for Mutuality.

We also had accepted by ASIC in October 2011 another Offer document to seek to raise the balance of our member approved capital issuance but this was withdrawn as a result of APRA advising that our irredeemable non-cumulative preference shares would not satisfy their criteria for CET1.

Our efforts since 2012 to seek a resolution of the current amortization of the existing capital holdings has been held over while awaiting the responses to the Financial System Inquiry and more recently the Senate Economic References Committee Report on Cooperatives, Mutual & Member-owned Firms.

We are hopeful that what was in 2000 agreed to be the instrument that would preserve mutuality and offer the highest form of capital a mutual could issue without demutualizing, will eventually be recognised as being the appropriate vehicle in the Basel III environment as well.

We look forward to your Review and to setting the pathway to remove the existing Prudential Roadblocks for mutual to issue CET1 capital.

We see the ability for mutual ADIs to directly issue CET1 as a critical matter to be urgently addressed as it is a regulatory impediment to competition and it is evident that the application of capital requirements is not competitively neutral.

We also observe that the lack of recognition of the mutual structure within the Corporations Act in relation to capital issuance is a matter that needs change.

Reflecting back on our initial Capital raising in 2000 it was the engagement with ASIC that was the most difficult as we walked through the ASIC provisions around demutualization… without demutualizing.

We relied heavily on the RG147 but eventually received the required approvals. APRA at that time were the easier party to negotiate with.

I also attach a copy of the Principles of Mutuality that were adopted as part of our Constitution when members approved the Capital Raising.

We as a credit union also endorse the submission of COBA our Customer Owned Banking Association.

Thank you for the opportunity to contribute to your Review and I am available to discuss any of the above with you. I can be contacted by phone 02-65808226 or via email at nparsons@hccu.com.au .

Yours Sincerely

Neville Parsons

Chief Executive Officer

For & on behalf of Holiday Coast Credit Union

19 May 2017

Attachments:

- A copy of the Offer Information Statement dated 21 October 2011 that provides a very good overview of the instruments and the conditions for our Irredeemable non-cumulative preference shares
- Comparison of the issued Holiday Coast Credit Union irredeemable non-cumulative preference shares against the APRA Prudential Standard APS 111 prepared for reference in negotiations with APRA in November 2012.
- Copy of the Principles of Mutuality that were adopted as part of our Constitution when members approved the Capital Raising

Offer Information Statement

For eligible members of Holiday Coast Credit Union Ltd
to apply for up to 1,185,000 of Member Investment Securities
at an offer price of $1.00 each

Holiday Coast Credit Union Ltd
ABN 64 087 650 164
AFSL and ACL No. 240782

Date: 21 October 2011

HOLIDAYCOAST
credit union

General Enquiries

For Personal Service
Monday to Friday
1300 365 7 24

Member Contact Centre

Personal extended service and accessibility
Monday to Friday 8am - 6pm
1300 365 7 24

Internet Banking

Internet Home Banking
www.hccu.com.au

Phone Banking

Automated Phone Banking
Available 24 hours
1300 361 411

Branch Network

Northern Region

Coffs Harbour
Port Macquarie Short Street
Port Macquarie Industrial
Kempsey
Wauchope
Laurieton

Southern Region

Bulahdelah
Gloucester
Greenhills
Tea Gardens
Rutherford

Central Region

Nabiac
Taree
Wingham
Tuncurry
Forster
Harrington

Service Centres

Old Bar
Stroud

Additional copies of this statement are available from any branch of the Credit Union.

Further advice on how to complete an application form can be obtained by telephoning or visiting:

Registered Office
Holiday Coast Credit Union Ltd
1 Commerce Street Wauchope NSW 2446
Phone: 1300 365 7 24
www.hccu.com.au

ABN 64 087 650 164
AFSL and ACL No. 240782

DIRECTORY

Holiday Coast Credit Union Ltd
ABN 64 087 650 164
AFSL and ACL No. 240782

Registered Office
1 Commerce Street
WAUCHOPE NSW 2446
Telephone: 02 6580 8222

Directors

Jeffrey Pattinson, Chairman

Allan Gordon, Deputy Chairman

Phillip Bryant

Paul Longworth

John McCarthy

Susan McGinn

Neville Parsons

Company Secretaries

David Johnson

Melinda Cockshutt

Solicitors to the Issue

Langes+

Level 6, 60 York Street

Sydney NSW 2000

Auditor and Independent Accountant

Northcorp Accountants

Suite 1-3, Bourne House

10 – 12 Short Street

Port Macquarie NSW 2444

NOTICE TO INVESTORS

This Offer Information Statement ('Statement') is dated 21 October 2011, and a copy has been lodged with the Australian Securities and Investments Commission (ASIC). ASIC takes no responsibility for the contents of this Statement.

This Statement does not constitute an offer in any place in which, or to any person whom, it would not be lawful to make such an offer. This is a restricted offer. It is only open to persons who have been members of Holiday Coast Credit Union Ltd for at least the 6 months before the date it issues Member Investment Securities under this Offer. Investors should be aware that this Statement is not a prospectus, and that is has a lower level of disclosure requirements than a prospectus. Investors should obtain professional investment advice before applying for Member Investment Securities offered in this Statement. Applications can only be accepted on the application form contained in this Statement.

No securities will be issued on the basis of the Statement after its expiry date, being 11 June 2012.

TABLE OF CONTENTS

CHAIRMAN'S LETTER

Dear Holiday Coast Credit Union member

On behalf of the Directors, I am pleased to extend this opportunity for you to invest in the future growth and prosperity of your Credit Union. This Offer Information Statement seeks to raise $1,185,000 of Member Investment Securities, this being the balance of the $5 million approved for issuance by members in September 2000.

We have now had over ten years of experience since first issuing Member Investment Securities. During that time, fully franked dividends have been paid every six months and our Trading Market has been in operation.

Raising this capital will assist the Credit Union continue to grow and develop with our community while continuing to serve the financial needs of members.

This offer provides eligible members with a unique investment opportunity. Dividends on Member Investment Securities are payable twice yearly at the end of September and March and are based on the average of the Bill Rate for the preceding period plus 2%. It is the Board's intention that dividends will continue to be fully franked delivering taxation benefits to members. Of course, dividend history does not guarantee the level of future dividends and I encourage you to read this Offer Information Statement in full to understand the risk associated with your investment.

The Member Investment Securities Offer is now open and is available to members of six months or more standing.

The Securities are priced at $1 each with a minimum investment in this Offer of 500 Securities ($500).

Applications can only be made on the Application Form attached to this Offer Information Statement. Applications will be processed strictly in order of date of lodgement. The 'first come first served' fulfilment of the Offer ensures that every Eligible Member has the same and equal chance to take advantage of this unique opportunity. Please read the document carefully and consult your financial advisor to review the Offer and its suitability to your needs.

As well as having the potential to earn an attractive return on your money subject to the financial performance of the Credit Union from year to year, you will have the satisfaction of investing in your Credit Union and contributing to its future vitality, effectiveness and ability to better serve the financial needs of you, your family and your community.

Jeffrey Pattinson
Chairman
Holiday Coast Credit Union Ltd

SUMMARY AND KEY POINTS OF THE OFFER

OFFER

Member Investment Securities to the value of	**$1,185,000**
Total value of Member Investment Securities already issued	$3,815,000
Total maximum value of Member Investment Securities after the Offer	$5,000,000
Maximum holding by any one member or group of associated members permitted under the *Financial Sector (Shareholdings) Act 1998 (Cth)*	$750,000 (or 15% of total Securities issued)

ELIGIBILITY

Only 'Eligible Members' may apply for Member Investment Securities under the Offer.

'Eligible Members' mean members who have been members for the 6 months before the date the Credit Union issues Member Investment Securities under the Offer.

TIMETABLE

The proposed timetable for the Offer is set out below.

Opening date	04 November 2011
FIRST ALLOTMENT	
Closing date for receipt of applications	16 January 2012 at 5pm
Issue and Allotment	30 January 2012
SECOND ALLOTMENT	
Closing date for receipt of applications	16 April 2012 at 5pm
Issue and Allotment	30 April 2012
THIRD ALLOTMENT	
Closing date for receipt of applications	11 June 2012 at 5pm
Issue and Allotment	25 June 2012
Closing Date	11 June 2012 (or earlier if the maximum number of subscriptions under the Offer is received)

DIVIDEND PAYMENTS

Dividend Payment Dates: **30 September and 31 March**

The maximum annual dividend is the average of the daily 180-day Bill Rate for six months preceding each dividend date **plus 2.0%**. The six-month periods for averaging 180-day Bill Rate are March to August inclusive and September to February inclusive.

Historical dividends on existing Member Investment Securities have been paid at the maximum margin of 2.0% above the average Bill Rate, with the exception of the dividend paid at 31 March 2009, which was at a margin of 1.0%. In addition, each of the dividend payments has been fully franked at the company tax rate of 30%.

MEMBER INVESTMENT SECURITIES TRADING MARKET

Member Investment Securities are traded on the trading market (Trading Market) which is an exempt market under section 719C of the Corporations Act and the Corporation (Low Volume Financial Markets) Exemption Notice 2003 (Exemption Notice). The Trading Market was established and is operated by Holiday Coast Credit Union. Holiday Coast Credit Union as the operator of the Trading Market is not licenced under Part 7.2 of the Corporations Act. Eligible Members can buy or sell Member Investment Securities on the Trading Market.

Holiday Coast Credit Union as the Trading Market operator is not subject to the legal obligations that apply to the operator of a licensed market, including requirement, to the extent that it is reasonably practicable to do so, to do all things necessary to ensure that the market is fair, orderly and transparent.

Eligible Members can only trade Member Investment Securities on the Trading Market. The Trading Market is subject to the Exemption Notice and the Business Rules as approved by ASIC. A copy of the Business Rules can be obtained from Holiday Coast Credit Union or online at http://www.hccu.com.au. Holiday Coast Credit Union may amend the Business Rules at any time. Changes to the Business Rules will be notified to Eligible Members and disclosed to ASIC.

Although the Trading Market is small, over the 10 years since commencement of operations of the market in 2001 all members placing a sell order on the Trading Market for Member Investment Securities have found a buyer within 60 days. However, due to the size and nature of this market, there is no guarantee that this will continue to be the case. Holiday Coast Credit Union cannot give any assurance that Eligible Members using the Trading Market will be able to find an Eligible Member willing to buy their Member Investment Securities at the price at which the Member wants to sell. Total volumes traded in the period for which the Trading Market for Member Investment Securities has operated for the year ending 30 June 2005 to year ending 30 June 2011, and for the year to date are available on the Holiday Coast Credit Union Corporate Website - ***http://www.hccu.com.au***/

HOW TO APPLY

Applications can only be made on the Application Form attached to, or accompanying, this Offer Information Statement.

PREVIOUS ISSUANCE AND DIVIDEND PAYMENT HISTORY

PREVIOUS ISSUANCE

Holiday Coast Credit Union opened its first issue of Member Investment Securities by issuing an Offer Information Statement (OIS) on 11 September 2000. When this issue finally closed, 199 members had subscribed for securities to the value of $1,873,700. Securities were allotted on 29 June 2001.

Holiday Coast Credit Union opened its second issue of Member Investment Securities by issuing an OIS on 30 November 2004. Securities were allotted progressively in terms of the Offer on 15 March 2005, 15 June 2005 and 15 September 2005. When this issue finally closed, 236 members held securities to the value of $3,815,000.

Since the first issue of Member Investment Securities, over 100 trades have taken place in which members have sold their Member Investment Securities to other eligible members.

As at 30 June 2011 there were 198 members holding Member Investment Securities from the previous two issues.

DIVIDEND PAYMENTS

Members with existing Member Investment Securities are eligible to receive dividends paid in two instalments, at the end of September and March of each financial year. The maximum annual dividend is calculated in the following way (refer to the ‘Details of the Offer’ for details).

Maximum Annual Dividend = **Average of the 180 day Bill Rate for 6 months preceding each dividend date** + **2.0%**

The Board's policy is to distribute dividends out of net profits after taxation, before allocating funds to retained earnings. If there are insufficient funds to pay the maximum dividend as calculated above, Holiday Coast Credit Union's intention is to distribute the available funds to members with Member Investment Securities pro-rata on the number of securities held. Dividends may only be declared out of current profits.

The Board may decide not to declare a dividend, or may not be able to, if the Credit Union has insufficient profits to allow a dividend to be declared. If the maximum annual dividend is not paid in a financial year, there is no entitlement to be paid a dividend for that financial year in subsequent years.

It is the Board's intention, where possible, to pay a franked dividend.

DIVIDEND PAYMENT HISTORY

In accordance with the Board's dividend policy, dividends have been paid twice yearly since initial allotment.

Historical dividends on existing Member Investment Securities have been paid at the maximum margin of 2.0% above the average Bill Rate, with the exception of the dividend paid at 31 March 2009, which was at a margin of 1.0%.

In addition, each of the dividend payments has been fully franked at the company tax rate of 30%. While the benefit of franking credits varies among investors, the maximum possible tax effect occurs where the investor benefits to the full 30% of the franking credits.

Recent Dividend History is available on the Holiday Coast Credit Union Corporate Website - ***http://www.hccu.com.au/***, and for the information of applicants the following is advised:

The information provided in this section is for historical references only and it is not a forecast or any representation or warranty by Holiday Coast Credit Union in respect of future performance of the Member Investment Securities portfolio. For further information regarding what may impact the performance of Member Investment Securities please see the section Risk Factors.

DIVIDEND HISTORY

Period Ending	Date Paid	Average Bill Rate	Rate % for Dividend	Margin Above Base Rate (%)	Franking %
31 Mar 05	01 Apr 05	5.5070	7.5070	2.00	100
30 Sep 05	30 Sep 05	5.7470	7.7470	2.00	100
31 Mar 06	31 Mar 06	5.6670	7.6670	2.00	100
30 Sep 06	03 Oct 06	5.9960	7.9960	2.00	100
31 Mar 07	02 Apr 07	6.4370	8.4370	2.00	100
30 Sep 07	02 Oct 07	6.5863	8.5863	2.00	100
31 Mar 08	03 Apr 08	7.3176	9.3176	2.00	100
30 Sep 08	01 Oct 08	7.8628	9.8628	2.00	100
31 Mar 09	02 Apr 09	4.5804	5.5804	1.00	100
30 Sep 09	01 Oct 09	3.2228	5.2228	2.00	100
31 Mar 10	06 Apr 10	4.2431	6.2431	2.00	100
30 Sep 10	01 Oct 10	4.8622	6.8622	2.00	100
31 Mar 11	04 Apr 11	5.1049	7.1049	2.00	100
30 Sep 11	05 Oct 11	4.9968	6.9968	2.00	100

BUSINESS OVERVIEW

OVERVIEW

Holiday Coast Credit Union is a community based financial institution that provides financial and other related services to its members. Holiday Coast Credit Union is a financial co-operative operating under a mutual structure where its members are customers, members and owners.

The Credit Union services the Holiday Coast and Maitland Regions of New South Wales with 17 branches and 2 agencies stretching from Coffs Harbour in the north to the Maitland district in the south.

The Credit Union offers a range of retail financial products and services to members. In addition to the traditional credit union products of savings, loans and investment products, members have access to overdrafts, credit cards, access cards, BPAY[R] and commercial loans. Through alliances with other organisations Holiday Coast Credit Union also provides insurance services, leasing services and financial planning services.

BUSINESS GROWTH

Holiday Coast Credit Union has shown consistent asset growth with assets reaching their highest level ever in the financial year ended 30 June 2011.

The rate of growth reflects a positive member response to the financial products and services offered by Holiday Coast Credit Union during a sustained period of increased funding costs and competition within our market.

BUSINESS PERFORMANCE

The financial results are described in detail in the statutory Financial Statements for the year ending 30 June 2011 included within this Offer Information Statement.

This year has been impacted by the increased cost of deposits compared to the movement in loan rates. An increase in interest revenue of $4.851m or 17.8% and an increase in interest expense of $4.679m or 33.9% have been the main factors influencing the 2011 result.

The heightened cost of deposit funds relative to the yield on loans is best demonstrated in Note 31 to the Financial Statements attached.

BUSINESS STRATEGY

The Credit Union's 2011 Planning Meeting outcomes were confirmed by the Board on 23 February 2011 and established the 2011 – 2016 Strategic Plan, with Immediate Priorities for the period 2011 to 2013, and a Future Vision of 2013 – 2016.

This strategic direction was re-affirmed by the Board at a Special Strategic Plan Review Meeting on 22 June 2011 and the current Strategic Plan reconfirmed at the Board Meeting on 29 June 2011.

The following overview describes the high level framework within which the Credit Union's day-to-day actions and relationships with members, staff and the community are delivered.

WHO WE ARE

Holiday Coast Credit Union Ltd – is a public company limited by shares that is a financial co-operative operating on the basis of the principles of mutuality under a mutual structure where our members are our customers, our members and our owners.

Holiday Coast Credit Union's services are directed to improve the economic and social well being of members and their community.

WHAT WE DO

We provide financial and related services to members in their capacity as customers (people, corporations and community groups) primarily living or working within the key operating areas bounded by Newcastle – Maitland in the south, the Great Dividing Range in the west and Coffs Harbour in the north and we:

1. Attract customers and create and maintain members.
2. Enhance member and community value through the education of the customers and the broader community in aspects of finance including the benefits of savings, the wise use of credit, and the way to transact safely and securely by the least cost.
3. Excel in providing customers with personalised solutions that meet their needs and expectations.
4. Deliver personal financial services that are fair, competitive and provide value to our customers.
5. Provide easy access for our customers by telephone and internet banking services, mobile lending staff and strategically located branches focussing on building member relationships.
6. Develop our people and align processes and systems to ensure that we deliver quality service both internally and externally.
7. Demonstrate through the things we say and do our Values, our quality service and our knowledge in every aspect of our business and member relationships.
8. Seek to do things right the first time.
9. Engage in socially and environmentally responsible business practices, and:
10. Invest our dollars responsibly and primarily in the communities in which we live and work.

OUR COMPETITIVE ADVANTAGE

Local people

Local branches

Local decision-making

We know our area

We align to our customers' needs

OUR PROMISE TO CUSTOMERS

We will be professional in all aspects of service delivery.

We will be Distinctive in the attitude we present, the service we provide, and in the experiences we offer - It's about turning good relationships into great ones.

We know that within our region, we can be distinctive, innovative, better in how we develop our relations. Better in the effort we make to ensure that when our customers deal with us we'll do everything within our power to ensure they have. . . *a great day!*

WHAT IS OUR BUSINESS (VISION)?

To provide banking services that meet the needs and expectations of customers and improve the financial and social well being of members and their community

WHO IS OUR CUSTOMER?

People like you and I, who live and work on the Holiday Coast and in the Maitland and Hunter area of New South Wales, Australia, with the following financial product and service needs - savings and investments, home loans, personal loans, and other related financial services, supported by transaction services to assist customers in the achievement of their financial goals.

WHAT DOES THE CUSTOMER CONSIDER VALUE?

- Leadership from their respected and trusted adviser
- Relevant, easy to understand information from knowledgeable staff to guide customers' financial decisions
- Customers' needs are the focus, with relationships built on warmth, humanity, and sincerity delivering a sense of belonging

MONITORING RESULTS

Via Board agreed Balanced Scorecard that considers results in terms of:

- Staff Survey
- Customer and Market Research
- Financial Performance
- Branch Profitability and Performance
- Awards and Recognition

WHAT IS OUR PLAN?

To attract and retain customers who through the valued relationship with Holiday Coast Credit Union become and remain loyal profitable members. As a result we will grow our Savings, Investments and Loans and achieve "Gold Medal" status customer and staff satisfaction in a risk-managed environment.

To achieve this:

- We will be attractive to new customers especially the younger generations to ensure a solid foundation of members for future growth and success.
- We will be professionally and prudently managed and a highly regarded financial institution, recognised as a leading corporate citizen in our community.
- We will be values driven and our values will be seen as the foundation of our success.
- We will be profitable and accountable for the benefit of members and the communities in which they live and work.
- We will provide a competitive range of financial products and services that meet the needs and expectations of customers and that will deliver benefit to new and existing customers.
- We will seek to always employ the best people. Our people will be skilled and motivated to deliver this plan.
- We will value our customers and our members and the relationship we have with them and provide financial solutions for mutual benefit.
- We will seek to have efficient and effective systems and processes to support the delivery of this plan.
- We will do all that we can to ensure that every day is a great day when our customers "touch" us.
- We aim to have our members testify that Holiday Coast Credit Union is where they belong.

PURPOSE STATEMENT

Our members and their communities see us as a key community asset supporting economic, social and cultural development and a fantastic banking institution that exists and cares for them.

VALUES

OUR RECIPE FOR SUCCESS

RESPONSIBILITY	Taking ownership of your actions
EQUITY	Fairness and impartiality – decisions free from bias, dishonesty or injustice
COOPERATION	The ability to work together toward a common goal
INTEGRITY	To be honest, truthful and sincere
PROFESSIONALISM	To exceed the expectations of customers and colleagues
EXCELLENCE	Consistently achieving the highest level of performance through quality people, systems and service

UNDERPINNING THESE VALUES IS THE FOUNDATION PRINCIPLE - TRUST

Trust creates consistency, demonstrates empowerment, encourages and sustains communication

CORPORATE GOVERNANCE

The Board of Holiday Coast Credit Union has a responsibility to its members to maintain a high standard of corporate governance in both its corporate and prudential obligations. The Credit Union has procedures in place to assist compliance with all of its corporate governance obligations. These are described in 'Corporate Governance Statement'.

DETAILS OF THE OFFER

WHAT ARE MEMBER INVESTMENT SECURITIES?

Member Investment Securities are specially constructed Credit Union investment instruments designed to:

- Provide members with an attractive investment option in the Credit Union;
- Allow the Credit Union to distribute franking credits to Members;
- Maintain the Credit Union's mutual structure; and
- Qualify for regulatory capital adequacy purposes as Tier 1 capital.

Member Investment Securities are irredeemable non-cumulative preference shares and carry the following rights:

- They are a permanent and unrestricted commitment of funds – they can only be converted to cash through sale to another Eligible Member, or in limited circumstances in the event of death of a holder and then only with APRA approval;
- They will be available to absorb any losses incurred by the Credit Union in the ordinary course of business;
- They are subordinated in right of repayment of principal and interest to all depositors and other creditors;
- In the event of winding up, the Credit Union can offset against the payment of the subscription proceeds for the Member Investment Securities any amount payable to the Credit Union.
- They can only be transferred to Eligible Members through the Trading Market;
- Dividends can only be paid out of current year profit;
- The Credit Union may alter the timing of the dividend payments, or determine not to pay a dividend. Dividends maybe fully franked or partially franked dividends
- They carry a right to vote at meetings of holders of Member Investment Securities; and
- If Holiday Coast Credit Union is wound up and there is money available after paying depositors and creditors, the Credit Union will return a maximum of the capital originally subscribed by holders of Member Investment Securities – this will be paid before any surplus is paid to members generally.

The rights attaching to Member Investment Securities are set out in full in the Credit Union's Constitution – available online from the Holiday Coast Credit Union website – ***www.hccu.com.au/***

HOW ARE MEMBER INVESTMENT SECURITIES DIFFERENT FROM DEPOSITS?

Member Investment Securities are an investment in the business of Holiday Coast Credit Union itself. They do not represent deposit liabilities of the Credit Union and are not protected in the same way as deposits with the Credit Union.

If the Credit Union is wound up, holders of Member Investment Securities may only be paid their original investment or a portion of their original investment out of any surplus funds available after paying depositors and creditors.

HOW MANY MEMBER INVESTMENT SECURITIES ARE TO BE ISSUED?

This offer is for up to 1,185,000 of Member Investment Securities to be issued at $1.00 each.

There is no minimum number of subscriptions required under the Offer. However there is a minimum individual subscription with this Offer of $500 and applications for more than this minimum must be in increments of 100 Member Investment Securities.

This offer follows two (2) previous issues of Member Investment Securities:

- 1,873,700 Member Investment Securities of $1.00 each allotted on 29 June 2001.
- 1,941,300 Member Investment Securities allotted progressively on 15 March 2005, 15 June 2005 and 15 September 2005.

When this second issue finally closed in September 2005, 236 members held securities to the value of $3,815,000.

Therefore, the maximum number of Member Investment Securities that will be on issue following the completion of this Offer is 5,000,000. The issue of up to 5,000,000 of Member Investment Securities was approved by members on 27 September 2000.

Maximum number of Member Investment Securities offered under this Offer	*1,185,000*
Previously issued Member Investment Securities	*3,815,000*
Total maximum number of Member Investment Securities	***5,000,000***

Holiday Coast Credit Union cannot issue more than 5,000,000 of Member Investment Securities without further member approval. It is also noted that $10,000,000 total value in Member Investment Securities is the maximum allowable for issue via an Offer Information Statement.

WHAT IS HOLIDAY COAST CREDIT UNION USING THESE FUNDS FOR?

Holiday Coast Credit Union is committed to continuing its growth strategy without reducing its commitment to member service. The Offer of Member Investment Securities will provide the Credit Union with the additional capital to:

- Support the ongoing growth and development of the Credit Union;
- Further strengthen the Credit Union's capital base beyond current levels to underpin the continuing growth of the Credit Union while maintaining the required levels of prudential regulatory capital; and
- Meet the costs of the Offer.

Holiday Coast Credit Union currently proposes to use the funds raised by the issue as follows:

Issue of 1,185,000 Member Investment Securities (maximum)	*$1,185,000*
Funds applied by Holiday Coast Credit Union	
*1. Part Replacement of Subordinated Debt Issue**	*$1,149,000*
2. Holiday Coast Credit Union's estimated costs associated with this offer	*$36,000*
Total	***$1,185,000***

* As at date of this Offer Information Statement the $5,000,000 Sub Debt issuance is amortised under the APRA Prudential Standards to the extent that only $2m is counted towards the credit union's Capital and that will further amortise to only $1m on 17 April 2012.

The funds raised net of costs of this raising will form part of Holiday Coast Credit Union's Tier 1 capital adequacy in terms of APRA's prudential standards.

DURATION OF THE OFFER

The offer commences on 04 November 2011.

The Offer closes on 11 June 2012 (or earlier if the maximum number of subscriptions is received).

WHO IS ELIGIBLE TO SUBSCRIBE FOR MEMBER INVESTMENT SECURITIES UNDER THE OFFER?

Only Eligible Members may subscribe for Member Investment Securities. Eligible Members means members who have been members continuously for the 6 months before the date the Credit Union issues the Member Investment Securities to them.

MINIMUM AND MAXIMUM APPLICATIONS

The minimum application for Member Investment Securities under this Offer is $500, for 500 x $1.00 Member Investment Securities. Applications for more than this minimum must be in increments of 100 Member Investment Securities.

The law imposes limits on the number of shares that any person or associated persons can hold in a financial sector company. The *Financial Sector (Shareholdings) Act* 1998 (Cth) requires that anyone who wishes to hold a stake of more than 15% in a financial sector company, such as a credit union, must first obtain the Commonwealth Treasurer's permission.

WHEN WILL MEMBER INVESTMENT SECURITIES BE ISSUED?

The Credit Union will issue Member Investment Securities to members under the Offer in the order in which applications are received. Member Investment Securities will be issued in up to three tranches depending upon whether the Offer is closed early as a result of being fully subscribed.

- **First Allotment: 30 January 2012**

  Subscriptions received up to 5.00 pm Sydney Time on 16 January 2012 will be allotted on 30 January 2012. These securities will qualify on a pro rata basis for the dividend scheduled to be declared as at 31 March 2012.

- **Second Allotment: 30 April 2012**

  Subscriptions received up to 5.00 pm Sydney Time on 16 April 2012 will be allotted on 30 April 2012. These securities will qualify on a pro rata basis for the dividend scheduled to be declared as at 30 September 2012

- **Third Allotment: 25 June 2012**

  Subscriptions received up to 5.00 pm Sydney Time on 11 June 2012 will be allotted on 25 June 2012. These securities will qualify on a pro rata basis for the dividend scheduled to be declared as at 30 September 2012.

If the maximum number of Member Investment Securities is issued in the first or second allotments, the remaining allotment(s) will not proceed.

WHEN IS IT INTENDED TO PAY DIVIDENDS?

Each financial year, dividends are intended to be declared at the end of September and March, and paid within 2 weeks of that declaration.

Dividends payments are usually made to holders of Member Investment Securities within 1 week of each dividend declaration

The first dividend payment for members who apply for Member Investment Securities under this offer will be in relation to the financial year ending 30 June 2012. It is anticipated this will be declared on or around the 31 March 2012 for those members that have subscribed by 16 January 2012.

A member who subscribes for Member Investment Securities under the Offer will receive a pro rata share of any dividend for the period between allotment and the next dividend date. Furthermore, funds received prior to allotment will be held on trust in a Fixed Term Deposit Account at an interest rate benchmarked to the 90-day Bill Rate on 04 November 2011 until allotment. Further details of how these funds will be held until allotment are set out in 'How to Apply'.

HOW ARE DIVIDENDS CALCULATED?

Members with Member Investment Securities will be eligible to receive dividends each year up to the maximum annual dividend and the amount of dividend is determined at the Board's discretion. Dividends are declared and paid semi-annually.

The maximum annual dividend is based on the average of the daily 180-day Bill Rates for six months preceding each of the two dividend payment dates **plus 2.0%.** The Bill Rate is an external benchmark rate, which is calculated daily and reflects the market movements in interest rates:

- For dividends payable for the half year to 31 March the period over which the Bill Rate is averaged is from the prior 1 September to 28 February, and
- For dividends payable for the half year to 30 September the period over which the Bill Rate is averaged is from the prior 1 March to 31 August.

For example, if the average of the Bill Rates for the six months preceding each of the two dividend payment dates for a particular financial year is 4.1%, the Board may pay up to a maximum dividend amounting to 6.1% for that financial year. (Please note that the Bill Rate varies over time and may be higher or lower than the Bill Rate used in this example.)

The Board's policy is to distribute the dividends out of net profit after taxation, before allocating funds to retained earnings. If there are insufficient funds to pay the maximum dividends as calculated above, the Board of Holiday Coast Credit Union may decide to pay a pro rata payment of dividends. The right to receive dividends is not cumulative. If the maximum annual dividend is not paid in a financial year, the Board cannot pay a dividend for that financial year in subsequent years.

It is the Board's intention, where possible, to pay franked dividends. The simplified imputation system in Australia allows corporate entities, which pay tax, to pass on the credit for tax paid on profits when distributing those profits as dividends. When dividends are declared on Member Investment Securities and they are fully franked, a franking credit attaches to them equal to the franking percentage declared. All Member Investment Securities declared to date have been fully franked (franking percentage 100%). The franking credit must be declared as income with the dividends in a recipient's tax return and a franking credit offset is then available to reduce income tax payable or where no tax is payable the franking credits may be refunded. Refunds do not apply to all entities.

Potential investors should seek independent tax and financial advice on the effect of franking credits on their financial position.

HOW CAN A HOLDER OF MEMBER INVESTMENT SECURITIES TRANSFER MEMBER INVESTMENT SECURITIES?

Holders of Member Investment Securities may sell their securities to other Eligible Members of the Credit Union. Eligible Members means members who have been members continuously for the 6 months before Member Investment Securities are transferred to them by another Member.

Holders of Member Investment Securities may negotiate the transfer of their Securities privately or they may use the Trading Market established to facilitate the open buying and selling of Member Investment Securities (see below).

Member Investment Securities may automatically transfer to a Member's personal representative, trustee or guardian by operation of law (eg on a Member's death, bankruptcy or mental incapacity).

Member Investment Securities are intended to be permanent capital of Holiday Coast Credit Union. This means that the Credit Union will only redeem a Member's investment in Member Investment Securities in very limited circumstances and then only with APRA approval. If a Member with Member Investment Securities dies, Holiday Coast Credit Union may redeem the securities held by the Member's personal representative, subject to APRA approval. APRA will only grant approval to redeem Member Investment Securities in very limited circumstances and has no responsibility to the holder of Member Investment Securities to do so. Further information on the risks of an investment in Member Investment Securities is set out in 'Risk Factors'.

TRADING MARKET

The Trading Market has been operational since 29 June 2001. The existing Holiday Coast Credit Union Member Investment Securities are the only securities traded on the Trading Market. Holiday Coast Credit Union facilitates the operation of the market by:

- Providing holders of Member Investment Securities and Eligible Members interested in buying Member Investment Securities with:
    - Information on the operation of the Trading Market; and
    - Access to the Trading Market for the purpose of matching buy and sell orders; and
- Facilitating the transfer of monies associated with transactions on the Trading Market.

Since the Trading Market's inception in June 2001, all members placing a sell order on the Trading Market have found a buyer within 60 days. However, due to the size and nature of this market, there is no guarantee this will continue to be the case.

Following the Offer, there will be up to $5,000,000 worth of Member Investment Securities, which can be bought or sold by willing Eligible Members. It is possible that an increased number of Member Investment Securities on issue following a successful completion of this Offer may further increase activity on the Trading Market.

However, Holiday Coast Credit Union can give no assurance that Eligible Members using the Trading Market will be able to find an Eligible Member willing to buy their Member Investment Securities at the price that the Member wants to sell.

Further details information on the risks associated with the Trading Market are set out in 'Risk Factors'.

FEES AND CHARGES

There are no entry fees to subscribing for Member Investment Securities under this Offer.

Member Investment Securities traded on the Trading Market incur a transfer fee of $30 (GST inclusive) payable by the seller and a registration fee of $30 (GST inclusive) payable by the buyer. This fee does not apply to any securities traded privately.

Applicable state stamp duty also applies to transfers of Member Investment Securities.

HOW WILL THE CREDIT UNION MEET ITS CONTINUOUS DISCLOSURE OBLIGATIONS?

Holiday Coast Credit Union, as an unlisted disclosing entity, recognises that it is important for investors to understand how the Credit Union will satisfy its continuous disclosure obligations for existing investors, and new investors, in Member Investment Securities and has adopted a Continuous Disclosure Policy that takes into account the "Good Governance and Best Practice Recommendations" published by the ASX Corporate Governance Council as far as they are appropriate to the circumstances of the Holiday Coast Credit Union.

Information about the Member Investment Securities including the following information:

- Amount on issue (including this issue);
- Dividend history;
- Historical trade data;
- Last trade; and
- Current offers to Buy and / or Sell;

are available on the Holiday Coast Credit Union Corporate Website - ***http://www.hccu.com.au/***

In addition to publishing information on the Corporate Website, investors receive written dividend information each six months when dividends are paid on Member Investment Securities.

Disclosure will be made of any new material information that is likely to be:

- Information that investors and their professional advisers reasonably require to make an informed investment decision; and
- Information that might reasonably be expected to have a material influence on the investment decision of a reasonable person, as a retail client;

Any such information will be published via ASIC Disclosure Notice Form 1003 filed with ASIC as well as using the Holiday Coast Credit Union's normal investor communication channels of the Corporate Website **and** direct mail to all current holders of Member Investment Securities.

BOARD AND MANAGEMENT

BOARD

Jeffrey Brian Pattinson *- ADHA (CSU), CHA, FAICD, FAMI*

Independent Non-Executive Director appointed 25 October 2000. Mr Pattinson has been Chairman of the Board since 31 January 2005. He holds positions of Chairman Risk Committee, Chairman Director Nominations Committee and Chairman Remuneration & Succession Planning Committee.

Mr Pattinson has over 32 years experience in health service administration both locally and overseas and is currently the Commissioning Project Officer, Port Macquarie Base Hospital (PHBH) Redevelopment. Immediately prior to that Mr Pattinson was General Manager of the PMBH and the Hastings Macleay Network of Health Services. He brings extensive experience and knowledge to the Board in the areas of governance, leadership, risk management and accounting.

Allan Greenlees Gordon *– B'Bus, MAMI*

Independent Non-Executive Director appointed 26 June 2006. Mr Gordon has been Deputy Chairman of the Board since 26 October 2009. He holds the position of Chairman Budget & Performance Committee and member of Risk Committee and Remuneration & Succession Planning Committee. Mr Gordon has a background in small business lending and commercial management. He operates a business consultancy company specialising in the area of business management and mortgage fund compliance. He brings knowledge and expertise in the areas of financial and business management and compliance.

John Daniel McCarthy *– FAICD, FAMI, JP*

Independent Non-Executive Director appointed 24 October 2001. Mr McCarthy holds the position of Chairman Audit Committee, member Budget & Performance Committee and member of Asset & Liability Committee (ALCO). Mr McCarthy has a background in local government and credit union management and is a former Director and Chairman of Summerland Credit Union. He has a close affinity with the broader Credit Union Movement as a result of his significant role in national credit union activities. He brings with this experience, knowledge and expertise on credit union management in contributing to his role on the Board.

Susan Elizabeth McGinn, OAM *– MBA, Dip AG (RBM), Grad Cert Management (Prof Prac), GAICD, MAMI*

Independent Non-Executive Director appointed 23 October 2003. Mrs McGinn holds the position of Chairman Governance Committee and is a member of Risk Committee and Remuneration & Succession Planning Committee. Mrs McGinn has a background in both dairying and business management with studies specialising in Management of Organisational Change. She brings with this experience, knowledge and expertise in business administration in contributing to her role on the Board.

Phillip Wayne Bryant *- BA Bus (UTS), CPA, MAMI*

Independent Non-Executive Director appointed 29 October 2007. Mr Bryant is a member of Audit Committee and Budget & Performance Committee. Mr Bryant is Chief Executive Officer of Hastings Co-operative Ltd. He brings experience with working within community-based organisations and knowledge and expertise in the areas of financial and business management and compliance.

Paul Donald Longworth *– MAMI*

Independent Non-Executive Director appointed 29 October 2007. Mr Longworth is a member of Governance Committee and Audit Committee. Mr. Longworth has more than 40 years experience in the banking industry including being General Manager of Maitland Community Credit Union and previously holding management roles with Holiday Coast Credit Union gaining extensive experience in retail banking and customer service. He is currently performing the role of manager of a truck body-manufacturing firm.

Neville Lyle Parsons *- B Ec, LLB, FAIM, MAICD, PNA, FAMI*

Executive Director appointed 27 August 2007. Mr Parsons has been Chief Executive Officer of Holiday Coast Credit Union since July 1987. Mr Parsons is also a member of the Risk Committee, Budget & Performance Committee & Governance Committee, Chairman of Asset & Liability Committee (ALCO), Secretary to Remuneration & Succession Planning Committee and Director Nominations Committee. Mr Parsons has extensive experience in strategic planning, corporate governance, management and financial accounting, risk management and compliance. Mr Parsons has a close connection with the broader Credit Union Movement through his prior Directorships on the World Council of Credit Unions and subsidiaries, Cuscal Ltd and subsidiaries, member, Deputy Chairman and Chairman Cuscal Ltd Membership Council. Mr Parsons maintains strong ties within the community as a Wauchope Rotary Club member since 1981, serving Rotary International as District Governor District 9650 (2009-2010).

From 1 January 2011 to 30 June 2011 Mr Parsons was an appointed member of the Mid North Coast Local Health Network Governing Council and since 1 July 2011 has been a Board member of Mid North Coast Local Health District Board. Mr Parsons is also the Chairman of the Greater Taree City Council Audit Committee.

Joined Holiday Coast Credit Union - March 1983.

COMPANY SECRETARIES

David Lance Johnson *– BA, CPA, GAICD, MAMI, JP*

Appointed Company Secretary 28 November 2005. Mr Johnson has 31 years experience with a major trading bank and has held various roles within Finance Department of Holiday Coast Credit Union and since November 2005, Company Secretary. Joined Holiday Coast Credit Union - May 2002.

Melinda Kathleen Cockshutt *– LLB, (Hons), GDLP BIntBus*

Appointed Company Secretary 27 August 2007. Mrs Cockshutt has held positions with the Federal Attorney-General's Department - Director/Principal Legal Officer: Criminal Law Reform and Policy Section, Director Firearms Section, Federal Department of Transport and Regional Development, Trade Development Manager, Compliance Manager and Company Secretary. Joined Holiday Coast Credit Union – May 2007.

SENIOR MANAGEMENT

Neville Lyle Parsons *- B Ec, LLB, FAIM, MAICD, PNA, FAMI*

CEO and Director

Mr Parsons has been Chief Executive Officer of Holiday Coast Credit Union since July 1987. Appointed as an Executive Director 27 August 2007. Joined Holiday Coast Credit Union in March 1983.

Refer full details within Board Profiles above.

Bradley Scott Hinton *– PINA, FAMI, MCom*

Executive Manager Finance Credit and Administration

Mr Hinton has been a member of the Management Team for 17 years. Mr Hinton has had extensive experience in all operations of the Credit Union. Mr. Hinton has obtained Graduate Certificate (Professional Accounting) and Masters of Commerce (Professional Accounting) and other related qualifications. Joined Holiday Coast Credit Union - December 1981.

Leslie James Bailey – *GAICD, MAMI*

Executive Manager Risk

Mr Bailey is a former Independent Non-Executive Director of the Credit Union and has extensive background in retail management. Currently completing studies for Masters in Business Administration. Mr Bailey is responsible for risk management and associated activities of the Credit Union. Joined as a staff member of Holiday Coast Credit Union – November 2006.

Murrough Benson *– B Econ, DDA, MAMI*

Executive Manager Strategy and Operations

Mr Benson is a business economist with more than 30 years experience in the finance industry, including various roles in strategic and operational analysis with a major bank and 14 years as head of the research team with the industry association servicing credit unions and mutual building societies throughout Australia. Mr Benson is responsible for strategy development and implementation at branch level. Joined Holiday Coast Credit Union - November 2010.

Warden Mersey – *GAICD, MAMI*

Executive Manager Branch Operations

Mr Mersey has had an extensive background in Credit Unions since 1981 and held various Management and Executive roles with those institutions. Mr Mersey is responsible for the branch operations and delivery of performance targets to meet strategic objectives of the Credit Union in so far as they relate to member services. Joined Holiday Coast Credit Union – June 2009.

Jann Denice Zycki

Executive Manager Brand

Mrs Zycki has had an extensive background initially in a building society and since October 1991 with Holiday Coast Credit Union. Mrs Zycki is responsible for the Brand including the marketing and brand image of the Credit Union including branch premises design and presentation. Mrs Zycki maintains close contact with market research counterparties and with Canstar Cannex to achieve peer recognition of the Credit Union products and services. Joined Holiday Coast Credit Union - October 1991.

Karen Roods

Executive Manager People

Mrs Roods is accountable for the overall Human Resources Management and Training for the Credit Union. This responsibility includes planning, directing and implementing personnel strategies, policies and training programs that enhance the quality of staff and promote an effective organisation structure and environment for achieving the credit union's strategic objectives. Joined Holiday Coast Credit Union – February 1999.

RISKS ASSOCIATED WITH THE SECURITIES

The following are specific risks associated with an investment in Member Investment Securities. These risks arise from the terms of the Securities as well as general business and economic risks affecting Holiday Coast Credit Union.

RISK THAT MAXIMUM ANNUAL DIVIDEND RATE WILL CHANGE

The maximum annual dividend payable on Member Investment Securities is calculated by reference to the Bill Rate. As the Bill Rate varies, so does the maximum annual dividend payable on the Securities.

RISK THAT MAXIMUM ANNUAL DIVIDEND WILL NOT BE PAID

Holiday Coast Credit Union is a mutual and the principles of mutuality restrict the Credit Union under Australian Securities and Investments Commission (ASIC) Regulatory Guide 147 (RG 147) – Mutuality – Financial Institutions to distributing no more than 50% of profit under the economic relationship test at RG147.39.

Amendments to the Corporations Act (effective 1 Jul 2010) S254 T provide:

(1) A company must not pay a dividend unless:

> *(a) the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend; and*
>
> *(b) the payment of the dividend is fair and reasonable to the company's shareholders as a whole; and*
>
> *(c) the payment of the dividend does not materially prejudice the company's ability to pay its creditors.*

(2) Assets and liabilities are to be calculated for the purposes of this section in accordance with accounting standards in force at the relevant time (even if the standard does not otherwise apply to the financial year of some or all of the companies concerned).

The Board has set a Dividend Payment Ratio limit of 30% of profit, after tax and before dividend, being available to be distributed as a dividend payment.

Dividends payable on the Member Investment Securities are payable at the Board's discretion. Some of the circumstances in which the Board will pay a reduced dividend, or no dividend at all, include:

- Where the Credit Union has insufficient profit during a financial year to pay dividends on the Securities: and
- Where payment of a dividend would cause the Credit Union to breach any prudential standard issued by APRA

Dividends can only be paid on the Member Investment Securities out of the relevant financial year's profits.

If Holiday Coast Credit Union does not pay the maximum annual dividend on the Securities in one year, it cannot make up the shortfall in later years. However, if the Credit Union does not pay the maximum dividend on the Securities in one year, it will not be able to pay any dividends for the same year on shares ranking behind the Securities in relation to entitlement to dividend.

RISK ON WINDING UP

Member Investment Securities are not deposits and are not secured against the Credit Union's assets nor via the Federal Government Deposit Guarantee.

If Holiday Coast Credit Union is ever wound up, members with Member Investment Securities will only be entitled to a return of the amount they paid on subscribing for the Securities after all depositors and other creditors have been paid. Holders of Member Investment Securities will be paid the amount paid up on the Securities before holders of Member Shares are entitled to payment of any surplus.

RISK ON SALE

A member with Member Investment Securities will only be allowed to sell (or transfer) the Securities to Eligible Members, being people who have been members of the Credit Union for at least 6 months. This means that, if an investor wishes to sell their Securities, the number of eligible buyers will be limited.

Holiday Coast Credit Union gives no assurances that Members will be able to find an Eligible Member willing to buy at the price at which the member wants to sell. Prices may fluctuate depending on a range of factors including:

- Whether the Credit Union will be able to pay dividends on the Securities;
- The value of those dividends relative to returns on other investments;
- The risk of the Credit Union being wound up and not having sufficient assets to repay amounts that members originally paid on issue of the Securities; and
- The amount of fees or taxes payable on the transfer of the Member Investment Securities.

The Credit Union has no obligation to redeem or buy back the Securities. However, if a member holding Securities dies, the Credit Union has the discretion, subject to APRA approval, to redeem the Securities by repaying the amount the member paid on subscribing for the Securities. The Credit Union is not obliged to do so.

RISK OF NEW ISSUES

The Credit Union may issue other Member Investment Securities with the same or different dividend rates in the future. It may also issue securities that rank ahead of, equally, or behind the Member Investment Securities for payment of dividends or payments on winding up. However, the Credit Union will need the approval of Members and APRA to issue any further Member Investment Securities or any new form of security.

RISKS ASSOCIATED WITH THE CREDIT UNION

As explained above, Holiday Coast Credit Union will not pay dividends if it does not satisfy certain criteria, one of which is profitability and another is adequacy of prudential capital holdings. The Credit Union's financial performance may also have an impact on the amount payable on Member Investment Securities if the Credit Union is wound up.

The following are risks that may affect Holiday Coast Credit Union's financial performance and, hence, its ability to pay dividends and the risk of it being wound up.

ECONOMIC CONDITIONS

Changes in economic conditions, both domestic and global, may affect Holiday Coast Credit Union's performance. As the Credit Union's operations are centred primarily on the Holiday Coast and Maitland areas, changes in local economic conditions may also affect the Credit Union's performance. Some of these factors may be:

- Competition with existing and new providers of financial services
- Levels of inflation and employment
- Funding costs for retail and wholesale deposits

GOVERNMENT POLICIES LEGISLATION AND REGULATION

Changes to government policy in relation to taxation, supervision and regulation of credit unions and the financial services industry generally may affect Holiday Coast Credit Union's financial performance.

The global Basel III capital reforms and the recently announced by APRA required regulatory capital changes have increased the capital requirements and such increased capital levels will require increased profitability to grow and retain the heightened prudential capital prescribed for Holiday Coast Credit Union.

BUSINESS RISKS AFFECTING FINANCIAL SERVICES PROVIDERS

A number of business risks specific to financial services providers may adversely affect the Credit Union's financial performance. These include:

- Movements in prevailing interest rates;
- Reduction in the interest margin, being the differential between interest rates charged on loans compared to the interest rates paid on deposits;
- An increase in the numbers of members who cannot repay loans or meet their obligations to the Credit Union; and
- Any difficulties the Credit Union may at some future time have in refinancing its current borrowings.

Reserve Bank of Australia continually monitors changes in the economic climate and may change the Official Cash Rate and thus short-term interest rates without notice. Any change in those interest rates may result in a reduction of interest rate margins and may affect Holiday Coast Credit Union's financial performance.

OPERATIONAL RISKS

Holiday Coast Credit Union may incur unexpected losses arising from the way in which it conducts its business operations or from the way in which other credit unions that have merged into Holiday Coast Credit Union conducted business operations in the past. These losses may arise from litigation against the Credit Union or action by regulators.

INSURANCES

Certain operational risks within Holiday Coast Credit Union's business cannot be insured. If a claim is made against the Credit Union in relation to the conduct of the business, which is not covered by insurance, the Credit Union may incur unexpected losses.

FRAUD

The Credit Union has a number of systems in place to prevent the occurrence of fraud including Internet and card fraud. However, like all providers of financial and banking services, the Credit Union may be subjected to various forms of fraud, including the obtaining of confidential Member information and unsolicited third party emails to Members. The occurrence of any fraud may result in the Credit Union incurring unexpected losses.

KEY STAFF

There are several members of the senior management team who have been employed with Holiday Coast Credit Union for a significant number of years and who have directly contributed to the Credit Union's success. If these individuals were to leave the Credit Union suitable replacements with the same experience and knowledge of the Credit Union and its communities may not be found.

UNKNOWN OR FUTURE EVENTS

Holiday Coast Credit Union has prepared this Statement based on information known to the Credit Union and its Board as at the date of this Offer. Thus, the Credit Union's financial performance may be affected by events not known to it or its Board as at the date of this Offer, or through events that occur in the future. The Credit Union cannot identify or predict all future events that may affect its financial performance.

RISKS ASSOCIATED WITH THE MARKET

FSR LICENCING

The Credit Union presently handles the settlement of trades on the Trading Market, and the Credit Union has been granted an amendment to its Australian Financial Services Licence 240782 to permit the Credit Union to deal in securities with retail clients.

LOW VOLUME FINANCIAL MARKET

It is a condition of the low volume financial market on which Member Investment Securities are traded, that not more than 100 completed transactions having a total value (measured by sale price) of not more than $500,000 have been entered into in any rolling 12 month period. If this limit is reached, Holiday Coast Credit Union, as the Trading Market operator will disallow any further transactions until the restriction period expires. Following the restriction period, trade in Member Investment Securities will resume, but subject to the Exemption Notice limitations.

However, in this event the Credit Union will seek to find an alternative market upon which the Member Investment Securities can be traded.

LIQUIDITY

There is no guarantee that the Trading Market will create a liquid secondary market in Member Investment Securities. There are relatively few trades on the Trading Market and historically there have been only a few buyers and sellers in the market at any one time. The Trading Market will only open on the first Business Day (as defined in the Business Rules) of each week although orders may be submitted on any Business Day.

The Trading Market involves trading in the Securities only. The success of the Market is tied to the success of the Credit Union. The Market is not intended to cater to portfolio investment, except to the extent that investment in Member Investment Securities can form part of an investment portfolio.

NO BROKERS INVOLVED

When a Member places an order to buy or sell Member Investment Securities, the order will be available for execution for up to 2 months. No broker will monitor the order to assess whether the order reflects the current market price for the Securities. If members wish to check the current market prices and orders, these are available on the Credit Union website. Members may amend or cancel orders at any time before execution of the order by completing a Cancellation/Variation Form. The amendment or cancellation will not be effective until that form is accepted at the Credit Union branch.

SETTLEMENT RISK

Settlement risk is the risk that the buyer will not pay or that the seller will not deliver the Securities pursuant to the market transaction. The settlement risk for the Trading Market has been reduced by requiring all sellers to deliver the Securities when the order is lodged and all buyers to give an irrevocable instruction to debit their account with the Credit Union for amounts payable on settlement.

On settlement, the Credit Union will credit the sale proceeds (less the stamp duty and other taxes) to the account of the seller. The Credit Union will debit the purchase price (plus the registration fee, stamp duty and other taxes) from the account of the buyer.

If, for any reason other than the fraud or negligence of the Credit Union, settlement does not occur, the Business Rules provide that the Credit Union is not responsible for that settlement failure. For example, if settlement fails because of the insolvency of a buyer or seller, the non-defaulting party will have no recourse against the Credit Union but may have legal recourse against the other party.

DIRECTORS' POWER TO REFUSE REGISTRATION OF TRANSFER

The Directors of the Credit Union may, in accordance with the Constitution of the Credit Union, refuse to register a transfer of Securities in certain circumstances. For example, registration may be refused if the 15% ownership limit under the *Financial Sector (Shareholdings) Act 1998 (Cth)* is breached. If the Directors of the Credit Union decide to refuse to register a transfer of Securities, then the sale of the relevant Securities is cancelled and the buyer and seller will be notified.

MARKET SUSPENSION AND TERMINATION

Under the Business Rules the Trading Market may be suspended in some circumstances. During a suspension, orders will not be accepted but orders may be cancelled or varied. No orders will be matched during a suspension.

The operation of the Trading Market by the Credit Union may be terminated in certain circumstances. There is a risk that the Trading Market may cease to operate and that holders of Securities will have to make other arrangements to sell their Securities.

NO ACCESS TO NATIONAL GUARANTEE FUND

Investors who use the Trading Market will not have access to the National Guarantee Fund which is administered by the Australian Stock Exchange (ASX) and available in some circumstances to compensate investors who deal on ASX's markets. The ASX is not involved in the operation of the Trading Market in any way.

CORPORATE GOVERNANCE STATEMENT

The Board of Holiday Coast Credit Union has a clear view of its governance responsibilities and believes it has the necessary experience, skills and mix of people to oversee the development of the higher standards of corporate integrity and accountability required of a professional and ethical organisation. There is a clearly accepted division of responsibilities at the head of the Credit Union, which ensures a balance of power and authority.

The ultimate responsibility for the sound and prudent management of Holiday Coast Credit Union rests with the Board of Directors in accordance with the Australian Prudential Regulation Authority (APRA) prudential standard APS 510 - Governance. The key responsibilities of the Board include:

1. STRATEGY AND POLICY

- Approving and regularly reviewing a formal Board Charter, setting out the roles and responsibilities of the Board.
- Approving the strategic direction of Holiday Coast Credit Union.
- Monitoring the implementation of current strategic initiatives to ensure they are on schedule, on budget and producing effective results.
- Ensuring all major business risks are identified and appropriate policies are in place to effectively manage those risks.
- Approving major decisions and, where appropriate, making recommendations to members via general meetings.
- Delegating and monitoring appropriate authority to the Chief Executive Officer and to management, and clearly documenting such delegation.
- Overseeing the establishment and maintenance of effective reporting systems and internal controls.
- Communicating appropriately with key stakeholders.
- Ensuring an effective committee structure is in place to support the Board in its decision making process.
- Reviewing Board processes and effectiveness, including succession planning for the Board and key executives.
- Ensuring that directors and senior management collectively have the full range of skills required, and that each director has the skills needed to make an effective contribution to the Board.

2. BUDGETING AND PLANNING

- Approving the annual operating and capital budget and monitoring the financial performance of the Credit Union.
- Ensuring regulatory compliance.
- Ensuring compliance with the prudential and solvency requirements of the Australian Prudential Regulation Authority (APRA).
- Selecting and determining remuneration of the external auditor.
- Overseeing both the internal and external audit processes and reviewing the implementation of management's actions in audit matters.
- Ensuring that appropriate compliance and risk management systems are in place and monitoring the effectiveness of those systems.

3. KEY PERSONNEL

Appointing, monitoring and reviewing the performance of the Chief Executive Officer.

4. REPORTING TO SHAREHOLDERS

- Approving reports and announcements to members.
- Planning the Annual General Meeting of members.

BOARD COMMITTEES

To allow Board members adequate time to concentrate on strategy, planning and enhancement of Holiday Coast Credit Union's performance, the Board has delegated specific duties to Board Committees. To this end the Board has established six Board committees with specific terms of reference. The structure, membership and terms of reference of each of these committees are reviewed at least annually. The Board also appoints a Director to the Asset & Liability Committee (ALCO) and in August 2011 has decided to appoint a Director to the Credit Committee.

The Board Committees are as follows:

- Governance Committee
- Audit Committee
- Budget & Performance Committee
- Risk Committee
- Remuneration & Succession Planning Committee
- Director Nominations Committee

BOARD APPRAISAL

Directors are committed to regular and objective assessment of Directors' individual and collective performance to ensure maximum effectiveness of the Board is maintained for the overall benefit of Holiday Coast Credit Union.

The Board formally reviews its performance on an annual basis, and at least every two years, engages an independent corporate governance specialist to assist with this process.

The 2011 Board Performance Review has been undertaken by Kate Costello from Governance Matters and the report back was received by the Board at its meeting held 22 August 2011.

The detailed Corporate Governance Statement can be found on the Holiday Coast Credit Union website at: ***http://www.hccu.com.au/***

REGULATION

Holiday Coast Credit Union is governed by legislation administered, in the main, by ASIC and APRA.

ASIC regulates advising, selling and disclosure of financial products and services including credit products and services to consumers so they have adequate information, are treated fairly and have adequate avenues for redress. ASIC strives to protect markets and consumers from manipulation, deception and unfair practices. In addition it is also the company law watchdog, promoting honesty and fairness in securities and in company affairs.

APRA, the prudential regulator, sets standards (including capital requirements) for the prudent management of authorised deposit-taking institutions, including credit unions, building societies and banks, to maximise the likelihood that they remain financially sound and able to meet their obligations to depositors.

Holiday Coast Credit Union ensures compliance with all of its regulatory obligations and carries out regular risk management appraisals to ensure that it maintains the highest levels of regulatory compliance. This includes:

- Ensuring staff are trained to comply with the competency standards set by ASIC for the provision of financial product advice;
- Maintaining risk management policies and procedures to ensure compliance with APRA prudential standards: and
- Maintaining a 'fit and proper' policy as required by APRA to assess the fitness and propriety of individuals who are defined as 'responsible persons' within the Credit Union. The policy addresses whether the person has the necessary technical competence for the position through reference to attributes such as knowledge, skills, and experience, and whether the individual is of good fame and character, through reference to attributes such as diligence, honesty, integrity, and reputation of the person.

TRADING MARKET OPERATIONS

IMPACT OF BOOKS CLOSING DATE ON DIVIDEND PAYMENTS

When the Credit Union declares a dividend in respect of the Securities, it will specify a date on which the persons entitled to the dividend are determined, known as the 'Books Closing Date'. Only persons registered as holders of the securities on the Books Closing Date are entitled to the dividend. To assist with this process, the Business Rules of the Trading Market provide that all Market Transactions effected in the 7 Business Days before and including the Books Closing Date will be settled after the Books Closing Date.

As the price of the securities may fall in the 7 Business Day period before the Books Closing Date, a member may specify in the Order Form that a different price applies from the start of that period. In order to protect the member, unless the member has specified a price to apply from the start of that period, the Order will be cancelled.

MATCHING OF ORDERS AND OBLIGATIONS OF BUYERS AND SELLERS

When a buy order is matched with a sell order, a binding contract ('Market Transaction') arises between the buyer and the seller. Sell orders and buy orders will be matched in a way which gives the seller the best obtainable price, based on the operator of the Trading Market at that time. Two examples of this process are set out below.

Example 1 Suppose there is one Sell Order for 500 Securities at $1.00 and two Buy Orders, the first for 300 Securities at $1.05 and the second for 400 Securities at $1.00. In this case, the first Buy Order at $1.05 would be filled first. The Seller would, therefore, have sold 300 Securities at $1.05 and 200 Securities at $1.00.

Example 2 Suppose there is one Sell Order for 500 Securities at $1.00 and two Buy Orders, the first for 300 Securities at range $0.97 to $1.03 and the second for 400 at range $0.95 to $1.05. In this case, the second Buy Order at $1.05 would be filled first. The balance would then be matched with the first Buy Order at the highest price in the range. The Seller would therefore have sold 400 Securities at $1.05 and 100 Securities at $1.03.

On settlement, the buyer must pay to the seller the purchase price and the seller must deliver the Securities to the buyer, free of any encumbrance. In addition to these obligations the buyer and seller must each pay the registration fee to the Credit Union and any stamp duty and any other applicable taxes. The Business Rules provide that settlement of all obligations must occur on or before the third business day after a Market Transaction is executed.

FEES

Member Investment Securities traded on the Trading Market incur a transfer fee of $30 (GST inclusive) payable by the seller and a registration fee of $30 (GST inclusive) payable by the buyer. This fee does not apply to any securities traded privately.

STAMP DUTY AND TAXES

Stamp duty on transfers of unlisted shares has been abolished in most States and Terretories but still attracts duty in NSW until 01 July 2012 when the duty will cease to exist. The current rate of duty in NSW is 60 cents for every $100 (and also any fractional part of $100, subject to a minimum duty of $10) of the unencumbered value of, or the price paid for, the shares, whichever is the greater. It is a condition of the use of the Trading Market that any stamp duty is payable by both the buyer and the seller in equal shares.

Stamp duty payable by the seller will be deducted from the sale proceeds at settlement. Stamp duty payable by the buyer will be debited from the purchaser's account at settlement.

The Credit Union is not responsible for any taxes payable in connection with a Market Transaction. Under the Rules, the buyer and sellers indemnify Holiday Coast Credit Union for any liability they incur for taxes incurred by them in connection with the Trading Market.

CONSTITUTION AND BUSINESS RULES

The Credit Union's Constitution is available from the Credit Union or on the Credit Union's website at ***www.hccu.com.au/***

A copy of the Trading Market Business Rules can be obtained from any branch of the Credit Union and are available on the Credit Union website.

EXPENSES OF THE OFFER

The total expenses of the Offer, including printing, ASIC fees and consultants fees to be paid by the Credit Union are estimated to be approximately $36,000.

LANGES+

Langes+ are appointed as Solicitors to the Credit Union. They will be paid fees totalling $25,000 (plus GST).

AUDITOR AND INDEPENDENT ACCOUNTANTS

Northcorp Accountants is Auditor to the Credit Union and will receive $4,500 (plus GST) for advice on matters arising in connection with the financial content of the Offer Information Statement.

FINANCIAL INFORMATION

Holiday Coast Credit Union Ltd
ABN 64 087 650 164
AFSL & ACL No. 240782

Financial Report for the Year Ended

30 June 2011

NorthCorp
accountants

PARTNERS
Mark Hatherly B Com FCA
Winifred Gibson FTIA Affiliate ICAA
Robert Magnussen B Bus CA
Paul Fahey B Bus CA
Rodney Smith B Fin Admin CA
Tony Faulder B Com CPA Affiliate ICAA
Bart Lawler B Com CA

AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF HOLIDAY COAST CREDIT UNION LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

NorthCorp Accountants

Robert Magnussen
Partner

51 Cameron Street
Wauchope NSW 2446

Dated: 31st August 2011

COVER OF EXCELLENCE

Chartered Accountants

Chartered Accountants
51 Cameron Street, PO Box 75, Wauchope NSW 2446
T 02 6588 4444 F 02 6585 2238 E northcorp@northcorp.com.au www.northcorp.com.au

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $'000	2010 $'000
Interest revenue	2 (a)	**32,087**	27,236
Interest expense	2 (c)	**(18,486)**	(13,807)
Net interest income		**13,601**	13,429
Other income	2 (b)	**3,324**	3,913
Net operating income		**16,925**	17,342
Non-interest expenses			
Impairment losses on loans and advances	2 (d)	**(431)**	(392)
Employee benefits expense	2 (e)	**(7,155)**	(7,042)
Depreciation and amortisation expense	2 (f)	**(973)**	(875)
Other expenses	2 (g)	**(6,782)**	(6,119)
Total non-interest expenses		**(15,341)**	(14,428)
Profit before income tax		**1,584**	2,914
Income tax expense	4 (a)	**(418)**	(739)
Profit after income tax		**1,166**	2,175
Other comprehensive income			
Transferred realised gains to other income	2 (h)	**-**	(238)
Other comprehensive income for the year, net of tax		**-**	(238)
Total comprehensive income for the year		**1,166**	1,937
Profit attributable to members of the Credit Union		**1,166**	2,175
Total comprehensive income attributable to members of the Credit Union		**1,166**	1,937

Statement of Financial Position

AS AT 30 JUNE 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
Cash and cash equivalents	5	**8,953**	13,557
Advances to other financial institutions	6	**59,023**	62,796
Receivables	7	**1,353**	1,098
Investments	8	**935**	1,935
Loans and advances to members	9,10	**378,103**	339,985
Property, plant and equipment	11	**4,728**	4,899
Taxation assets	12	**912**	783
Intangible assets	13	**136**	171
TOTAL ASSETS		**454,143**	425,224
LIABILITIES			
Borrowings	14	**6,000**	6,000
Deposits from other financial institutions	15	**1,500**	-
Deposits from members	16	**399,133**	372,533
Payables, accruals and settlement accounts	17	**8,698**	8,339
Taxation liabilities	18	**448**	895
Provisions	19	**1,515**	1,505
Subordinated debt	20	**5,000**	5,000
TOTAL LIABILITIES		**422,294**	394,272
NET ASSETS		**31,849**	30,952
EQUITY			
Permanent share capital	21	**3,279**	3,279
Redeemed share capital account	22	**259**	236
Reserves	23	**1,639**	1,470
Retained profits		**26,672**	25,967
TOTAL EQUITY		**31,849**	30,952

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2011

2010	Contributed equity $'000	Redeemed share capital account $'000	Asset revaluation reserve $'000	General reserve for credit losses $'000	Other reserve for credit losses $'000	Retained profits $'000	Total $'000
Balance at 1 July 2009	3,279	216	959	1,407	101	23,295	29,257
Profit attributable to members of the Credit Union	-	-	-	-	-	2,175	2,175
Other comprehensive income	-	-	(238)	-	-	-	(238)
Total comprehensive income for the year	-	-	(238)	-	-	2,175	1,937
Transfers to and from reserves	-	-	-	(707)	(52)	759	-
Redeemable withdrawable shares movement	-	20	-	-	-	(20)	-
Dividend paid or provided	-	-	-	-	-	(242)	(242)
Balance at 30 June 2010	3,279	236	721	700	49	25,967	30,952
2011							
Balance at 1 July 2010	**3,279**	**236**	**721**	**700**	**49**	**25,967**	**30,952**
Profit attributable to members of the Credit Union	**-**	**-**	**-**	**-**	**-**	**1,166**	**1,166**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**1,166**	**1,166**
Transfers to and from reserves	**-**	**-**	**-**	**200**	**(31)**	**(169)**	**-**
Redeemable withdrawable shares movement	**-**	**23**	**-**	**-**	**-**	**(23)**	**-**
Dividend paid or provided	**-**	**-**	**-**	**-**	**-**	**(269)**	**(269)**
Balance at 30 June 2011	**3,279**	**259**	**721**	**900**	**18**	**26,672**	**31,849**

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $'000	2010 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**32,013**	26,983
Other non-interest income received		**3,475**	4,312
Dividends received		**164**	117
Finance costs		**(17,554)**	(13,349)
Payments to suppliers and employees		**(15,246)**	(13,046)
Income tax paid		**(994)**	(135)
Changes in operating assets and liabilities:			
Net (increase) / decrease in member loans		**(38,301)**	(7,253)
Net (increase) / decrease in deposits with other financial institutions		**3,773**	(10,418)
Net increase / (decrease) in deposits from other financial institutions		**1,500**	-
Net increase / (decrease) in members deposits		**26,600**	9,491
Net cash provided by / (used in) operating activities	37(c)	**(4,570)**	(3,298)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment		**1,000**	-
Purchase of property, plant and equipment		**(784)**	(1,219)
Proceeds from sale of property, plant and equipment		**120**	190
Purchase of intangible assets		**(104)**	(27)
Net cash provided by / (used in) investing activities		**232**	(1,056)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from / (repayment of) borrowings		**-**	4,000
Dividends paid		**(266)**	(219)
Net cash provided by / (used in) financing activities		**(266)**	3,781
Total net increase / (decrease) in cash held		**(4,604)**	(573)
Cash at the beginning of the financial year		**13,557**	14,130
Cash at the end of the financial year	37(a)	**8,953**	13,557

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are for Holiday Coast Credit Union Ltd ("the Credit Union") as an individual entity. Holiday Coast Credit Union Ltd is a company limited by shares, incorporated and domiciled in Australia.

Basis of preparation
The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Financial instruments

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Credit Union commits itself to either the purchase or sale of the asset.

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement
Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between the initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Credit Union's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. They are subsequently measured at fair value with changes in fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment
At the end of each reporting period, the Credit Union assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

Derecognition
Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Credit Union no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks and other financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within borrowings in the Statement of Financial Position.

(c) Loans and advances to members

Basis of inclusion
All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost less any provision for impairment. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the effective life of the loans using the effective interest method.

Interest earned
Term Loans – The loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a member’s account on the last day of each month.

Overdrafts –The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Non-Accrual Loan Interest – Accrual of loan interest may be stopped on any loan when the loan has been written off, or where the Credit Union believes the recovery of interest is not expected. The Credit Union monitors non-accrual loans on a monthly basis.

Loan origination fees and discounts

Loan establishment fees are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan. The amounts brought to account are recognised as interest revenue. Transaction costs that relate to, and are direct and incremental to the establishment of the loan, are deferred and brought to account as a reduction to income over the expected life of the loan. The expected lives of mortgage, personal and commercial loans are reviewed semi-annually and adjusted to reflect changes in trends in the actual life of loans per category. These adjustments may accelerate or decelerate the amortisation rate of the deferred origination fee revenue.

(d) Loan impairment

Specific and collective provision for impairment

A provision for losses on impaired loans is recognised at the end of the reporting period when there is objective evidence that the impairment of a loan has occurred. 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 on the borrower. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are set out in Note 10(d). Note 27 details the credit risk management approach for loans.

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages of the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provision for impairment.

General reserve for credit losses
In addition to the above specific and collective provision, the Board has recognised the need to make an allocation from retained profits to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The Credit Union's general reserve for credit losses is based on estimated future credit losses determined using a statistical model incorporating historical data, current data and projected scenarios.

Renegotiated loans
Where possible, the Credit Union seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

(e) Bad debts written off

Bad debts are written off from time to time as determined by the Board of Directors on recommendation by management when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the specific or collective provisions for impairment if a provision for impairment had previously been recognised. If no provision had been recognised, the write-offs are recognised as an expense in the Statement of Comprehensive Income.

(f) 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 shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based upon periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Increases in the carrying amount arising on revaluation of land and buildings are credited to an asset revaluation reserve in equity. Decreases that offset previous increases of the same asset are recognised against fair value reserves directly in equity; all other decreases are recognised in profit or loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment: Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment loss relates to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(t) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation

Depreciation on property, plant and equipment is recognised in profit or loss. The depreciable amount of all fixed assets including buildings, but excluding freehold land, is depreciated on a straight line basis over the asset's useful life 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 period of the lease or the estimated useful lives of the improvements. The depreciation rates used for each class of depreciable asset are:

Class of fixed asset	***Depreciation rate***
Buildings and improvements	2.50% - 33.33%
Leasehold improvements	7.50% - 33.33%
Plant and equipment	7.50% - 33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Comprehensive Income. When revalued assets are sold, amounts included in the asset revaluation reserve relating to that asset are transferred to retained earnings.

(g) Advances to other financial institutions

Term deposits have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the Statement of Financial Position.

(h) Investments

Investments in shares where a market value is readily available are revalued to market value, with the gains and losses reflected in other comprehensive income.

Investments in shares that do not have a ready market and are not capable of being reliably valued are recorded at cost less any provision for impairment. All investments are in Australian currency.

(i) Deposits from members

Basis for determination

Member savings and term investments are quoted at the aggregate amount of money owing to depositors.

Interest payable

Interest on members' deposits is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accruals basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of payables, accruals and settlement accounts in the Statement of Financial Position.

(j) Borrowings

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

(k) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Credit Union during the reporting period which remained unpaid. The Credit Union pays trade and other payables by the required due date.

(l) Employee benefits

Provision is made for the Credit Union's liability for 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 for those benefits.

Superannuation contributions

Contributions are made by the Credit Union to employees' superannuation funds and are expensed when incurred.

(m) Provisions

Provisions are recognised when the Credit Union has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(n) Leasehold on premises

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

(o) Income tax

The income tax expense for the year comprises current income tax expense and deferred tax expense. Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities are measured at the amounts expected to be paid to the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the realised asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. All revenue is stated net of the amount of goods and services tax (GST).

Dividend and interest revenue

Dividend revenue is recognised when the right to receive the dividend has been established.

Interest revenue is recognised using the effective interest rate method.

(q) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(s) Intangibles assets

Software

Items of computer software that are not integral to the computer hardware owned by the Credit Union are classified as intangible assets.

Computer software held as intangible assets is amortised over the expected useful life of the software, which is generally determined to be between 3 and 5 years.

Other Intangibles

Other intangibles with a finite useful life are amortised on a straight-line basis over the period equal to management's best estimate of the expected useful life.

(t) Impairment of assets

At the end of each reporting period, the Credit Union assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(u) Rounding of amounts

The Credit Union has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial statements and Directors' Report have been rounded off to the nearest $1,000, unless otherwise indicated.

(v) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current year.

(w) Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Credit Union.

Key estimates

Impairment

In determining value-in-use of the cash generating unit, projected future cash flows are discounted using a risk adjusted pre-tax discount rate of 15.43%. The present value calculation is applied to a forecast period of 5 years. A budgeted growth rate of 2.5% has been applied to years 2 and 3 and a growth rate of 5% to subsequent years. Should the projected revenue cash flows be within 82% of budgeted revenues there would be no impairment loss required to be recognised against the carrying value of plant and equipment and intangibles of $2,758,000. Estimation has been exercised when applying the Credit Union's accounting policies with respect to impairment provisions for loans – refer Note 10.

Key judgment

Recoverable amount of held-to-maturity financial assets

The recoverable amount of held-to-maturity financial assets is determined by discounting future cash flows using the effective interest rate. Judgment has been used to determine the timing of the future cash flow.

(x) New Accounting Standards for application in future periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Credit Union has decided not to early adopt. A discussion of those future requirements and their impact on the Credit Union is as follows.

AASB 9: Financial Instruments (December 2010). Applicable for annual reporting periods beginning on or after 1 January 2013. This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Credit Union has not yet determined any potential impact on the financial statements.

AASB 124: Related Party Disclosures. Applicable for annual reporting periods beginning on or after 1 January 2011. This Standard clarifies the definition of a related party to remove inconsistencies and simplify the structure of the Standard. The changes are not expected to materially affect the Credit Union.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements. Applicable for annual reporting periods beginning on or after 1 July 2013. AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

The following entities are required to apply Tier 1 reporting requirements (i.e. full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Credit Union is a financial institution and a disclosing entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2009-12: Amendments to Australian Accounting Standards. Applicable for annual reporting periods beginning on or after 1 January 2011. This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The amendments are not expected to impact the Credit Union.

AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement. Applicable for annual reporting periods beginning on or after 1 January 2011. This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This Standard is not expected to impact the Credit Union.

AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project. Applicable for annual reporting periods beginning on or after 1 January 2011. This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvement project. This Standard is not expected to impact the Credit Union.

AASB 2010-5: Amendments to Australian Accounting Standards. Applicable for annual reporting periods beginning on or after 1 January 2011. This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

AASB 2010-6: Amendments to Australian Accounting Standards- Disclosures on Transfers of Financial Assets. Applicable for annual reporting periods beginning on or after 1 July 2011. This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010). Applicable for annual reporting periods beginning on or after 1 January 2013. This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the Credit Union adopts AASB 9. As noted above, the Credit Union has not yet determined any potential impact on the financial statements from adopting AASB 9.

AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets. Applicable for annual reporting periods beginning on or after 1 January 2012. This Standard makes amendments to AASB 112: Income Taxes. The amendments are not expected to impact the Credit Union.

AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters. Applicable for annual reporting periods beginning on or after 1 July 2011. This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards. The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards. This Standard is not expected to impact the Credit Union.

AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters. Applicable for annual reporting periods beginning on or after 1 January 2013. This Standard makes amendments to AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7. The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date. This Standard is not expected to impact the Credit Union.

(y) Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 31 August 2011.

	Notes	2011 $'000	2010 $'000
NOTE 2: NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME			
(a) Analysis of interest revenue - by category of interest bearing assets			
Cash - deposits at call		**427**	115
Advances to other financial institutions		**3,646**	3,228
Loans and advances to members		**28,014**	23,893
TOTAL INTEREST REVENUE		**32,087**	27,236
(b) Analysis of other income			
Other fee income		**2,322**	2,544
Insurance commissions		**467**	501
Other commissions		**227**	322
Dividends received from Cuscal Ltd		**164**	117
Bad debts recovered	10(c)	**49**	36
Profit on disposal of assets - property, plant and equipment		**13**	54
Other revenue		**82**	339
TOTAL OTHER INCOME		**3,324**	3,913
(c) Analysis of interest expense - by category of interest bearing liabilities			
Borrowings		**502**	273
Deposits from other financial institutions		**37**	26
Deposits from members		**17,510**	13,119
Overdraft		**7**	8
Subordinated debt		**430**	381
TOTAL INTEREST EXPENSE		**18,486**	13,807
(d) Impairment losses on loans and advances			
Increase in provision for impairment		**366**	292
Bad debts written off directly against profit	10(c)	**65**	100
TOTAL IMPAIRMENT LOSSES ON LOANS AND ADVANCES		**431**	392
(e) Employee benefits expense			
Salaries and wages		**5,583**	5,307
Net movement in provisions for employee benefits		**(50)**	172
Superannuation		**494**	471
Other		**1,128**	1,092
TOTAL EMPLOYEE BENEFITS EXPENSE		**7,155**	7,042
(f) Depreciation and amortisation expense			
Depreciation of property, plant and equipment			
- buildings		**67**	67
- plant and equipment		**469**	428
- freehold and leasehold improvements		**298**	235
		834	730
Amortisation of intangible assets			
- computer software		**137**	142
- other intangibles		**2**	3
		139	145
TOTAL DEPRECIATION AND AMORTISATION EXPENSE		**973**	875

	Notes	2011 $'000	2010 $'000
NOTE 2: NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME - continued			
(g) Other expenses from ordinary activities			
Loss on disposal of plant and equipment		**11**	24
Impairment losses (reversals) – investments		**-**	(80)
Remote access and service costs		**1,656**	1,377
General administration		**840**	947
EDP expenses		**1,453**	1,368
Occupancy expenses		**1,184**	1,108
Marketing and promotion		**753**	539
Membership protection and benefits		**735**	704
Other expenses		**150**	132
TOTAL OTHER EXPENSES FROM ORDINARY ACTIVITIES		**6,782**	6,119

(h) Significant Revenue and Expenses

The following significant revenue and expense items are relevant in explaining the financial performance of the Credit Union:

	2011	2010
Realised gain on disposal of shares in associate	**-**	238

NOTE 3: AUDITOR'S REMUNERATION	**$**	$
Auditor's remuneration in actual whole dollars (excluding GST):		
- Audit fees	**75,000**	66,200
- Other services - taxation	**-**	2,350
- Other services - compliance	**10,000**	8,600
- Other services - other	**7,500**	6,810
TOTAL AUDITOR'S REMUNERATION	**92,500**	83,960

NOTE 4: INCOME TAX EXPENSE

(a) Income tax recognised in profit or loss

	2011	2010
The components of tax expense comprise:		
Current tax	**560**	857
Deferred tax	**(142)**	(118)
	418	739

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

	2011	2010
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2010:30%)	**475**	874
Add tax effect of:		
- other non-allowable items	**6**	4
Less tax effect of:		
- rebateable dividends	**(49)**	(35)
- capital profits not subject to income tax	**-**	(71)
- other	**(14)**	(33)
Income tax attributable to Credit Union	**418**	739
The applicable weighted average effective tax rates are as follows:	**26.39%**	25.36%

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $'000	2010 $'000
NOTE 5: CASH AND CASH EQUIVALENTS			
Cash on hand		**1,136**	1,419
Deposits at call		**7,817**	12,138
TOTAL CASH AND CASH EQUIVALENTS		**8,953**	13,557
NOTE 6: ADVANCES TO OTHER FINANCIAL INSTITUTIONS			
Deposits with industry bodies – Cuscal		**17,681**	16,806
Deposits with banks and other ADIs		**41,342**	45,990
TOTAL ADVANCES TO OTHER FINANCIAL INSTITUTIONS		**59,023**	62,796
NOTE 7: RECEIVABLES			
Interest receivable on advances to other financial institutions		**678**	605
Sundry debtors and settlement accounts		**310**	338
Prepayments		**365**	155
TOTAL RECEIVABLES		**1,353**	1,098
NOTE 8: INVESTMENTS			
Shares in unlisted companies – at cost			
- shares in Cuscal Ltd	8(a)	**935**	935
Callable range accrual note	8(b)	**-**	1,000
Less: impairment provision		**-**	-
		-	1,000
TOTAL INVESTMENTS		**935**	1,935

(a) Cuscal Ltd (Cuscal)

The shareholding in Cuscal is measured at cost. The fair value of the shares are not able to be determined as they are not traded in an active market. This company was created to supply services to the member Credit Unions. These shares are held to enable the Credit Union to receive essential banking services. (See Note 35).

The financial statements of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the 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 an active market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

The Credit Union has no intention to sell or dispose of these shares.

(b) Callable Range Accrual Note

The Credit Union purchased a 5 year callable corridor note linked to the 3 month AUD - BBR-BBSW on 31 January 2006 from the ANZ Bank for $1,000,000. This investment matured on 31 January 2011 and was redeemed at the maturity date.

	Notes	2011 $'000	2010 $'000
NOTE 9: LOANS AND ADVANCES TO MEMBERS			
(a) Amount due comprises			
Overdrafts and revolving credit		**9,517**	9,733
Term loans		**369,371**	330,854
Subtotal		**378,888**	340,587
Unamortised loan origination fees		**(181)**	(170)
Subtotal		**378,707**	340,417
Provision for impaired loans	10	**(604)**	(432)
Net		**378,103**	339,985

(b) Concentration of loans

The loan portfolio of the Credit Union does not include any loan that represents 10% or more of capital.

Loans to members are concentrated solely in Australia, and principally in the following regions:
NSW: 96% Other States: 4% (2010: NSW: 97% Other States: 3%)

		2011 $'000	2010 $'000
Loans by customer type			
Loans to natural persons:			
Residential loans and facilities		**305,180**	262,593
Personal loans and facilities		**27,260**	29,623
Business loans and facilities		**25,169**	27,559
Total loans to natural persons		**357,609**	319,775
Loans to corporations		**21,279**	20,812
Total Loans		**378,888**	340,587
(c) Credit quality – security held against loans			
Secured by mortgage over business assets		**14,067**	14,339
Secured by mortgage over real estate		**331,165**	289,294
Partly secured by goods mortgage		**17,164**	16,723
Other security		**8,390**	8,719
Wholly unsecured		**8,102**	11,512
Total Loans		**378,888**	340,587

It is not practicable to value all collateral as at the balance date due to the variety of assets and conditions.

		2011 $'000	2010 $'000
NOTE 10: PROVISION FOR IMPAIRED LOANS			
Total provision for impaired loans		**604**	432
(a) Movement in provision			
Balance at the beginning of year		**432**	492
Transfer from / (to) Statement of Comprehensive Income		**366**	292
Bad debts written off against provision		**(194)**	(352)
Provision balance at end of year		**604**	432
(b) The provision consists of:			
Prescribed provision required under the APRA Prudential Standards		**450**	350
Addition/(reduction) to specific provision		**154**	82
		604	432

	Notes	**2011 $'000**	2010 $'000
NOTE 10: PROVISION FOR IMPAIRED LOANS - continued			
(c) Impaired loans written off			
Amounts written off against the provision for impaired loans		**194**	352
Amounts written off directly to expenses	2(d)	**65**	100
Total bad debts expense		**259**	452
Bad debts recovered in period	2(b)	**49**	36

(d) Key assumptions in determining the provision for impairment

Individually significant loans

A facility is considered individually significant if it meets the following criteria:

(a) Any facility or group of facilities that exceeds $1,000,000;

(b) Any facility that exceeds $115,000 (an amount determined as potentially individually significant by Management) that has a loan to valuation ratio greater than 80% and is not covered by Loan Mortgage Insurance;

(c) Any overdraft facility that is over its contracted limit by greater than 1 day, or the outstanding balance is within 5% of its approved limit, and the current balance exceeds 10% of profit after tax; or

(d) Any facility identified in a group (collective) exposure later identified as being impaired on an individual basis.

The amount of impairment loss on individually significant loans was measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The value of security was considered as part of this process including an assessment of the relevance of the existing valuation in current market conditions.

The Credit Union determined that as a minimum facilities will be recognised as impaired under the following circumstances:

(a) A facility is 90 days past due unless otherwise well secured;

(b) A continuing credit facility exceeding its approved credit limit for 14 or more consecutive days;

(c) An entity to which facilities have been provided that is subject to administration or bankruptcy, unless otherwise well secured;

(d) A write off has been taken on a facility even if the facility is not in breach of contractual requirements; or

(e) Any off-balance sheet facility (guarantee or standby letters of credit) where it is unlikely that timely payment of the full amount outstanding, exchanged, or contracted will occur.

In the course of the preparation of the annual report the Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as 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.

Period of impairment	%
Up to 90 days	0
90 days to 181 days	40
182 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

NOTE 10: PROVISION FOR IMPAIRED LOANS - continued

(e) Analysis of impaired loans by class

2011	Carrying Value $'000	Impaired Loans $'000	Provision for Impairment $'000
Loans to Households			
Housing	**305,180**	**4,115**	**322**
Personal – term loans	**25,533**	**400**	**263**
Personal – revolving credit	**1,727**	**17**	**15**
Business	**25,169**	**-**	**-**
Total loans to households	**357,609**	**4,532**	**600**
Loans to corporations	**21,279**	**30**	**4**
Total Loans	**378,888**	**4,562**	**604**
2010			
Loans to Households			
Housing	262,593	1,477	154
Personal – term loans	26,689	428	225
Personal – revolving credit	2,934	63	45
Business	27,559	49	3
Total loans to households	319,775	2,017	427
Loans to corporations	20,812	5	5
Total Loans	340,587	2,022	432

Loans and advances may be unsecured, secured against residential property, or secured by bill of sale over motor vehicles or other assets of varying values. It is not practicable to determine the fair value of all collateral as at the end of the reporting period due to the variety of assets and conditions.

(f) Analysis of impaired loans by age of repayments outstanding

	2011 $'000 Impaired Loans	**2011 $'000 Provision for Impairment**	2010 $'000 Impaired Loans	2010 $'000 Provision for Impairment
Up to 90 days in arrears	**2,082**	**32**	550	17
90 to 181 days in arrears	**1,600**	**250**	484	165
182 to 270 days in arrears	**306**	**79**	665	103
271 to 365 days in arrears	**85**	**68**	196	72
Over 365 days in arrears	**479**	**166**	33	33
Overlimit facilities 14 days and over	**10**	**9**	94	42
Total	**4,562**	**604**	2,022	432

Impaired loans may be unsecured, secured against residential property, or secured by bill of sale over motor vehicles or other assets of varying values. It is not practicable to determine the fair value of all collateral as at the end of the reporting period due to the variety of assets and conditions.

	2011 $'000	2010 $'000

NOTE 10: PROVISION FOR IMPAIRED LOANS - continued

(g) Assets acquired via enforcement of security

	2011	2010
Real estate	-	-
Other	-	-
	-	-

The Credit Union did not obtain any financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees). In the event that the Credit Union takes possession of an asset that is not readily convertible into cash, the Credit Union may sell the asset at auction or by private treaty with the objective of obtaining maximum value. The Credit Union also has the discretion to retain the asset for use in its operations.

(h) Loans with repayments past due but not impaired

Loans with repayments past due but not impaired are as follows:

2011	**<3 months $'000**	**3-6 months $'000**	**6-12 months $'000**	**Total $'000**
Loans to Households				
Housing	**1,659**	**994**	**88**	**2,741**
Personal – term loans	**167**	**-**	**15**	**182**
Personal – revolving credit	**22**	**-**	**-**	**22**
Business	**166**	**366**	**-**	**532**
Total loans to households	**2,014**	**1,360**	**103**	**3,477**
Loans to corporations	**1**	**-**	**-**	**1**
Total	**2,015**	**1,360**	**103**	**3,478**
2010				
Loans to Households				
Housing	2,136	-	-	2,136
Personal – term loans	394	-	-	394
Personal – revolving credit	146	-	-	146
Business	8	-	-	8
Total loans to households	2,684	-	-	2,684
Loans to corporations	-	-	-	-
Total	2,684	-	-	2,684

(i) Loans renegotiated

The carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated:

	2011 $'000	2010 $'000
Balance outstanding	**2,680**	1,615

(j) Revenue on impaired loans

	2011	2010
Interest and other revenue recognised as revenue earned	**250**	163
Interest foregone on impaired loans	**218**	143

	Notes	2011 $'000	2010 $'000
NOTE 11: PROPERTY, PLANT AND EQUIPMENT			
Land			
At independent valuation - 30 June 2009	11(a)	**550**	550
		550	550
Buildings			
At independent valuation - 30 June 2009	11(a)	**1,639**	1,639
Subsequent additions at cost		**50**	1
Accumulated depreciation		**(133)**	(67)
		1,556	1,573
Total land and buildings	11(b)	**2,106**	2,123
Plant and equipment			
At cost		**4,184**	4,086
Accumulated depreciation		**(3,064)**	(2,781)
Total plant and equipment		**1,120**	1,305
Freehold and leasehold improvements			
At cost		**3,455**	3,139
Accumulated depreciation		**(1,953)**	(1,668)
Total freehold and leasehold improvements		**1,502**	1,471
TOTAL PROPERTY, PLANT AND EQUIPMENT		**4,728**	4,899

(a) Valuation of land and buildings

The land and buildings were valued on 21 May 2009 at $2,188,750 (after allowing for notional sale costs) by Certified Practicing Valuer W. Grant, Registered Valuer No. 6116 of Hoolihan Valuations Pty Ltd, on the basis of fair current value.

The valuation of $2,188,750 was brought to account and the net increment on revaluation of land and buildings of $9,475 was recognised in the asset revaluation reserve in the year ended 30 June 2009.

(b) Historical cost of land and buildings

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

	2011 $'000	2010 $'000
Land		
At cost	**123**	123
	123	123
Buildings		
At cost	**1,776**	1,726
Provision for depreciation	**(765)**	(721)
	1,011	1,005
Total land and buildings	**1,134**	1,128

NOTE 11: PROPERTY, PLANT AND EQUIPMENT - continued

(c) Movements in carrying amounts

The movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year is as follows.

2011	**Property $'000**	**Plant and equipment $'000**	**Freehold and Leasehold Improve-ments $'000**	**Total $'000**
Balance at 1 July 2010	**2,123**	**1,305**	**1,471**	**4,899**
Additions	**50**	**401**	**333**	**784**
Revaluation increments/(decrements)	**-**	**-**	**-**	**-**
Disposals	**-**	**(117)**	**(4)**	**(121)**
Depreciation expense	**(67)**	**(469)**	**(298)**	**(834)**
Balance at 30 June 2011	**2,106**	**1,120**	**1,502**	**4,728**
2010				
Balance at 1 July 2009	2,189	1,047	1,334	4,570
Additions	1	845	373	1,219
Revaluation increments/(decrements)	-	-	-	-
Disposals	-	(159)	(1)	(160)
Depreciation expense	(67)	(428)	(235)	(730)
Balance at 30 June 2010	2,123	1,305	1,471	4,899

NOTE 12: TAXATION ASSETS	**2011 $'000**	2010 $'000
(a) Deferred tax assets		
Deferred tax assets is comprised of:		
Impairment of loans and advances	**181**	130
Provisions	**422**	432
Deferred loan origination fees	**54**	51
Tax allowances relating to property, plant and equipment	**202**	162
Intangibles	**(5)**	(36)
Other	**58**	44
Total	**912**	783
(b) Reconciliation		
Gross movements:		
Balance at 1 July	**783**	777
(Charge) / credit to Statement of Comprehensive Income:		
Impairment of loans and advances	**51**	(18)
Provisions	**(10)**	53
Deferred loan origination fees	**3**	10
Tax allowances relating to property, plant and equipment	**40**	(3)
Intangibles	**31**	18
Other	**14**	(54)
Balance at 30 June	**912**	783

NOTE 13: INTANGIBLE ASSETS

	2011 $'000	2010 $'000
Software – at cost	**1,419**	1,316
Accumulated amortisation	**(1,288)**	(1,152)
Net carrying value	**131**	164
Other intangible assets – at cost	**340**	340
Accumulated amortisation	**(287)**	(285)
Accumulated impairment	**(48)**	(48)
Net carrying value	**5**	7
TOTAL INTANGIBLE ASSETS	**136**	171

(a) Movement in carrying amounts

The movement in the carrying amounts for each class of intangible asset between the beginning and the end of the current financial year is as follows.

2011	**Software $'000**	**Other intangibles $'000**	**Total $'000**
Balance at 1 July 2010	**164**	**7**	**171**
Additions	**104**	**-**	**104**
Amortisation charge	**(137)**	**(2)**	**(139)**
Balance at 30 June 2011	**131**	**5**	**136**
2010			
Balance at 1 July 2009	279	10	289
Additions	27	-	27
Amortisation charge	(142)	(3)	(145)
Balance at 30 June 2010	164	7	171

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under the depreciation and amortisation expense in the Statement of Comprehensive Income.

NOTE 14: BORROWINGS

	2011 $'000	2010 $'000
Wholesale trust funds	**6,000**	6,000

Wholesale trust funds are provided by Questor Financial Services Ltd, a subsidiary of Australian Wealth Management Ltd. These are uncommitted funds drawn against a total facility of $20,000,000. Funds are available for terms of up to 60 days. Pricing is based upon Bank Bill Swap rates.

NOTE 15: DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS

	2011 $'000	2010 $'000
Term deposits	**1,500**	-

	2011 $'000	2010 $'000
NOTE 16: DEPOSITS FROM MEMBERS		
Member deposits:		
- at call	**158,791**	154,605
- at term	**240,044**	217,632
Member withdrawable shares	**298**	296
TOTAL DEPOSITS FROM MEMBERS	**399,133**	372,533

The Credit Union's deposit portfolio does not include any individual member deposits that represent 10% or more of liabilities.

Concentration of member deposits

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

	2011 $'000	2010 $'000
- New South Wales residents	**394,129**	368,179
- Other	**5,004**	4,354
	399,133	372,533

NOTE 17: PAYABLES, ACCRUALS AND SETTLEMENT ACCOUNTS

	2011 $'000	2010 $'000
Creditors and accruals	**338**	334
Interest payable on borrowings	**89**	85
Interest payable on members' deposits	**4,567**	3,640
Sundry creditors	**3,704**	4,280
TOTAL PAYABLES, ACCRUALS AND SETTLEMENT ACCOUNTS	**8,698**	8,339

NOTE 18: TAXATION LIABILITIES

	2011 $'000	2010 $'000
(a) Provision for income tax	**221**	657

(b) Deferred tax liabilities comprise:

	2011 $'000	2010 $'000
Tax allowances relating to property, plant and equipment	**211**	231
Accrued receivables	**2**	(7)
Prepayments	**14**	14
Equity accounted investments	**-**	-
Total Deferred tax liabilities	**227**	238
TOTAL TAXATION LIABILITIES	**448**	895

(c) Reconciliation

	2011 $'000	2010 $'000
Gross movements:		
Balance at 1 July	**238**	364
(Charge) / credit to Statement of Comprehensive Income:		
Tax allowances relating to property, plant and equipment	**(20)**	(20)
Accrued receivables	**9**	(19)
Prepayments	**-**	(1)
Investments	**-**	(86)
Balance at 30 June	**227**	238

NOTE 19: PROVISIONS

	2011 $'000	2010 $'000
Provision for employee annual leave	**503**	592
Provision for employee long service leave	**771**	733
Provision for fringe benefits tax	**38**	34
Provisions – other	**203**	146
TOTAL PROVISIONS	**1,515**	1,505

	Employee annual leave $'000	Employee long service leave $'000	Fringe benefits tax $'000	Other $'000	Total $'000
Balance at 1 July 2010	**592**	**733**	**34**	**146**	**1,505**
Additional provisions	**514**	**104**	**153**	**416**	**1,187**
Amounts used	**(603)**	**(28)**	**(149)**	**(359)**	**(1,139)**
Unused amounts reversed	**-**	**(38)**	**-**	**-**	**(38)**
Balance at 30 June 2011	**503**	**771**	**38**	**203**	**1,515**

NOTE 20: SUBORDINATED DEBT

	2011 $'000	2010 $'000
Unsecured		
Subordinated capital notes	**5,000**	5,000

The subordinated capital notes mature in April 2013. The interest rate applicable to the subordinated capital notes is based on the 3 month BBSW plus a margin of 3.75%.

NOTE 21: PERMANENT SHARE CAPITAL

	2011 $'000	2010 $'000
Member Investment Securities		
Balance at beginning of year	**3,279**	3,279
Increase due to shares issued	**-**	-
Balance at end of year	**3,279**	3,279

3,815,000 (2010: 3,815,000) fully paid irredeemable non-cumulative preference shares at $1 each less transaction costs of $535,926.

NOTE 22: REDEEMED SHARE CAPITAL ACCOUNT

	2011 $'000	2010 $'000
Balance at the beginning of the year	**236**	216
Transfer from retained earnings on share redemptions	**23**	20
Balance at end of year	**259**	236

(a) Share Redemption

Under the *Corporations Act 2001* , member shares are legally redeemable preference shares. As such, when redeemed, a transfer is made from retained profits for the share value redeemed.

	2011 $'000	2010 $'000

NOTE 23: RESERVES

(a) Asset revaluation reserve

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

(b) General reserve for credit losses

The general reserve for credit losses records the balance of the general provision for impairment.

(c) Other reserve for credit losses

The other reserve for credit losses records the balance of the specific provision for impairment prescribed by APRA that is in excess of the provision for impairment determined in accordance with Australian Accounting Standards.

NOTE 24: DIVIDENDS

Distributions paid:

	2011 $'000	2010 $'000
September fully franked irredeemable non-cumulative preference dividend (2010: 3.4405 cents per share, 2009: 2.6186 cents per share)	**131**	100
March fully franked irredeemable non-cumulative preference dividend (2011: 3.5427 cents per share, 2010: 3.1130 cents per share)	**135**	119
	266	219

	Cents per share	Cents per share
Total dividends per share for the period	**6.9832**	5.7316

	$'000	$'000
Balance of franking account at year-end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years.	**8,902**	8,473

NOTE 25: SECURITISATION

The Credit Union participates in the Integris Securitisation programme. This programme enables the sale of loans to Integris Securitisation Services Pty Ltd and provides that the Credit Union acts as manager of that loan portfolio. These circumstances are considered to meet the derecognition criteria for financial assets as substantially all of the risks and rewards of ownership have been transferred.

	2011 $	2010 $
Total amount of securitised loans under management	**10,060,021**	12,935,067

NOTE 26: DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

(a) 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 the Credit Union. *Control* is the power to govern the financial and operating policies of the Credit Union so as to obtain benefits from its activities. KMP have been taken to comprise the Directors and the members of the Executive Management team responsible for the day-to-day financial and operational management of the Credit Union.

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

	2011 Directors $	**2011 Other KMP $**	2010 Directors $	2010 Other KMP $
Short-term employee benefits	**176,274**	**869,226**	172,062	830,771
Post-employment benefits	**15,472**	**54,957**	14,905	50,816
Other long-term benefits	**-**	**8,891**	-	45,942
Termination benefits	**-**	**-**	-	-
Share-based payment	**-**	**-**	-	-
	191,746	**933,074**	186,967	927,529

(b) Shareholdings

Number of shares held by directors, key management personnel and their related parties:

Ordinary Shares	**Balance 1/7/10 $**	**Received as compensation $**	**Options exercised $**	**Net change other (*) $**	**Balance 30/6/11 $**
Jeffrey Pattinson	5	-	-	-	**5**
Allan Gordon	1	-	-	-	**1**
John McCarthy	1	-	-	-	**1**
Susan McGinn	1	-	-	-	**1**
Paul Longworth	4	-	-	-	**4**
Phillip Bryant	1	-	-	-	**1**
Neville Parsons	3	-	-	-	**3**
Brad Hinton	5	-	-	-	**5**
Leslie Bailey	4	-	-	-	**4**
Jann Zycki	4	-	-	-	**4**
Warden Mersey	4	-	-	-	**4**
Murrough Benson	-	-	-	1	**1**
	33	-	-	1	**34**

Member Investment Securities					
Jeffrey Pattinson	-	-	-	-	**-**
Allan Gordon	-	-	-	-	**-**
John McCarthy	-	-	-	-	**-**
Susan McGinn	-	-	-	-	**-**
Paul Longworth	-	-	-	-	**-**
Phillip Bryant	-	-	-	-	**-**
Neville Parsons	10,000	-	-	-	**10,000**
Brad Hinton	-	-	-	-	**-**
Leslie Bailey	-	-	-	-	**-**
Jann Zycki	5,000	-	-	-	**5,000**
Warden Mersey	-	-	-	-	**-**
Murrough Benson	-	-	-	-	**-**
	15,000	-	-	-	**15,000**

*Net change other refers to shares purchased or sold during the financial year

NOTE 26: DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL - continued

(c) Loans to directors and other key management personnel

All loans and overdrafts made, guaranteed or secured by the Credit Union to directors, key management personnel and all related parties of such persons have been made on normal terms and conditions as apply to members of eligible payroll groups generally, with the exception of staff uniform and personal investment portfolio staff overdrafts and the loans provided to the Chief Executive Officer.

The loan facilities extended to the Chief Executive Officer (CEO) are part of the remuneration and benefits package under the employment agreement with the Chief Executive Officer and in particular within the terms of the renegotiated extension of employment contract dated 28 August 2006.

A new Employment Agreement referencing the former employment contract was signed on 28 June 2010 extending the employment term for Neville Parsons as CEO until 25 July 2015.

The terms and conditions in respect of all loans and overdrafts to key management personnel have not been breached.

Loans	Balance at beginning of year $	Interest charged $	Balance at end of year $	Number of individuals at end of year
2011	**4,467,090**	**293,609**	**3,937,119**	**8**
2010	3,761,887	243,803	4,467,090	8

Key management personnel, including their related parties(*), with loans above $100,000 in the reporting period

	Balance at beginning of year $	Interest charged $	Balance at end of year $	Highest balance in period $
Jeffrey Pattinson	452,098	32,499	**476,740**	478,754
Susan McGinn	1,102,613	81,209	**909,045**	1,108,784
Paul Longworth	329,647	8,238	**22,845**	343,224
Neville Parsons	1,079,965	72,597	**1,050,021**	1,079,965
Brad Hinton	461,242	30,900	**476,043**	476,043
Leslie Bailey	641,486	42,367	**637,546**	646,564
Warden Mersey	305,443	20,206	**302,066**	305,536

(*) Related parties includes:
(a) domestic partners, children and dependants of key management personnel; and
(b) entities that are controlled, jointly controlled or significantly influenced by key management personnel.

(d) Other transactions of directors and other key management personnel

Directors and other key management personnel 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.

NOTE 27: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

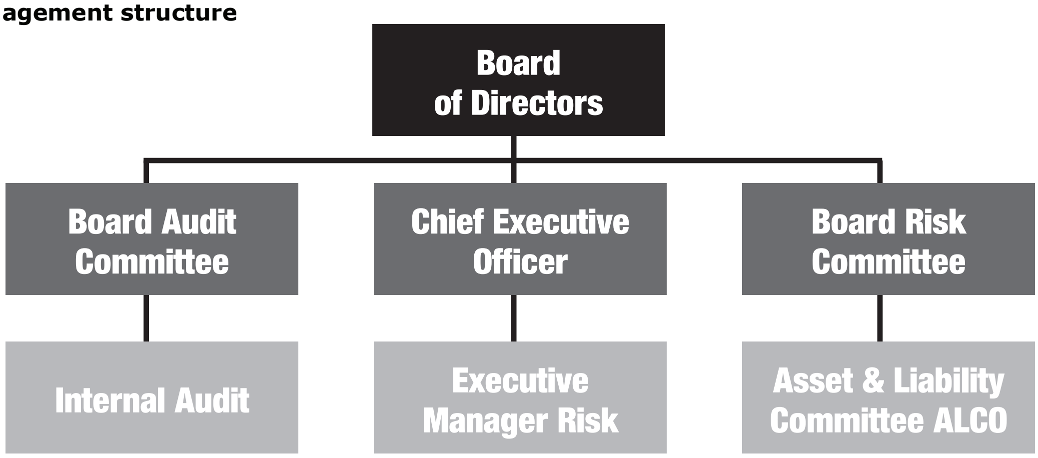
The Credit Union's risk management framework has been developed in accordance with the Australian/New Zealand Standard on Risk Management (AS/NZS 4360:2004) and is consistent with APRA Prudential Standards on risk management designed for General and Life Insurers.

The risk management processes adopted assist the Board and senior management to identify and understand high and significant risks faced by the Credit Union.

The Board has endorsed an overarching risk management strategy encompassing a high level description of these key risks identified by the Credit Union, and the risk management systems established to manage and monitor each key risk. These risk management systems include a suite of board-endorsed policies incorporating, where appropriate, prudent limits restricting the Credit Union's exposure to each relevant risk area and clearly specifying the risk profile of the Credit Union. Senior management and the Board monitor compliance with these policies as well as regular oversight of identified Key Risk Indicators (KRIs) to ensure that the Credit Union operates within this defined risk profile.

The Credit Union's risk management framework focuses on the major areas of credit risk, market risk, liquidity risk and operational risk. Authority flows from the Board of Directors to separate Risk and Audit Committees, which are integral to the overall management of risk for the Credit Union.

Risk management structure



The main elements of risk governance described above are as follows:

Board

The Board is the primary governing body of the Credit Union and is comprised of a majority of Non-Executive Directors elected by the members. It approves the level of risk for which the Credit Union is willing to accept and the framework for managing, monitoring and mitigating the risks inherent in the business. The Board has the primary responsibility for risk management of the Credit Union and has implemented policies and procedures to ensure that the Board itself is comprised of Directors with an appropriate level and mix of skills to carry out the functions required by the Board of a modern financial institution. The Board has established the following committees to ensure it maintains a prudent focus on the Credit Union's risk profile and effectiveness of its risk management framework.

Risk committee

The risk committee is an integral component of the Credit Union's risk management framework. The committee is comprised of a majority of independent directors along with the Chief Executive Officer and is supported by the Executive Manager Risk. The risk committee is responsible for overseeing the systems and processes established by management to identify, assess, manage and monitor risk throughout the operations of the Credit Union, and is the primary body responsible for reviewing and recommending risk management policies to the Board for consideration. The risk committee regularly reviews reports from management on the Credit Union's performance against identified KRIs as well as compliance with regulatory and legislative requirements.

This review encompasses all operational areas to ensure that operational risks are being properly managed and also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

NOTE 27: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Audit committee
The primary role of the audit committee in the risk management framework is to assess the adequacy and effectiveness of the Credit Union's risk management systems and processes. The key responsibilities of the committee include appointing and ensuring the independence of the Credit Union's internal and external auditors, establishing and endorsing risk-based internal and external Audit Plans, receiving reports from the internal and external auditors on the adequacy and effectiveness of the Credit Union's internal control framework, and overseeing management to ensure continual improvement of the risk management system.

Asset & liability committee (ALCO)
This committee of senior management (including a representative from the Board) meets monthly and has responsibility for monitoring, managing and reporting risk exposures to treasury credit risk, market and liquidity risk and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the Board policies for all relevant KRIs.

Chief Executive Officer (CEO)
The Board has contracted the CEO to recruit staff and to manage the day-to-day business affairs of the Credit Union in accordance with the legislative and regulatory prescriptions as well as the Constitution and Board policies. In so doing the Board have empowered the CEO to establish and maintain proper internal controls, compliance systems, management information systems and accounting records and to report to the Board any occurrences of material internal control or compliance failures as well as a requirement to keep the Board informed on all market place developments that may affect the business strategies of the Credit Union.

Executive Manager Risk
The Credit Union has appointed a dedicated senior officer responsible for the oversight of the Credit Union's risk management practices including the identification, analysis, evaluation, treatment and monitoring of risk at all levels of the business. This role also liaises with the operational function to ensure timely production of information for the Board committees and ensures that instructions passed down from the Board via the risk committee, audit committees and the CEO are implemented.

Internal audit
Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee and has direct and unfettered access to the Board audit committee.

Board risk management policies
A suite of Board approved risk management policies has been developed and applied in the day-to-day operations of the Credit Union. These Policies have been developed having regard to the overarching Board agreed risk profile for the Credit Union. The Board risk framework including the Board risk management policies prescribe the Board's expectations of management in achieving the Board agreed Risk Profile for the Credit Union. These policies are reviewed at least annually by senior management and the Board to ensure that they are relevant and appropriate given the operating environment and market conditions at the time.

The key risk management policies encompassed in the overall risk management framework include:

- Capital management (refer to Note 28);
- Credit risk management (refer to Note 27 A);
- Market risk management (including interest rate risk) (refer to Note 27 B);
- Liquidity risk management (refer to Note 27 C); and
- Operational risk management (including IT security risk, project management and business continuity planning) (refer to Note 27 D).

The Credit Union has undertaken the following strategies and initiatives to monitor and minimise the risks arising in the business.

A. CREDIT RISK
Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union, which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets.

NOTE 27: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

(I) MANAGEMENT OF CREDIT RISK - LOANS AND ADVANCES

The Board of Directors has delegated the responsibility for the management of credit risk in its loan portfolio to the lending department. The Board has established credit policies and procedures to ensure that all loans and advances made to members are consistent with the Credit Union's overarching risk profile.

These policies include (but are not limited to):

- Credit assessment and approval of loans and facilities covering acceptable risk assessment;
- Security requirements in respect to the types of security accepted and maximum loan to valuation ratio;
- Reassessing and review of the credit exposures on loans and facilities;
- Debt recovery procedures; and
- Establishing appropriate provisions to recognise the impairment of loans and facilities.

A regular review of compliance with these policies is conducted as part of the internal and external audit scope and monitored by the Board audit committee. The Board risk committee also monitors a range of key credit risk indicators and external factors to identify changes or potential changes to the Credit Union's credit risk profile.

Impaired loans

Impaired loans are loans for which the Credit Union determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due and not impaired loans

Past due loans are loans where the contractual interest or principal payments are past due but the Credit Union believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Credit Union.
Past due value is the 'on-balance sheet' loan balances which are past due by 90 days or more. Details are as set out in Note 10(h).

Monitoring of credit portfolio quality

Credit Union management review a range of reports designed to monitor the performance of the loan portfolio, including: to detect delays in repayments and allow prompt recovery action to be instigated; and to identify potentially impaired assets. Management monitor loans classified as "individually significant" on a monthly basis and undertake an assessment as to whether there is objective evidence of impairment in the facility. Further assessment is conducted monthly to identify any impairment of a collective nature within the portfolio. Collective impairment could arise as a result of a significant reduction in property values in a particular region or township, the closure (or significant redundancies) of a large employer within a particular community, changes impacting a particular industry group, natural disasters, general changes in the economy, or losses from a group of related parties. The Board risk committee monitor trends and significant changes within the credit portfolio on a quarterly basis.

Provisions for impaired loans

Where there is reasonable evidence of impairment at either an individual or portfolio level, the Credit Union undertakes impairment testing to determine the value of impairment loss based on the net present value of future anticipated cash flows of the facility. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral to the facility.

A provision for losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. In addition, the Credit Union will make a provision for individually significant loans and portfolios of assets for which there is evidence of impairment.

These provisions for impaired exposures relate only to the loans to members.

Write-off policy

A loan or advance is written-off when collection of the loan or advance is considered to be unlikely. All write-offs are on a case-by-case basis, taking account of the exposure at the date of the write-off and must be submitted to the Board for authorisation. On secured loans, the write-off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.
A reconciliation in the movement of impaired exposure provisions is provided in Note 10(a).

NOTE 27: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Collateral securing loans

A sizeable portfolio of the loan book is secured by residential property within Australia. Therefore, the Credit Union is exposed to risks in the reduction of the loan to valuation (LVR) cover should the property market be subject to a decline. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The Board policy is to maintain at least 65% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 9(c) describes the nature and extent of the security held against the loans held as at the end of the reporting period.

Concentration risk

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties), geographic region, industry or employer group.

Management of concentration risk

The Credit Union holds no significant concentrations of exposures to members with respect to loans and advances and has a diversified loan portfolio in respect to product type, employment type, industry, and geographic location. The Board has established policy limits in respect to the maximum exposure to: individual counterparties (and groups of related parties); portfolio of product types with similar risk characteristics; and to individual industry categories. The Board Risk Committee regularly monitors reports on large credit facilities as well as portfolio composition and industry concentration exposures. The aggregate value of large exposure loans, as well as details of the geographical and industry concentrations are set out in Note 9(b).

The analysis of the Credit Union's loans by class is as follows:

	2011	**2011**	**2011**	2010	2010	2010
Loans to Households	**Carrying Value [a] $'000**	**Off-Balance Sheet [b] $'000**	**Maximum Exposure [c] $'000**	Carrying Value [a] $'000	Off-Balance Sheet [b] $'000	Maximum Exposure [c] $'000
Housing	**305,180**	**24,728**	**329,908**	262,593	25,272	287,865
Personal – Term Loans	**25,533**	**1,909**	**27,442**	26,689	1,963	28,652
Personal – Revolving Credit	**1,727**	**2,016**	**3,743**	2,934	2,517	5,451
Business	**25,169**	**5,653**	**30,822**	27,559	5,331	32,890
Total Loans to Households	**357,609**	**34,306**	**391,915**	319,775	35,083	354,858
Loans to Corporations	**21,279**	**3,412**	**24,691**	20,812	4,628	25,440
Total	**378,888**	**37,718**	**416,606**	340,587	39,711	380,298

[a] Carrying value is the value on the Statement of Financial Position.

[b] The off-balance sheet exposure is the value of all undrawn loan facilities at the end of the reporting period (for example loans approved not advanced, redraw, line of credit, and overdraft facilities).

[c] Maximum exposure is the carrying value plus the off-balance sheet exposure.

The details of off-balance sheet amounts are shown in Note 33 and a summary of carrying values is in Note 9.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in Note 9(b).

(II) MANAGEMENT OF CREDIT RISK – LIQUID INVESTMENTS

The risk of losses from liquid investments undertaken is reduced by the nature and quality of the independent rating of the counterparty, and the limits of concentration of investments to any one counterparty. The Board policy maintains not more than 60% of its capital base in investments in Cuscal Ltd, a company set up to support the member credit unions and which has a Standard and Poors credit rating of AA-. Under the credit union industry liquidity support facility, Credit Union Financial Support Services (CUFSS), at least 3.2% of the Credit Union's total assets must be invested in Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed.

NOTE 27: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

The Board Policy as at the date of this report restricts this exposure to Cuscal net of the CUFSS Liquidity Support requirements to a maximum of 60% of Capital. All other high quality liquid investments must be with financial institutions with a long-term credit rating in excess of BBB-. The policies of the Board limit investments to counterparties outside of Cuscal to a maximum of 50% of capital to any A rated Bank or Government department and also have prudent restrictions in relation to exposures to any particular sector.

These limits are defined according to the credit rating of each counterparty and are more restrictive the lower the credit rating.

External credit assessment for institution investments

The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale provided by APRA. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

	2011	2010
High quality liquid investments with:	**$'000**	$'000
Cuscal Ltd	**22,498**	26,944
Banks – rated AA and above	**2,000**	19,000
Banks – rated above BBB-	**39,342**	25,990
Total	**63,840**	71,934

B. MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Credit Union is not exposed to currency risk and other price risks, as it does not trade in the financial instruments it holds on its books. The Credit Union is exposed to interest rate risk arising from changes in market interest rates.

Overall authority for market risk management is delegated by the Board to ALCO. The Finance and Risk departments are responsible for the development of detailed risk management policies (subject to review and approval by ALCO and the Board) and the day-to-day review of their implementation.

Interest rate risk in the banking book

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the banking book is measured and reported to ALCO quarterly, and is monitored by the Board Risk Committee. In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to the risk of interest rate sensitivity should interest rates change. The level of mismatch on the banking book is set out in Note 31. The table set out at Note 30 displays the period that each asset and liability will mature as at the end of the reporting period.

Method of managing risk

The Credit Union manages its interest rate risk by the use of value at risk models (VaR) and interest rate sensitivity analysis. The details and assumptions in relation to VaR are set out below.

Value at risk (VaR)

VaR is a statistical measure of the potential loss to the Credit Union's economic value (in net present value terms) due to a change in market conditions, arising from currently held positions, given a certain confidence level and an implied holding period. VaR, as set out below, has been calculated using historical simulations, movements in market rates and prices, a specified confidence level and taking into account historical correlations between different markets and rates.

NOTE 27: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

The assumptions used in the calculations described above include:
- a 20-day holding period;
- a 99% confidence level; and
- a 250-day observation period.

VaR as a percentage of regulatory capital at 30 June 2011 was 0.85% (2010: 1.77%).

As VaR is calculated using historical information, the decrease in VaR described above arises as a result of a significant decrease in interest rate volatility driven from the changes in market interest rates experienced in the year, combined with a slight decrease in sensitivity due to an increase in the portion of fixed rate loans in the overall loan portfolio.

The Board has determined a limit of 3% of regulatory capital for VaR.

C. LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Credit Union's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

The Credit Union manages liquidity risk by:
- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and financial liabilities;
- Maintaining adequate reserves, liquidity support facilities and borrowing facilities; and
- Monitoring the liquidity ratio daily.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as high quality liquid assets (HQLA) capable of being converted to cash within two business days under APRA Prudential Standards. During the year the Board reviewed the Liquidity Management Policies and has determined a minimum HQLA ratio of 13% with a preferred liquidity range of 13.5% - 16% as prudent for the Credit Union. The liquidity position is monitored daily with weekly reports provided to ALCO and overseen by the Board Risk Committee.

Should the liquidity ratio fall below internal triggers management and the Board have implemented a liquidity contingency plan designed to ensure that the required liquid funds are obtained to maintain liquidity levels above the regulatory minimum.

The Credit Union has stand-by borrowing facilities and has a longstanding arrangement with the credit union industry liquidity support facility, Credit Union Financial Support Services (CUFSS), which can access industry funds to provide support to the Credit Union should it be necessary at short notice.

Note 34 describes the standby borrowing facilities as at the end of the reporting period which are in addition to the support from CUFSS described above. The maturity profile of the Credit Union's financial liabilities, based on the contractual repayment terms are set out in Note 30.

The ratio of liquid funds at the end of the reporting period is set out below:

	2011	2010
Liquid funds ($'000)	**64,976**	73,353
Total adjusted liabilities ($'000)	**445,495**	417,523
Liquidity Ratio as at 30 June (%)	**14.59%**	17.57%
Average Liquidity Ratio for the year (%)	**16.33%**	17.54%
Minimum Liquidity Ratio during the year (%)	**13.52%**	15.29%

D. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss to the Credit Union arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Credit Union's operations and are faced by all business entities. These risks are managed through the implementation of systems and controls designed to reduce the likelihood and impact of these risks occurring.

NOTE 27: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Management of Operational Risk

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Credit Union has established an operational risk management system comprising policies, procedures, and processes along with specific control activities that are designed to manage risk. This system is governed by a Board approved policy that deals specifically with the management of the Credit Union's exposure to operational risks. The Credit Union has established a clearly defined categorisation system to assist in the development of historical loss data in relation to specific operational loss categories.

This system breaks up operational risk into the following categories:

- People (internal and external);
- Process execution and delivery:
  - Process design, development and documentation;
  - Process management, review, monitoring and reporting; and
  - Change / project management;
- Technology risk:
  - Obsolescence risk;
  - System failure risk;
  - Data risk; and
  - Security breach risk;
- External fraud risk;
- Internal fraud risk;
- Product risk;
- Regulatory / legal risk;
- Damage to physical assets risk;
- Employment practices risk; and
- Natural perils.

The operational risk management system includes policies and standards for the management of operational risk incorporating (but not limited to) requirements for:

- the segregation of duties, including the independent authorisation of transactions;
- the reconciliation and monitoring of transactions;
- the documentation of policies, procedures, controls, employee job descriptions and accountabilities;
- the periodic assessment of operational risks faced, and the adequacy of controls and procedures designed to address the risks identified;
- compliance with regulatory and other legal requirements;
- the reporting of operational losses and proposed remedial action;
- training and professional development;
- ethical business standards;
- risk mitigation strategies, including insurance where this is effective;
- the management of information technology and security risks;
- effective project management policies and procedures;
- effective dispute resolution procedures to respond to member complaints; and
- development of contingency plans for dealing with the loss of functionality of systems, premises or staff.

The Credit Union also conducts annual risk management surveys and workshops to identify new operational risks faced by the Credit Union, determine the likelihood and consequence of such risks and to establish the process through which these risks are analysed and treated. This process also includes an evaluation of the effectiveness and application of internal controls already in place.

Compliance with the Credit Union's policies is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit Committee and senior management for review.

NOTE 28: CAPITAL MANAGEMENT

Minimum capital levels are prescribed by the Australian Prudential Regulation Authority (APRA). The regulatory minimum percentage is 8%. The Credit Union complied with all capital requirements during the financial year ended 2011.

The standardised approach to credit risk requires credit exposures to be weighted against capital according to APRA's instructions, with lower weightings being applied to well secured residential loans. The standardised approach to operational risk requires the past 3 years income to be dissected into categories determined by APRA to have distinct risk profiles, with a percentage of that income applied as the operational risk capital requirement.

The Credit Union is not required to hold capital against market risk as it does not operate a trading book, however interest rate risk in the banking book is assessed internally.

The internal assessment of capital levels is governed through ALCO, the risk committee and the Board. Targeted capital levels are identified through forecasting the capital requirement under the standardised approach described above and through adding a capital buffer to recognise interest rate risk in the banking book, as well as credit concentration, liquidity, strategic and other risks inherent in the organisation. The forecasts prepared are regularly updated to address existing circumstances, business decisions and emerging trends.

CAPITAL RESOURCES

Tier 1 capital

Tier 1 capital comprises the highest quality components of capital including redeemed share capital, retained earnings, current year earnings and preference share capital. Deductions from the Credit Union's tier 1 capital include deferred tax assets, capitalised expenses including costs associated with issuing capital instruments and equity exposures in other authorised deposit-taking institutions (ADI's).

The irredeemable non-cumulative preference shares (Member Investment Securities) issued are approved by APRA and qualify as tier 1 capital.

Tier 2 capital

Tier 2 capital consists of other components of capital that, to varying degrees, fall short of the quality of tier 1 capital but nonetheless contribute to the overall strength of the Credit Union as a going concern. Upper tier 2 capital consists of elements that are essentially permanent in nature including the general reserve for credit losses and asset revaluation reserves discounted to 45% of the value net of any capital gains tax and estimated costs of sale. Lower tier 2 capital consists of instruments that are not permanent such as term subordinated debt.

CAPITAL STRUCTURE	**2011**	2010
	$'000	$'000
Tier 1 capital		
General reserves	**259**	236
Retained earnings	**25,774**	24,034
Adjusted current year earnings	**1,078**	2,102
Irredeemable non-cumulative preference shares	**3,815**	3,815
Gross tier 1 capital	**30,926**	30,187
Less deductions	**1,770**	1,695
Net tier 1 capital	**29,156**	28,492
Tier 2 capital		
Subordinated debt	**2,000**	3,000
Other	**1,224**	1,024
Gross tier 2 capital	**3,224**	4,024
Less deductions	**468**	468
Net tier 2 capital	**2,756**	3,556
Total capital base	**31,912**	32,048

The subordinated debt matures in April 2013. The amount eligible for inclusion in tier 2 capital is amortised on a straight-line basis of 20 percent per annum over the last five years to maturity.

NOTE 28: CAPITAL MANAGEMENT - continued

CAPITAL ADEQUACY

2011	Risk Weight %	Carrying Value $'000	Risk Weighted Value $'000
Credit risk			
Cash	0%	**1,136**	**-**
Claims on highly rated ADIs	20%	**46,357**	**9,271**
Claims on less highly rated ADIs	50%	**20,483**	**10,241**
Claims secured against eligible residential mortgage up to 80% LVR	35%	**273,645**	**95,776**
Claims secured against eligible residential mortgage over 80% LVR	50% -100%	**63,912**	**41,416**
Past due claims	100%	**6,072**	**6,072**
Other assets & claims	100%	**38,475**	**38,475**
Total on-balance sheet credit risk weighted assets		**450,080**	**201,251**
Total non-market related off-balance sheet risk weighted credit exposures			**8,950**
Total capital requirements for credit risk			**210,201**
Total capital requirements for operational risk			**25,484**
Total risk weighted assets			**235,685**

2010			
Credit risk			
Cash	0%	1,419	-
Claims on highly rated ADIs	20%	73,934	14,787
Claims on less highly rated ADIs	50%	2,000	1,000
Claims secured against eligible residential mortgage up to 80% LVR	35%	245,186	85,815
Claims secured against eligible residential mortgage over 80% LVR	50% -100%	55,617	36,300
Past due claims	100%	3,227	3,227
Other assets & claims	100%	40,008	40,008
Total on-balance sheet credit risk weighted assets		421,391	181,137
Total non-market related off-balance sheet risk weighted credit exposures			9,168
Total capital requirements for credit risk			190,305
Total capital requirements for operational risk			24,378
Total risk weighted assets			214,683

	2011	2010
Capital ratio	**13.54%**	14.93%

	Notes	2011 $'000	2010 $'000

NOTE 29: CATEGORIES OF FINANCIAL INSTRUMENTS

The Credit Union's financial instruments consist mainly of deposits with other financial institutions, loans and advances to members and deposits from members.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Notes	2011 $'000	2010 $'000
Financial assets			
Cash and cash equivalents	5	**8,953**	13,557
Financial assets at fair value through profit or loss		**-**	-
Held-to-maturity investments	6	**59,023**	63,796
Loans and receivables	7 , 9	**379,456**	341,083
Available-for-sale financial assets:			
At fair value		**-**	-
At cost	8	**935**	935
TOTAL FINANCIAL ASSETS		**448,367**	419,371
Financial liabilities			
Financial liabilities at amortised cost:			
Borrowings	14	**6,000**	6,000
Deposits from other financial institutions	15	**1,500**	-
Deposits from members	16	**399,133**	372,533
Payables, accruals and settlement accounts	17	**8,698**	8,339
Subordinated debt	20	**5,000**	5,000
TOTAL FINANCIAL LIABILITIES		**420,331**	391,872

NOTE 30: MATURITY PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

2011 **Financial assets - cash flows realisable**	**Overdrafts and lines of credit $'000**	**Within 1 month $'000**	**1-3 months $'000**	**3-12 months $'000**	**1-5 years $'000**	**After 5 years $'000**	**No maturity $'000**	**Total $'000**
Cash and cash equivalents	-	8,953	-	-	-	-	-	8,953
Advances to other financial institutions	-	14,817	40,311	3,894	-	-	1	59,023
Receivables	-	191	440	47	-	-	675	1,353
Investments	-	-	-	-	-	-	935	935
Loans and advances to members	9,517	479	51	842	35,233	331,981	-	378,103
Total anticipated inflows	9,517	24,440	40,802	4,783	35,233	331,981	1,611	448,367

Financial liabilities due for payment	**Member deposits at call**	**Within 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**After 5 years**	**No maturity**	**Total**
Borrowings	-	6,000	-	-	-	-	-	6,000
Deposits from other financial institutions	-	1,500	-	-	-	-	-	1,500
Deposits from members	158,791	29,552	90,021	101,109	19,362	-	298	399,133
Payables, accruals and settlement accounts	-	-	-	-	-	-	8,698	8,698
Subordinated debt	-	-	-	-	5,000	-	-	5,000
Total expected outflows	158,791	37,052	90,021	101,109	24,362	-	8,996	420,331
Net inflow / (outflow) on financial instruments	(149,274)	(12,612)	(49,219)	(96,326)	10,871	331,981	(7,385)	28,036

NOTE 30: MATURITY PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES - continued

2010	Overdrafts and lines of credit $'000	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	After 5 years $'000	No maturity $'000	Total $'000
Financial assets - cash flows realisable								
Cash and cash equivalents	-	13,557	-	-	-	-	-	13,557
Advances to other financial institutions	-	17,939	42,857	2,000	-	-	-	62,796
Receivables	-	252	213	140	-	-	493	1,098
Investments	-	-	-	1,000	-	-	935	1,935
Loans and advances to members	9,733	607	57	820	32,061	296,707	-	339,985
Total anticipated inflows	9,733	32,355	43,127	3,960	32,061	296,707	1,428	419,371

Financial liabilities due for payment	Member deposits at call	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	No maturity	Total
Borrowings	-	-	6,000	-	-	-	-	6,000
Deposits from other financial institutions	-	-	-	-	-	-	-	-
Deposits from members	154,605	40,160	72,713	94,194	10,565	-	296	372,533
Payables, accruals and settlement accounts	-	-	-	-	-	-	8,339	8,339
Subordinated debt	-	-	-	-	5,000	-	-	5,000
Total expected outflows	154,605	40,160	78,713	94,194	15,565	-	8,635	391,872
Net inflow / (outflow) on financial instruments	(144,872)	(7,805)	(35,586)	(90,234)	16,496	296,707	(7,207)	27,499

NOTE 31: INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

2011 **Assets**	**Weighted average interest rate %**	**Within 1 month $'000**	**1-3 months $'000**	**3-12 months $'000**	**1-5 years $'000**	**After 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Cash and cash equivalents	**2.86%**	**7,817**	**-**	**-**	**-**	**-**	**1,136**	**8,953**
Advances to other financial institutions	**5.57%**	**14,817**	**40,311**	**3,894**	**-**	**-**	**1**	**59,023**
Receivables		**-**	**-**	**-**	**-**	**-**	**1,353**	**1,353**
Investments		**-**	**-**	**-**	**-**	**-**	**935**	**935**
Loans and advances to members	**7.89%**	**302,514**	**693**	**12,892**	**59,884**	**2,120**	**-**	**378,103**
Total financial assets		**325,148**	**41,004**	**16,786**	**59,884**	**2,120**	**3,425**	**448,367**
Liabilities								
Borrowings	**6.01%**	**6,000**	**-**	**-**	**-**	**-**	**-**	**6,000**
Deposits from other financial institutions	**5.81%**	**1,500**	**-**	**-**	**-**	**-**	**-**	**1,500**
Deposits from members	**4.65%**	**188,343**	**90,021**	**101,109**	**19,362**	**-**	**298**	**399,133**
Payables, accruals and settlement accounts		**-**	**-**	**-**	**-**	**-**	**8,698**	**8,698**
Subordinated debt	**8.60%**	**-**	**5,000**	**-**	**-**	**-**	**-**	**5,000**
Total financial liabilities		**195,843**	**95,021**	**101,109**	**19,362**	**-**	**8,996**	**420,331**

NOTE 31: INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES - continued

2010

Assets	Weighted average interest rate %	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	After 5 years $'000	Non-interest bearing $'000	Total $'000
Cash and cash equivalents	2.28%	12,138	-	-	-	-	1,419	13,557
Advances to other financial institutions	5.49%	17,939	42,857	2,000	-	-	-	62,796
Receivables		-	-	-	-	-	1,098	1,098
Investments		-	1,000	-	-	-	935	1,935
Loans and advances to members	7.73%	294,448	6,204	12,851	25,881	601	-	339,985
Total financial assets		324,525	50,061	14,851	25,881	601	3,452	419,371
Liabilities								
Borrowings	6.02%	-	6,000	-	-	-	-	6,000
Deposits from other financial institutions		-	-	-	-	-	-	-
Deposits from members	4.40%	194,765	72,713	94,194	10,565	-	296	372,533
Payables, accruals and settlement accounts		-	-	-	-	-	8,339	8,339
Subordinated debt	7.40%	-	5,000	-	-	-	-	5,000
Total financial liabilities		194,765	83,713	94,194	10,565	-	8,635	391,872

NOTE 32: NET FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Net Fair Values

Net fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at the end of the reporting period and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and financial liabilities.

	2011 Fair Value $'000	**2011 Book Value $'000**	2010 Fair Value $'000	2010 Book Value $'000
Assets				
Cash and cash equivalents	**8,953**	**8,953**	13,557	13,557
Advances to other financial institutions	**59,023**	**59,023**	62,796	62,796
Receivables	**1,353**	**1,353**	1,098	1,098
Investments	**935**	**935**	1,935	1,935
Loans and advances to members	**377,536**	**378,103**	339,692	339,985
Total financial assets	**447,800**	**448,367**	419,078	419,371
Liabilities				
Borrowings	**6,000**	**6,000**	6,000	6,000
Deposits from other financial institutions	**1,500**	**1,500**	-	-
Deposits from members	**400,782**	**399,133**	373,528	372,533
Payables, accruals and settlement accounts	**8,698**	**8,698**	8,339	8,339
Subordinated debt	**4,978**	**5,000**	4,978	5,000
Total financial liabilities	**421,958**	**420,331**	392,845	391,872

Net fair value estimates were determined by the following methodologies and assumptions.

Cash and cash equivalents, advances to other financial institutions and receivables: The carrying values of cash and cash equivalents, advances to other financial institutions and receivables approximate their net fair value as they are short term in nature or are receivable on demand.

Loans and advances to members: The carrying value of loans and advances is net of unearned income and specific provision for impairment. Variable rate loans (excluding impaired loans) are as reported in the Statement of Financial Position and are considered to be a reasonable estimate of net fair value. The net fair value for fixed rate loans is estimated through discounted cash flow modelling (i.e. the net present value of the portfolio's future principal and interest cash flows), based on the maturity of the loans and market rates of interest at the end of the reporting period and inherent credit risk associated with the portfolio.

Borrowings: The carrying amount of borrowings approximates their fair value.

Deposits from other financial institutions and payables, accruals and settlement accounts: The carrying value of deposits from other financial institutions and payables, accruals and settlement accounts approximates their net fair value as they are short term in nature and re-price frequently.

NOTE 32: NET FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - continued

Deposits from members: Call deposits are as reported in the Statement of Financial Position and are considered to be a reasonable estimate of net fair value. The net fair value for term deposits is estimated through discounted cash flow modelling (i.e. the net present value of the portfolio's future principal and interest cash flows), based on the maturity of the term deposits and market rates of interest at the end of the reporting period.

Subordinated debt: The net fair value of subordinated debt is based upon current market rates using discounted cash flow modelling.

	2011 $'000	2010 $'000
NOTE 33: FINANCIAL COMMITMENTS		
(a) Outstanding loan commitments		
Loans approved but not funded	**7,838**	9,460
(b) Loan redraw facilities		
Loan redraw facilities available to members	**22,426**	21,039
(c) Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	**16,972**	18,945
Amounts advanced	**(9,517)**	(9,733)
Net undrawn values	**7,455**	9,212

These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

(d) Future capital commitments

The Credit Union has entered into capital expenditure contracts for:

	2011 $'000	2010 $'000
Land and buildings	**-**	48
Plant and equipment	**-**	-
Intangible assets	**-**	61
	-	109
Payable not later than one year	**-**	109

(e) Operating lease commitments

Non-cancellable operating leases on property, contracted for but not capitalised in the financial statements, payable:

	2011 $'000	2010 $'000
Not later than one year	**801**	782
Later than 1 year but not 5 years	**1,523**	1,269
Later than 5 years	**17**	-
	2,341	2,051

The operating leases are in respect of property used for providing services to members. The terms of the leases are for between 2 and 5 years and options for renewal are usually obtained for a further 3 to 5 years. Contingent rental provisions within the lease agreements require that minimum lease payments shall be increased by either consumer price index (CPI) or a fixed percentage per annum.

NOTE 34: STANDBY BORROWING FACILITIES

The Credit Union has the following gross borrowing facilities with Cuscal Ltd (Cuscal):

	2011 $'000	2010 $'000
Overdraft facility		
Approved facility	**5,000**	5,000
Amount utilised	**-**	-
Unused credit facility	**5,000**	5,000
Standby loan facility		
Approved facility	**9,000**	9,000
Amount utilised	**-**	-
Unused credit facility	**9,000**	9,000
Total credit facilities		
Approved facility	**14,000**	14,000
Amount utilised	**-**	-
Unused credit facility	**14,000**	14,000

On the 11 August 2011, the Credit Union entered into a new Product Agreement with Cuscal Limited (Cuscal) to provide Overdraft and Standby Facilities totalling $14,000,000 (30 June 2010: $14,000,000). The Product Agreement is for a term of 12 months. The terms and conditions for the provision of these banking services continues the obligation on the Credit Union of financial and general covenants that must be met by the Credit Union and reported to Cuscal on a monthly basis.

The following conditions apply to the above facilities.

Standby facility – minimum drawdown term of a loan under the standby facility is 14 days and the maximum drawdown term is 90 days.

Overdraft facility – unlimited access to funds, subject to review by Cuscal.

Withdrawal of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds an equitable mortgage charge over all of the assets of the Credit Union as security against loan and overdraft amounts drawn.

NOTE 35: ECONOMIC DEPENDENCY

The Credit Union has an economic dependency on the following suppliers of service.

(a) Cuscal Ltd (Cuscal)
This entity supplies the Credit Union rights to Member Cheques, Redicards and BPay in Australia and provides services in the form of settlement with Bankers for Member Cheques, EFT and BPay transactions, and the production of Redicards for use by members. This entity provides central banking facilities and emergency liquidity support to the Credit Union. The Credit Union is also a member of the rediATM Scheme operated by Cuscal.

(b) Ultradata Australia Pty Ltd
This company provides and maintains the application core banking software utilised by the Credit Union.

(c) First Data International Limited (FDI)
This company operates the switching computer used to link Redicards and Visacards operated through Reditellers and other approved ATM suppliers and merchants to the Credit Union’s data systems.

(d) The System Works Pty Ltd (TSW)
TSW is an Integrated Data Processing Centre (IDPC) and as such provides the electronic data processing services for the Credit Union. TSW also provides the Credit Union's internet banking software package.

NOTE 36: CONTINGENT LIABILITIES

(a) Credit Union Financial Support System

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

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

The balance of the debt at 30 June 2011 was Nil (2010: Nil).

(b) Guarantees

In the normal course of business the Credit Union provides financial guarantees which are conditional commitments issued by the Credit Union to guarantee the performance of a member to a third party. The Credit Union holds security supporting these commitments where it is deemed necessary.

	2011 $'000	2010 $'000
Guarantees	**1,844**	2,074

The Credit Union monitors the supporting security values associated with these guarantees and classifies them in the categories of fully secured, partially secured and unsecured. As at 30 June 2011 the total amount of the guarantees represented within these categories was $1.448m fully secured, $0.300m partially secured and $0.096m unsecured.

NOTE 37: CASH FLOW INFORMATION

(a) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at call deposits, net of overdrafts with other financial institutions. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows.

Cash on hand	**1,136**	1,419
Deposits at call	**7,817**	12,138
	8,953	13,557

(b) Cash flows presented on a net basis

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

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

NOTE 37: CASH FLOW INFORMATION - continued

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

	2011 $'000	2010 $'000
Profit after income tax	**1,166**	2,175
Non-cash flows in profit:		
Net (gain) / loss on sale of property, plant and equipment	**(2)**	(30)
Adjustment to asset revaluation reserve on sale of share in associate	**-**	48
Depreciation, amortisation and impairment	**973**	875
Impairment losses / (reversals) - investments	**-**	(80)
Provision for loan impairment	**172**	(60)
Changes in assets and liabilities: -		
(Increase) / decrease in members' loans	**(38,301)**	(7,253)
(Increase) / decrease in advances to other financial institutions	**3,773**	(10,418)
(Increase) / decrease in interest receivable and other assets	**(255)**	3
(Increase) / decrease in deferred tax asset	**(129)**	(6)
(Increase) / decrease in deferred income	**11**	34
Increase / (decrease) in deposits from other financial institutions	**1,500**	-
Increase / (decrease) in members' deposits	**26,600**	9,491
Increase / (decrease) in payables, accruals and settlement accounts	**359**	1,152
Increase / (decrease) in income taxes payable	**(447)**	596
Increase / (decrease) in other provisions	**10**	175
Cashflow from operations	**(4,570)**	(3,298)

NOTE 38: COMPANY DETAILS

The registered office of the Credit Union is:

Holiday Coast Credit Union Ltd
1 Commerce Street
WAUCHOPE NSW 2446

Directors' Declaration

The Directors of Holiday Coast Credit Union Ltd declare that:

1. the financial statements comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to and forming part of the financial statements are in accordance with the *Corporations Act 2001* and:

   (a) comply with Accounting Standards and *Corporations Regulations 2001*, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS);

   (b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Credit Union; and

2. in the Directors' opinion there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

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

J Pattinson
Director
Chairman Board of Directors

A G Gordon
Director
Deputy Chairman Board of Directors

Dated at Wauchope this 31 day of August 2011

NorthCorp
accountants

PARTNERS
Mark Hatherly B Com FCA
Winifred Gibson FTIA Affiliate ICAA
Robert Magnussen B Bus CA
Paul Fahey B Bus CA
Rodney Smith B Fin Admin CA
Tony Faulder B Com CPA Affiliate ICAA
Bart Lawler B Com CA

INDEPENDENT AUDITOR'S REPORT

To the members of Holiday Coast Credit Union Ltd

Report on the Financial Statements

We have audited the accompanying financial statements of Holiday Coast Credit Union Ltd, which comprise the Statement of Financial Position as at 30 June 2011, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration.

Directors' Responsibility for the Financial Statements

The Directors of the Credit Union are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial statements and notes comply with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the financial statements 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 Credit Union'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 statements.

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

COVER OF EXCELLENCE
Chartered Accountants
Chartered Accountants
51 Cameron Street, PO Box 75, Wauchope NSW 2446
T 02 6588 4444 F 02 6585 2238 E northcorp@northcorp.com.au www.northcorp.com.au

PARTNERS
Mark Hatherly B Com FCA
Winifred Gibson FTIA Affiliate ICAA
Robert Magnussen B Bus CA
Paul Fahey B Bus CA
Rodney Smith B Fin Admin CA
Tony Faulder B Com CPA Affiliate ICAA
Bart Lawler B Com CA

NorthCorp
accountants

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*, provided to the Directors of Holiday Coast Credit Union Limited on 31 August 2011, would be in the same terms if provided to the Directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

(a) the financial statements of Holiday Coast Credit Union Ltd are 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 2011 and of its performance for the year ended on that date; and

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

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

NorthCorp Accountants

Robert Magnussen
Partner

51 Cameron Street
Wauchope NSW 2446

Dated: 1st September 2011

Chartered Accountants
Chartered Accountants
51 Cameron Street, PO Box 75, Wauchope NSW 2446
T 02 6588 4444 F 02 6585 2238 E northcorp@northcorp.com.au www.northcorp.com.au

GLOSSARY

A - D

APRA means the Australian Prudential Regulation Authority

ASIC means the Australian Securities and Investments Commission

Bill Rate for a particular date is a recorded statistic of the Reserve Bank of Australia and is the average of the mean buying and selling rates for 180-day bank accepted bills of exchange rounded to two decimal places. If for any reason the rate for that day cannot be determined according to this procedure, then the Bill Rate is the rate that Holiday Coast Credit Union specifies in good faith having regard to comparable indices then available

Board means the Board of Directors of Holiday Coast Credit Union

Business Rules means the business rules of the Trading Market

Closing Date means the date set out in the 'Details of the Offer' section for the close of the offer

Constitution means the Constitution of the Holiday Coast Credit Union from time to time

Credit Union means the credit union known as Holiday Coast Credit Union

Directors means the Directors of Holiday Coast Credit Union

E - H

Eligible Members means Members who have been members for the 6 months before the date Holiday Coast Credit Union issues Member Investment Securities to them, or before Member Investment Securities are transferred to them by another Member

Financial Report means a report prepared for Holiday Coast Credit Union in accordance with the *Corporations Act*

Fixed Term Deposit Account means a fixed term deposit account at Holiday Coast Credit Union on standard terms for an account of that type

Holiday Coast Credit Union means Holiday Coast Credit Union Ltd - ABN 64 087 650 164

I - L

M - P

Member means a person who is registered in the Register of Members of Holiday Coast Credit Union

Member Shares means the initial shares subscribed for by Members to permit membership of Holiday Coast Credit Union

Member Investment Securities and **Securities** means the shares offered for subscription under this Offer Information Statement, the Offer Information Statement dated 11 September 2000 (as modified by Supplementary Offer Information Statements dated 20 December 2000 and 24 April 2001) and the Offer Information Statement dated 30 November 2004 (as modified by Supplementary Offer Information Statement dated 18 January 2005)

Offer means the offer of Member Investment Securities in this Offer Information Statement by Holiday Coast Credit Union

OIS means an Offer Information Statement as lodged with ASIC

Q - T

Sydney Time means Australian Eastern Standard time, or if applicable, Australian Eastern Summer Time

Trading Market and **Market** means the low volume financial market as approved under the *Corporations (Low Volume Financial Markets) Exemption Notice 2003*, which is operated by Holiday Coast Credit Union and on which Member Investment Securities are listed

U - Z

CONSENTS

Langes+ has given and has not before lodgement of this Statement with ASIC withdrawn its written consent to be named in this Statement as the Solicitors to the issue. Langes+ does not make any statement in this Statement, nor does any statement herein purport to be based on a statement made by Langes+, and Langes+ takes no responsibility for any part of this Statement. Langes+ has not authorised or caused the issue of this Statement.

Northcorp Accountants, Auditor, has given and has not before lodgement of this Statement with ASIC withdrawn its written consent to the inclusion of the Independent Auditor's Report on the Financial Statements of the Credit Union for the year ended 30 June 2011 in this Statement.

In addition Northcorp Accountants has given its written consent to their being named in the Statement as Auditor to the Credit Union and has not withdrawn its consent prior to the lodgement of this Statement with ASIC. Apart from the Independent Auditor's Report included in this Statement Northcorp does not make any statement in this Statement, nor does any statement herein purport to be based on a statement made by Northcorp Accountants and Northcorp Accountants takes no responsibility for any other part of this Statement. Northcorp Accountants has not authorised or caused the issue of this Statement.

DIRECTORS' CONSENTS

The following Directors of Holiday Coast Credit Union Ltd have consented to the issue of this Offer Information Statement dated 21 October 2011.

Jeffrey B Pattinson, Chairman

Allan G Gordon, Deputy Chairman

John D McCarthy

Susan E McGinn

Phillip W Bryant

Paul D Longworth

Neville L Parsons

HOW TO APPLY

OPENING DATE FOR APPLICATIONS

Applications may be received from 04 November 2011.

CLOSING DATE FOR APPLICATIONS

Applications must be received by no later than 5.00pm Sydney Time on 11 June 2012.

Note that the Offer will close once fully subscribed and this may be prior to 11 June 2012.

APPLICATION FORM

To apply for the Member Investment Securities issued through this Offer, Eligible Members must complete the Application Form attached at the end of this OIS in accordance with the instructions provided.

APPLICATION MONIES

Funds received prior to allotment will be held in a Fixed Term Deposit Account at an interest rate benchmarked to the 90 day Bill Rate on 04 November 2011 until allotment. Funds received prior to allotment will be held on trust in a fixed term deposit account that will have as its maturity date the date of issuance of the securities. Those funds will then be transferred to formalise the purchase of the Member Investment Securities and any interest earned on the fixed term deposit will on that day be deposited to the member's transactional savings account held with Holiday Coast Credit Union.

ENQUIRIES

Additional copies of this OIS are available from the Registered Office or any branch* of the Credit Union.

Full details of branch addresses are available on the Holiday Coast Credit Union Corporate Website - ***http://www.hccu.com.au***/

Further advice on how to complete an application form can be obtained by telephoning or visiting:

Holiday Coast Credit Union Credit Union Ltd
1 Commerce Street
WAUCHOPE NSW 2446
Telephone 1300 365 7 24

WHERE TO SEND YOUR COMPLETED APPLICATION

MAIL

Holiday Coast Credit Union Security Offer
Private Mail Bag 9
WAUCHOPE NSW 2446

HAND DELIVER

Holiday Coast Credit Union Ltd
Registered Office
1 Commerce Street
WAUCHOPE NSW 2446

OR deliver to any branch* of Holiday Coast Credit Union

*Branch Locations: Bulahdelah, Coffs Harbour, Forster, Gloucester, Greenhills, Harrington, Kempsey, Laurieton, Nabiac, Port Macquarie (Short Street & Industrial), Rutherford, Taree, Tea Gardens, Tuncurry, Wauchope and Wingham.

Instructions for Completing the Application

Please complete all relevant sections of the Application Form using block letters.

Applicants 1, 2 & 3

Enter the full name(s) and title(s) of all legal entities that are to be recorded as the registered holder(s). Please note that the applicant details must be exactly the same as those of the Eligible Member. Refer to the Name Standards at right for guidance on valid registration.

- Enter the tax file number(s) of the applicants. With a joint holding, only the tax file numbers of two holders are required.

Address

- Enter the postal address for all communications from the Credit Union. Only one address can be recorded.

Contact Details

- Enter telephone numbers and a contact person we can speak to if we have any queries regarding this application.

Application

- Enter the number of Member Investment Securities you wish to apply for. Applications must be for a minimum of 500 Member Investment Securities and thereafter in multiples of 100.
- Enter the total amount of the application money payable. To calculate the amount multiply the number of securities applied for by $1.00 per security.

Payment

- Payment must be made in Australian Currency.
- Select one payment option by ticking the appropriate box.
  - If paying by direct transfer from a Credit Union account, complete the Payment Authority on the reverse of the Application Form.
  - If paying by cheque, cheques must be drawn on an Australian Bank. Cheque or banks drafts must be payable to ‘Holiday Coast Credit Union - Security Officer’ and crossed ‘Not Negotiable’. Cheques not properly drawn will be rejected. Cheques will generally be deposited on the day of the receipt. If cheques are dishonoured the application may be rejected

Declaration

- Before completing the Application Form the applicant(s) must read the Statement to which the application relates.

It is not necessary to sign the Application, but if you are paying by direct transfer from a Credit Union account you must sign the payment authority on the reverse of the Application.

Name Standards

- Only legal entities may be registered as the holders of Securities.
- The full and correct name of each entity must be shown.
- Salutations such as Mr, Mrs and Ms should be included.
- Securities cannot be registered in the name of a trust and no trust can be implied.
- Securities should not be registered in the name of a minor or deceased person.
- An account designation can be included. If shown, it must be contained within one line and within the “< >“ symbols. The last word of the designation must be Account or A/c.

Type of Investor	Correct form of Registration	Incorrect Form of Registration
Individual Use given name in full, not initials	Mr John Alfred Smith	J A Smith
Company Use the company’s full title, not abbreviations	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings Use full and complete name	Mr Peter Robert Williams & Ms Louise Susan Williams	Peter Robert & Louse S Williams
Trusts Use the trustee(s) personal name(s)	Mrs Susan Jane Smith <Sue Smith Family A/C>	Sue Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Jane Mary Smith & Mr Frank William Smith <Est. John Smith A/C>	Estate of late John Smith or John Smith Deceased
Minor (A person under the age of 18) Use the name of a responsible adult with appropriate designation.	Mr John Alfred Smith <Peter Smith A/C>	Master Peter Smith
Partnerships Use the partners’ personal names	Mr John Robert Smith & Mr Michael John Smith <John Smith and Son A/C>	John Smith & Son
Long Names	Mr John William Alexander Robertson-Smith	Mr John W A Robertson-Smith
Clubs/Unincorporated Bodies/ Business Names Use office bearer(s) personal name(s)	Mr Michael Peter Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds Use the name of the trustee of the fund	Jane Smith Pty Ltd <Super Fund A/C>	Jane Smith Pty Ltd Superannuation Fund

APPLICATION FORMS

MEMBER INVESTMENT SECURITIES APPLICATION

To meet the requirements of the Corporations Act, this Application Form must not be distributed unless attached to a copy of the Statement. Please read all instructions that accompany this application form

Applicant 1

Title | Given Names / Company Name | Surname / ACN

Tax File Number(s) or exemption | Member Number

Joint Applicant 2

Title | Given Names / Company Name | Surname / ACN

Tax File Number(s) or exemption | Member Number

Joint Applicant 3

Title | Given Names / Company Name | Surname / ACN

Tax File Number(s) or exemption | Member Number

Address

Street Address

Suburb/Town | Postcode

Contact Details

Contact Name

Phone (business) | Phone (home)

Application

I/we apply for the following number of Member Investment Securities in Holiday Coast Credit Union Ltd or such less number of Member Investment Securities which may be allocated to us by the Directors

Number of Member Investment Securities | Application Money @ $1.00 per Member Investment Security | $A

(Note: Application must be a minimum of 500 Member Investment Securities and thereafter in multiples 100 Securities)

Payment (tick one option)

☐ Payment by direct transfer from a Credit Union account (see over for authorisation)

☐ Payment by Cheque (Provide details below)

Drawer | Bank | Branch | Amount $A

Drawer | Bank | Branch | Amount $A

Declaration

By submitting this application I/we acknowledge that:

- This application is completed according to the instructions contained in this Statement.
- This application is for Securities in Holiday Coast Credit Union Ltd;
- Subject to the terms of the Statement, I/we agree to take any number of Securities equal to or less than the number of Securities indicated above that may be allotted to the applicants pursuant to the Statement; and
- All details and statements made are complete and accurate.

PAYMENT AUTHORITY

I/we authorise Holiday Coast Credit Union Ltd to debit the below-mentioned account for the purpose of purchasing Member Investment Securities as detailed in the Application on the reverse of this authority.

Applicant 1

Member Number

Member Name

Account Type

Amount $A

Signed

Date

Note: When signing this payment authority please do so in the same way as you would when authorising any payment on your membership.

OFFICE USE ONLY:

Loaded by: Authority Number:

Checked by Supervisor: Date:

MEMBER INVESTMENT SECURITIES APPLICATION

To meet the requirements of the Corporations Act, this Application Form must not be distributed unless attached to a copy of the Statement. Please read all instructions that accompany this application form

Applicant 1

Title | Given Names / Company Name | Surname / ACN

Tax File Number(s) or exemption | Member Number

Joint Applicant 2

Title | Given Names / Company Name | Surname / ACN

Tax File Number(s) or exemption | Member Number

Joint Applicant 3

Title | Given Names / Company Name | Surname / ACN

Tax File Number(s) or exemption | Member Number

Address

Street Address

Suburb/Town | Postcode

Contact Details

Contact Name

Phone (business) | Phone (home)

Application

I/we apply for the following number of Member Investment Securities in Holiday Coast Credit Union Ltd or such less number of Member Investment Securities which may be allocated to us by the Directors

Number of Member Investment Securities | Application Money @ $1.00 per Member Investment Security | $A

(Note: Application must be a minimum of 500 Member Investment Securities and thereafter in multiples 100 Securities)

Payment (tick one option)

☐ Payment by direct transfer from a Credit Union account (see over for authorisation)

☐ Payment by Cheque (Provide details below)

Drawer | Bank | Branch | Amount $A

Drawer | Bank | Branch | Amount $A

Declaration

By submitting this application I/we acknowledge that:

- This application is completed according to the instructions contained in this Statement.
- This application is for Securities in Holiday Coast Credit Union Ltd;
- Subject to the terms of the Statement, I/we agree to take any number of Securities equal to or less than the number of Securities indicated above that may be allotted to the applicants pursuant to the Statement; and
- All details and statements made are complete and accurate.

PAYMENT AUTHORITY

I/we authorise Holiday Coast Credit Union Ltd to debit the below-mentioned account for the purpose of purchasing Member Investment Securities as detailed in the Application on the reverse of this authority.

Applicant 1

Member Number

Member Name

Account Type

Amount $A

Signed

Date

Note: When signing this payment authority please do so in the same way as you would when authorising any payment on your membership.

OFFICE USE ONLY:

Loaded by: Authority Number:

Checked by Supervisor: Date:

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General Enquiries
Member Contact Centre
Monday to Friday 8.00am - 6.00pm
1300 365 7 24

Internet Banking
Online Banking Service
www.hccu.com.au

Telephone Banking
Automated Phone Banking Service
Available 24 hours
1300 361 411

Branch Network
We have an extensive network of
Branches and Service Centres
throughout the Holiday Coast
& Maitland regions of NSW

HOLIDAYCOAST
credit union

ABN 64 087 650 164 AFSL & ACL No. 24782
Registered Office
Holiday Coast Credit Union Ltd
1 Commerce Street
Wauchope NSW 2446
Phone: 1300 365 7 24
www.hccu.com.au

Overview of Member Investment Securities
by Reference to Prudential Standard APS 111

Member Investment Securities are irredeemable non- cumulative preference shares that were issued to members of the credit union by issue documents (Offer Information Statements) dated 11 September 2000 and 30 November 2004.

MIS Issue – Offer Information Statement (OIS) dated 11 September 2000

The original approval for raising up to $5million MIS was granted by our members at a Special General Meeting held 27 September 2000 and following that approval we raised $1,873,700 MIS held as Tier 1 Capital in our Balance Sheet. This was formally approved as such by APRA as part of the initial approvals process prior to 11 September 2000.

Disclosures as to the nature of the investment are clearly recorded and the nature of the investment as being permanent capital of the Credit Union.

Page 4 disclosures:

> *Member Investment Securities are an investment in the business of HCCU itself. They DO NOT represent deposit liabilities of HCCU. They are not protected in the same way as deposits.*

Page 12 disclosures:

> *The Member Investment Securities will NOT be deposit liabilities of HCCU. The securities issued will be non-cumulative preference shares. HCCU's Constitution sets out the rights of holders of Member Investment Securities.*
> *Member Investment Securities are intended to represent a permanent and unrestricted commitment of funds by investors. HCCU may redeem Member Investment Securities on a member's death, subject to satisfying certain conditions in its Constitution (including obtaining APRA consent). APRA will only approve redemption in very limited circumstances, and has no responsibility to Members with Member Investment Securities to do so.*
>
> *As equity securities, Member Investment Securities are freely available to absorb losses HCCU incurs. If HCCU is wound up and there is money available after all HCCU's depositors and creditors have been paid, HCCU will return up to a maximum $1.00 for each Member Investment Security that a member owns. Members with member Investment Securities will be entitled to this repayment of subscribed capital before any surplus is paid to HCCU's Members generally.*

APRA had previously approved Tier 1 Capital status for this issue of securities to a maximum of 25% of Tier 1 capital.

MIS Issue – Offer Information Statement (OIS) dated 30 November 2004 and amended by Supplementary OIS dated 01 February 2005.

Disclosures as to the nature of the investment are clearly recorded as being permanent capital of the Credit Union.

Page 7 disclosures:

Member Investment Securities are irredeemable non-cumulative preference shares and carry the following rights:

- *They are a permanent and unrestricted commitment of funds – they cannot be converted to cash.*
  - *The supplemental OIS also advised:*
    - *The MIS will be available to absorb any losses incurred by the Credit Union in the ordinary course of business;*
    - *The MIS are subordinated in right of repayment of principal and interest to all depositors and other creditors.*

Member Investment Securities are an investment in the business of Holiday Coast Credit Union itself. They do not represent deposit liabilities of the Credit Union and are not protected in the same way as deposits with the Credit Union.

If the Credit Union is wound up, holders of Member Investment Securities may only be paid their original investment or a portion of their original investment out of any surplus funds available after paying depositors and creditors.

Extracts from Prudential Standard APS 111 – Capital Adequacy: Measurement of Capital
(January 2013)

Common Equity Tier 1 Capital

18. Common Equity Tier 1 Capital comprises the highest quality components of capital that fully satisfy all of the following 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 the claims of depositors and other creditors in the event of winding-up of the issuer.

19. Common Equity Tier 1 Capital consists of the sum of:

(a) paid-up ordinary shares issued by an ADI that meet the criteria in Attachment B;

In terms of Clause 18 our Member Investment Securities as they exist and as proposed under any new offering satisfy the following characteristics:

- provide a permanent and unrestricted commitment of funds;

  This is mirrored in the Offer documents and fully understood by holders of MIS.

- are freely available to absorb losses;

  This is mirrored in the Offer documents and fully understood by holders of MIS.

- do not impose any unavoidable servicing charge against earnings; and

  Dividends are discretionary and subject to Board determination within the restrictions of Corporations Law and the actual Constitutional maximum allowable dividend to protect the mutuality principles.

- rank behind the claims of depositors and other creditors in the event of winding-up of the issuer.

  This is mirrored in the Offer documents and fully understood by holders of MIS.

The only issue that I see is one of naming. Clause 19 (a) identifies as eligible Tier 1 Capital as“**paid-up ordinary shares issued by an ADI that meet the criteria in Attachment B”.**

In our structure I propose that our Member investment Securities are the equivalent of paid up ordinary shares. The reason being that in the event of an event that would see ordinary shares of any ADI available for absorbing losses so to would our MIS.

Indeed what we refer to as member Shares in our structure are not even counted as Equity in our Balance Sheet. So MIS in our Balance Sheet I suggest could in fact be called “Ordinary Shares” within the meaning of Clause 19.

In fact in the Definitions APS 001 Ordinary Shares is defined as “for Regulatory Capital purposes must meet the Criteria in Attachment B to APS 111.

So turning to Attachment B:

Attachment B
Criteria for classification as paid-up ordinary shares
1. To be classified as paid-up ordinary shares in Common Equity Tier 1 Capital, an instrument must satisfy the following criteria:
(a) the instrument represents the most subordinated claim in liquidation of the issuer;

This is the case with only question being the “Member Share” but this is not in Balance Sheet as Equity so technically MIS meets this criteria.

(b) the instrument holder is entitled to a claim on the residual assets that is proportional to its share of issued capital, after all senior claims have been repaid in liquidation (i.e. there is an unlimited and variable claim, not a fixed or capped claim);

This is even further restricted with MIS as the holders as MIS holders are only entitled to their Capital amount or a distribution in proportion to that amount if not sufficient to repay all of the MIS.

Any surplus is then allocated proportionately to the Member Shareholders… noting that our member shares are treated in the Balance sheet as liabilities!!!

(c) the principal amount of the instrument is perpetual (i.e. it has no maturity date) and is never repaid outside of liquidation (other than discretionary repurchases subject to APRA approval);

The current provision with MIS is even further restricted then this as the only possibility trigger for redemption is death of a holder and then it is only with APRA approval and indeed the Offer documents were very clear that APRA had no obligation to approve.

(d) the issuer, and any other member of a group to which the issuer belongs, does nothing to create an expectation at issuance that the instrument will be bought back, redeemed or cancelled

and the statutory or contractual terms of the instrument do not include any feature that might give rise to such an expectation;

The MIS are irredeemable preference shares… by their very nature they are irredeemable… also refer comment in (c) above.

(e) distributions on the instrument are paid out of distributable items (retained earnings included) of the issuer, and the terms of the instrument do not provide for payment to investors other than in the form of a cash payment. The level of distributions must not be tied or linked to the amount paid up at issuance, or to the credit standing of the issuer, and must not be subject to a contractual cap, except to the extent that restrictions applied to the payment of distributions are in accordance with *Prudential Standard APS 110 Capital Adequacy* (APS 110);

The only matter to be addressed here will be the need to amend the Constitution to clearly specify that any Dividends can only be paid in cash. The current Constitution states that "The method of payment may include the payment of cash, the issue of securities and the transfer of assets."

The Constitutional Change would be implemented to achieve the required status for MIS to meet Tier 1 Capital status.

The only restriction that exists and one that is set to maintain the Principles of Mutuality is the Maximum allowable dividend and this is a maximum that the Board can determine. There is no minimum dividend payable and dividends are subject to Corporations Law and the determination of the Board taking all relevant matters into account including the ability for the credit union to pay any dividend and still maintain required capital levels to meet Prudential Standards and Board limits. This I believe is in accord with the Standard.

(f) there are no circumstances under which the distributions are obligatory. Non-payment of a distribution does not trigger any restrictions on the issuer or any other member of the group to which the issuer belongs. Any waived distributions are non-cumulative (i.e. they are not required to be made up by the issuer at a later date). Non-payment of distributions must not be an event of default of the issuer or of any other member of the group to which the issuer belongs;

All of the above are specific conditions that apply to the MIS. They are irredeemable non-cumulative preference shares.

(g) distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. There are no preferential distributions, including in respect of other elements classified as Common Equity Tier 1 Capital;
All of the above are specific conditions that apply to the MIS. They are irredeemable non-cumulative preference shares.

(h) the instruments take the first and proportionately greatest share of any losses as they occur11. Within Common Equity Tier 1 Capital, each instrument absorbs losses on a going concern basis proportionately, and *pari passu*, with all the other instruments included in Common Equity Tier 1 Capital;

The MIS are part of our Equity and would provide exactly the same buffer as "Ordinary Shares" in a listed ADI.

(i) only the paid-up amount of the instrument, irrevocably received by the issuer, is recognised as equity capital (i.e. it is not recognised as a liability) for determining balance sheet insolvency;

This is the case for MIS.

(j) the paid-up amount of the instrument is classified as equity under relevant accounting standards12;

This is the case for MIS.

(k) the instrument is directly issued by the issuer, and, except where otherwise permitted in this Prudential Standard, the issuer, any other member of a group to which the issuer belongs, or any related entity13, cannot have purchased or directly or indirectly14 funded the purchase of the instrument;

This is the case for MIS.

(l) the paid-up amount of the instrument, or any future payments related to the instrument, is neither secured nor covered by a guarantee of the issuer or a related entity15 or subject to any other arrangement that legally or economically enhances the seniority of the claim. The instrument may not be subject to netting or offset claims on behalf of the holder or the issuer of the instrument;

The only point to be clarified is that our Constitution currently provides that on Distribution on Winding up as follows:

A6-8 Distribution on Winding-Up

(1) On a winding-up of the ***credit union*** the holder of an ***Member Investment Security*** is entitled to payment of the ***subscription price*** for the ***Member Investment Security*** when the ***member*** subscribed for the ***Member Investment Security***.

(2) The ***credit union*** may offset against the amount payable under Clause A6-8(1) any amount payable by the ***member*** to the ***credit union***.

(3) The holders of ***Member Investment Securities*** have an entitlement to payment on winding-up that is preferred to that of holders of ***member shares***. The ***credit union*** must not pay any holders of ***member shares*** on winding-up unless either:

(a) the ***credit union*** has paid all the amounts payable under this clause to holders of ***Member Investment Securities***; or

(b) a meeting of the class of holders of ***Member Investment Securities*** approves the payment on winding-up to holders of the ***member shares*** by passing an ordinary resolution.

I do not believe that Clause A6-8 (2) in this context frustrates the intent of the Standard.

(m) the instrument is only issued with the approval of the owners of the issuer, either given directly by the owners or, if permitted by applicable law, given by the Board or by other persons duly authorised by the owners; and

This is the case for MIS.

(n) the instrument is clearly and separately disclosed on the issuer's financial statements and, in any consolidated financial statements. Disclosure must be in line with the frequency with which an ADI, or group of which it is a member, publishes its financial results.
This is the case for MIS.

2. Where an instrument is subject to the laws of a jurisdiction other than Australia or its territories, the ADI must also ensure that the instrument satisfies all relevant qualifying criteria for Common Equity Tier 1 Capital under the laws of that jurisdiction. APRA may require the ADI to provide an independent expert opinion, addressed to APRA by a firm or practitioner of APRA's choice and at the expense of the ADI, confirming that the instrument meets all or any of the criteria applied to Common Equity Tier 1 Capital instruments in this Prudential Standard.
Not Applicable

If we cannot convince APRA that it is in compliance with Attachment B then I seek the consideration of the MIS being confirmed as Additional Tier 1 Capital.

Additional Tier 1 Capital
27. Additional Tier 1 Capital comprises high quality components of capital that satisfy the following essential characteristics:
(a) provide a permanent and unrestricted commitment of funds;
(b) are freely available to absorb losses;
(c) rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and
(d) provide for fully discretionary capital distributions.

In terms of Clause 27 our Member Investment Securities as they exist and as proposed under any new offering satisfy the following characteristics:

- provide a permanent and unrestricted commitment of funds;
  This is mirrored in the Offer documents and fully understood by holders of MIS.

- are freely available to absorb losses;
  This is mirrored in the Offer documents and fully understood by holders of MIS.

- rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and
  This is mirrored in the Offer documents and fully understood by holders of MIS.

- provide for fully discretionary capital distributions.
  The MIS are irredeemable non-cumulative preference shares. Dividends are discretionary and subject to Board determination within the restrictions of Corporations Law and the actual Constitutional maximum allowable dividend to protect the mutuality principles.

The sections of Clause 28 that are possibly relevant are as follows and my comments are included within the section clauses in italics.

28. Additional Tier 1 Capital consists of:
(a) instruments issued by an ADI that are not included in Common Equity Tier 1 Capital and which meet:
(i) the criteria for inclusion in Additional Tier 1 Capital set out in Attachment E;

If MIS cannot be approved as Common Equity Tier 1 then I believe the conditions are met for Additional Tier 1 Capital as in Attachment E Criteria addressed below.

(ii) for instruments classified as liabilities under Australian Accounting Standards, the loss absorption requirements set out in Attachment F; and

The MIS are Irredeemable non-cumulative preference shares and as such are equity not liabilities. Therefore the Loss absorption requirements do not apply to the MIS as they are not liabilities *under Australian Accounting Standards.*

(iii) the requirements for loss absorption at the point of non-viability set out in Attachment J;

Not applicable as MIS are an equity instrument not a liability.

Attachment E from Prudential Standard APS 111

Attachment E
Criteria for inclusion in Additional Tier 1 Capital
1. To qualify as Additional Tier 1 Capital, an instrument must satisfy the following minimum criteria:
(a) the instrument must be paid-up and the amount must be irrevocably received by the issuer;
This is the case for MIS.

(b) the instrument represents, prior to any conversion to Common Equity Tier 1 Capital (refer to Attachment F and Attachment J), the most subordinated claim in liquidation of the issuer after Common Equity Tier 1 Capital instruments;
This is the case for MIS.

(c) the paid-up amount of the instrument, or any future payments related to the instrument, is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the holder's claim. The instrument may not be secured or otherwise subject to netting or offset claims on behalf of the holder or issuer of the instrument;
The only point to be clarified is that our Constitution currently provides that on Distribution on Winding up as follows:

A6-8 Distribution on Winding-Up

(4) On a winding-up of the ***credit union*** the holder of an ***Member Investment Security*** is entitled to payment of the ***subscription price*** for the ***Member Investment Security*** when the ***member*** subscribed for the ***Member Investment Security***.

(5) The ***credit union*** may offset against the amount payable under Clause A6-8(1) any amount payable by the ***member*** to the ***credit union***.

(6) The holders of ***Member Investment Securities*** have an entitlement to payment on winding-up that is preferred to that of holders of ***member shares***. The ***credit union*** must not pay any holders of ***member shares*** on winding-up unless either:

(c) the ***credit union*** has paid all the amounts payable under this clause to holders of ***Member Investment Securities***; or

(d) a meeting of the class of holders of ***Member Investment Securities*** approves the payment on winding-up to holders of the ***member shares*** by passing an ordinary resolution.

I do not believe that Clause A6-8 (2) in this context frustrates the intent of the Standard.

(d) the principal amount of the instrument is perpetual (i.e. it has no maturity date);
This is the case for MIS.

(e) the instrument contains no step-ups or other incentives to redeem. The issuer and any other member of a group to which the issuer belongs must not create an expectation at issuance that the instrument will be bought back, redeemed or cancelled. The contractual terms of the instrument must not provide any feature that might give rise to such an expectation;
The MIS are irredeemable preference shares… by their very nature they are irredeemable… The current provision with MIS is the only possibility trigger for redemption is death of a holder and then it is only with APRA approval and indeed the Offer documents were very clear that APRA had no obligation to approve.

(f) the instrument may only be callable at the initiative of the issuer and only after a minimum of five years from the date on which the issuer irrevocably receives the proceeds of payment for the instrument. The issuer:
(i) must receive prior written approval from APRA to exercise a call option. For instruments issued by subsidiaries not regulated by APRA included in a Level 2 group, prior written approval from APRA must also be obtained;
(ii) must not do anything that creates an expectation that a call will be exercised; and

(iii) must not exercise a call unless:
(A) the issuer, prior to or concurrent with the exercise of the call, replaces the instrument with a capital instrument of the same or better quality, and the replacement of the instrument is done under conditions that are sustainable for the income capacity of the issuer; or

(B) the ADI meets the requirements relating to reductions in capital in APS 110.

An instrument may provide for multiple call dates after five years. However, the specification of multiple call dates must not act to create an expectation that the instrument will be redeemed upon any call date;
The MIS are irredeemable preference shares… by their very nature they are irredeemable… The current provision with MIS is the only possibility trigger for redemption is death of a holder and then it is only with APRA approval and indeed the Offer documents were very clear that APRA had no obligation to approve.

(g) issuers must not assume, or create market expectations, that supervisory approval will be forthcoming for the issuer to redeem, call or purchase an instrument;

This is the case for MIS.

(h) an issuer must:
(i) have full discretion at all times to cancel distributions/payments on the instrument. Any waived distributions are non-cumulative (i.e. are not required to be made up by the issuer at a later date). The instrument must not provide for payment of a higher dividend or interest rate if dividend or interest payments are not made on time, or a reduced dividend or interest rate if such payments are made on time;

This is the case for MIS.

(ii) ensure that cancellation of discretionary distributions/payments is not an event of default. Holders of the instruments must have no right to apply for the winding-up or administration of the issuer, or cause a receiver, or receiver and manager, to be appointed in respect of the issuer on the grounds that the issuer fails to make, or is or may become unable to make, a distribution on the instruments;

This is the case for MIS.

(iii) have full access to cancelled distributions/payments to meet obligations as they fall due; and

This is the case for MIS.

(iv) ensure that cancellation of distributions/payments do not impose restrictions on the issuer, or any other member of the group to which the issuer belongs, except in relation to distributions/payments or redemptions/buybacks on Common Equity Tier 1 Capital instruments;
This is the case for MIS.

(i) distributions on the instrument are paid out of distributable items of the issuer, and the instrument must not provide for payments to investors other than in the form of a cash payment. The level of distributions must not be tied or linked to the credit standing of the issuer. All distributions are subject to the restrictions applied under APS 110;
The only matter to be addressed here will be the need to amend the Constitution to clearly specify that any Dividends can only be paid in cash. The current Constitution states that "The method of payment may include the payment of cash, the issue of securities and the transfer of assets."

The Constitutional Change would be implemented to achieve the required status for MIS to meet Tier 1 Capital status.

The only restriction that exists and one that is set to maintain the Principles of Mutuality is the Maximum allowable dividend and this is a maximum that the Board can determine. There is no minimum dividend payable and dividends are subject to Corporations Law and the determination of the Board taking all relevant matters into account including the ability for the *credit union to pay any dividend and still maintain required capital levels to meet Prudential Standards and Board limits. This I believe is in accord with the Standard.*

(j) the instrument cannot have a credit sensitive distribution/payment feature (i.e. a distribution/payment that is based in whole or part on the credit standing of the issuer or the group or any other member of the group to which it belongs). However, an instrument may utilise a broad index as a reference rate for distribution or payments calculation purposes. Where an issuer is a reference entity in the determination of the reference rate, the reference rate must not exhibit any significant correlation with the issuer's credit standing. APRA will not allow inclusion of an instrument as part of Additional Tier 1 Capital where it considers that the reference rate is sensitive to the credit standing of the issuer;
MIS meet this criteria. The only restriction that exists and one that is set to maintain the Principles of Mutuality is the Maximum allowable dividend and this is a maximum that the Board can determine. There is no minimum dividend payable and dividends are subject to Corporations Law and the determination of the Board taking all relevant matters into account including the ability for the credit union to pay any dividend and still maintain required capital levels to meet Prudential Standards and Board limits. This I believe is in accord with the Standard.

(k) the instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of any national insolvency law applying in the jurisdiction of issue. In such cases, the issue documentation must specify that the insolvency law that applies is the place of incorporation of the issuer;
MIS as equity meet this criteria

(l) an instrument that is classified as liabilities under relevant accounting standards must comply with the loss absorption requirements in Attachment F;
MIS are not a Liability instrument

(m) the instrument is directly issued by the issuer, and, except where otherwise permitted in this Prudential Standard, the issuer, any other member of a group to which the issuer belongs, or any related entity, cannot have purchased or directly or indirectly funded the purchase of the instrument;
This is the case for MIS

(n) the instrument has no features that hinder recapitalisation of the issuer, or any other members of the group to which the issuer belongs. This includes features that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified timeframe;
MIS as equity meet this criteria

(o) where the terms of the instrument provide the ability (even in contingent circumstances) to substitute the issuer (i.e. to replace the ADI with another party), the relevant documentation must set out the mechanism to ensure that there will be a simultaneous capital injection into the ADI to replace the transferred capital instrument. Any replacement capital injection must occur at least simultaneously with the substitution and must be unconditional. The capital injection must be of equal or better quality capital and at least the same amount as the original issue, unless otherwise approved by APRA in writing;
Not applicable to MIS

(p) the instrument does not contain any terms, covenants or restrictions that could inhibit the issuer's ability to be managed in a sound and prudent manner, particularly in times of financial difficulty, or restrict APRA's ability to resolve any problems encountered by the issuer;
MIS as equity meet this criteria

(q) where an issue of an instrument involves the use of an SPV, the issue of the instrument is subject to Attachment I;
Not applicable to MIS

(r) the instrument includes provisions addressing loss absorption at the point of non-viability as required by Attachment J;
MIS is equity and not a liability instrument

(s) the instrument is clearly and separately disclosed in the issuer's financial statements and, at Level 2, in any consolidated financial statements; and
MIS as equity meet this criteria

(t) issue documentation clearly indicates:
(i) the subordinated nature of the instrument and that neither the issuer nor the holder of the instrument is allowed to exercise any contractual rights of set-off;
The only point to be clarified is that our Constitution currently provides that on Distribution on Winding up as follows:

A6-8 Distribution on Winding-Up

(7) On a winding-up of the ***credit union*** the holder of an ***Member Investment Security*** is entitled to payment of the ***subscription price*** for the ***Member Investment Security*** when the ***member*** subscribed for the ***Member Investment Security***.

(8) The ***credit union*** may offset against the amount payable under Clause A6-8(1) any amount payable by the ***member*** to the ***credit union***.

(9) The holders of ***Member Investment Securities*** have an entitlement to payment on winding-up that is preferred to that of holders of ***member shares***. The ***credit union*** must not pay any holders of ***member shares*** on winding-up unless either:

(e) the ***credit union*** has paid all the amounts payable under this clause to holders of ***Member Investment Securities***; or

(f) a meeting of the class of holders of ***Member Investment Securities*** approves the payment on winding-up to holders of the ***member shares*** by passing an ordinary resolution.

I do not believe that Clause A6-8 (2) in this context frustrates the intent of the Standard

(ii) if relevant, the application of requirements for loss absorption required under Attachment F;
The MIS is not a Liability and therefore this is not applicable.

(iii) the application of requirements for loss absorption at the point of non-viability under Attachment J; and
The MIS is not a Liability and therefore this is not applicable

(iv) where the instrument is classified for accounting purposes as a liability, it does not represent a deposit liability of an issuing ADI.
The MIS is not a Liability and therefore this is not applicable. MIS is clearly not a deposit liability.

2. In accordance with paragraph 1(h) above, failure to make a distribution or payment must not trigger any restrictions on the issuer other than its ability to pay a distribution on Common Equity Tier 1 Capital instruments or to redeem such instruments.

Such 'stopper' provisions must not:
(a) impede the full discretion of the issuer at all times to cancel distributions/payments on the instrument or act in a way that could hinder the recapitalisation of the issuer;
MIS as equity meet this criteria

(b) prevent payment on another instrument where such payment was not fully discretionary;
MIS as equity meet this criteria

(c) prevent distribution to holders of Common Equity Tier 1 Capital instruments for a period that extends beyond the point in time the distributions/payments on the Additional Tier 1 Capital instruments are resumed; or
MIS as equity meet this criteria

(d) impede the normal operation of the issuer or any restructuring activity (including acquisitions or disposals).
MIS as equity meet this criteria

A 'stopper' provision may, however, act to prohibit actions that are equivalent to payment of dividend or interest, such as an ADI undertaking discretionary buybacks of ordinary shares.
MIS as equity meet this criteria

3. An instrument must not include any provision that permits an optional distribution or payment to be made. Any structuring of a distribution or payment as a bonus payment to make up for unpaid distributions or payments is also prohibited.

MIS as irredeemable non-cumulative preference shares meet this criteria

4. For the purposes of paragraph 1(e) above, an incentive or expectation to call or otherwise redeem an Additional Tier 1 Capital instrument includes, but is not limited to:
(a) a call option combined with a requirement, or an investor option, to convert the instrument into ordinary shares if the call is not exercised; or

(b) a call option combined with a change in reference rate where the credit spread over the second reference rate is greater than the initial payment rate less the swap rate (i.e. the fixed rate paid to the call date to receive the second reference rate).
Noted. Not a concern re MIS.

5. A call option and a provision to convert into ordinary shares will not constitute an incentive to redeem provided there is at least two years from the date upon which the ADI may have an option to call the instrument to the nearest date upon which conversion option may be exercised.

MIS as irredeemable non-cumulative preference shares are irredeemable. There is no Call option.

6. Calling an instrument and replacing it with an instrument with a higher credit spread or that is otherwise more expensive may create the expectation that the issuer will exercise a call option on other outstanding Additional Tier 1 Capital instruments or Tier 2 Capital instruments with call options, unless the issuer can satisfy APRA as to the economic and prudential rationale and that such an action will not create an expectation that other instruments will be called in similar circumstances.

MIS as irredeemable non-cumulative preference shares are irredeemable. There is no Call option.

7. An instrument may only provide for a call within the first five years of issuance as a result of a tax or regulatory event. APRA will not permit such a call if it forms the view that the ADI was in a position to anticipate the tax or regulatory event when the instrument was issued.

MIS as irredeemable non-cumulative preference shares are irredeemable. There is no Call option.

8. Where an Additional Tier 1 Capital instrument provides for conversion into ordinary shares,
Not applicable to MIS
the issue documentation must:
(a) specify the number of ordinary shares to be received upon conversion, or specify the conversion formula for determining the number of ordinary shares received;

(b) provide for the number of ordinary shares to be received under the formula specified in (a) to be fixed; and
(c) set the maximum number of ordinary shares received so as not to exceed the price of the Additional Tier 1 Capital instrument at the time of its issue divided by 20 per cent of the ADI's39 ordinary share price40 at the same time. In calculating the ordinary share price at time of issue, adjustments may be made for subsequent ordinary share splits, bonus issues and share consolidations.
9. Conversion must generate an unequivocal addition to Common Equity Tier 1 Capital of the ADI under Australian Accounting Standards.

10. The instrument must not include a mechanism that would require a holder to sell the instrument to the issuer or a related entity of the issuer. A mechanism that

requires a holder to sell the instrument to a nominated party other than the issuer or a related entity of the issuer will not constitute an incentive to redeem provided there is at least two years from the date upon which the holder is required to sell the instrument to the nearest date upon which conversion may be exercised.

Other than the current provision re opportunity to redeem on death of a holder and then only with APRA approval (as noted above) there are no provisions for redemption of MIS.

11. Where an instrument is drawn down in a series of tranches, it must meet the requirements in this Prudential Standard as if each tranche is a separate Additional Tier 1 Capital instrument in its own right.

Noted. Any new MIS would be issued via an Offer Document and that document would detail the actual instrument and the issuance requirements.

12. There must be no cross-default clauses in the documentation of any debt or other capital instrument of the issuer linking the issuer's obligations under the instrument to default by the issuer under any of its other obligations, or default by another party, related or otherwise.

The former Cuscal cross default clauses have been removed by an amending Deed.

13. The instrument must be marketed in accordance with its prudential treatment and must not include any 'repackaging' arrangements that have the effect of compromising the quality of the capital raised. If a prospectus or other offer documentation, or marketing of the instrument could be reasonably held to suggest to investors that the instrument has attributes of a lower level of capital than claimed by the issuer (or Level 2 group) for prudential purposes, the instrument will be ineligible to be included in the ADI's Additional Tier 1 Capital.

Noted and copies of prior Offer Documents - Offer Information Statements (OIS) held.

The proposed new OIS will be forwarded to APRA in the next few days for review and comment.

14. The instrument may be subject to the laws of a jurisdiction other than Australia or its territories, except that the terms and conditions of the instrument that relate to:
(a) loss absorption conversion or write-off (where relevant); and

(b) non-viability conversion or write-off

must be subject to the laws of Australia.

Noted. Our MIS are subject to Australian Laws.

15. Where the instrument is subject to the laws of a jurisdiction other than Australia or its territories, the ADI must also ensure that the instrument satisfies all relevant qualifying criteria for Additional Tier 1 Capital under the laws of that jurisdiction.
Not applicable

16. APRA may require the ADI to provide an independent expert opinion, addressed to APRA by a firm or practitioner of APRA's choice and at the ADI's expense, confirming

that the instrument meets the requirements in paragraphs 14 and 15 of this Attachment*.*
Noted but not applicable to Holiday Coast.

Overview prepared by Neville Parsons, CEO of Holiday Coast Credit Union Ltd on Tuesday 13 November 2012.

Principles of Mutuality as extracted from our Constitution:

Principles of Mutuality

Customers **Must be Members**

1. Subject to the exceptions in Principles 2 and 3, a credit union may not accept a deposit from, or grant financial accommodation to, a person who is not a member.
2. A credit union may accept deposits from, or grant financial accommodation to, a body that does not have the power to acquire, or that the law prohibits from acquiring, the credit union's shares.
3. A credit union may accept deposits from, or grant financial accommodation to, another ADI.

Membership and Member Shares

How to become a member

4. A person can only become a member by subscribing for a member share.

How many member shares a credit union may issue a person

5. Subject to the exception in Principle 6, a credit union may only issue one member share to any person.
6. A trustee for an unincorporated association may be issued 1 member share in the trustee's own right, and 1 member share as trustee for the unincorporated association.

Consideration paid for membership shares

7. A credit union may issue member shares as wholly paid or partly paid.
8. A credit union may only issue a member share to a person in return for valuable consideration.
9. The person must provide consideration in cash or, in relation to partly paid member shares, partly or wholly in the form of an obligation to pay cash.

Voting

10. A member share must confer the right to 1 vote, and only 1 vote, at meetings of the credit union's members.

Dividends and Surplus

11. A member share may confer a right to participate in the credit union's profits through payment of dividends.
12. A member share must confer a right to participate in surplus when the credit union is wound up.
13. Any participation in profit or surplus must be on equitable terms.

Redemption and Transfer

14. A member share must confer on the member a right to redeem the member share on request, subject only to:
    (a) compliance with prudential standards or prudential regulations; and
    (b) any period of notice set out in the credit union's constitution.
15. Subject to the exceptions in Principle 16, member shares may not be transferred.

16. A trustee for an unincorporated association may transfer the member share that the trustee holds on trust for the unincorporated association.

Additional Shares

Definition

17. All shares issued by a credit union other than member shares are additional shares.

18. omitted

Voting

19. Subject to the exceptions in Principle 20, an additional share must not confer the right to vote.
20. Additional shares may confer the right to vote, at meetings of the holders of additional shares, on questions affecting the continuing existence of the credit union.

Dividends and Surplus

21. An additional share may confer the right to participate in the credit union's profits through payment of dividends.
22. An additional share may confer a right to participate in surplus when the credit union is wound up but only to the extent of:
    (a) repayment of capital paid on the additional shares; and
    (b) payment of arrears of cumulative dividends.
23. The right to participate in profits and surplus conferred by additional shares may be preferred, equal or deferred to the rights conferred by the member shares.

Redemption and Transfer

24. An additional share may confer on the holder of the additional share a right to redeem or, subject to Principle 25, to transfer the additional share.
25. omitted

Accumulation of Securities

26. Accumulation of securities issued by a credit union must be restricted so that no person, or group of associated persons, may exercise a significant degree of influence over the affairs of the credit union.

Directors

27. Only a member of a credit union may be a director of the credit union.