FIRST CHOICE CREDIT UNION LTD

ABN 63 087 649 867

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2012

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

Registered Office:
2/18 Sale Street
Orange NSW 2800
Phone: 02 6362 2944
Facsimile: 02 6362 6061

Postal Address:
PO Box 717
Orange NSW 2800

Email: enq@firstchoicecu.com.au
Website: www.firstchoicecu.com.au

Company Secretary:
Mr PR Dawson

Management:

Mr PR Dawson	General Manager
Mrs N Carr	Assistant General Manager

Auditor:
Morse Group
Accountants & Advisors

Internal Auditor:
DBP Consulting Pty Ltd

Solicitors:
Blackwell Short Lawyers, Orange
Daniels Bengtsson, Sydney

Bankers:
CUSCAL Limited
National Australia Bank

Australian Financial Services License Number: 240722
Australian Credit License Number : 240722

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FIRST CHOICE CREDIT UNION LTD
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DIRECTORS' REPORT

Your directors present their report on First Choice Credit Union Ltd (First Choice) for the financial year ended 30 June 2012.

DIRECTORS

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

Mrs RL Neville
Mrs AH Wyllie
Mr GW Dean
Mr R Dunkley
Mr JMJ Patarica (resigned 4 November 2011)
Mr P Hetherington
Mr P Thornberry
Mrs B Solling

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Paul Dawson – Diploma in Financial Services and Graduate of the Institute of Company Directors. Mr Dawson has worked for First Choice Credit Union Ltd for the past eleven years in the position of General Manager. Mr Dawson was appointed company secretary on 8 October 2001.

PRINCIPAL BUSINESS ACTIVITIES

The principal business activities of First Choice during the year were the provision of financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution. There were no significant changes in the nature of First Choice's activities during the year.

OPERATING RESULTS

The profit earned by of First Choice for the financial year after providing for income tax was $513,950 (2011: $529,421).

REVIEW OF OPERATIONS

Net profit after tax for the year ended 30 June 2012 was $513,950 (2011 - $529,421). First Choice's Constitution prevents the payment of a dividend and accordingly the directors do not recommend payments of a dividend.

The accompanying balance sheet shows that First Choice's total assets increased by $5,277,172 (12%) during the year ended 30 June 2012. This increase is most apparent in the area of loans and advances to members.

The accompanying statement of comprehensive income for the year ended 30 June 2012 reveals a profit from ordinary activities after income tax of $513,950. This represents a decrease of $15,471 (3%). Net interest income increased by $50,337, yet this was offset by a similar increase in employee expenses.

The net profit for the year ended 30 June 2012 provided First Choice with a level and quality of capital commensurate with the risks First Choice is exposed.

ENVIRONMENTAL REGULATION

First Choice's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

EVENTS OCCURRING AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The key strategy of First Choice will continue to be to improve saving and loan services to members. The Directors are not aware of any likely developments that will materially affect the results of First Choice's operations in future years.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments as decided at the Annual General Meeting) by reason of a contract made by First Choice or a related corporation with a Director or with a firm of which he or she is a member, or with an entity in which he or she has a substantial financial interest.

INDEMNIFICATION OF OFFICERS

During the year, a premium was paid in respect of a contract insuring directors and officers of First Choice against liability. The officers of First Choice covered by the insurance contract include the directors, executive officers, secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract and the nature of liabilities covered is prohibited by a confidentiality clause in the contract. No insurance cover has been provided for the benefit of the auditors of First Choice.

PROCEEDINGS ON BEHALF OF CREDIT UNION

No person has applied for leave of Court to bring proceedings on behalf of First Choice or intervene in any proceedings to which First Choice is a party for the purpose of taking responsibility on behalf of First Choice for all or any part of those proceedings.

First Choice was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE

A copy of the auditor's independence declaration as required under s 307C of the Corporations Act 2001 is set out on page 6.

INFORMATION ON DIRECTORS

The Directors in office at the date of this report are:

Geoffrey William Dean

Position	-	Director
		Audit and Risk Committee Member
		Remuneration Committee Chairperson
Qualifications	-	Associate Fellow of the Australasian Mutuals Institute
		Councilor of Cabonne Council
Employment	-	Self Employed
Experience	-	Board member since 16/09/88
Interest in shares	-	1 Ordinary share in First Choice

Robin Dunkley

Position	-	Chairman
		Remuneration Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
		Diploma of Superannuation Management
Employment	-	Self Employed
Experience	-	Board member since 03/11/06
Interest in shares	-	1 Ordinary share in First Choice

Peter Hetherington

Position	-	Director
		Audit and Risk Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
		Councilor of Orange City Council
	-	Board member National Radio News
Employment	-	National Radio News
Experience	-	Associate board member 31/10/08 to 30/10/09
		Board member since 30/10/09
Interest in shares	-	1 Ordinary share in First Choice

Rosalie Leonie Neville

Position	-	Director
		Corporate Governance Chairperson
Qualifications	-	Member of the Australasian Mutuals Institute
		Bachelor of Social Science (Welfare)
		Masters in Social Policy and Planning
Employment	-	Self Employed
Experience	-	Board member since 16/10/98
Interest in shares	-	1 Ordinary share in First Choice

INFORMATION ON DIRECTORS (Continued)

Beverly Solling

Position	-	Director Corporate Governance Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
Employment	-	Rural Assistance Authority
Experience	-	Associate board member 31/10/08 to 30/10/09 Board member since 30/10/09
Interest in shares	-	1 Ordinary share in First Choice

Paul Thornberry

Position	-	Director Audit and Risk Committee Chairperson Remuneration Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
Employment	-	Cabonne Council
Experience	-	Associate board member 31/10/08 to 30/10/09 Board member since 30/10/09
Interest in shares	-	1 Ordinary share in First Choice

Annette Wyllie

Position	-	Director Deputy Chairperson Corporate Governance Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute Bachelor of Business Bachelor of Rural Science (Honours) MAIM
Employment	-	Self Employed
Experience	-	Board member since 28/04/03
Interest in shares	-	1 Ordinary share in First Choice

INFORMATION ON DIRECTORS (Continued)

GENERAL BOARD, AND COMMITTEE ATTENDANCE

Details of Directors' meetings held and attended since the date of appointment in the current year.

	Board Meetings Held	Board Meetings Attended	Audit and Risk Meetings Held	Audit and Risk Meetings Attended	Corporate Governance Meetings Held	Corporate Governance Meetings Attended	Remuneration Meetings Held	Remuneration Meetings Attended
Mrs R.L. Neville	12	10	n/a	n/a	2	2	n/a	n/a
Mrs A.H. Wyllie	12	9	n/a	n/a	2	2	n/a	n/a
Mr G.W. Dean	12	11	4	2*	n/a	n/a	1	1
Mr R. Dunkley	12	12	4	2#	n/a	n/a	1	1
Mr J.M.J. Patarica	12	3^	n/a	n/a	n/a	n/a	n/a	n/a
Mr P. Hetherington	12	9	4	4	n/a	n/a	n/a	n/a
Mrs B. Solling	12	10	n/a	n/a	2	2	n/a	n/a
Mr P. Thornberry	12	10	4	4	n/a	n/a	1	1

- left Committee 29 November 2011
* - joined Committee 28 November 2011
^ - refer to previous information within Directors' Report for dates of director resignations and appointments.

Signed in accordance with a resolution of the Board of Directors.

Robin Dunkley
Director
Chair of Board of Directors

Rosalie Neville
Director

Dated at Orange this 17th day of September 2012

MORSE | GROUP
ACCOUNTANTS & ADVISORS

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF FIRST CHOICE CREDIT UNION LTD

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 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.

Morse Group
MORSE GROUP

Leanne Smith
LR SMITH
PARTNER

237 Lords Place
Orange
Dated: 16 September 2012

Chartered Accountants

COVER OF EXCELLENCE

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 $	2011 $
Interest revenue	2	3,297,653	3,013,288
Interest expense	2	(1,437,725)	(1,203,697)
Net interest income		1,859,928	1,809,591
Fees, commission and other income	3	378,561	483,897
Less			
Non interest expenses			
Impairment losses on loans receivable from members	4.1	(22,727)	(55,855)
General Administration			
- Employees compensation and benefit	4.2	(626,960)	(563,176)
- Depreciation and amortisation	4.2	(29,689)	(37,669)
- Information technology		(96,532)	(98,713)
- Property expenses	4.2	(116,161)	(112,390)
- Loss on disposal of assets	4.2	-	(30,970)
- Other administration	4.2	(619,510)	(644,177)
Total non interest expenses		(1,511,579)	(1,542,950)
Profit before income tax		726,910	750,538
Income tax expense	6	(212,960)	(221,117)
Profit after income tax		513,950	529,421
Other comprehensive income		-	-
Total comprehensive income for the year		513,950	529,421

The accompanying notes form part of these financial statements

FIRST CHOICE CREDIT UNION LTD
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	Asset Revaluation Reserve	Reserve for Credit Losses	Retained Earnings	Total
	$	$	$	$
Balance at 30 June 2010	259,145	381,323	4,411,824	5,052,292
Profit for the year	-	-	529,421	529,421
Transfer from retained earnings to reserve for credit losses	-	4,525	(4,525)	-
At 30 June 2011	259,145	385,848	4,936,720	5,581,713
Profit for the year	-	-	513,950	513,950
Transfer from retained earnings to reserve for credit losses	-	42,344	(42,344)	-
At 30 June 2012	259,145	428,192	5,408,326	6,095,663

The accompanying notes form part of these financial statements.

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Notes	2012 $	2011 $
ASSETS			
Cash and liquid assets	7	6,995,390	4,007,104
Receivables due from financial institutions	8	9,176,283	10,183,550
Receivables	9	170,763	357,950
Prepayments		3,960	3,641
Loans and advances to members	10	31,392,779	27,898,233
Available for sale investments	11	78,938	78,938
Property, plant and equipment	12	658,234	677,302
Intangibles	13	16,726	1,916
Deferred tax assets	16.2	41,014	50,875
Current tax assets	16.1	2,594	-
TOTAL ASSETS		48,536,681	43,259,509
LIABILITIES			
Deposits from members	14	41,524,318	36,732,949
Creditor accruals and settlement accounts	15	805,849	767,652
Current tax liabilities	16.1	-	46,710
Provisions	17	42,866	60,961
Deferred tax liabilities	16.1	67,985	69,524
TOTAL LIABILITIES		42,441,018	37,677,796
NET ASSETS		6,095,663	5,581,713
MEMBERS' EQUITY			
Asset revaluation reserve	18.1	259,145	259,145
Reserve for credit losses	18.2	428,192	385,848
Retained profits		5,408,326	4,936,720
TOTAL MEMBERS' EQUITY		6,095,663	5,581,713

The accompanying notes form part of these financial statements.

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 $	2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Revenue Inflows			
Interest received on loans		2,507,388	2,315,991
Interest received on investments		878,199	595,328
Dividends received		16,972	13,485
Fees and commissions received		334,500	429,111
Other income		27,090	41,301
Revenue Outflows			
Interest paid on members' savings		(1,341,521)	(1,071,369)
Interest paid on borrowings		(1,333)	(1,052)
Payments to suppliers and employees		(1,489,446)	(1,403,917)
Income taxes paid		(253,941)	(246,080)
Net cash provided by revenue activities	32.3	677,908	672,798
Members' loan repayments		8,446,802	7,306,086
Members' loan fundings		(11,964,075)	(8,639,015)
Net increase/(decrease) in member shares		990	(670)
Net increase/(decrease) in member savings		4,790,379	4,770,703
Net increase/(decrease) in deposits to other financial institutions		1,007,267	(2,401,777)
Net increase/(decrease) in members' clearing		54,446	(119,348)
Net cash provided by (used in) operating activities		2,335,809	915,979
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of property, plant and equipment		-	22,084
Payment for property, plant and equipment		(8,823)	(24,626)
Payment for intangible assets		(16,608)	-
Net cash provided by (used in) investing activities		(25,431)	(2,542)
NET INCREASE/(DECREASE) IN CASH HELD		2,988,286	1,586,235
Cash at beginning of year		4,007,104	2,420,869
CASH AT END OF YEAR	32.2	6,995,390	4,007,104

The accompanying notes form part of these financial statements.

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements are prepared for First Choice Credit Union Ltd as a single credit union, for the year ended 30 June 2012. The report was authorised for issue on 17 September 2012 in accordance with a resolution of the Board of Directors. The financial statements are presented in Australian dollars. The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) 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 (IFRS). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless otherwise stated.

First Choice Credit Union Ltd is a company limited by shares, incorporated and domiciled in Australia.

Basis of Preparation

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 and financial assets. The accounting policies are consistent with the prior year unless otherwise stated.

1.1 Loans to members

(i) Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the statement of comprehensive income over the period of the loans using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to First Choice at balance date, less any allowance or provision against debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by senior management endorsed by the Board of Directors. Australian Prudential Regulation Authority (APRA) has mandated that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility.

(ii) Interest earned

Term Loans - The loan interest is calculated 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.

Overdraft – The overdraft 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 of each month.

Non-Accrual Loan Interest – while still legally recoverable, interest is not brought to account as income where First Choice is informed that the member has deceased, or, where a loan is impaired.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.1 Loans to members (continued)

(iii) Loan origination fees and discounts

Material loan establishment fees and discounts 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 included as part of interest revenue.

(iv) Transaction costs

Transaction costs are expenses that are direct and incidental to the establishment of the loan. Material costs are initially deferred as part of the loan balance, and are brought to account as a reduction to the income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

(v) Fees on loans

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

1.2 Loans impairment

(i) Provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. 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 as set out in Note 10. Note 19 details the credit risk management approach for loans.

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

An assessment is made at each balance date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

(ii) Reserve for credit losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- The level of security taken as collateral; and
- The history of bad debt write-offs over the past five years.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.3 Bad debts written off

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for impairment previously recognised. If no provision had been recognised, the write offs are recognised as expenses in the statement of comprehensive income.

1.4 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 on 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 a revaluation surplus 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 are therefore carried as cost less accumulated depreciation and any accumulated impairment losses. 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.

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 entity 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.4 Property, Plant and Equipment (continued)

Depreciation

The depreciable amount of all fixed assets including building assets, but excluding freehold land, is depreciated on a diminishing value basis over the asset's useful life to the entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Buildings	2.5%
Office furniture and equipment	10% to 50%
EDP equipment	12.5% to 50%
Motor vehicles	22.5%

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 or losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Assets with a cost less than $500 are not capitalised.

This policy is in accordance with the prescribed minimum set down under the Prudential Standards for Credit Unions.

1.5 Intangible assets

Software is carried at cost less, where applicable, any accumulated amortisation and impairment losses.

The carrying amount of software is reviewed annually by the directors to ensure it is not in excess of the recoverable amount of these assets.

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 entity 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.

1.6 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.7 Receivables from other financial institutions

Term deposits and negotiable certificates of deposit with other financial institutions are unsecured and 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.

1.8 Equity investments

Investments in shares are classified as available for sale financial instruments.

Investments in shares, which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for impairment.

All investments are in Australian currency.

1.9 Members' deposits

(i) Basis for measurement

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

(ii) Interest payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis 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 amounts payable.

1.10 Employee benefits

Provision is made for First Choice'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. 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. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by First Choice to an employee's superannuation fund and are charged to the income statement as incurred.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.11 Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when First Choice becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that First Choice commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

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. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

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 that initial amount and the maturity amount calculated using the effective interest method.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly 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 in profit or loss.

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 arm's length transactions, reference to similar instruments and option pricing models.

(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, derivatives not held for hedging purposes, 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.11 Financial instruments (continued)

(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 First Choice'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 capable of being 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 change in such 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, First Choice 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 immediately 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.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity 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 either discharged, cancelled or expire. 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.12 Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset – but not the legal ownership, which are transferred to First Choice, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses on a straight-line basis over the lease term.

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

1.13 Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) 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.

No deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable 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 related 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.14 Goods and services tax

As a financial institution First Choice is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office (ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

1.15 Impairment of assets

At the end of each reporting period, First Choice assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information 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 entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1.16 Comparative Figures

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

Where First Choice has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.17 Accounting estimates and judgements

The directors evaluate estimates and judgements 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 First Choice.

Management have made critical accounting estimates when applying First Choice's accounting policies with respect to the impairment provisions for loans - refer Note 10.

1.18 New Accounting Standards for Application in Future Periods

The Australian Accounting Standards Board has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting period and which First Choice has decided not to early adopt. A discussion of those future requirements and their impact on First Choice is as follows:

AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

First Choice has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.18 New Accounting Standards for Application in Future Periods (continued)

AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments are not expected to significantly impact First Choice.

AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

These Standards are not expected to significantly impact First Choice.

AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact First Choice.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.18 New Accounting Standards for Application in Future Periods (continued)

AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. First Choice does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to:

(a) require only those benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service to be classified as short-term employee benefits. All other employee benefits are to be classified as either other long-term employee benefits, post-employment benefits or termination benefits, as appropriate; and

(b) the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) where for an offer that may be withdrawn – when the employee accepts;
- (ii) where for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (iii) where the termination is associated with a restructuring of activities under AASB 137 and if earlier than the first two conditions – when the related restructuring costs are recognised.

First Choice has not yet been able to reasonably estimate the impact of these changes to AASB 119.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 and AASB 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The Standard also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard.

This Standard is not expected to significantly impact First Choice.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132] (applicable to annual reporting periods commencing on or after 1 January 2014).

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.18 New Accounting Standards for Application in Future Periods (continued)

This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

This Standard is not expected to significantly impact First Choice.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle [AASB 1, AASB 101, AASB 116, AASB 132 and AASB 134 and Interpretation 2] (applicable to annual reporting periods commencing on or after 1 January 2013).

These amendments are a consequence of the annual improvements process, and result from proposals that were included in Exposure Draft ED 213 Improvements to IFRSs published in July 2011 and follow the issuance of Annual Improvements to IFRSs 2009 – 2011 Cycle issued by the International Accounting Standards Board in May 2012.

This Standard is not expected to significantly impact First Choice.

1.19 Discrepancy in Note 19.6 Capital Management – 30 June 2011

First Choice performs an initial calculation of capital, the capital ratio and risk weighted assets in July each year prior to the completion of the financial statement audit. These initial calculations are superseded once the financial statement audit has been completed and adjustments made to the general ledger as is typical at the time of the audit.

It was detected that the disclosures prepared in Note 19.6 Capital Management for the year ended 30 June 2011 were transposed from the initial calculations of capital rather than the final audited calculations of capital and hence was incorrect.

The below table outlines the discrepancies between what was reported in the financial statements for the year end 30 June 2011, and the correct calculations which are shown as comparatives in these financial statements.

	Correct calculation	**Information contained in the 2011 Financial Statements**
Tier 1		
Retained Earnings	4,936,720	5,195,865
Less prescribed deductions	(92,260)	(92,260)
Net Tier 1 Capital	4,844,460	5,103,605
Tier 2		
Reserve for credit losses	330,226	295,699
Asset revaluation reserves on property (discounted to 45%)	116,615	116,615
Less prescribed deductions	(39,469)	(39,469)
Net Tier 2 Capital	407,372	372,845
Total Capital	**5,251,832**	**5,476,450**

Capital Ratio	**19.88%**	**20.73%**

2. INTEREST REVENUE AND INTEREST EXPENSE

The following table shows the interest for each of the major categories of interest bearing assets and liabilities.

	2012 $	2011 $
Interest revenue		
Receivables from financial institutions	790,265	697,297
Loans and advances (non-commercial)	2,502,443	2,289,248
Commercial loans	4,945	26,743
	3,297,653	3,013,288
Interest expense		
Deposits from members	1,436,392	1,202,645
Short-term borrowings	1,333	1,052
	1,437,725	1,203,697
Net interest income	1,859,928	1,809,591

3. FEE, COMMISSIONS AND OTHER INCOME

Fee and commission revenue

	2012 $	2011 $
Fee income on loans	61,805	62,394
Fee income from member deposits	205,315	306,388
Insurance commissions	46,871	41,204
Securitisation Activities	1,790	1,823
Other commissions	18,719	17,302
Total fee and commission revenue	334,500	429,111
Other income		
Dividends received on available for sale assets	16,972	13,485
Bad debts recovered	11,351	9,992
Miscellaneous revenue	8,473	26,781
Rental income	7,265	4,528
Total fee, commission and other income	378,561	483,897

4 NON INTEREST EXPENSE

4.1 Impairment losses

Loans and advances

	2012 $	2011 $
Increase in provision for impairment	22,727	55,855
Bad debts written off against directly against profit	-	-
Total impairment losses	22,727	55,855

4.2 Individually significant items of signature

The following items of expense are shown as part of Administration expenses and are considered to be significant to the understanding of the financial performance :-

	2012 $	2011 $
Loss on disposal of assets	-	30,970
Depreciation and amortisation		
Depreciation	27,891	36,514
Amortisation of intangible assets	1,798	1,155
Total depreciation and amortisation	29,689	37,669
Property expenses		
Occupancy expenses	67,271	63,935
Agency costs	48,890	48,455
	116,161	112,390
Employee benefits expense		
Salaries	558,992	483,593
Superannuation contributions	46,865	43,198
Annual and long service leave	(35,309)	2,280
Other	56,412	34,105
Total employee benefits	626,960	563,176
General administrative expenses		
ATM costs	206	129,449
Board costs	61,611	57,443
Legal fees	15,566	10,030
Loan establishment costs	10,393	7,584
Marketing and promotion	83,108	81,320
Member chequing	52,314	58,062
Member protection	79,033	68,321
Office administration	87,457	78,389
Processing Fees	16,509	12,513
Redicard costs	146,819	88,826
Other	66,494	52,240
Total general and administration	619,510	644,177

5. AUDITOR'S REMUNERATION

	2012 $	2011 $
Amounts received or due and receivable by the auditors of First Choice for:		
- Audit of the financial statements	36,054	33,523
- Other regulatory audit services	7,048	6,061
- Taxation services	2,072	2,684
	45,174	44,268

6. INCOME TAX

6.1 Current Tax Expense

Represented by:

	2012 $	2011 $
Current tax expense	204,638	217,663
Increase/(decrease) in deferred tax liability	(1,539)	(1,589)
(Increase)/decrease in deferred tax asset	9,861	5,043
Total	212,960	221,117

6.2 Reconciliation of Current Year Tax Payable to Income Tax Expense

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

	2012 $	2011 $
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2011: 30%)	218,073	225,163
Plus / (Less) tax effect of:		
- Dividend rebate	(5,091)	(4,046)
Over/under provision from prior year	(22)	-
	212,960	221,117
The applicable weighted average tax rates	30%	30%

7. CASH AND LIQUID ASSETS

	2012 $	2011 $
Cash on hand	218,500	238,477
Imprest accounts (CUSCAL Limited)	576,890	518,627
Cash on deposit	6,200,000	3,250,000
	6,995,390	4,007,104

8. RECEIVABLES FROM FINANCIAL INSTITUTIONS

Financial asset classification:

	2012 $	2011 $
Held to Maturity (Negotiable certificates of Deposit)	3,676,283	4,683,550
Loans and receivables (Fixed term deposits)	5,500,000	5,500,000
	9,176,283	10,183,550

9. ACCRUED RECEIVABLES

	2012 $	2011 $
Clearing accounts	27,056	126,309
Interest receivable on deposits with other financial institutions	143,707	231,641
	170,763	357,950

10. LOANS AND ADVANCES

	2012 $	2011 $
Overdrafts	205,594	109,589
Term loans	31,196,147	27,827,973
	31,401,741	27,937,562
Less: Provision for impaired loans	(8,962)	(39,329)
	31,392,779	27,898,233

10. LOANS AND ADVANCES (Continued)

10.1 Credit quality – security held against loans

	2012 $	2011 $
Secured by mortgage over real estate	20,432,585	17,516,389
Partly secured by goods mortgage	8,837,755	8,279,691
Assigned savings	32,888	21,571
Wholly unsecured	2,098,513	2,119,911
	31,401,741	27,937,562

It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

	2012 $	2011 $
Security held as mortgages against real estate		
- loan to valuation ratio of less than 80%	17,161,313	15,637,709
- loan to valuation ratio of more than 80% but mortgage insured	2,221,289	1,878,680
- loan to valuation ratio of more than 80% but not mortgage insured	1,049,983	-
	20,432,585	17,516,389

10.2 Concentration of loans

	2012 $	2011 $
First Choice has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:		
(i) Loans to individual or related groups of members which exceed 10% of capital – aggregate value	2,072,981	816,221
(ii) Loans to members are mainly concentrated in Central Western New South Wales		
(iii) Loans by customer type were:		
Housing loans and facilities	20,526,169	17,440,885
Personal loans and facilities	10,822,618	10,254,841
Business loans and facilities	52,954	241,836
	31,401,741	27,937,562

10. LOANS AND ADVANCES (Continued)

10.3 Movement in the provision for impairment

	2012 $	2011 $
Opening balance	39,329	42,572
Bad debts written off against provision	(53,095)	(59,098)
Loans provided for during the year	22,728	55,855
	8,962	39,329

10.4 Impaired Loans Written Off

	2012 $	2011 $
Amounts written off against the provision	53,095	59,098
Amounts written off directly to expense	-	-
Bad debts expense	22,727	55,855
Bad debts recovered in the period	11,351	9,992

10.5 Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding

	2012 Carrying Value $	2012 Provision $	2011 Carrying Value $	2011 Provision $
0 to 90 days in arrears	343,536	-	355,138	-
90 to 180 days in arrears	9,142	3,657	3,584	1,434
180 to 270 days in arrears	8,514	5,109	-	-
270 to 365 days in arrears	-	-	10,942	8,754
Over 365 days in arrears	-	-	28,960	28,960
Over limit facilities over 14 days	491	196	454	181
Total	361,683	8,962	399,078	39,329

Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value all collateral as at the balance date due to the variety of assets and condition.

10.6 Loans with repayments past due but not regarded as impaired

There are loans with a value of $343,536 past due which are not considered to be impaired, due to the very short number of days past due. It is not practicable to identify the security over all loans past due. These all fall within the 0-90 day category.

	2012 $	2011 $

10. LOANS AND ADVANCES (Continued)

10.7 Assets acquired via enforcement of security

Assets acquired via enforcement of security (excluding loans reported)	-	-

The policy is to sell the assets via auction at the earliest opportunity after measures to assist the members to repay the debts have been exhausted.

10.8 Loans that would otherwise be past due or impaired whose terms have been renegotiated

Loans with renegotiated terms	60,802	482,671

10.9 Key assumptions in determining impairment

In the course of the preparation of the annual report First Choice 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 job losses or economic circumstances. In identifying the impairment likely from these events First Choice estimates 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.

11. AVAILABLE FOR SALE INVESTMENTS

	2012 $	2011 $
Shares held with special service providers		
- primary shares	8,778	8,778
- central banking shares	70,160	70,160
	78,938	78,938

The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions. These shares are held to enable First Choice to receive essential banking services – refer to Note 29. The shares are not able to be traded and are not redeemable.

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 a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

First Choice is not intending, nor able to, dispose of these shares.

12. PROPERTY, PLANT AND EQUIPMENT

	2012 $	2011 $
Land - at valuation	257,405	257,405
Buildings - at valuation	365,251	365,251
Less: provision for depreciation	(32,256)	(23,717)
	332,995	341,534
Plant and equipment - at cost	254,597	245,774
Less: provision for depreciation	(210,522)	(195,152)
	44,075	50,622
Motor vehicles – at cost	23,990	23,990
Less: provision for depreciation	(10,274)	(6,292)
	13,716	17,698
Capital works in progress	10,043	10,043
Total property, plant and equipment	658,234	677,302

Units 1 and 2, 18 Sale Street, Orange were valued at $530,000 as at 27 March 2010 by Mr Mitchell Staniforth (Registered Valuer No. 5016), of Saunders & Staniforth Valuers.

Previously the land and buildings were valued as at 30 June 2008 by Mr Mitchell Staniforth (Registered Valuer No. 5016), of Saunders & Staniforth Valuers. The directors do not believe that there has been a material movement in fair value since the revaluation date and therefore the financial statements do not reflect the valuation as at 27 March 2010, and subsequently no revaluation has been performed in the current year.

During the year ended 30 June 2010, First Choice acquired Unit 6, 18 Sale Street, Orange. The purchase was made on normal commercial terms and as such, the directors believe that the price paid approximates fair value. As such, no independent valuation has been obtained for this property during the current year.

Movement in carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year.

	Beginning balance	Additions	Disposals WDV	Depreciation expense	Carrying amount at year end
Land	257,405	-	-	-	257,405
Buildings	341,534	-	-	8,539	332,995
Plant and equipment	50,622	8,823	-	15,370	44,075
Motor vehicles	17,698	-	-	3,982	13,716
Capital Works in Progress	10,043	-	-	-	10,043
Totals	677,302	8,820	-	27,891	658,234

13. INTANGIBLES

	2012 $	2011 $
Intangibles – at cost	47,852	31,244
Accumulated amortisation	(31,126)	(29,328)
	16,726	1,916

Movement in carrying amounts for each class of intangibles between the beginning and end of the current financial year.

	Beginning balance	Additions	Revaluations and impairment decrements or reversals	Disposals WDV	Depreciation expense	Carrying amount at year end
Intangibles	1,916	16,608	-	-	1,798	16,726

14. DEPOSITS FROM MEMBERS

	2012 $	2011 $
Member deposits		
- at call	19,832,150	19,120,479
- at term	21,650,418	17,571,710
Member withdrawable shares	41,750	40,760
	41,524,318	36,732,949

There were no defaults on interest and capital payments on this liability in the current or prior year.

14.1 Concentration of member deposits

	2012 $	2011 $
Member deposits from individual or related groups of members which exceed 10% of capital – aggregate value	1,719,100	3,170,380

15. PAYABLES AND OTHER LIABILITIES

	2012 $	2011 $
Payables and accrued expenses	95,669	90,322
Accrued interest payable	432,184	337,313
Members' clearing accounts	234,857	279,664
Annual leave	43,139	60,353
	805,849	767,652

15.1 Financial liabilities at amortised cost classified as trade and other payables

	2012 $	2011 $
Trade and other payables	805,849	767,652
Less annual leave entitlements	(43,139)	(60,353)
Financial liabilities as trade and other payables	762,710	707,299

16. TAXATION

16.1 Taxation liabilities

	2012 $	2011 $
Income tax	(2,594)	46,710
Property	67,985	69,524
	65,391	116,234

16.2 Taxation assets

	2012 $	2011 $
Provision for impairment	2,689	11,799
Employee leave entitlements	25,802	36,394
Other	12,523	2,682
	41,014	50,875

16.3 Reconciliation of deferred taxation balances

(i) Gross movements

The overall movement in the deferred tax account is as follows:

	2012 $	2011 $
Opening balance	(18,649)	(15,192)
Charge/(credit) to income statement	(8,323)	(3,457)
Closing balance	(26,972)	(18,649)

	2012 $	2011 $

16. TAXATION (Continued)

16.3 Reconciliation of deferred taxation balances (continued)

(ii) Deferred tax liability

The movement in deferred tax liability for property during the year as follows:

	2012 $	2011 $
At 1 July	(69,524)	(71,111)
Charged to income statement	1,539	1,587
At 30 June	(67,985)	(69,524)

(iii) Deferred tax assets

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

	2012 $	2011 $
Provision for impaired loans		
At 1 July	11,799	12,772
Charged to income statement	(9,110)	(973)
At 30 June	2,689	11,799
Employee leave entitlements		
At 1 July	36,394	35,710
Charged to income statement	(10,592)	684
At 30 June	25,802	36,394
Other		
At 1 July	2,682	7,437
Charged to statement of comprehensive income	9,841	(4,755)
At 30 June	12,523	2,682

17. PROVISIONS

Long service leave:

	2012 $	2011 $
Opening balance at 1 July	60,961	54,910
Additional provision raised during year	1,959	6,051
Amounts used	(20,054)	-
Closing balance at 30 June	42,866	60,961

18. RESERVES

18.1 Asset revaluation reserve – land and buildings

	2012 $	2011 $
Opening balance	259,145	259,145
Revaluation increments/(decrements)	-	-
Closing balance	259,145	259,145

18.2 Reserve for credit losses

	2012 $	2011 $
Opening balance	385,848	381,323
Transfer from retained earnings	42,344	4,525
Closing balance	428,192	385,848

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

For each type of risk arising from financial instruments, an entity shall disclose:

(i) the exposures to risk and how they arise;

(ii) it's objectives, policies and processes for managing risk and the methods used to measure the risk; and

(iii) any changes in (i) or (ii) from the previous period.

If quantitative data at the reporting date is not representative of the entity's exposure to risk, further information will be provided that is representative of the respective risk exposure.

Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of First Choice.

First Choice's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to and from there to the Audit and Risk Committee which are integral to the management of risk.

Board

This is the primary governing body. It approves the level of risk which First Choice is exposed to and the framework for reporting and mitigating those risks.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Audit and Risk Committee

Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit and Risk Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit and Risk Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the Board for their consideration.

The Audit and Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Audit and Risk Committee monitors compliance with the framework laid out in the policy on a quarterly basis and reports in turn to the board, where actual exposures to risks are measured against prescribed limits.

Internal Audit

Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit and Risk Committee.

Key risk management policies encompassed in the overall risk management framework include:

- Market risk policy
- Interest rate risk
- Liquidity management
- Credit risk management
- Operations risk management including data risk management.

First Choice has undertaken the following strategies to minimise the risks arising from financial instruments.

19.1 Market risk policy

The objective of First Choice's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on First Choice's financial condition or results. First Choice is not exposed to currency risk, and other significant price risk. First Choice does not trade in the financial instruments it holds on its books. First Choice is exposed only to interest rate risk arising from changes in market interest rates.

19.2 Interest Rate Risk

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

Most banks are exposed to interest rate risk within its treasury operations. First Choice does not have a treasury operation and does not trade in financial instruments.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.2 Interest Rate Risk (Continued)

Interest rate risk in the banking book

First Choice 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 reported to the Board monthly.

In the banking book the most common risk First Choice faces arises from fixed rate assets and liabilities. This exposes First Choice to the risk of sensitivity should interest rates change.

The table set out at Note 21 displays the period that each asset and liability will mature as at the balance date. This risk is not considered significant enough to warrant the use of derivatives to mitigate this risk.

Method of managing risk

First Choice manages it interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

Interest rate sensitivity

First Choice's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of First Choice to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of First Choice is not to undertake derivatives to match the interest rate risks. First Choice's exposure to interest rate risk is set out in Note 22 which details the contractual interest change profile.

An independent review of the interest rate risk profile was conducted by CUSCAL Ltd, an independent risk management consultancy. The Board monitors these risks through the reports from CUSCAL Ltd and other management reports.

Based on the calculations as at 30 June 2012, the net profit impact for a 2% (2011: 2%) movement in interest rates would be $121,817 (2011: $108,721).

First Choice performs a sensitivity analysis to measure market risk exposures.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.2 Interest Rate Risk (Continued)

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

- the interest rate change would be applied equally over the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change ;
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to First Choice's exposure to market risk or the way First Choice manages and measures market risk in the reporting period.

19.3 Liquidity risk

Liquidity risk is the risk that First Choice may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

First Choice manages liquidity risk by:

- continuously monitoring actual daily cash flows;
- monitoring the maturity profiles of financial assets and liabilities;
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- monitoring the prudential liquidity ratio daily.

First Choice has a longstanding arrangement with the industry liquidity support provider Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to First Choice should it be necessary at short notice.

First Choice is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. First Choice policy is to apply at least 15% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 26 describes the borrowing facilities at the reporting date. These facilities are in addition to the support from CUFSS.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.3 Liquidity risk (Continued)

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific Note 21. The ratio of liquid funds over the past year is set out below:

APRA	2012	2011
Total adjusted liabilities	47,272,302	41,971,693
As at 30 June	25.99%	27.07%
Average for the year	25.72%	29.58%
Minimum during the year	22.70%	25.80%
Total member deposits	41,482,568	36,692,189
HQLA as a percentage of total member deposits as at 30 June	29.61%	30.97%

19.4 Credit risk

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

(i) Credit risk - loans

The analysis of First Choice's loans by class is as follows:

Loans to:	2012 Carrying value $	2012 Off statement of financial position $	2012 Maximum Exposure $	2011 Carrying value $	2011 Off statement of financial position $	2011 Maximum Exposure $
Households	20,341,915	2,143,993	22,485,908	17,356,073	2,104,970	19,461,043
Personal	10,801,278	2,000	10,803,278	10,230,064	42,803	10,272,867
Overdrafts	205,594	1,290,068	1,495,662	109,589	1,045,065	1,154,654
Total to natural persons	31,348,787	3,436,061	34,784,848	27,695,726	3,192,838	30,888,564
Corporate Borrowers	52,954	-	52,954	241,836	-	241,836
Total	**31,401,741**	**3,436,061**	**34,837,802**	**29,937,562**	**3,192,838**	**31,130,400**

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.4 Credit risk (Continued)

(i) Credit risk – loans (Continued)

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities, line of credit facilities, and overdraft facilities). The details are shown in Note 24.

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 10.2.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

First Choice has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies;

A regular review of compliance is conducted as part of the internal audit scope.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with First Choice that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.4 Credit risk (Continued)

(i) Credit risk – loans (Continued)

Past due and impaired (Continued)

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of comprehensive income. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, First Choice makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in First Choice's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred 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.

The provisions for impaired and past due exposures relate to the loans to members.
Past due value is the 'on statement of financial position' loan balances which are past due by 90 days or more.

Details are as set out in Note 10.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

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 both past due and impaired exposure provisions is provided in Note 10.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.4 Credit risk (Continued)

(i) Credit risk – loans (Continued)

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, First Choice is exposed to the risk of a reduction in the Loan to Value (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.

Concentration risk – individuals

Concentration risk is a measurement of First Choice's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of First Choice's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but the APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The aggregate value of large exposures are set out in Note 10 and Note 14 respectively. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as First Choice has a large number of customers dispersed in areas of employment.

First Choice has a concentration in the retail lending for members who reside within the central west region of New South Wales. This concentration is considered acceptable as this is an area of great diversity in industry. First Choice does not have a concentration risk to any single industry.

(ii) Credit risk – liquid investments

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in First Choice incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to First Choice.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL Ltd. The credit policy is that investments are only made to institutions that are credit worthy.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.5 Operational risk

Operational risk is the risk of loss to First Choice resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in First Choice relate mainly to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee errors.

First Choice's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of polices and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behavior;
- implementation of the whistleblowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to First Choice promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses;
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

Fraud

Fraud can arise from member card PINs, and internet passwords being compromised where not protected adequately by the member. It can also arise from other systems failures. First Choice has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud is potentially a real cost to First Choice.

IT systems

The worst case scenario would be the failure of First Choice's core banking and IT network suppliers, to meet customer obligations and service requirements. First Choice has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of Credit Unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf on First Choice by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM & Visa cards, and B pay etc.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.6 Capital management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk
- Market risk (trading book)
- Operations risk.

The market risk component is not required as First Choice is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises retained profits

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises:

- Asset revaluation reserve on land and buildings
- A general reserve for credit losses.

First Choice's asset revaluation reserve on the land and buildings is discounted to 45% of the value net of any capital gains tax and estimated costs of sale.

Capital in First Choice is made up as follows:

	2012 $	2011 $
Tier 1		
Retained earnings	5,408,326	4,936,720
Less prescribed deductions	(56,194)	(92,260)
Net tier 1 capital	5,352,132	4,844,460
Tier 2		
Reserve for credit losses	353,724	330,226
Asset revaluation reserves on property (discounted to 45%)	116,615	116,615
Less prescribed deductions	(39,469)	(39,469)
Net tier 2 capital	430,870	407,372
Total Capital	**5,783,002**	**5,251,832**

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.6 Capital management (Continued)

The risk weights attached to each asset are based on the weights prescribed by APRA in APS 112 Attachment A. The general rules apply the risk weights according to the level of underlying security.

		Carrying Value 2012 $	Risk Weighted Value 2012 $	Carrying Value 2011 $	Risk Weighted Value 2011 $
Cash	0%	218,500	-	238,477	-
Deposits in ADI's - Credit Rating Grade 1	20%	11,543,381	2,308,676	14,183,819	2,836,764
Deposits in ADI's - Credit Rating Grade 2	20% to 50%	3,540,048	1,467,222	-	-
Deposits in ADI's - Credit Rating Unrated	20% to 50%	1,013,451	355,908	-	-
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	13,336,749	4,667,862	11,362,032	3,976,711
Standard Loans secured against eligible residential mortgages greater than 80% LVR	50% to 100%	1,161,122	580,561	1,015,074	844,420
Standard Loans secured against eligible residential mortgages up to 80% LVR, but mortgage insured	35%	91,231	31,931	-	-
Standard Loans secured against eligible residential mortgages greater than 80% LVR, but mortgage insured	35%	1,890,691	661,742	1,878,680	657,538
Non-Standard eligible Loans secured against eligible residential mortgages greater than 80% LVR, but mortgage insured	50% to 75%	2,143,777	1,361,806	-	-
Past due claims	100%	17,656	17,656	43,487	43,487
Other assets	100%	13,415,572	13,415,572	14,315,592	14,315,592
Total		**48,372,178**	**24,868,936**	**43,037,161**	**22,674,512**

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.6 Capital management (Continued)

The capital ratio as at the end of the financial year over the past 5 years is as follows:

2012	2011	2010	2009	2008
20.44%	19.88%	19.98%	19.38%	18.22%

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

To manage First Choice's capital, First Choice reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 12%. Further, a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 capital on operational risk

This capital component was introduced as from the 1 January 2009 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

First Choice uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping First Choice's three year average net interest income and net non-interest income to First Choice's various business lines.

Based on this approach, First Choice's operational risk requirement is as follows:

	2012 $	2011 $
Operational Risk Capital	245,406	220,966

It is considered that the Standardised approach accurately reflects First Choice's operational risk other than for the specific items set out below.

Internal capital adequacy management

First Choice manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in First Choice's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board.

20. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

Financial assets	Note	2012 $	2011 $
Cash and cash equivalents	7	6,995,390	4,007,104
Loans and receivables – amortised cost			
- Receivables from financial institutions – FTD's	8	5,500,000	5,500,000
- Accrued receivables	9	170,763	357,950
- Loans to members	10	31,401,741	27,937,562
Held to Maturity – amortised cost			
- Receivables from financial institutions – NCD's	8	3,676,283	4,683,550
Available for sale – fair value			
- Investments	11	78,938	78,938
TOTAL FINANCIAL ASSETS		47,823,115	42,565,104
Financial liabilities – carried at amortised cost			
Deposits from members	14	41,524,318	36,732,949
Payables and other liabilities	15	762,710	707,299
TOTAL FINANCIAL LIABILITIES		42,287,028	37,440,248

21. MATURITY PROFILE OF FINANCIAL INSTRUMENTS

Monetary liabilities have differing maturity profiles depending on the contractual term. The table below shows the period in which different financial instruments will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding and interest will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

Financial instruments	Within 3 months		3-12 months		1-5 Years		> 5 years		At Call		Total	
	2012 $	**2011 $**	**2012 $**	**2011 $**	**2012 $**	**2011 $**	**2012 $**	**2011 $**	**2012 $**	**2011 $**	**2012 $**	**2011 $**
(i) Financial assets												
Cash and liquid assets	4,053,181	1,522,541	-	-	-	-	-	-	2,995,389	2,507,104	7,048,570	4,029,645
Receivables due from other financial institutions	5,412,361	7,108,104	3,966,698	3,403,707	-	-	-	-	-	-	9,379,059	10,511,811
Accrued receivables	-	-	-	-	-	-	-	-	27,056	126,309	27,056	126,309
Loans to members	1,417,066	1,334,603	4,549,709	4,304,649	16,241,711	15,165,203	28,976,387	26,830,141	-	-	51,184,873	47,634,596
Other investments	-	-	-	-	-	-	-	-	78,938	78,938	78,938	78,938
Total financial assets	10,882,608	9,965,248	8,516,407	7,708,356	16,241,711	15,165,203	28,976,387	26,830,141	3,101,383	2,712,351	67,718,496	62,381,299
(ii) Financial liabilities												
Deposits	11,383,649	7,604,741	10,828,389	10,546,878	-	-	-	-	19,873,900	19,161,239	42,085,938	37,312,858
Payables and other liabilities	-	-	-	-	-	-	-	-	762,710	707,299	762,710	707,299
Total financial liabilities	11,383,64	7,604,741	10,828,389	10,546,878	-	-	-	-	20,636,610	19,868,538	42,848,648	38,020,157

22. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

Financial instruments	Within 1 month		1-3 months		3-12 months		1-5 years		Non interest rate sensitive		Total	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
(i) Financial assets												
Cash and liquid assets	3,700,000	2,768,627	2,500,000	1,000,000	-	-	-	-	795,390	238,477	6,995,390	4,007,104
Receivables due from other financial institutions	3,295,285	3,414,474	1,996,257	3,487,737	3,884,741	3,281,339	-	-	-	-	9,176,283	10,183,550
Accrued receivables	-	-	-	-	-	-	-	-	170,763	357,950	170,763	357,950
Loans to members	31,401,741	27,937,562	-	-	-	-	-	-	-	-	31,401,741	27,937,562
Other investments	-	-	-	-	-	-	-	-	78,938	78,938	78,938	78,938
Total financial assets	38,397,026	34,120,663	4,496,257	4,487,737	3,884,741	3,281,339	-	-	1,045,091	675,365	47,823,115	42,565,104
(ii) Financial liabilities												
Deposits	24,395,039	21,311,216	6,666,243	5,302,101	10,421,286	10,078,872	-	-	41,750	40,760	41,524,318	36,732,949
Payables and other liabilities	-	-	-	-	-	-	-	-	762,710	707,299	762,710	707,299
Total financial liabilities	24,395,039	21,311,216	6,666,243	5,302,101	10,421,286	10,078,872	-	-	804,460	748,059	42,287,028	37,440,248

23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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 balance date 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 First Choice and there is no active market to assess the value of the financial assets and liabilities.

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

The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to the original term.

	2012			2011		
	Fair value	Carrying value	Variance	Fair value	Carrying value	Variance
	$	$	$	$	$	$
Financial assets						
Cash	6,995,390	6,995,390	-	4,007,104	4,007,104	-
Advances to other financial institutions	9,176,283	9,176,283	-	10,183,550	10,183,550	-
Receivables	170,763	170,763	-	357,950	357,950	-
Loans & advances	31,401,741	31,392,779	8,962	27,937,562	27,898,233	39,329
Investments	78,938	78,938	-	78,938	78,938	-
Total Financial Assets	47,823,115	47,814,153	8,962	42,565,104	42,525,775	39,329
Financial liabilities						
Deposits from members	41,524,318	41,524,318	-	36,732,949	36,732,949	-
Payables and other liabilities	762,710	762,710	-	707,299	707,299	-
Total Financial Liabilities	42,287,028	42,287,028	-	37,440,248	37,440,248	-

The carrying value of receivables and creditors approximates fair value.

Assets where the fair value is lower than the book value have not been written down in the accounts of First Choice on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

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

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

First Choice did not hold any fixed rate loans at either 30 June 2012 or 30 June 2011.

The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Deposits from members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period maturity.

First Choice had no deposits which are maturing more than 12 months from year end in either the current or previous financial year.

Short term borrowings

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

24. FINANCIAL COMMITMENTS

	2012 $	2011 $
Outstanding loan commitments		
The loans approved but not funded	864,301	1,152,895
Loan redraw facilities		
The loan redraw facilities available	1,281,692	994,878
Overdrafts		
Overdraft facilities available	1,290,068	1,183,068
Total Financial Commitments	3,436,061	3,330,841

25. EXPENDITURE COMMITMENTS

25.1 Future Capital Commitments

At 30 June 2012 First Choice has no future capital commitments (2011: Nil).

25.2 Lease Expenditure Commitments

	2012 $	2011 $
Operating leases		
Within 1 year	32,194	30,955
1 to 5 years	2,691	34,885
	34,885	65,840

The operating lease is for premises at Unit 3, 18 Sale Street, Orange. It expires on 31 July 2013, and has two five year option periods. Payments are based on a fixed monthly instalment, increased by 4% on each anniversary.

25.3 Other

In the normal course of business First Choice enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of the members. First Choice applies the same credit policies and assessment criteria in making commitments and conditional obligations for off-statement of financial position risks as it does for on-statement of financial position loan assets. First Choice holds collateral supporting these commitments where it is deemed necessary.

26. STANDBY BORROWING FACILITIES

First Choice has gross borrowing facilities with CUSCAL Limited of:

	2012 $	2011 $
Overdraft facility		
Gross	250,000	250,000
Current borrowing	-	-
Net available	250,000	250,000
Standby Loan facility		
Gross	1,000,000	1,000,000
Current borrowing	-	-
Net available	1,000,000	1,000,000

There are no restrictions as to withdrawal of these funds subject to the availability of funds to CUSCAL Limited at the time of draw down.

The borrowing facilities are secured by a fixed and floating charge over the assets and undertakings of First Choice.

27. CONTINGENT LIABILITIES

Credit Union Financial Support System

First Choice is a member of First Choice Financial Support System (CUFSS). CUFSS is a voluntary scheme of all Credit Unions that are affiliated with CUSCAL Limited. As a member, First Choice is committed to keep 3.2% of total assets in a nominated account that may be used by CUFSS for providing financial support backed by a floating charge over assets of the borrowing Credit Union. No funds have been so provided as at 30 June 2012.

28. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES

28.1 Names of Directors

During the course of the financial year the following Directors held office:

- G.W. Dean
- R. Dunkley
- P. Hetherington
- R.L. Neville
- J.M.J. Patarica
- B. Solling
- P. Thornberry
- A.H. Wyllie

28. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Continued)

28.2 Key Management Personnel Compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of First Choice, directly or indirectly, including any director (whether executive or otherwise) of that entity. *Control* is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Key Management Persons (KMP) have been taken to comprise the Directors and the members of the executive management team during the financial year, responsible for the day to day financial and operational management of First Choice.

	Short-term employee benefits $	Post-employment benefits $	Other long-term benefits $	Termination benefits $	Total $
Year ended 30 June 2012					
Directors	31,195	1,008	-	-	32,203
Other KMP	227,498	19,535	-	-	247,033
Year ended 30 June 2011					
Directors	31,471	607	-	-	32,078
Other KMP	215,967	18,831	-	-	234,798

Compensation includes all employee benefits as defined in AASB 119: *Employee Benefits* including employee benefits to which AASB 2: *Share-based Payment* applies. Employee benefits are all forms of consideration paid, payable or provided by First Choice, or on behalf of First Choice, in exchange for services rendered to First Choice.

Compensation includes:

(i) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
(ii) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
(iii) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
(iv) termination benefits; and
(v) share-based payments.

28. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Continued)

28.3 Loans to Key Management Personnel and their Close Members of Family

	Balance as at 1 July $	Interest charged $	Write-off $	Balance as at 30 June $	Number in group	Amount of impairment loss expense recognised $
Year ended 30 June 2012						
Directors	205,339**	14,184	-	200,474**	2	
Other KMP	120,382	4,591	-	73,623	2	
Close members of family	-	-	-	-	-	
Year ended 30 June 2011						
Directors	244,949**	14,070	-	205,339**	2	-
Other KMP	19,123	4,253	-	120,382	3	-
Close members of family	26,741	600	-	-	-	-

**: None of this balance is securitised

Of the ending loans balance to Other KMP $24,433 was at an interest rate of 7.4% and $49,189 was at an interest rate of 6.35%. All other loans provided to key management personnel and their close members of family are on conditions no more favourable than those extended to members. Security has been obtained for these loans in accordance with First Choice's lending policy.

There is no provision for impairment in relation to any loan extended to key management personal or their close members of family. No loan impairment expense in relation to these loans has been recognised during the period.

28.4 Other transactions

There were no other transactions during the financial year between First Choice and members of the Board.

28. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Continued)

28.5 KMP and their Close Members of Family Saving, Term Deposit and Revolving Credit Facility Accounts

	Balance as at 1 July	Interest Paid	Balance as at 30 June	Number in group
	$	$	$	
Year ended 30 June 2012				
Directors	327,216	11,956	259,767	7
Other KMP	256,598	7,995	78,058	2
KMP close members of family	446,620	26,883	371,153	3
Year ended 30 June 2011				
Directors	166,110	9,230	327,216	8
Other KMP	6,019	11,523	256,598	3
KMP close members of family	971,554	39,212	446,620	5

Directors and related parties have received interest on deposits with First Choice during the financial year. Interest has been paid on terms and conditions no more favourable to those available on similar transactions to members of First Choice.

29. ECONOMIC DEPENDENCY

First Choice has an economic dependency on the following suppliers of services:

(i) CUSCAL Ltd - this entity supplies First Choice rights to members' cheques and Redicards in Australia and provides services in the form of settlement with bankers for member chequing, Redicard transactions and the production of members' cheque books and Redicards for use by members. It also provides central banking facilities.

(ii) First Data International Limited (FDI) – this company operates the switching computer used to link Redicards operated through reditellers, and other approved ATM suppliers, to First Choice EDP systems.

(iii) Lynx Financial Systems Pty Ltd – this company provides and maintains the application software used by First Choice.

(iv) Credit Union Financial Support System (CUFSS) – this entity provides emergency liquidity support to First Choice.

30. SEGMENTAL REPORTING

First Choice operates exclusively in the retail financial services industry within Australia.

31. SECURITISATION

First Choice has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. First Choice also manages the loans portfolio on behalf of the trust. First Choice bears no risk exposure in respect of these loans. First Choice receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

The amount of securitised loans under management as at 30 June 2012 is $333,983 (2011: $435,966).

32. CASH FLOW INFORMATION

32.1 Cash Flows Presented on a Net Basis

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

(i) member deposits to and withdrawals from savings, money market and other deposit accounts;
(ii) sales and purchases of maturing certificates of deposit;
(iii) provision of member loans and the repayment of such loans.

32.2 Reconciliation of Cash

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

	2012 $	2011 $
Reconciliation of cash		
Cash balance comprises:		
- Cash on hand	218,500	238,477
- Cash at bank	576,890	518,627
- Cash on deposit	6,200,000	3,250,000
	6,995,390	4,007,104

32. CASH FLOW INFORMATION (Continued)

32.3 Reconciliation of Net Cash Provided by Operating Revenue Activities to Net Profit After Income Tax

	2012 $	2011 $
Net profit after tax	513,950	529,421
Non-cash items		
Depreciation and amortisation	29,689	37,669
Loss on disposal of property	-	30,970
Bad debts written off	22,728	55,855
Movements in assets and liabilities		
Deferred income tax asset	9,861	5,044
Other assets	(319)	(1,079)
Provision for income tax	(49,304)	(28,420)
Accrued interest receivable	87,934	(101,969)
Accrued interest payable	94,871	131,276
Creditors and accruals	5,347	13,338
Provisions	(35,310)	2,280
Deferred income tax liability	(1,539)	(1,587)
Net cash provided by revenue activities	677,908	672,798

33. CORPORATE INFORMATION

First Choice is a company limited by shares, and is registered under the Corporations Act 2001.

The address of the registered office is:
First Choice Credit Union Ltd
2/18 Sale Street
Orange NSW 2800

The address the principal place of business is:
2/18 Sale Street
Orange NSW 2800

The nature of the operations, and it's principal activities are the provision of deposit taking facilities and loan facilities to the members of First Choice.

34. CORPORATE GOVERNANCE DISCLOSURES

Board

First Choice Board has responsibility for the overall management and strategic direction of First Choice. Board members are independent of management and are elected by members on a rotation of every 3 years.

Each Director must be eligible to act under the constitution as a member of First Choice and Corporations Act 2001 criteria. Directors need to also satisfy the Fit and Proper criteria set down by APRA and First Choice.

The Board has established policies to govern conduct of the Board meetings, Director conflicts of interest and training so as to maintain Director awareness of emerging issues and to satisfy all governance requirements.

34. CORPORATE GOVERNANCE DISCLOSURES (Continued)

Board (Continued)

The Board:

- Monitors the matters of operational risk management and APRA reporting obligations
- Monitors the compliance with applicable laws
- General Manager remuneration – benefits
- Staff remuneration policies
- Financial budgets and performance criteria
- Endorsement of General Manager expenses
- Endorsement of large loans or commercial loans
- Endorsement of interest rate changes

Board Remuneration

The Board receives remuneration from First Choice in the form of allowances agreed to each year at the AGM and out of pocket expenses. There are no other benefits received from First Choice by the Directors.

Audit and Risk Committee

An Audit and Risk Committee has been formed to assist the Board in relevant matters of financial prudence. The Directors form the majority of this committee with General Manager participation.

The Audit and Risk Committee is established to oversight the financial reporting and audit process. Its role includes:

- Monitoring audit reports received from internal and external auditors, and management's responses thereto;
- Liaising with the auditors (internal and external) on the scope of their work, and experience in conducting an effective audit;
- Ensuring the external auditors remain independent in the areas of work conducted;
- Monitoring the matters of operational risk management and APRA reporting obligations; and
- Monitoring the compliance with applicable laws.

Management Remuneration

All management are remunerated by Salary packages. The General Manager's salary is comprised of a fixed and variable component. Remuneration of all management reflects the requirements of First Choice's Remuneration Policy and is governed by the Charter of the Remuneration Committee, both of which are consistent with the requirements of APRA standards' CPS 510 Governance and APG 511 Remuneration.

Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of First Choice's ethical guidelines to staff, and to reinforce the practice of providing efficient service to members with courtesy and recognition of members as owners.

The ethical principles adopted by First Choice are in accordance with Credit Union Code of Practice.

Key Risk Management Policies include:-

- Capital adequacy management
- Liquidity Management
- Credit risk management
- Operations risk management
- Data risk management
- Market Risk Management
- Outsourcing Management

34. CORPORATE GOVERNANCE DISCLOSURES (Continued)

Compliance Manager

First Choice has a Compliance Manager who is responsible for maintaining the awareness of staff for all changes in compliance legislation and responding to staff inquiries on compliance matters. The Manager also monitors the FSR and Credit License obligations and responds to all member complaints and disputes should they arise.

External Audit

The external audit is performed by Morse Group Accountants and Business Advisors. Morse Group has been auditing credit unions for 30 years and audits 6 credit unions in NSW.

The work performed by the external auditors is examined by the Audit and Risk Committee to ensure that it is consistent with the current external audit reporting role and does not impair their independence.

Internal Audit

An internal audit function has been established using the services of DBP Consulting Pty Ltd to deal with the areas of internal control compliance and regulatory compliance.

Regulation

First Choice is regulated by:

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of First Choice.

- ASIC for adherence to Corporations Act, National Consumer Credit Protection Act 2009, Accounting Standards disclosures in the financial report and Financial Services Reform (FSR) requirements. The FSR legislation requires First Choice disclose details of products and services, maintains training for all staff that deal with the members, and provide an effective and independent complaints handling process.

Under the FSR licensing arrangements all staff which deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Under the Credit Licensing arrangements all staff are deemed Credit Representatives and some are deemed Responsible Managers and must complete a minimum amount of continuing professional development each year. Responsible Managers must have a minimum level of experience and qualifications.

APRA conduct periodic inspections and the auditors report to both annually on compliance with respective requirements. The external auditors also report to both ASIC on the FSR compliance and APRA on the Prudential policy compliance.

Occupational, Health & Safety

The nature of the finance industry is such that the risk of injury to staff and the public are less apparent than in other high risk industries. Nevertheless the two most valuable assets are staff and members and steps need to be taken to maintain the security and safety when circumstances warrant.

OH & S policies have been established for the protection of both members and staff and are reviewed annually for relevance and effectiveness.

34. CORPORATE GOVERNANCE DISCLOSURES (Continued)

Occupational, Health & Safety (Continued)

Staff are trained in robbery procedures and offices are designed to detract from such acts by

- Little or no cash being held in accessible areas; and
- Cameras and monitoring equipment visible throughout the office.

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs to the public and staff. Independent security consultants report regularly on the areas of improvement which may be considered.

First Choice has established an OH&S checklist that is completed monthly by staff on a rotating basis. Any concerns raised are actioned upon in a prompt manner. Secure cash handling policies are in place, and injury from lifting heavy weights and RSI are managed by proper techniques to minimise the risk of damage.

All staff have access to trauma councillors where required following an incident which may impair their feeling of safety in the work place.

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

DIRECTORS' DECLARATION

The Directors of First Choice Credit Union Ltd declare that:

(a) The financial statements and notes set out on pages 7 to 62, are in accordance with the Corporations Act 2001 and:

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

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

(b) In the Directors' opinion there are reasonable grounds to believe that First Choice will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed at Orange on the 17th day of September 2012 for and on behalf of the Directors by:

Robin Dunkley
Director
Chair of Board of Directors

Rosalie Neville
Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF FIRST CHOICE CREDIT UNION LTD ABN 63 087 649 867

Scope

Report on the financial statements

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

Directors' responsibility for the financial statements

The Directors of First Choice are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: 'Presentation of Financial Statements', that the financial statements comply with International Financial Reporting Standards (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 judgement, 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of First Credit Union Limited on 16 September 2012, would be in the same terms if provided to the directors as at the date of this auditor's report.

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of First Choice Credit Union Limited (First Choice) for the year ended 30 June 2012 included on First Choice's web site. First Choice's directors are responsible for the integrity of First Choice's web site. The audit report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this web site.

Auditor's Opinion

In our opinion:

a. the financial statements of the First Choice Credit Union Ltd, are in accordance with the *Corporations Act 2001*, including:

    i. giving a true and fair view of the First Choice's financial position as at 30 June 2012 and of their 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;

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

Morse Group

MORSE GROUP

237 Lords Place
Orange
Dated: 17 September 2012

Leanne Smith

LR SMITH
PARTNER