

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2013

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

Registered Office:

2/18 Sale Street
Orange NSW 2800
Phone: 02 6362 2944
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Postal Address:

PO Box 717
Orange NSW 2800

Email: eng@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

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

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FIRST CHOICE CREDIT UNION LTD

ABN 63 087 649 867

DIRECTORS' REPORT

Your directors present their report on First Choice Credit Union Ltd (First Choice) for the financial year ended 30 June 2013.

DIRECTORS

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

Karen J. Boyle
Geoffrey W. Dean
Robin Dunkley
Peter R. Hetherington
Peter D. McFarland
Rosalie L. Neville
Beverly A. Solling
Paul A. Thornberry
Antoinetta H. Wyllie

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 twelve 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 \$430,316 (2012: \$513,950).

REVIEW OF OPERATIONS

Net profit after tax for the year ended 30 June 2013 was \$430,316 (2012 - \$513,950). 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 \$5,163,176 (11%) during the year ended 30 June 2013. The increase in assets is most apparent in the area of receivables due from financial institutions and loans and advances to members.

The accompanying statement of comprehensive income for the year ended 30 June 2013 reveals a profit from ordinary activities after income tax of \$430,316. This represents a decrease of \$83,634 (16%). The fall in profits was primarily the result of a \$98,000 write down of land and buildings rather than a decline in overall profitability.

FIRST CHOICE CREDIT UNION LTD

ABN 63 087 649 867

**DIRECTORS' REPORT
(Continued)**

The net profit for the year ended 30 June 2013 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.

DIRECTORS' REPORT
(Continued)

INFORMATION ON DIRECTORS

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

Karen Boyde

Position	-	Director
Qualifications	-	Member of the Australasian Mutuals Institute Bachelor of Social Science (Community Development) Graduate Diploma of Education (Primary) Graduate Diploma in Local Government Management
Employment	-	Orange City Council
Experience	-	Director since 24/6/13 Associate board member 1/7/12 – 24/6/2013 Board member since 1/7/12
Interest in shares	-	1 Ordinary share in First Choice

Geoffrey 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 Diploma of Financial Services (Financial Planning)
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
Employment	-	Government sector
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

DIRECTORS' REPORT
(Continued)

INFORMATION ON DIRECTORS (Continued)

Peter McFarland

Position	-	Director
Qualifications	-	Member of the Australasian Mutuals Institute Teaching Certificate Qualification Master of Educational Administration with Honours Bachelor of Arts
Employment	-	Self Employed
Experience	-	Director since 1/6/13 Associate board member 1/7/12 – 24/6/2013 Board member since 1/7/12
Interest in shares	-	1 Ordinary share in First Choice

Rosalie 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

Beverly Solling

Position	-	Director Corporate Governance Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
Employment	-	Central West Logistics
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

FIRST CHOICE CREDIT UNION LTD

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DIRECTORS' REPORT

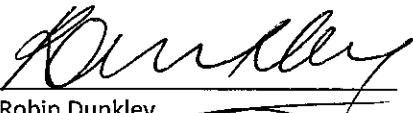
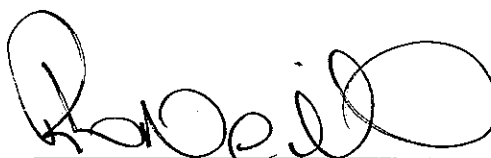
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GENERAL BOARD, AND COMMITTEE ATTENDANCE

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

	Board		Audit and Risk Committee		Corporate Governance		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Mrs K. Boyde	12	11	n/a	n/a	n/a	n/a	n/a	n/a
Mr G.W. Dean	12	11	3	3	n/a	n/a	3	3
Mr R. Dunkley	12	11	n/a	n/a	n/a	n/a	3	3
Mr P. Hetherington	12	7	3	3	n/a	n/a	n/a	n/a
Mr P. McFarland	12	12	n/a	n/a	n/a	n/a	n/a	n/a
Mrs R.L. Neville	12	11	n/a	n/a	4	4	n/a	n/a
Mrs B. Solling	12	10	n/a	n/a	4	4	n/a	n/a
Mr P. Thornberry	12	10	3	3	n/a	n/a	3	3
Mrs A.H. Wyllie	12	9	n/a	n/a	4	4	n/a	n/a

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

Robin Dunkley
Director
Chair of Board of DirectorsRosalie Neville
Director

Dated at Orange this 23 September 2013

**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 2013 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

237 Lords Place
Orange

Dated: 20 September 2013

J O'Malley
**J O'MALLEY
PARTNER**



Chartered Accountants



COVER OF
EXCELLENCE

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

FIRST CHOICE CREDIT UNION LTD

ABN 63 087 649 867

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013**

	Notes	2013 \$	2012 \$
Interest revenue	2	3,155,563	3,297,653
Interest expense	2	<u>(1,281,614)</u>	<u>(1,437,725)</u>
Net interest income		1,873,949	1,859,928
Fees, commission and other income	3	386,959	378,561
Less			
Non interest expenses			
Impairment losses on loans receivable from members	4.1	(36,943)	(22,727)
General Administration			
- Employees compensation and benefit	4.2	(671,169)	(626,960)
- Depreciation and amortisation	4.2	(34,039)	(29,689)
- Information technology		(124,405)	(96,532)
- Property expenses	4.2	(102,866)	(116,161)
- Loss on disposal of assets	4.2	-	-
- Other administration	4.2	<u>(683,414)</u>	<u>(619,510)</u>
Total non interest expenses		<u>(1,652,836)</u>	<u>(1,511,579)</u>
Profit before income tax		<u>608,072</u>	<u>726,910</u>
Income tax expense	6	<u>(177,756)</u>	<u>(212,960)</u>
Profit after income tax		<u>430,316</u>	<u>513,950</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>430,316</u>	<u>513,950</u>

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 2013**

	Asset Revaluation Reserve \$	Reserve for Credit Losses \$	Retained Earnings \$	Total \$
Balance at 30 June 2012	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 2013	259,145	428,192	5,408,326	6,095,663
Profit for the year	-	-	430,316	430,316
Transfer from retained earnings to reserve for credit losses	-	19,251	(19,251)	-
Asset Revaluation	(60,440)	-	-	(60,440)
At 30 June 2013	198,705	447,443	5,819,391	6,465,539

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 2013**

	Notes	2013 \$	2012 \$
ASSETS			
Cash and liquid assets	7	4,512,130	6,995,390
Receivables due from financial institutions	8	13,776,414	9,176,283
Receivables	9	141,916	170,763
Prepayments		8,746	3,960
Loans and advances to members	10	34,136,907	31,392,779
Available for sale investments	11	78,938	78,938
 Property, plant and equipment	 12	 875,011	 658,234
Intangibles	13	73,211	16,726
Deferred tax assets	16.2	96,584	41,014
Current tax assets	16.1	-	2,594
TOTAL ASSETS		53,699,857	48,536,681
LIABILITIES			
Deposits from members	14	45,606,080	41,524,318
Creditor accruals and settlement accounts	15	1,466,249	805,849
Current tax liabilities	16.1	55,965	-
Provisions	17	53,919	42,866
Deferred tax liabilities	16.1	52,105	67,985
TOTAL LIABILITIES		47,234,318	42,441,018
 NET ASSETS		 6,465,539	 6,095,663
MEMBERS' EQUITY			
Asset revaluation reserve	18.1	198,705	259,145
Reserve for credit losses	18.2	447,443	428,192
Retained profits		5,819,391	5,408,326
TOTAL MEMBERS' EQUITY		6,465,539	6,095,663

The accompanying notes form part of these financial statements.

FIRST CHOICE CREDIT UNION LTD
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$	2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Revenue Inflows			
Interest received on loans		2,498,449	2,507,388
Interest received on investments		660,820	878,199
Dividends received		14,340	16,972
Fees and commissions received		332,540	334,500
Other income		40,079	27,090
Revenue Outflows			
Interest paid on members' savings		(1,358,150)	(1,341,521)
Interest paid on borrowings		(696)	(1,333)
Payments to suppliers and employees		(1,458,285)	(1,489,446)
Income taxes paid		(164,742)	(253,941)
Net cash provided by revenue activities	32.3	564,355	677,908
Members' loan repayments		6,631,143	8,446,802
Members' loan fundings		(9,412,216)	(11,964,075)
Net increase/(decrease) in member shares		(990)	990
Net increase/(decrease) in member savings		4,082,752	4,790,379
Net (increase)/decrease in deposits to other financial institutions		(4,600,131)	1,007,267
Net increase/(decrease) in members' clearing		743,767	54,446
Net cash provided by (used in) operating activities		(2,555,675)	2,335,809
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of property, plant and equipment		-	-
Payment for property, plant and equipment		(429,519)	(8,823)
Payment for intangible assets		(62,421)	(16,608)
Net cash provided by (used in) investing activities		(491,940)	(25,431)
NET INCREASE/(DECREASE) IN CASH HELD		(2,483,260)	2,988,286
Cash at beginning of year		6,995,390	4,007,104
CASH AT END OF YEAR	32.2	4,512,130	6,995,390

The accompanying notes form part of these financial statements.

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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FIRST CHOICE CREDIT UNION LTD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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 2013. The report was authorised for issue on 23 September 2013 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 where a loan is impaired.

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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 based upon:

- The probability of default, and over what time period the default will take place
- The counterparty credit exposure at the time of default
- The amount that can be recovered after default occurs.

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

The Board recognises that in addition to the specific provision, First Choice will need to make an allocation from retained earnings to act as a buffer against unexpected losses. The reserve is calculated on a portfolio basis, based upon the relative risk levels for different asset classes, with a base level of provisioning for the lowest risk asset class. Historical bad debt write-offs and underlying security are also considered as part of the portfolio assessment.

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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.

FIRST CHOICE CREDIT UNION LTD

ABN 63 087 649 867

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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.

1.5 Intangible assets

Intangibles are carried at cost less, where applicable, any accumulated amortisation and impairment losses. The amortization rates used for intangibles are 37.50% to 50% unless it is determined that the intangible has an indefinite life.

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.

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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 creditors and accruals.

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

FIRST CHOICE CREDIT UNION LTD

ABN 63 087 649 867

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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.

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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.

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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 AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to First Choice. First Choice has decided not to early adopt any of the new and amended pronouncements. First Choice's assessment of the new and amended pronouncements that are relevant to First Choice but applicable in future reporting periods is set out below:

- AASB 9: *Financial Instruments (December 2010)* and AASB 2010-7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*.

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.

These Standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012-6: *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (issued September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015. This amendment is a consequence of the deferral of IFRS 9 to allow the IASB to complete its revision of that Standard. In light of this change of mandatory effective date, First Choice is expected to adopt AASB 9 and AASB 2010-7 for the annual reporting period ending 31 December 2015. Although the directors anticipate that the adoption of AASB 9 and AASB 2010-7 may have a significant impact on First Choice's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact particularly considering the changes that are expected to be made to IFRS 9 in the future.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- 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) to be measured at fair value.

These Standards are expected to result in more detailed fair value disclosures, but are not expected to significantly impact the amounts recognised in First Choice's financial statements.

- AASB 2011–4: *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (applicable for annual reporting periods beginning on or after 1 July 2013).

This Standard makes amendments to AASB 124: *Related Party Disclosures* to remove the individual key management personnel disclosure requirements (including paras Aus29.1 to Aus29.9.3). These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent *Corporations Act 2001* disclosure requirements.

This Standard is not expected to significantly impact First Choice's financial report as a whole because:

- some of the disclosures removed from AASB 124 will continue to be required under s 300A of the Corporations Act, which is applicable to First Choice; and
- AASB 2011–4 does not affect the related party disclosure requirements in AASB 124 applicable to all reporting entities, and some of these requirements require similar disclosures to those removed by AASB 2011–4.

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

These Standards introduce a number of changes to the presentation and disclosure of defined benefit plans, including:

- removal of the "corridor" approach from AASB 119, thereby requiring entities to recognise all changes in a net defined benefit liability/(asset) when they occur; and
- disaggregation of changes in a net defined benefit liability/(asset) into service cost, net interest expense and remeasurements and recognition of:
 - (i) service cost and net interest expense in profit or loss; and
 - (ii) remeasurements in other comprehensive income.

AASB 119 (September 2011) also includes changes to the criteria for determining when termination benefits should be recognised as an obligation.

This Standard is not expected to significantly impact First Choice's financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

AASB 2012-2 principally amends AASB 7: *Financial Instruments: Disclosures* to require entities to include information that will enable users of their 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.

This Standard is not expected to significantly impact First Choice's financial statements.

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

This Standard adds application guidance to AASB 132: *Financial Instruments: Presentation* to address potential 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's financial statements.

- AASB 2012-5: *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard amends a number of Australian Accounting Standards as a consequence of the issuance of *Annual Improvements to IFRSs 2009-2011 Cycle* by the International Accounting Standards Board, including:

- AASB 1: *First-time Adoption of Australian Accounting Standards* to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;
- AASB 101: *Presentation of Financial Statements* and AASB 134: *Interim Financial Reporting* to clarify the requirements for presenting comparative information;
- AASB 116: *Property, Plant and Equipment* to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;
- AASB 132 and Interpretation 2: *Members' Shares in Co-operative Entities and Similar Instruments* to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
- AASB 134 to facilitate consistency between the measures of total assets and liabilities an entity reports for its segments in its interim and annual financial statements.

This Standard is not expected to significantly impact First Choice's financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- AASB 2013-3: *Amendments to AASB 136 – Recoverable Amounts Disclosures for Non-Financial Assets* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASB 136: *Impairment of Assets* as a consequence of the issuance of Internal Financial Reporting Standard *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS36) by the International Accounting Standards Board in May 2013. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. In addition, a further requirement has been included to disclose the discount rates that have been used in the current and previous measurements if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique. The intention of this amendment is to harmonise the disclosures requirements for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets.

These amendments impact on disclosures only, and is not expected to significantly impact the amounts recognised in First Choice's financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

2. INTEREST REVENUE AND INTEREST EXPENSE

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

	2013	2012
	\$	\$
<i>Interest revenue</i>		
Receivables from financial institutions	657,114	790,265
Loans and advances (non-commercial)	2,369,160	2,502,443
Commercial loans	129,289	4,945
	<u>3,155,563</u>	<u>3,297,653</u>
<i>Interest expense</i>		
Deposits from members	1,280,918	1,436,392
Short-term borrowings	696	1,333
	<u>1,281,614</u>	<u>1,437,725</u>
Net interest income	<u>1,873,949</u>	<u>1,859,928</u>

3. FEE, COMMISSIONS AND OTHER INCOME

Fee and commission revenue

Fee income on loans	58,557	61,805
Fee income from member deposits	214,684	205,315
Insurance commissions	36,327	46,871
Securitisation Activities	2,799	1,790
Other commissions	20,173	18,719
	<u>332,540</u>	<u>334,500</u>
Total fee and commission revenue	<u>332,540</u>	<u>334,500</u>

Other income

Dividends received on available for sale assets	14,340	16,972
Bad debts recovered	19,880	11,351
Miscellaneous revenue	14,326	8,473
Rental income	5,873	7,265
	<u>54,419</u>	<u>43,861</u>
Total fee, commission and other income	<u>386,959</u>	<u>378,561</u>

4 NON INTEREST EXPENSE

4.1 Impairment losses

Loans and advances

Increase in provision for impairment	36,943	22,727
Bad debts written off against directly against profit	<u>-</u>	<u>-</u>
Total impairment losses	<u>36,943</u>	<u>22,727</u>

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
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 :-		
<i>Loss on disposal of assets</i>	-	-
<i>Depreciation and amortisation</i>		
Depreciation	28,104	27,891
Amortisation of intangible assets	5,935	1,798
Total depreciation and amortisation	34,039	29,689
<i>Property expenses</i>		
Occupancy expenses	57,617	67,271
Agency costs	45,249	48,890
	102,866	116,161
<i>Employee benefits expense</i>		
Salaries	565,427	558,992
Superannuation contributions	50,714	46,865
Annual and long service leave	4,666	(35,309)
Other	50,362	56,412
Total employee benefits	671,169	626,960
<i>General administrative expenses</i>		
ATM costs	1,049	206
Board costs	68,429	61,611
Legal fees	13,347	15,566
Loan establishment costs	9,309	10,393
Marketing and promotion	62,034	83,108
Member chequing	56,952	52,314
Member protection	89,952	79,033
Office administration	80,532	87,457
Processing Fees	21,796	16,509
Redicard costs	116,727	146,819
Other	64,991	66,494
Revaluation Expense	98,296	-
Total general and administration	683,414	619,510

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
5. AUDITOR'S REMUNERATION		
Amounts received or due and receivable by the auditors of First Choice for:		
- Audit of the financial statements	33,995	36,054
- Other regulatory audit services	7,520	7,048
- Taxation services	1,985	2,072
	<hr/>	<hr/>
	43,500	45,174
	<hr/>	<hr/>
6. INCOME TAX		
6.1 Current Tax Expense		
Represented by:		
Current tax expense	222,102	204,638
Increase/(decrease) in deferred tax liability	(1,580)	(1,539)
(Increase)/decrease in deferred tax asset	(42,766)	9,861
	<hr/>	<hr/>
Total	177,756	212,960
	<hr/>	<hr/>
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:		
	2013	2012
	\$	\$
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2012: 30%)	182,422	218,073
Plus / (Less) tax effect of:		
- Dividend rebate	4,302	(5,091)
Over/under provision from prior year	(8,968)	(22)
	<hr/>	<hr/>
	177,756	212,960
	<hr/>	<hr/>
The applicable weighted average tax rates	30%	30%

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
7. CASH AND LIQUID ASSETS		
Cash on hand	185,041	218,500
Imprest accounts (CUSCAL Limited)	1,927,089	576,890
Cash on deposit	<u>2,400,000</u>	<u>6,200,000</u>
	<u>4,512,130</u>	<u>6,995,390</u>
8. RECEIVABLES FROM FINANCIAL INSTITUTIONS		
Financial asset classification:		
Held to Maturity (Negotiable certificates of Deposit)	4,776,414	3,676,283
Loans and receivables (Fixed term deposits)	<u>9,000,000</u>	<u>5,500,000</u>
	<u>13,776,414</u>	<u>9,176,283</u>
9. ACCRUED RECEIVABLES		
Clearing accounts	1,915	27,056
Interest receivable on deposits with other financial institutions	<u>140,001</u>	<u>143,707</u>
	<u>141,916</u>	<u>170,763</u>
10. LOANS AND ADVANCES		
	2013	2012
	\$	\$
Overdrafts	1,026,056	205,594
Term loans	<u>33,132,219</u>	<u>31,196,147</u>
	<u>34,158,275</u>	<u>31,401,741</u>
Less: Provision for impaired loans	<u>(21,368)</u>	<u>(8,962)</u>
	<u>34,136,907</u>	<u>31,392,779</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
10. LOANS AND ADVANCES (Continued)		
10.1 Credit quality – security held against loans		
Secured by mortgage over real estate	23,909,327	20,432,585
Partly secured by goods mortgage	7,958,833	8,837,755
Assigned savings	52,539	32,888
Wholly unsecured	<u>2,237,576</u>	<u>2,098,513</u>
	<u>34,158,275</u>	<u>31,401,741</u>

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 mortgage security on a portfolio basis is as follows:

Security held as mortgages against real estate		
- loan to valuation ratio of less than 80%	20,824,925	17,161,313
- loan to valuation ratio of more than 80% but mortgage insured	2,735,210	2,221,289
- loan to valuation ratio of more than 80% but not mortgage insured	<u>349,192</u>	<u>1,049,983</u>
	<u>23,909,327</u>	<u>20,432,585</u>

10.2 Concentration of loans

	2013	2012
	\$	\$
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	<u>1,456,743</u>	<u>2,072,981</u>
(ii) Loans to members are mainly concentrated in Central Western New South Wales		
(iii) Loans by customer type were:		
Housing loans and facilities	22,618,391	20,526,169
Personal loans and facilities	9,401,881	10,822,618
Commercial loans and facilities	<u>2,138,003</u>	<u>52,954</u>
	<u>34,158,275</u>	<u>31,401,741</u>

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013 \$	2012 \$
10. LOANS AND ADVANCES (Continued)		
10.3 Movement in the provision for impairment		
Opening balance	8,962	39,329
Bad debts written off against provision	(24,536)	(53,095)
Loans provided for during the year	<u>36,942</u>	<u>22,728</u>
	<u>21,368</u>	<u>8,962</u>
10.4 Impaired Loans Written Off		
Amounts written off against the provision	24,536	53,095
Amounts written off directly to expense	<u>-</u>	<u>-</u>
Bad debts expense	<u>36,942</u>	<u>22,727</u>
Bad debts recovered in the period	<u>19,880</u>	<u>11,351</u>

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

	2013 Carrying Value \$	2013 Provision \$	2012 Carrying Value \$	2012 Provision \$
0 to 90 days in arrears	900,733	-	343,536	-
90 to 180 days in arrears	7,770	3,108	9,142	3,657
180 to 270 days in arrears	4,291	2,574	8,514	5,109
270 to 365 days in arrears	18,927	15,141	-	-
Over 365 days in arrears			-	-
Over limit facilities over 14 days	<u>1,225</u>	<u>545</u>	<u>491</u>	<u>196</u>
Total	<u>932,946</u>	<u>21,368</u>	<u>361,683</u>	<u>8,962</u>

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 \$900,733 (2012:\$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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
10. LOANS AND ADVANCES (Continued)		
10.7 Assets acquired via enforcement of security		
<i>Assets acquired via enforcement of security (excluding loans reported)</i>	-	-
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	441,349	60,802
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.

	2013	2012
	\$	\$
11. AVAILABLE FOR SALE INVESTMENTS		
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.

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	2013	2012
	\$	\$
12. PROPERTY, PLANT AND EQUIPMENT		
Land - at valuation	349,103	257,405
Buildings - at valuation	460,897	365,251
Less: provision for depreciation	-	(32,256)
	<u>460,897</u>	<u>332,995</u>
Plant and equipment - at cost	269,233	254,597
Less: provision for depreciation	(224,896)	(210,522)
	<u>44,337</u>	<u>44,075</u>
Motor vehicles - at cost	23,990	23,990
Less: provision for depreciation	(13,359)	(10,274)
	<u>10,631</u>	<u>13,716</u>
Capital works in progress	<u>10,043</u>	<u>10,043</u>
Total property, plant and equipment	<u>875,011</u>	<u>658,234</u>

During the year ended 30 June 2013, First Choice acquired Unit 3, 18 Sale Street, Orange. Units 1,2, 3 and 6, 18 Sale Street, Orange were independently valued at \$810,000 as at 30 November 2013 by Mr Andrew Hall, of Herron, Todd & White, Valuer #2352. Land and buildings were written down by \$227,539 consistent with Herron, Todd & White's valuation.

The movement in carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year was:

	Beginning balance	Revaluation	Additions	Disposals WDV	Depreciation Write Back	Depreciation expense	Carrying amount at year end
Land	257,405	(79,578)	171,276	-	-	-	349,103
Buildings	332,995	(147,961)	243,606	-	42,900	10,643	460,897
Capital Works in Progress	10,043	-	-	-	-	-	10,043
Motor vehicles	13,716	-	-	-	-	3,085	10,631
<i>Plant and equipment</i>							
Furniture & Fittings	20,026	-	7,896	-	-	5,469	22,453
Office Equipment	12,289	-	2,343	-	-	3,373	11,259
EDP Equipment	11,760	-	4,399	-	-	5,534	10,625
Totals	<u>658,234</u>	<u>(227,539)</u>	<u>429,520</u>	<u>-</u>	<u>42,900</u>	<u>28,104</u>	<u>875,011</u>

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	2013 \$	2012 \$
13. INTANGIBLES		
Intangibles – at cost	47,852	47,852
Accumulated amortisation	<u>(37,062)</u>	<u>(31,126)</u>
	<u>10,790</u>	<u>16,726</u>
Visa Service Fee	<u>62,421</u>	<u>-</u>
Total Intangibles	<u>73,211</u>	<u>16,726</u>

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	<u>16,726</u>	<u>62,420</u>	<u>-</u>	<u>-</u>	<u>5,935</u>	<u>73,211</u>
				2013 \$		2012 \$

14. DEPOSITS FROM MEMBERS

Member deposits		
- at call	23,083,619	19,832,150
- at term	22,481,701	21,650,418
Member withdrawable shares	<u>40,760</u>	<u>41,750</u>
	<u>45,606,080</u>	<u>41,524,318</u>

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

14.1 Concentration of member deposits

Member deposits from individual or related groups of members which exceed 10% of capital – aggregate value	<u>3,723,683</u>	<u>1,719,100</u>
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
15. PAYABLES AND OTHER LIABILITIES		
Payables and accrued expenses	121,062	95,669
Accrued interest payable	354,952	432,184
Members' clearing accounts	953,483	234,857
Annual leave	36,752	43,139
	<u>1,466,249</u>	<u>805,849</u>
15.1 Financial liabilities at amortised cost classified as trade and other payables		
Trade and other payables	1,466,249	805,849
Less annual leave entitlements	<u>(36,752)</u>	<u>(43,139)</u>
Financial liabilities as trade and other payables	<u>1,429,497</u>	<u>762,710</u>
16. TAXATION		
16.1 Taxation liabilities		
Income tax	55,965	(2,594)
Property	52,105	67,985
	<u>108,070</u>	<u>65,391</u>
16.2 Taxation assets		
Provision for impairment	6,410	2,689
Employee leave entitlements	27,978	25,802
Property	42,294	-
Other	19,902	12,523
	<u>96,584</u>	<u>41,014</u>
16.3 Reconciliation of deferred taxation balances		
(i) Gross movements		
The overall movement in the deferred tax account is as follows:		
Opening balance	(26,972)	(18,649)
Charge/(credit) to income statement	<u>71,451</u>	<u>(8,323)</u>
Closing balance	<u>44,479</u>	<u>(26,972)</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
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:		
At 1 July	(67,985)	(69,524)
Charged to income statement	1,580	1,539
Charged to equity	14,300	-
	<hr/>	<hr/>
At 30 June	(52,105)	(67,985)
	<hr/>	<hr/>
(iii) Deferred tax assets		
The movement in deferred tax assets for each temporary difference during the year as follows:		
<i>Provision for impaired loans</i>		
At 1 July	2,689	11,799
Charged to income statement	3,721	(9,110)
	<hr/>	<hr/>
At 30 June	6,410	2,689
	<hr/>	<hr/>
<i>Employee leave entitlements</i>		
At 1 July	25,802	36,394
Charged to income statement	2,176	(10,592)
	<hr/>	<hr/>
At 30 June	27,978	25,802
	<hr/>	<hr/>
<i>Property</i>		
At 1 July	-	-
Charged to income statement	29,490	-
Charged to equity	12,804	-
	<hr/>	<hr/>
At 30 June	42,294	-
	<hr/>	<hr/>
<i>Other</i>		
At 1 July	12,523	2,682
Charged to income statement	7,379	9,841
	<hr/>	<hr/>
At 30 June	19,902	12,523
	<hr/>	<hr/>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
17. PROVISIONS		
<i>Long service leave:</i>		
Opening balance at 1 July	42,866	60,961
Additional provision raised during year	11,053	1,959
Amounts used	-	(20,054)
Closing balance at 30 June	<u>53,919</u>	<u>42,866</u>
18. RESERVES		
18.1 Asset revaluation reserve – land and buildings		
Opening balance	259,145	259,145
Revaluation increments/(decrements)	<u>(60,440)</u>	<u>-</u>
Closing balance	<u>198,705</u>	<u>259,145</u>
18.2 Reserve for credit losses		
Opening balance	428,192	385,848
Transfer from retained earnings	<u>19,251</u>	<u>42,344</u>
Closing balance	<u>447,443</u>	<u>428,192</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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) its 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 commensurate with the complexity and First Choice's operations and First Choice's risk profile.

The Board as part of its risk management strategy has identified the following significant areas of risk: market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Audit and Risk Committee, Remuneration Committee and Corporate Governance Committee which are integral to the management of risk.

Board

This is the primary governing body. It quantifies First Choice's risk appetite and approves the framework for mitigating these risks and an adequate reporting system to measure and review these risks.

Audit and Risk Committee

Its key role in risk management is to assess the effectiveness of the controls 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 which assess the adequacy and effectiveness of internal controls and compliance with these 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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Remuneration Committee

The Remuneration Committee is the instrument First Choice uses to ensure that the Remuneration Policy is properly enforced.

The objectives of the remuneration policy are:

- (a) To ensure that First Choice's remuneration arrangements are in accordance with Prudential Standard CPS 510 Remuneration and Prudential Practice Guide APG 511 Remuneration.
- (b) To ensure the independence of risk and control personnel in the performance of their functions.

The key features of the revised remuneration policy are:

- that the Remuneration Committee is the Board's instrument for ensuring the policy is complied with;
- that all person's remuneration covered by the policy consist of only a fixed component.

First Choice ensures that risk and financial control personnel are remunerated independently of the businesses they oversee, through the provision of remuneration packages that only include a fixed component.

Corporate Governance Committee

The Committee considers any matters relating to the policy and practice of corporate governance within First Choice.

The duties of the Committee are to:

- Monitor corporate governance developments and bring to the Board's attention matters of importance and recommendations for improvement.
- Review and recommend amendments to the guidelines for Directors and monitor compliance.
- Recommend policies and guidelines for matters of governance generally, including the process of disclosure of information from the Board to members.
- Review and recommend to the Board the statement of corporate governance for inclusion in the Annual Report.
- Review and recommend preferred attributes for the nomination of potential Board appointed directors.
- Recommend where necessary amendments to the constitution to including maximum protection from hostile demutualisation actions.
- Develop and oversee a director educational programme which includes the attendance of conferences and seminars.
- Consideration of any other matter relating to corporate governance which the Board or Committee considers necessary.

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**NOTES TO THE FINANCIAL STATEMENTS
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19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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
- Service Contracts (Outsourcing)
- Accounting and Disclosure
- Corporate Governance
- Business Continuity Management
- Fit and Proper

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.

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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.2 Interest Rate Risk (Continued)

Method of managing risk

First Choice manages its 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 utilise 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.

The Board monitors interest rate risk using independent reports from CUSCAL Ltd and other management reports.

Based on the calculations as at 30 June 2013, the net profit impact for a 2% (2012: 2%) movement in interest rates would be \$70,332 (2012: \$121,817).

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

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.

FIRST CHOICE CREDIT UNION LTD**ABN 63 087 649 867****NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013****19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)****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 management and the Board are to address the matter using the Liquidity Management Strategy 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.

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	2013	2012
Total adjusted liabilities	51,673,633	47,272,302
As at 30 June	28.82%	25.99%
Average for the year	26.20%	25.72%
Minimum during the year	21.11%	22.70%
Total member deposits	45,565,520	41,482,568
HQLA as a percentage of total member deposits as at 30 June 2013	32.68%	29.61%

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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:	2013 Carrying value	2013 Off statement of financial position	2013 Maximum Exposure	2012 Carrying value	2012 Off statement of financial position	2012 Maximum Exposure
	\$	\$	\$	\$	\$	\$
Households	22,618,391	2,751,694	25,370,085	20,341,915	2,143,993	22,485,908
Personal	9,401,881	4,108	9,405,989	10,801,278	2,000	10,803,278
Overdrafts	-	-	-	205,594	1,290,068	1,495,662
Total to natural persons	32,020,272	2,755,802	34,776,074	31,348,787	3,436,061	34,784,848
Commercial Borrowers	2,138,003	344,843	2,482,846	52,954	-	52,954
Total	34,158,275	3,100,645	37,258,920	31,401,741	3,436,061	34,837,802

The significant increase in commercial loans is the result of a reclassification of some household loans and overdrafts to commercial loans per advice received from the Australian Prudential Regulatory Authority in March 2013, rather than any actual significant change in total commercial lending.

All overdrafts have now been classified as household, personal or commercial rather than a separate exposure.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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 First Choice's credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a daily 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) and compliant with ASIC Responsible Lending guidelines.

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 and by the Compliance Manager; the results are which are given to the Board and Audit and Risk Committee. The Board also receives comprehensive loan reporting each month to support their assessment of loan fundings, loan delinquency and concentration risk.

Past due and impaired

Impaired Assets are defined as any facility where there is doubt over the timely collection of the full amount of cash flows contracted to be received.

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 counter party will never pay, but it can trigger various actions such as a hardship variation, formal 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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.4 Credit risk (Continued)

(i) Credit risk – loans (Continued)

Past due and impaired (Continued)

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.

If evidence of impairment 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 impaired and 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.

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**NOTES TO THE FINANCIAL STATEMENTS
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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 against 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. Stress testing is conducted quarterly to assess LVRs in a declining property value environment and the impact on capital.

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.

The Liquidity Policy requires investments with any individual Authorised Deposit Taking Institution to be limited to \$2,500,000 or approximately 18% of the current investment portfolio. The credit policy is that investments are only made to institutions that are credit worthy.

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**NOTES TO THE FINANCIAL STATEMENTS
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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 policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate 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 of 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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013****19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)****19.6 Capital management**

Capital management is an integral part of First Choice's risk management framework aligning First Choice's risk appetite and risk profile with First Choice's capacity to absorb losses. Capital is managed through a comprehensive Internal Capital Adequacy Assessment Process which outlines a strategy for implementing an Integrated Risk Management Framework at First Choice. The process specifically identifies the risks First Choice faces, the related mitigants, calculates the residual risk being faced and establishes the level of capital required to absorb potential losses from these risks.

Capital resources**Regulatory Capital (Total Capital) consists of:**

Tier 1 Capital is Gone concern capital: capital against which losses can be written off while an ADI continues to operate. Going-concern capital will also absorb losses should the ADI ultimately fail and comprises: Common Equity Tier 1 Capital and Additional Tier 1 Capital.

First Choice's Common Equity Tier 1 Capital consists of Retained Earnings, Current Year Earnings and the Asset Revaluation Reserve. First Choice has nil Additional Tier 1 Capital.

Tier 2 Capital is Going-concern capital: capital that would absorb losses until such time as an ADI is wound up or the capital is otherwise written off.

First Choice's Tier 2 Capital comprises the General Reserve for Credit Losses, to a maximum of 1.25% of total credit risk-weighted on-balance sheet and off-balance sheet assets.

The capital ratio as at the end of the financial year over the past 4 years is as follows:

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

As at 1 January 2013 APS 110 was reissued. Minimum capital levels were amended and the capital ratio was restructured to reflect the new definitions for Tier 1 and Tier 2 Capital. As at 30 June 2013, the new minimum capital thresholds and First Choice's capital ratios are:

Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk-weighted assets)	19.35%
Tier 1 (as a percentage of risk-weighted assets)	19.35%
Total capital (as a percentage of risk-weighted assets)	20.49%
Buffer requirement (minimum CET1 requirements of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)	6.50%
<i>of which: capital conservation buffer requirements</i>	2.50%
<i>of which: ADI-specific countercyclical buffer requirements</i>	0.00%
Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	19.35%

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**NOTES TO THE FINANCIAL STATEMENTS
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19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.6 Capital management

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

First Choice uses the following mechanisms to measure, monitor and report capital to the Board:

- Capital is calculated in accordance with the prudential standards monthly in the current environment
- Capital is reported to the Board monthly and in a deteriorating capital environment more frequently, per the guidelines in the Capital Policy and the Internal Capital Adequacy Assessment Process
- Capital is stress tested under various adverse operating conditions quarterly. The results of this testing is reported to the Board.
- Confirmation is sought that the mitigants for each identified category of risk are listed within the Compliance Monitoring Software and has been completed.

Operational risk

First Choice uses the Standardised approach for calculating Operational Risk, as outlined under Prudential Standard APS 114. The standardised approach 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:

	2013	2012
	\$	\$
Operational Risk Capital	230,038	245,406

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19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.6.1 Prudential Standard APS 330 Public Disclosures

Common Disclosure Template

First Choice is using the post 1 January 2018 common disclosure template when making its capital disclosures so as to fully apply the Basel III regulatory adjustments as implemented by the Australian Prudential Regulatory Authority (APRA).

Common Equity Tier 1 capital: instruments and reserves		A\$
2	Retained Earnings	5,819,393
3	Accumulated other comprehensive income (and other reserves)	198,707
6	Common Equity Tier 1 capital before regulatory adjustments	6,018,100
Common Equity Tier 1 capital: regulatory adjustments		
26	National specific regulatory adjustments	
26d	Equity investments in financial institutions not reported in rows 18,19 and 23	78,938
26e	Capital impact of deferred tax assets (net of related deferred tax liability) not reported in rows 10,21 and 25	0
26f	Capitalised expenses	73,210
28	Total regulatory adjustments to Common Equity Tier 1	152,148
29	Common Equity Tier 1 Capital	5,865,952
Additional Tier 1 Capital: instruments		
36	Additional Tier 1 Capital before regulatory adjustments	0
Additional Tier 1 Capital: regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	0
44	Additional Tier 1 capital (AT1)	0
45	Tier 1 Capital (T1=CET1 + AT1)	5,865,952
Tier 2 Capital: instruments and provisions		
50	Provisions	342,912
51	Tier 2 Capital before regulatory adjustments	342,912
Tier 2 Capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	0
58	Tier 2 capital (T2)	342,912
59	Total capital (TC=T1+T2)	6,208,864
60	Total risk-weighted assets based on APRA standards	30,308,453
Capital ratios and buffers		
	Common Equity Tier 1 (as a percentage of risk-weighted assets)	19.35%
62	Tier 1 (as a percentage of risk-weighted assets)	19.35%
63	Total capital (as a percentage of risk-weighted assets)	20.49%
64	Buffer requirement (minimum CET1 requirements of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)	6.50%
	of which: capital conservation buffer requirements	2.50%
66	of which: ADI-specific countercyclical buffer requirements	0.00%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	19.35%
Amount below thresholds for deductions (not risk-weighted)		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach	447,443
77	Cap on inclusion of provisions in Tier 2 under standardised approach	342,912

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19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.6.1 Prudential Standard APS 330 Public Disclosures (Continued)

Regulatory Capital Reconciliation

Reported balance sheet under the regulatory scope of consolidation
First Choice Credit Union Ltd Balance Sheet as at 30 June 2013

	\$	Mapping to Common Disclosure Template Item #
ASSETS		
Cash and liquid assets	4,512,130	
Receivables due from financial institutions	13,776,414	
Receivables	141,916	
Prepayments	8,746	
Loans and advances to members	34,136,907	
Available for sale investments	78,938	26d
Property, plant and equipment	875,011	
Intangibles	73,211	26f
Deferred tax assets	96,584	26e
Current tax assets	-	26e
TOTAL ASSETS	53,699,857	
LIABILITIES		
Deposits from members	45,606,080	
Creditor accruals and settlement accounts	1,466,249	
nt tax liabilities	55,965	26e
Provisions	53,919	
Deferred tax liabilities	52,105	26e
TOTAL LIABILITIES	47,234,318	
NET ASSETS	6,465,539	
MEMBERS' EQUITY		
Asset revaluation reserve	198,705	3
Reserve for credit losses	447,443	50/76/77
Retained Earnings	5,819,391	2
TOTAL MEMBERS' EQUITY	6,465,539	

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19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.6.1 Prudential Standard APS 330 Public Disclosures Attachment A

Regulatory Capital Reconciliation (Continued)

Additional Commentary for reconciliation of capital items 2,26e,26f and 50

Item 2	Retained Earnings	5,819,393
Balance Sheet	Retained Earnings	5,819,391
	Rounding	2
Item 26e	Capital impact of deferred tax assets (net of related deferred tax liability) not reported in rows 10,21 and 25	0
Balance Sheet	Deferred tax assets	96,584
	Current tax assets	0
	Current tax liabilities	(55,965)
	Deferred tax liabilities	(52,105)
		(11,486)
As Deferred Tax Assets net of tax liabilities is less than 0 the deduction is nil.		
Item 26f	Capitalised expenses	73,210
Balance Sheet	Intangibles	73,211
	Rounding	(1)
Item 50	Provisions	342,912
Balance Sheet	Reserve for Credit Losses	447,443
Refer Item 77	Portion of Reserve for Credit Losses in excess of 1.25% of Credit Risk Weighted Assets	(104,531)

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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 Prudential Standard APS 112. The general rules apply the risk weights according to the level of underlying security.

		Carrying Value 2013 \$	Risk Weighted Value 2013 \$	Carrying Value 2012 \$	Risk Weighted Value 2012 \$
Cash	0%	185,040	0	218,500	-
Deposits in ADI's - Credit Rating Grade 1	20%	12,693,164	2,538,633	11,543,381	2,308,676
Deposits in ADI's - Credit Rating Grade 2	20% to 50%	5,042,356	2,521,178	3,540,048	1,467,222
Deposits in ADI's - Credit Rating Unrated	20% to 50%	507,984	253,992	1,013,451	355,908
Standard eligible residential mortgage loan up to 80% LVR	35%	16,319,607	5,711,863	13,336,749	4,667,862
Standard eligible residential mortgages loan greater than 80% LVR	50% to 100%	349,192	174,596	1,161,122	580,561
Standard eligible residential mortgage loan up to 80% LVR, but mortgage insured	35%	0	0	91,231	31,931
Standard eligible residential mortgages loan greater than 80% LVR, but mortgage insured	35%	2,102,047	783,378	1,890,691	661,742
Non-Standard eligible Loans secured against eligible residential mortgages greater than 80% LVR	50% to 75%	2,024,695	1,206,145	0	0
Non-Standard eligible Loans secured against eligible residential mortgages greater than 80% LVR, but mortgage insured	75%	235,339	176,504	2,143,777	1,361,806
Past due claims	100%	32,214	32,214	17,656	17,656
Other assets	100%	13,959,489	13,959,489	13,415,572	13,415,572
Total		53,451,127	27,357,992	48,372,178	24,868,936

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**NOTES TO THE FINANCIAL STATEMENTS
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20. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

	Note	2013 \$	2012 \$
Financial assets			
Cash and cash equivalents	7	4,512,130	6,995,390
Loans and receivables – amortised cost			
- Receivables from financial institutions – FTD's	8	9,000,000	5,500,000
- Accrued receivables	9	141,976	170,763
- Loans to members	10	34,158,275	31,401,741
Held to Maturity – amortised cost			
- Receivables from financial institutions – NCD's	8	4,776,414	3,676,283
Available for sale – fair value			
- Investments	11	78,938	78,938
TOTAL FINANCIAL ASSETS		<u>52,667,733</u>	<u>47,823,115</u>
Financial liabilities – carried at amortised cost			
Deposits from members	14	45,606,080	41,524,318
Payables and other liabilities	15	1,429,497	762,710
TOTAL FINANCIAL LIABILITIES		<u>47,035,577</u>	<u>42,287,028</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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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	
	2013	2012	\$	2013	2012	\$	2013	2012	\$	2013	2012	\$	2013	2012	\$	\$
(i) Financial assets																
Cash and liquid assets	4,330,248	4,053,181		-	-		-	-		-	-		185,041	2,995,389	4,515,289	7,048,570
Receivables due from other financial institutions	8,936,696	5,412,361		5,090,197	3,966,698		-	-		-	-		-	-	14,026,893	9,379,059
Accrued receivables	-	-		-	-		-	-		-	-		1,915	27,056	1,915	27,056
Loans to members	1,425,659	1,417,066		4,596,026	4,549,709		4,660,488	16,241,711		41,993,008	28,976,387		-	-	52,675,181	51,184,873
Other investments	-	-		-	-		-	-		-	-		78,938	78,938	78,938	78,938
Total financial assets	14,692,603	10,882,608		9,686,223	8,516,407		4,660,488	16,241,711		41,993,008	28,976,387		265,894	3,101,383	71,298,216	67,718,496
(ii) Financial liabilities																
Deposits	12,743,642	11,383,649		10,184,131	10,828,389		-	-		-	-		23,124,379	19,873,900	46,052,152	42,085,938
Payables and other liabilities	-	-		-	-		-	-		-	-		1,429,497	762,710	1,429,497	762,710
Total financial liabilities	12,743,642	11,383,649		10,184,131	10,828,389		-	-		-	-		24,553,876	20,636,610	47,481,649	42,848,648

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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	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(i) Financial assets												
Cash and liquid assets	4,327,089	3,700,000	-	2,500,000	-	-	-	-	185,041	795,390	4,512,130	6,995,390
Receivables due from other financial institutions	3,289,050	3,295,285	5,494,581	1,996,257	4,992,782	3,884,741	-	-	-	-	13,776,413	9,176,283
Accrued receivables	-	-	-	-	-	-	-	-	141,916	170,763	141,916	170,763
Loans to members	34,158,275	31,401,741	-	-	-	-	-	-	-	-	34,158,275	31,401,741
Other investments	-	-	-	-	-	-	-	-	78,938	78,938	78,938	78,938
Total financial assets	41,774,414	38,397,026	5,494,581	4,496,257	4,992,782	3,884,741	-	-	405,895	1,045,091	52,667,672	47,823,115
(ii) Financial liabilities												
Deposits	29,271,934	24,395,039	6,420,061	6,666,243	9,873,325	10,421,286	-	-	40,760	41,750	45,606,080	41,524,318
Payables and other liabilities	-	-	-	-	-	-	-	-	1,429,497	762,710	1,429,497	762,710
Total financial liabilities	29,271,934	24,395,039	6,420,061	6,666,243	9,873,325	10,421,286	-	-	1,470,257	804,460	47,035,577	42,287,028

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**NOTES TO THE FINANCIAL STATEMENTS
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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.

	Fair value	2013 Carrying value	Variance	Fair value	2012 Carrying value	Variance
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash	4,512,130	4,512,130	-	6,995,390	6,995,390	-
Advances to other financial institutions	13,776,414	13,776,414	-	9,176,283	9,176,283	-
Receivables	141,916	141,916	-	170,763	170,763	-
Loans & advances	34,158,275	34,136,907	21,368	31,401,741	31,392,779	8,962
Investments	78,938	78,938	-	78,938	78,938	-
Total Financial Assets	52,667,673	52,646,305	23,368	47,823,115	47,814,153	8,962
Financial liabilities						
Deposits from members	45,606,080	45,606,080	-	41,524,318	41,524,318	-
Payables and other liabilities	1,429,497	1,429,497	-	762,710	762,710	-
Total Financial Liabilities	47,035,577	47,035,577	-	42,287,028	42,287,028	-

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.

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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 2013 or 30 June 2012.

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.

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	2013 \$	2012 \$
24. FINANCIAL COMMITMENTS		
Outstanding loan commitments		
The loans approved but not funded	<u>206,617</u>	<u>864,301</u>
Loan redraw facilities		
The loan redraw facilities available	<u>1,404,893</u>	<u>1,281,692</u>
Overdrafts		
Overdraft facilities available	<u>1,314,493</u>	<u>1,290,068</u>
Total Financial Commitments	<u>2,926,003</u>	<u>3,436,061</u>

25. EXPENDITURE COMMITMENTS

25.1 Future Capital Commitments

At 30 June 2013 First Choice has no future capital commitments (2012: Nil).

	2013 \$	2012 \$
25.2 Lease Expenditure Commitments		
<i>Operating leases</i>		
Within 1 year	-	32,194
1 to 5 years	<u>-</u>	<u>2,691</u>
	<u>-</u>	<u>34,885</u>

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.

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NOTES TO THE FINANCIAL STATEMENTS
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	2013 \$	2012 \$
26. STANDBY BORROWING FACILITIES		
First Choice has gross borrowing facilities with CUSCAL Limited of:		
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 the Credit Union 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 2013.

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:

- K. Boyde
- G.W. Dean
- R. Dunkley
- P. Hetherington
- P. McFarland
- R.L. Neville
- B. Solling
- P. Thornberry
- A.H. Wyllie

FIRST CHOICE CREDIT UNION LTD

ABN 63 087 649 867

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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 2013					
Directors	38,979	1,694	-	-	40,673
Other KMP	243,515	20,579	-	-	264,094
Year ended 30 June 2012					
Directors	31,195	1,008	-	-	32,203
Other KMP	227,498	19,535	-	-	247,033

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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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 2013						
Directors	200,474	13,406	-	235,309	2	-
Other KMP	73,623	12,424	-	377,149	2	-
Close members of family	-	-	-	-	-	-
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	-	-	-	-	-	-

****:** None of this balance is securitised

Of the ending loans balance to Other KMP \$57,110 was at an interest rate of 6.45% and \$320,038 was at an interest rate of 5.95%. 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.

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013****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 2013				
Directors	257,006	7,890	267,284	9
Other KMP	78,058	1,015	76,438	2
KMP close members of family	375,575	20,185	413,460	3
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

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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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 2013 is \$174,642 (2012: \$333,983).

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:

	2013	2012
	\$	\$
Reconciliation of cash		
Cash balance comprises:		
- Cash on hand	185,041	218,500
- Cash at bank	1,927,089	576,890
- Cash on deposit	2,400,000	6,200,000
	<u>4,512,130</u>	<u>6,995,390</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

32. CASH FLOW INFORMATION (Continued)

	2013 \$	2012 \$
32.3 Reconciliation of Net Cash Provided by Operating Revenue Activities to Net Profit After Income Tax		
Net profit after tax	430,316	513,950
Non-cash items		
Depreciation and amortisation	34,039	29,689
Loss on disposal of property	-	-
Bad debts written off	36,943	22,728
Revaluation of Assets	124,202	-
Movements in assets and liabilities		
Deferred income tax asset	(55,570)	9,861
Other assets	(4,787)	(319)
Provision for income tax	58,559	(49,304)
Accrued interest receivable	3,706	87,934
Accrued interest payable	(77,232)	94,871
Creditors and accruals	25,393	5,347
Provisions	4,666	(35,310)
Deferred income tax liability	(15,880)	(1,539)
Net cash provided by revenue activities	<u>564,355</u>	<u>677,908</u>

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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 a fixed package sum. 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.

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

34. CORPORATE GOVERNANCE DISCLOSURES (Continued)

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 | • Data risk management |
| • Liquidity Management | • Market Risk Management |
| • Credit risk management | • Outsourcing Management |
| • Commercial Loans | • Operations Risk Management |

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 Prudential Reporting, Financial Reporting, 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

The internal audit function is performed by 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.
- Office of the Australian Information Commissioner for privacy legislation
- AUSTRAC for Anti Money Laundering and Counter Terrorism legislation

FIRST CHOICE CREDIT UNION LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

34. CORPORATE GOVERNANCE DISCLOSURES (Continued)

Regulation (Continued)

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.

Workplace, 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.

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

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 WH&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 counsellors where required following an incident which may impair their feeling of safety in the work place.

FIRST CHOICE CREDIT UNION LTD

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DIRECTORS' DECLARATION

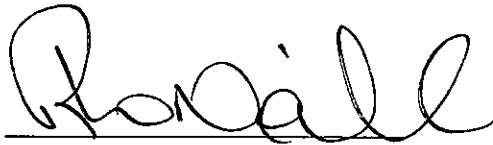
The Directors of First Choice Credit Union Ltd declare that:

- (a) The financial statements and notes set out on pages 7 to 67, 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 2013 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 23 day of September 2013 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 2013, 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 Choice Credit Union Limited on 20 September 2013, 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 2013 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 2013 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

237 Lords Place
Orange

Dated: 23 September 2013



**J O'MALLEY
PARTNER**