Notes to the financial statements
For the year ended 30 June 2012

In the notes that follow, the abbreviations used have these meanings:

APRA – Australian Prudential Regulation Authority

Cuscal – Cuscal Limited

1. Reporting entity

mecu Limited (the 'Company') is a company domiciled in Australia. The consolidated financial statements of the Company for the financial year ended 30 June 2012 comprise the accounts of the Company and its subsidiaries (together referred to as the 'consolidated entity'). The Company is a for-profit entity and is primarily involved in the raising of funds as authorised by the Prudential Standards administered by APRA and the *Banking Act 1959*, and the application of those funds in providing financial accommodation to customers.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The consolidated financial statements comply with the International Financial Reporting Standards 'IFRSs' and interpretations adopted by the International Accounting Standards Board.

The Directors have applied the relief available under ASIC Class Order 10/654 'Inclusion of parent entity financial statements in financial reports' effective 29 July 2010 to continue to present full parent entity financial statements as part of the consolidated financial statements.

The consolidated financial statements were authorised for issue by the Directors on 4 October 2012.

(b) Basis of measurement

The financial statements have been presented in Australian dollars and on the amortised cost basis except property and shares, which are stated at fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial statements and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(c) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 5 – revenue (commissions)
- Note 12 – provision for impaired loans
- Note 14 – valuation of property
- Note 19 – creditors and other liabilities
- Note 24 – contingent liabilities and forward commitments
- Note 31 – financial instruments

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the Company's financial statements, and have been applied consistently by the consolidated entity.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at amortised cost in the Company's financial statements.

The consolidated financial statements of the consolidated entity comprise the accounts of **mecu** Limited and its subsidiary companies, Ed Credit Services Pty Ltd, ECS Unit Trust and Ed Credit Insurance Services Pty Ltd.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

(b) Financial instruments

Non-derivative financial instruments

The consolidated entity initially recognises financial assets on the date at which it becomes a party to the contractual provision of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently measured at fair value through profit and loss, the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. The consolidated entity subsequently measures the financial assets at either fair value or amortised cost.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost using the effective interest method and net of any impairment loss, if: the asset is held within a business model with an objective to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest. The consolidated entity's policy on impairment is the same as that applied in its consolidated financial statements as at and for the year ended 30 June 2011 for loans, receivables and held to maturity debt and investment securities.

Financial assets measured at fair value

Financials assets other than those measured at amortised cost are measured at fair value with all changes in fair value recognised in profit or loss. The fair value of equity holdings is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate.

However, for investments in equity instruments that are not held for trading, the consolidated entity has elected at initial recognition to present gains and losses in other comprehensive income. For instruments measured at fair value through other comprehensive income gains and losses are never reclassified to profit or loss and no impairments are recognised in profit or loss. Dividends earned from such investments are recognised in profit or loss unless the dividends clearly represent a recovery of part of the cost of the investment.

(c) Securitisation

The Company conducts a loan securitisation program whereby mortgage loans are sold as securities to an unrelated entity, thus removing the assets from the Company's balance sheet. The contractual arrangements of the program meet the criteria for transferring assets off balance sheet. The Company bears no risk exposure in respect of these loans. The Company receives fee and commission income from securitised loans which is included in non-interest revenue.

(d) Property, plant and equipment

Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Property is measured at fair value using an external independent valuation company with appropriate recognised professional qualifications and experience. The fair values are based on market values being the estimated amount for which a property could be exchanged on date of valuation between a willing buyer and willing seller in an arm's length transaction.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income' in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation

With the exception of freehold land and artworks, depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and artworks are not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

Category	Depreciation period
Freehold buildings	40 years
Leasehold improvements	the lease term
Plant and equipment	3 to 5 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(e) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the consolidated entity's balance sheet.

(f) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of a fair value financial asset is calculated by reference to its current fair value.

Impairment of loans is not recognised until objective evidence is available that a loss event has occurred. Significant loans are individually assessed for impairment. Impairment testing of loans that are not assessed as impaired individually is performed by placing them into portfolios of loans with similar risk profiles and undertaking a collective assessment of impairment based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and fair value financial assets that are debt securities, the reversal is recognised in the income statement. Any bad debts recovered are recognised in the income statements in the period in which they were recovered.

(g) Employee benefits

Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation plans are recognised as an expense in the income statement as incurred.

Defined benefit superannuation funds

Multi-employer funds where sufficient information is not available to use defined benefit accounting are accounted for as if the fund was a defined contribution fund.

Other long-term employee benefits

The consolidated entity's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance date which have maturity dates approximating the terms of the consolidated entity's obligations.

Short-term benefits

Liabilities for employee benefits for wages, salaries, and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

(h) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the consolidated entity recognises any impairment loss on any assets associated with the contract.

(i) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured.

Revenue is reported net of the amount of goods and services tax (GST). No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or where the costs incurred or to be incurred cannot be measured reliably.

Interest income

Loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account monthly. Interest income is recognised in the income statement as it accrues, using the effective yield interest method. Loan establishment costs and income are assessed for materiality and, where appropriate, capitalised applying the effective yield method and recognised as part of the asset.

Fee and commission income

Other fee and commission income is recognised when the related service is provided and the income is contractually due. The gross amount of commission income is recognised. Fee income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Dividends

Dividend income is recognised in the income statement on the date the consolidated entity's right to receive payments is established which in the case of quoted securities is ex-dividend date.

Asset sales

The net proceeds of asset sales not originally purchased for the intention of resale are included as revenue at the date a contract of sale becomes unconditional. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Government grants

Grants that compensate the consolidated entity for the cost of an asset are recognised in profit of loss as other income on a systematic basis over the useful life of the asset.

(j) Expenses

Interest expense

Interest payable on member deposits is calculated on the daily balance outstanding and is credited in arrears periodically. Interest expense is recognised in the income statement as it accrues.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(k) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or included in the 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 liability in the balance sheet.

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 ATO are classified as operating cash flows.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2012, and have not been applied in preparing these consolidated financial statements.

None of these is expected to have a significant effect on the consolidated financial statements.

4. Financial risk management

(a) Introduction and overview

The consolidated entity has exposure to the following risk from the use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk and capital. Further quantitative disclosures are included throughout the notes to the financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Finance and Risk Committee which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

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

The Audit and Compliance Committee oversees how management monitors compliance with the consolidated entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the consolidated entity. The Audit and Compliance Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee.

(b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from loans and advances to customers, debt and investment securities held to maturity.

Management of credit risk

The Board of Directors has implemented the following policies to mitigate and manage credit risk:

- Credit control
- Credit card risk management
- Lending
- Large exposures risk management

The aims of the policies are to:

- control and mitigate risk of loss associated with delinquent credit facilities and deteriorating loan assets;
- establish collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- establish the authorisation structure for the approval and renewal of credit facilities.

Impaired loans and securities

Impaired loans and securities are those for which the consolidated entity determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreements.

Past due but not impaired loans

These are loans and securities where contractual interest or principal payments are past due but the consolidated entity believes that impairment is not appropriate on the basis of security/collateral available and/or the stage of collection of amounts owed.

Allowances for impairment

The consolidated entity establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is a specific loss component that relates to individually assessed exposures. In addition, a General Reserve for Credit Losses is carried in equity in accordance with APRA prudential requirements.

Write-off policy

The consolidated entity writes off a loan/security balance (and any related allowance for impairment losses) when it is determined that the loan/security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral

The consolidated entity holds collateral against loans and advances to the customers in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is usually not held against investment securities.

Settlement risk

The consolidated entity's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities of other assets as contractually agreed.

(c) Liquidity risk

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

Management of liquidity risk

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

The Board of Directors has implemented the following policies to mitigate and manage liquidity risk:

- Finance and accounting
- Liquidity contingency planning
- Liquidity risk management
- Large exposures policy
- Capital management

Exposure to liquidity risk

The key measure used to manage liquidity risk is the ratio of net high quality liquid assets to adjusted liabilities. For this purpose net liquid assets are considered to include cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market. The calculation is used to ensure compliance with the minimum level of liquidity prescribed by APRA.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates or listed equity investments held at fair value, will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

Market risk can be separated between trading and held-to-maturity portfolios. The consolidated entity's intention is to hold all financial instruments to maturity.

The Board of Directors has implemented the following policies to mitigate and manage market risk:

- Finance and accounting
- Market risk management

The consolidated entity is not exposed to foreign exchange risk.

Interest rate risk

The principal risk to which portfolios held to maturity are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Finance and Risk Committee is the monitoring body for compliance with these limits.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the consolidated entity's financial assets and liabilities to various standard and non-standard interest rate scenarios.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the consolidated entity's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

Management of operational risk

The consolidated entity's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the consolidated entity's reputation with overall cost effectiveness.

The Board of Directors has implemented an operational risk management policy which establishes the overall framework for managing operational risk. Specifically, the Company's Operational Risk Management Policy aims to:

- contribute to profitable prudential performance by achieving an appropriate balance between realising opportunities while minimising losses;
- maintain a comprehensive and up to-date risk policy statement that addresses all material risks and sets the risk limits acceptable to the Board;
- be concerned with risk as exposure to the consequences of uncertainty, or potential deviations from that which is planned or expected;
- facilitate regular reporting to senior management, the Board and relevant committees.

(f) Capital management

The Company's regulator APRA sets and monitors capital requirements for the consolidated entity as a whole. In implementing capital requirements APRA requires the consolidated entity to maintain a prescribed ratio of total capital to total risk weighted assets.

Regulatory capital is analysed into two tiers:

- Tier 1 capital includes general reserves, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital includes qualifying collective impairment allowance and asset revaluation reserves after applying other regulatory adjustments.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures plus an allowance for operational risk as prescribed by APRA.

The consolidated entity has complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the consolidated entity's management of capital during the year.

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s

5. Profit before income tax expense

(a) Revenue

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Interest revenue:				
Deposits with other financial institutions	13,785	12,017	13,785	12,017
Investment securities	12,248	11,976	12,248	11,975
Loans and advances	145,059	140,519	145,059	140,519
	171,092	**164,512**	**171,092**	**164,511**

Interest revenue represents interest earned from financial instruments carried at amortised cost.

(b) Other income

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Fee income	7,364	8,275	6,948	7,805
Commissions	5,679	6,733	5,679	6,733
Bad debts recovered	65	69	65	69
Dividends	3,649	4,022	3,649	4,022
Intercompany management fees	–	–	10	10
Proceeds from sale of property, plant & equipment	555	2,720	516	2,550
Less costs	(667)	(2,518)	(628)	(2,342)
Net gain on sale of property, plant & equipment	**(112)**	**202**	**(112)**	**208**
Other	152	153	397	431
	16,797	**19,454**	**16,636**	**19,278**

(c) Expenses

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Interest expense:				
Borrowings from other financial institutions	1,760	2,912	1,760	2,912
Deposits	98,586	91,029	98,586	91,029
	100,346	**93,941**	**100,346**	**93,941**

(d) Bad and doubtful debts

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Bad debts written off	637	399	637	399
Doubtful debts expense/(writeback)	(705)	666	(705)	666
	(68)	**1,065**	**(68)**	**1,065**

(e) Personnel expenses

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Wages and salaries	24,206	24,637	24,206	24,637
Other associated personnel expenses	2,127	2,008	2,127	2,008
Increase/(decrease) in liability for annual leave	(125)	94	(125)	94
Increase/(decrease) in liability for long service leave	(483)	255	(483)	255
	25,725	**26,994**	**25,725**	**26,994**

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s

5. Profit before income tax expense (continued)

(f) Other expenses

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Member product and service delivery costs	6,943	7,130	6,943	7,130
General administration costs	3,936	3,331	3,936	3,331
APRA levies	118	112	118	112
Depreciation expense				
- plant and equipment	1,470	1,726	1,126	1,371
- buildings	305	305	224	217
Amortisation expense				
- leasehold improvements	428	410	428	410
Information technology and associated costs	4,222	3,469	4,222	3,469
Occupancy and associated costs	3,380	3,696	3,675	3,995
Marketing and development	3,149	3,061	3,149	3,061
Other	889	827	858	794
	24,840	**24,067**	**24,679**	**23,890**

6. Income tax expense

Recognised in the income statement

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Income tax expense				
Provision for income tax – current year	9,050	10,992	9,050	10,992
Under (over) provision in prior years	4	6	4	6
Origination and reversal of temporary differences	976	(610)	976	(610)
Income tax expense attributable to profit	**10,030**	**10,388**	**10,030**	**10,388**
Reconciliation of prima facie tax payable to the income tax expense in the accounts:				
Profit before tax	37,046	37,899	37,046	37,899
Income tax using the domestic corporate tax rate 30% (2011: 30%)	11,114	11,370	11,114	11,370
Increase/(decrease) in income tax expense due to:				
Non-deductible expenses	7	3	7	3
Under (over) provision in prior years	4	6	4	6
Rebatable dividend	(1,095)	(1,206)	(1,095)	(1,206)
Capital gain on sale of land & buildings	–	215	–	215
Income tax expense	**10,030**	**10,388**	**10,030**	**10,388**
Income tax recognised in other comprehensive income				
Revaluation of property, plant and equipment.	(683)	131	(683)	131
Net change in fair value of financial assets	(876)	–	(876)	–
Income tax expense attributable to other comprehensive income	**(1,559)**	**131**	**(1,559)**	**131**
Franking credits	**77,718**	**65,146**	**77,718**	**65,146**

Franking credits held by the Company after adjusting for franking credits that will arise from the payment of income tax at the end of the financial year.

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s

7. Cash and liquid assets

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Cash on hand	4,196	9,214	4,196	9,214
Cash – Cuscal	18,941	994	18,941	994
Deposit at call – current	8,000	11,000	8,000	11,000
Total cash and liquid assets	**31,137**	**21,208**	**31,137**	**21,208**

Cash and liquid assets are generally available within 1 to 2 days.

8. Receivables

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Accrued income – current	3,904	3,567	4,148	3,845
Sundry debtors – current	5,770	10,901	5,770	10,901
Total receivables	**9,674**	**14,468**	**9,918**	**14,746**

9. Debt securities at amortised cost

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Term deposits – Cuscal	–	25,000	–	25,000
Term deposits – Mutual ADIs	29,050	10,500	29,050	10,500
Term deposits – Banks	100,000	100,000	100,000	100,000
Total receivables due from other financial institutions	**129,050**	**135,500**	**129,050**	**135,500**
Maturity analysis				
Not longer than 3 months	110,050	95,500	110,050	95,500
Longer than 3 months and less than 12 months	19,000	40,000	19,000	40,000
Longer than 1 year and less than 5 years	–	–	–	–
Longer than 5 years	–	–	–	–
	129,050	**135,500**	**129,050**	**135,500**

10. Investment securities at amortised cost

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Negotiable certificates of deposit	377,287	283,914	377,287	283,914
Asset-backed securities	11,540	2,142	11,540	2,142
Floating rate notes	17,238	700	17,238	700
Other	19	6,019	19	6,019
Total investment securities	**406,084**	**292,775**	**406,084**	**292,775**
Maturity analysis				
Not longer than 3 months	362,348	272,114	362,348	272,114
Longer than 3 months and less than 12 months	14,958	12,519	14,958	12,519
Longer than 1 year and less than 5 years	27,238	–	27,238	–
Longer than 5 years	1,540	8,142	1,540	8,142
	406,084	**292,775**	**406,084**	**292,775**

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
11. Net loans and advances				
(a) Amounts due				
Overdrafts and revolving credit	72,267	72,358	72,267	72,358
Term loans	2,133,519	2,040,013	2,133,519	2,040,013
Directors and related parties	4,869	3,685	4,869	3,685
Total loans and advances	**2,210,655**	**2,116,056**	**2,210,655**	**2,116,056**
Less specific provision for impairment	(516)	(1,221)	(516)	(1,221)
	2,210,139	**2,114,835**	**2,210,139**	**2,114,835**
(b) Maturity analysis				
Overdrafts	72,250	72,332	72,250	72,332
Not longer than 3 months	70,811	40,192	70,811	40,192
Longer than 3 months and less than 12 months	154,514	119,019	154,514	119,019
Longer than 1 year and less than 5 years	556,962	523,141	556,962	523,141
Longer than 5 years	1,355,602	1,360,151	1,355,602	1,360,151
	2,210,139	**2,114,835**	**2,210,139**	**2,114,835**

(c) Concentration of loans

At 30 June 2012, the loans portfolio does not include any loan which represents 10% or more of capital. (2011: Nil)
Details of classes of loans which represent, in aggregate, 10% or more of capital are as follows:

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Geographic areas				
- Victoria (excluding Gippsland region)	1,195,133	1,154,552	1,195,133	1,154,552
- Queensland	343,993	323,233	343,993	323,233
- Gippsland region	286,609	271,873	286,609	271,873
- New South Wales	187,926	183,199	187,926	183,199
- Australian Capital Territory	147,733	138,078	147,733	138,078
	2,161,394	**2,070,935**	**2,161,394**	**2,070,935**
- Other/or where there is no identifiable concentration	49,261	45,121	49,261	45,121
	2,210,655	**2,116,056**	**2,210,655**	**2,116,056**
(d) Employee industry groups				
- Government schools and tertiary institutions	283,732	352,522	283,732	352,522
- CSIRO	55,916	62,140	55,916	62,140
- Electricity generation and supply	71,183	56,302	71,183	56,302
- Air transport	41,504	34,916	41,504	34,916
	452,335	**505,880**	**452,335**	**505,880**
- Other/or where there is no identifiable concentration	1,758,320	1,610,176	1,758,320	1,610,176
	2,210,655	**2,116,056**	**2,210,655**	**2,116,056**

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s

12. Provision for impaired loans

(a) Provision movement

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Balance at beginning of year	1,221	555	1,221	555
Transfer to/(from) the income statement	(705)	666	(705)	666
	516	**1,221**	**516**	**1,221**

(b) Non-accrual loans

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Balances with impairment	1,707	2,612	1,707	2,612
Provision for impairment	(516)	(1,221)	(516)	(1,221)
	1,191	**1,391**	**1,191**	**1,391**
Security held on non-accrual loans	**458**	**1,695**	**458**	**1,695**

(c) Restructured loans

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Balance of restructured loans	**9,114**	**15,029**	**9,114**	**15,029**
Security held on restructured loans	**8,978**	**13,416**	**8,978**	**13,416**

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
(d) Past due loans without impairment	547	1,180	547	1,180

(e) Ageing analysis of past due loans without impairment

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
90 days to 181 days	187	1,056	187	1,056
182 days to 272 days	81	107	81	107
273 day to 364 days	264	–	264	–
365+ days	15	17	15	17
	547	**1,180**	**547**	**1,180**

(f) Other disclosures for impaired loans

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
- Assets acquired via enforcement of security	978	15	978	15
- Interest and other revenue earned on impaired loans	89	32	89	32
- Interest and other revenue forgone on impaired loans	119	91	119	91

(g) Key assumptions in determining the provision for impairment:

The Company has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is objective evidence of potential impairment such as industrial restructuring, job losses, or economic circumstances. In identifying the impairment likely from these events the Company is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years.

13. Other investments at fair value

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Shares at fair value				
Level 1 – non-current				
Shares in MyState Financial	17,551	11,929	17,551	11,929
Level 3 – non-current				
Shares in Cuscal	8,759	8,759	8,759	8,759
Shares in Data Action Pty Ltd	1,614	1,614	1,614	1,614
Units in ECS Unit Trust	–	–	3,618	3,618
Other shares	200	200	200	200
	10,573	10,573	14,191	14,191
Total other investments	**28,124**	**22,502**	**31,742**	**26,120**

Movements in other investments held at fair value are adjusted through other comprehensive income.

Level 1: quoted prices (unadjusted) in active markets for identical assets

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the assets that are not based on observable market data (unobservable inputs).

14. Property, plant and equipment

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
(a) Land				
Carrying amount	**7,274**	**7,178**	**4,014**	**3,918**
(b) Buildings	7,864	7,607	5,839	5,582
Less accumulated depreciation	(620)	(315)	(539)	(315)
Carrying amount	**7,244**	**7,292**	**5,300**	**5,267**

Freehold land and buildings owned by the Company are carried at fair value in accordance with independent valuations carried out by Certified Practising or Registered Valuers. The fair values are based on market values being the estimated amount for which a property could be exchanged on date of valuation between a willing buyer and willing seller in an arm's length transaction.

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
(c) Leasehold improvements – at cost	2,773	2,841	2,773	2,841
Less accumulated depreciation	(2,047)	(1,653)	(2,047)	(1,653)
Carrying amount	**726**	**1,188**	**726**	**1,188**
(d) Plant and equipment – at cost	10,439	11,929	8,985	10,342
Less accumulated depreciation	(7,113)	(7,828)	(6,452)	(7,246)
Carrying amount	**3,326**	**4,101**	**2,533**	**3,096**
(e) Artworks – at cost	112	112	112	112
Carrying amount	**112**	**112**	**112**	**112**
Total carrying amount – property, plant and equipment	**18,682**	**19,871**	**12,685**	**13,581**

Property, plant & equipment are classified as non-current as these items are not available for sale.

(f) Movement in property, plant and equipment balances during the year

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Land				
Carrying amount at beginning of year	7,178	7,174	3,918	4,249
Additions	96	275	96	275
Disposals	–	(656)	–	(656)
Revaluation increment/(decrement)	–	385	–	50
Carrying amount at end of year	**7,274**	**7,178**	**4,014**	**3,918**
Buildings				
Carrying amount at beginning of year	7,292	8,906	5,267	6,872
Additions	2,316	–	2,316	–
Depreciation charge	(305)	(305)	(224)	(217)
Disposals	–	(1,398)	–	(1,398)
Revaluation increment/(decrement)	(2,059)	89	(2,059)	10
Carrying amount at end of year	**7,244**	**7,292**	**5,300**	**5,267**

14. Property, plant and equipment (continued)

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Leasehold improvements				
Carrying amount at beginning of year	1,188	563	1,188	563
Additions	12	1,077	12	1,077
Disposals	(46)	(42)	(46)	(42)
Depreciation charge	(428)	(410)	(428)	(410)
Carrying amount at end of year	**726**	**1,188**	**726**	**1,188**
Plant and equipment				
Carrying amount at beginning of year	4,101	4,187	3,096	3,338
Additions	1,316	2,062	1,145	1,375
Disposals	(621)	(422)	(582)	(246)
Depreciation charge	(1,470)	(1,726)	(1,126)	(1,371)
Carrying amount at end of year	**3,326**	**4,101**	**2,533**	**3,096**
Artworks				
Carrying amount at beginning of year	112	112	112	112
Carrying amount at end of year	**112**	**112**	**112**	**112**
Total carrying amount at end of year	**18,682**	**19,871**	**12,685**	**13,581**

15. Other assets

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Prepayments – current	1,004	727	988	712
Total other assets	**1,004**	**727**	**988**	**712**

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s

16. Deferred tax assets and liabilities

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Assets – non-current				
Provision for impaired loans	155	366	155	366
Plant and equipment	256	321	256	321
Trade creditors and accruals	17	506	17	506
Employee entitlements	1,454	1,636	1,454	1,636
Sundry provisions	142	94	142	94
Provision for impaired investment	876	–	876	–
	2,900	**2,923**	**2,900**	**2,923**
Liabilities – non-current				
Land and buildings	314	1,029	314	1,029
Deferred tax liability	**314**	**1,029**	**314**	**1,029**
Net deferred tax assets	**2,586**	**1,894**	**2,586**	**1,894**

Movement in temporary differences during the year
Assets / (Liabilities)

	Provision for impaired loans $'000s	Plant and equipment $'000s	Trade creditors and accruals $'000s	Employee entitlements $'000s	Sundry provisions $'000s	Other investments $'000s	Land and buildings $'000s
Consolidated Entity							
Opening balance 1 July 2010	166	442	13	1,531	189	–	(1,160)
Recognised in income	200	(121)	493	105	(95)	–	–
Recognised in equity	–	–	–	–	–	–	131
Balance 30 June 2011	**366**	**321**	**506**	**1,636**	**94**	**–**	**(1,029)**
Opening balance 1 July 2011	366	321	506	1,636	94	–	(1,029)
Recognised in income	(211)	(65)	(489)	(182)	48	–	–
Recognised in equity	–	–	–	–	–	876	715
Balance 30 June 2012	**155**	**256**	**17**	**1,454**	**142**	**876**	**(314)**
The Company							
Opening balance 1 July 2010	166	442	13	1,531	189	–	(1,160)
Recognised in income	200	(121)	493	105	(95)	–	–
Recognised in equity	–	–	–	–	–	–	131
Balance 30 June 2011	**366**	**321**	**506**	**1,636**	**94**	**–**	**(1,029)**
Opening balance 1 July 2011	366	321	506	1,636	94	–	(1,029)
Recognised in income	(211)	(65)	(489)	(182)	48	–	–
Recognised in equity	–	–	–	–	–	876	715
Balance 30 June 2012	**155**	**256**	**17**	**1,454**	**142**	**876**	**(314)**

17. Deposits

(a) Balance of deposits

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Withdrawable shares	605	624	605	624
Call deposits	1,200,719	1,139,676	1,200,719	1,139,676
Deposits from related entities	–	–	1,786	1,528
Term deposits	1,269,694	1,091,540	1,269,694	1,091,540
Total deposits and borrowings	**2,471,018**	**2,231,840**	**2,472,804**	**2,233,368**

(b) Maturity analysis

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Withdrawable shares at call	605	624	605	624
At call	1,200,719	1,139,676	1,202,505	1,141,204
Not longer than 3 months	742,334	439,474	742,334	439,474
Longer than 3 months and less than 12 months	420,780	603,459	420,780	603,459
Longer than 1 year and less than 5 years	106,580	48,607	106,580	48,607
	2,471,018	**2,231,840**	**2,472,804**	**2,233,368**

(c) Concentrations of deposits

At 30 June 2012, there were no customers who individually or collectively had deposits which represented 10% or more of total liabilities. (2011: Nil)

Details of classes of deposits which represent, in aggregate, 10% or more of liabilities are as follows:

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Geographic areas				
- Victoria (excluding Gippsland region)	1,537,102	1,431,159	1,538,888	1,432,687
- Gippsland region	370,134	345,406	370,134	345,406
	1,907,236	**1,776,565**	**1,909,022**	**1,778,093**
- Other/or where there is no identifiable concentration	563,782	455,275	563,782	455,275
	2,471,018	**2,231,840**	**2,472,804**	**2,233,368**

(d) Employee industry groups

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
- Government schools and tertiary institutions	320,315	374,653	320,315	374,653
- Other/or where there is no identifiable concentration	2,150,703	1,857,187	2,152,489	1,858,715
	2,471,018	**2,231,840**	**2,472,804**	**2,233,368**

18. Short-term borrowings

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Wholesale borrowings – current	–	50,000	–	50,000
Total payables to other financial institutions	**–**	**50,000**	**–**	**50,000**

19. Creditors and other liabilities

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Tax payable				
Provision for income tax – current	1,832	3,708	1,832	3,708
Provisions				
Provision for employee entitlements – current	3,592	4,166	3,592	4,166
Provision for employee entitlements – non-current	1,251	1,286	1,251	1,286
Sundry provisions – current	50	49	50	49
Sundry provisions – non-current	206	263	206	263
	5,099	**5,764**	**5,099**	**5,764**
Other liabilities				
Trade creditors and accruals – current	23,936	21,179	23,931	21,174
Deferred Income – current	654	654	654	654
Deferred Income – non-current	1,888	2,542	1,888	2,542
Sundry creditors – current	20,485	20,277	20,477	20,269
	46,963	**44,652**	**46,950**	**44,639**
Total creditors and other liabilities	**53,894**	**54,124**	**53,881**	**54,111**

Trade and sundry creditors and accruals are on contractual terms and are generally payable within 1 to 3 months

(a) Movement in provisions during the year

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Provision for employee entitlements				
Opening balance	5,452	5,102	5,452	5,102
Additional provisions made during the period	2,220	2,739	2,220	2,739
Amounts used during the period	(2,829)	(2,389)	(2,829)	(2,389)
Closing balance	**4,843**	**5,452**	**4,843**	**5,452**

The provision for employee benefits relates to annual and long service leave entitlements. Annual leave entitlements are expected to be taken within the next 12 months while long service leave entitlements will be progressively drawn down over the next 1 to 10 years.

20. Capital and reserves

Asset revaluation reserve

The asset revaluation reserve relates to the revaluation of property.

Fair value reserve

The fair value reserve relates to the fair valuation of equity investments not held for trading under AASB9 Financial Instruments.

General reserve for credit losses

In accordance with APRA Prudential Regulations a General Reserve for Credit Losses is maintained. This reserve exists to provide an additional reserve against possible volatility in future cash flows as a result of unexpected loan defaults.

Redeemed capital reserve

Redeemed capital reserve represents the amount of redeemable preference shares redeemed since 1 July 1999. The Corporations Act requires redemption of shares to be made out of profits. Since the value of the shares redeemed has been paid to customers in accordance with the Constitution of the Company, the redeemed capital reserve account represents the amount of profits appropriated to the account.

Dividends

There were no dividends declared or paid during the financial year.

21. Key management personnel disclosures

Key management personnel comprises seven non-executive Directors, one chief executive and four executive managers.

(a) Transactions with key management personnel

The key management personnel compensation included in 'personnel expenses' (see Note 5(e)) are as follows:

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	**The Company 2012 $'000s**	The Company 2011 $'000s
Short-term employee benefits	3,071	2,403	3,071	2,403
Other long-term benefits	59	105	59	105
Post-employment benefits	222	207	222	207
Termination benefits	107	1,573	107	1,573
	3,459	**4,288**	**3,459**	**4,288**

(b) Loans to key management personnel

Aggregate value of loans and credit facilities to key management personnel and spouses, or relatives of key management personnel and spouses at balance date amounted to:

Key management personnel	4,586	3,206	4,586	3,206
Related parties	283	479	283	479
Less provision for impairment	–	–	–	–
	4,869	**3,685**	**4,869**	**3,685**

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s

21. Key management personnel disclosure (continued)

Loans made during the financial year by the Company to key management personnel and spouses, or relatives of key management personnel and spouses:	2,447	1,315	2,447	1,315
	2,447	**1,315**	**2,447**	**1,315**

All loans disbursed were approved on the same terms and conditions which applied to customers generally for each class of loan. During the year new loans were made to the following key management personnel and related parties:

R J Allen	P J Crocker	R B Dowland	P J Taylor
J W Baistow	R D Dixon	P J Ford	D G Walsh
H M Clarke	P E Doughty	C H Newey	J P Yardley

Repayments against loans and interest charged to key management personnel and spouses, or relatives of key spouses amounted to:

Repayments	1,467	1,469	1,467	1,469
Interest charged	271	242	271	242

During the year repayments were made on all loans to key management personnel and related parties in accordance with terms and conditions. The following key management personnel and related parties made repayments on loans during the year:

R J Allen	P J Crocker	R B Dowland	P J Taylor
J W Baistow	R D Dixon	P J Ford	D G Walsh
H M Clarke	P E Doughty	C H Newey	J P Yardley

All transactions between key management personnel and spouses, or relatives of key management personnel and spouses and the Company were conducted in accordance with normal terms and conditions. The terms and conditions in respect of all loans to key management personnel and spouses, or relatives of Directors and spouses have not been breached.

(c) Other key management personnel transactions with the Company

There are no other transactions or contracts to which key management personnel or related entities are a related party.

	Consolidated Entity 2012 $	Consolidated Entity 2011 $	The Company 2012 $	The Company 2011 $

22. Auditor's remuneration

Auditors of the Company are KPMG

Audit services

- Audit and review of financial reports	124,500	106,888	124,500	106,880
- Other regulatory audit services	32,500	33,000	32,500	33,000
	157,000	**139,888**	**157,000**	**139,880**

Other services

- Taxation services	7,900	7,600	7,900	7,600
	7,900	**7,600**	**7,900**	**7,600**

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s

23. Commitments for expenditure

(a) Lease commitments

Operating lease commitments under existing lease arrangements for building accommodation and automatic teller machines are payable over the following periods:

Within 1 year	1,410	1,463	1,410	1,463
1 to 2 years	1,061	1,217	1,061	1,217
2 to 5 years	983	1,696	983	1,696
Total lease commitments	**3,454**	**4,376**	**3,454**	**4,376**

(b) Material service contract commitments

The Company has a contract with Data Action Pty Ltd to provide computer facilities management services and associated support services. The balance of fees payable under the contract are payable over the following periods:

Within 1 year	2,346	2,019	2,346	2,019
1 to 2 years	2,414	2,081	2,414	2,081
2 to 5 years	3,114	4,879	3,114	4,879
Total material service contract commitments	**7,874**	**8,979**	**7,874**	**8,979**

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s

24. Contingent liabilities and forward commitments

(a) Outstanding loan commitments

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Loans approved but not funded	53,994	47,074	53,994	47,074
Undrawn credit commitments	139,618	146,215	139,618	146,215
Loans available for redraw	231,822	208,476	231,822	208,476
Total commitments	**425,434**	**401,765**	**425,434**	**401,765**

Generally, there are no restrictions to withdrawal of funds under undrawn credit commitments, provided normal repayments are maintained. All such commitments are, however, cancellable at the discretion of the Company.

(b) Merchant agreement

The Company has a merchant agreement facility with National Australia Bank Limited to indemnify the Company for losses against individual accounts where approval to operate such facilities has been provided by the Company.

(c) Liquidity support scheme

The Company is party to CUFSS Limited. CUFSS Limited is a voluntary scheme that mutual banks, credit unions and mutual building societies who are affiliated with Abacus participate in. CUFSS Limited is a company limited by guarantee, each participant's guarantee being $100.

As a member of CUFSS, the Company:

(i) may be required to advance funds of up to 3% (excluding permanent loans) of total assets to another member mutual ADI requiring financial support;

(ii) may be required to advance permanent loans of up to 0.2% of total assets per financial year to another member mutual ADI requiring financial support;

(iii) agrees, in conjunction with other members, to fund the operating costs of CUFSS.

25. Standby arrangements

The Company has arranged the following standby credit facilities:

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
Cuscal overdraft facility	7,500	7,500	7,500	7,500
Amount drawn	–	–	–	–
Total facilities available	**7,500**	**7,500**	**7,500**	**7,500**

There are no restrictions as to the withdrawal of these funds. Borrowings are secured by an equitable mortgage charge over the assets of the Company.

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
26. Employee benefits				
Salaries and wages accrued	641	2,178	641	2,178
Liability for long service leave	3,112	3,595	3,112	3,595
Liability for annual leave	1,732	1,856	1,732	1,856
Total employee benefits	**5,485**	**7,629**	**5,485**	**7,629**

(a) Superannuation

The Company sponsors superannuation funds for its employees under normal conditions of employment, and in satisfaction of the requirements of the Superannuation Guarantee Scheme. During the year, the Company contributed to various superannuation funds with the main fund being NGS Super.

(b) Contributions paid and payable to superannuation plans

Employer contributions to the plans	2,232	2,153	2,232	2,153

(c) Employees

On a consolidated basis the total number of full-time equivalent employees as at 30 June 2012 was 296 (2011: 307).

The total number of full-time equivalent employees at the Company as at 30 June 2012 was 296 (2011: 307).

27. Reconciliation of cash flows from operating activities

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash means cash on hand and cash equivalents. Cash equivalents are highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, and borrowings which are integral to the cash management function and which are not subject to a term facility. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statements of financial position as follows:

Cash on hand	4,196	9,214	4,196	9,214
Cash at bank – Cuscal	18,941	994	18,941	994
Deposits at call – Cuscal	8,000	11,000	8,000	11,000
	31,137	**21,208**	**31,137**	**21,208**

(b) Cash flows presented on a net basis

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

(i) deposits, shares and withdrawals from savings and investment accounts;

(ii) loans and repayments; and

(iii) investment activities.

	Consolidated Entity 2012 $'000s	Consolidated Entity 2011 $'000s	The Company 2012 $'000s	The Company 2011 $'000s
(c) Cash flows from operating activities				
Profit for the year	27,016	27,511	27,016	27,511
Adjustments for:				
Depreciation	1,775	2,031	1,350	1,588
Amortisation	428	410	428	410
(Profit)/loss on disposal of non-current assets	112	(202)	112	(208)
Bad debts written off	637	399	637	399
Charge for loan impairment	(705)	666	(705)	666
Operating profit before changes in provisions	**29,263**	**30,815**	**28,838**	**30,366**
Increase/(decrease) in employee entitlements	(609)	350	(609)	350
Increase/(decrease) in sundry provision	(56)	(317)	(56)	(317)
(Increase)/decrease in accrued income	(337)	537	(303)	585
(Increase)/decrease in prepayments	(277)	(59)	(276)	(62)
Increase/(decrease) in trade creditors and accruals	2,757	1,924	2,757	1,925
Increase/(decrease) in deferred income	(654)	3,196	(654)	3,196
(Increase)/decrease in sundry debtors	5,131	(376)	5,131	(383)
(Increase)/decrease in deferred tax assets	899	(582)	899	(582)
Increase/(decrease) in provision for income tax	(1,876)	2,614	(1,876)	2,614
Net cash provided by operating activities	**34,241**	**38,102**	**33,851**	**37,692**

28. Controlled entities

Details of controlled entities consolidated into the group financial statements are as follows:

Name	Country of Incorporation	% Owned	Investment at cost $'000s	Contribution to operating profit after tax $'000s
Ed Credit Services Pty Ltd	Australia	100	–	–
ECS Unit Trust	Australia	100	3,618	244
Ed Credit Insurance Services Pty Ltd	Australia	100	–	–

29. Segmental reporting

The Company operates predominantly in the retail financial services industry within Australia. The operations comprise the acceptance of deposits, the making of loans and provision of financial planning services.

30. Securitisation

The Company has an arrangement with Integris Securitisation Services Pty Ltd whereby it acts as an agent to promote and complete loans on their behalf, for on-sale to an investment trust. The Company also manages the loans portfolio on behalf of the trust. The Company is only liable for loan repayment defaults to the extent of interest forgone by the trust, and for which the Company has mortgage insurance cover to recoup all such payments.

The balance of securitised loans as at 30 June 2012 was $39,269,304 (2011: $69,577,124).

31. Financial instruments

(a) Net fair values of financial assets and liabilities

Interest rates used to determine fair value

The interest rates used to discount estimated cash flows, when applicable, are based on equivalent market rates at the reporting date.

	Assets					Liabilities	
	Cash & liquid assets	Debt securities	Investment securities	Loans and advances (net of provision)	Equity investments	Deposits	Short-term borrowings
Consolidated Entity 2012							
Net fair value $'000s	31,137	130,442	409,542	2,212,527	28,124	2,471,695	–
Carrying value $'000s	31,137	129,050	406,084	2,210,139	28,124	2,471,018	–
Variance $'000s	–	1,392	3,458	2,388	–	(677)	–
Consolidated Entity 2011							
Net fair value $'000s	21,208	137,611	295,529	2,116,819	22,502	2,231,103	50,000
Carrying value $'000s	21,208	135,500	292,775	2,114,835	22,502	2,231,840	50,000
Variance $'000s	–	2,111	2,754	1,984	–	737	–
The Company 2012							
Net fair value $'000s	31,137	130,442	409,542	2,212,527	31,742	2,473,480	–
Carrying value $'000s	31,137	129,050	406,084	2,210,139	31,742	2,472,804	–
Variance $'000s	–	1,392	3,458	2,388	–	(676)	–
The Company 2011							
Net fair value $'000s	21,208	137,611	295,529	2,116,819	26,120	2,232,630	50,000
Carrying value $'000s	21,208	135,500	292,775	2,114,835	26,120	2,233,368	50,000
Variance $'000s	–	2,111	2,754	1,984	–	738	–

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Refer to Note 11 for concentration of credit risk.

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

Cash and liquid assets

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

Debt securities

Net fair value is a reasonable estimate of the fair value determined by reference to the current market value of the instrument and is calculated based on the expected cash flows of the underlying asset.

Investment securities

Net fair value is a reasonable estimate of the fair value determined by reference to the current market value of the instrument and is calculated based on the expected cash flows of the underlying asset.

Loans and advances

The carrying value of loans and advances is net of the provision for impairment. Interest rates on loans equate to comparable products in the marketplace. Discounted cash flows based on the loan type and its related maturity are used to calculate the net fair value of fixed rate loans.

Equity Investments

Net fair value of equity investments is based on quoted prices in active markets for identical assets. If no quoted price is available, inputs other than quoted prices, such as observable market data, are used to ascertain fair value.

Deposits

The net fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits maturing within three months approximates its carrying value. Discounted cash flows (based upon the deposit type and its related maturity) are used to calculate the net fair value of other term deposits.

Short-term borrowings

The carrying values of short-term borrowings maturing within three months approximate their net fair value as they are short-term in nature.

(b) Effective interest rates and repricing analysis

In respect of income-earning assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date, the periods in which they reprice and contractual cash flows.

31. Financial instruments (continued)

	0–3 months $'000s	3–12 months $'000s	1–2 years $'000s	2–5 years $'000s	More than 5 years $'000s	Total carrying amount as per balance sheet $'000s	Weighted average effective interest rate
Consolidated Entity 2012 financial instruments							
(i) Financial assets							
Deposits at call	26,941	–	–	–	–	26,941	2.31%
Debt securities	110,050	19,000	–	–	–	129,050	5.25%
Investment securities	396,065	10,019	–	–	–	406,084	4.51%
Loans and advances	2,079,122	52,116	35,841	39,629	3,431	2,210,139	6.40%
Total financial assets	**2,612,178**	**81,135**	**35,841**	**39,629**	**3,431**	**2,772,214**	
(ii) Financial liabilities							
Deposits	1,943,658	420,780	37,620	68,960	–	2,471,018	4.03%
Short-term borrowings	–	–	–	–	–	–	0.00%
Total financial liabilities	**1,943,658**	**420,780**	**37,620**	**68,960**	**–**	**2,471,018**	
Financial liabilities contractual cash flows						**Total contractual cash flows**	
Deposits	1,957,013	432,661	40,662	79,400	–	2,509,736	4.03%
Short-term borrowings	–	–	–	–	–	–	0.00%
Consolidated Entity 2011 financial instruments							
(i) Financial assets							
Deposits at call	11,994	–	–	–	–	11,994	4.28%
Debt securities	100,500	35,000	–	–	–	135,500	5.84%
Investment securities	285,256	7,519	–	–	–	292,775	5.43%
Loans and advances	2,000,436	30,002	45,142	34,490	4,765	2,114,835	7.30%
Total financial assets	**2,398,186**	**72,521**	**45,142**	**34,490**	**4,765**	**2,555,104**	
(ii) Financial liabilities							
Deposits	1,579,774	603,459	42,721	5,886	–	2,231,840	4.47%
Short-term borrowings	50,000	–	–	–	–	50,000	5.84%
Total financial liabilities	**1,629,774**	**603,459**	**42,721**	**5,886**	**–**	**2,281,840**	
Financial liabilities contractual cash flows						**Total contractual cash flows**	
Deposits	1,587,556	623,565	46,616	–	–	2,257,737	4.47%
Short-term borrowings	50,736	–	–	–	–	50,736	5.84%

	0–3 months $'000s	3–12 months $'000s	1–2 years $'000s	2–5 years $'000s	More than 5 years $'000s	Total carrying amount as per balance sheet $'000s	Weighted average effective interest rate
The Company 2012 financial instruments							
(i) Financial assets							
Deposits at call	26,941	–	–	–	–	26,941	2.31%
Debt securities	110,050	19,000	–	–	–	129,050	5.25%
Investment securities	396,065	10,019	–	–	–	406,084	4.51%
Loans and advances	2,079,122	52,116	35,841	39,629	3,431	2,210,139	6.40%
Total financial assets	**2,612,178**	**81,135**	**35,841**	**39,629**	**3,431**	**2,772,214**	
(ii) Financial liabilities							
Deposits	1,945,444	420,780	37,620	68,960	–	2,472,804	4.03%
Short-term borrowings	–	–	–	–	–	–	0.00%
Total financial liabilities	**1,945,444**	**420,780**	**37,620**	**68,960**	**–**	**2,472,804**	
Financial liabilities contractual cash flows						**Total contractual cash flows**	
Deposits	1,958,809	432,661	40,662	79,400	–	2,511,532	4.03%
Short-term borrowings	–	–	–	–	–	–	0.00%
The Company 2011 financial instruments							
(i) Financial assets							
Deposits at call	11,994	–	–	–	–	11,994	4.28%
Debt securities	100,500	35,000	–	–	–	135,500	5.84%
Investment securities	285,256	7,519	–	–	–	292,775	5.43%
Loans and advances	2,000,436	30,002	45,142	34,490	4,765	2,114,835	7.30%
Total financial assets	**2,398,186**	**72,521**	**45,142**	**34,490**	**4,765**	**2,555,104**	
(ii) Financial liabilities							
Deposits	1,581,302	603,459	42,721	5,886	–	2,233,368	4.47%
Short-term borrowings	50,000	–	–	–	–	50,000	5.84%
Total financial liabilities	**1,631,302**	**603,459**	**42,721**	**5,886**	**–**	**2,283,368**	
Financial liabilities contractual cash flows						**Total contractual cash flows**	
Deposits	1,589,084	623,565	46,616	6,895	–	2,266,160	4.47%
Short-term borrowings	50,736	–	–	–	–	50,736	5.84%

31. Financial instruments (continued)

(c) Interest rate risk

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Therefore a change in interest rates at the reporting date would not affect profit or loss.

Sensitivity analysis

The Company is exposed to interest rate risk arising from mismatches in the repricing dates between financial assets and financial liabilities. As at 30 June 2012, it is estimated that a general decrease of one percentage point in interest rates would decrease the Company's profit before tax by approximately $5.2 million (2011: $5.1 million).

A general increase of one percentage point in interest rates would have an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(d) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

On-balance sheet financial instruments

The credit risk on financial assets, excluding investments, of the Company which have been recognised on the balance sheet is the carrying amount, net of any provision for impairment.

The Company minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties. The Company is not materially exposed to any individual counterparty.

32. Events after the balance sheet date

The Company has established a special purpose vehicle and undertaken a self-securitisation issue on 17 July 2012 which is intended to provide emergency liquidity by entering into a repurchase agreement with the Reserve Bank of Australia, if required. The self-securitisation issue has no material impact on the balance sheet as the securities provided for this issue are prime residential mortgage loans which are still managed by the Company.