Railways
CREDIT UNION

...it's all about Exceptional Service

Annual Report

2013

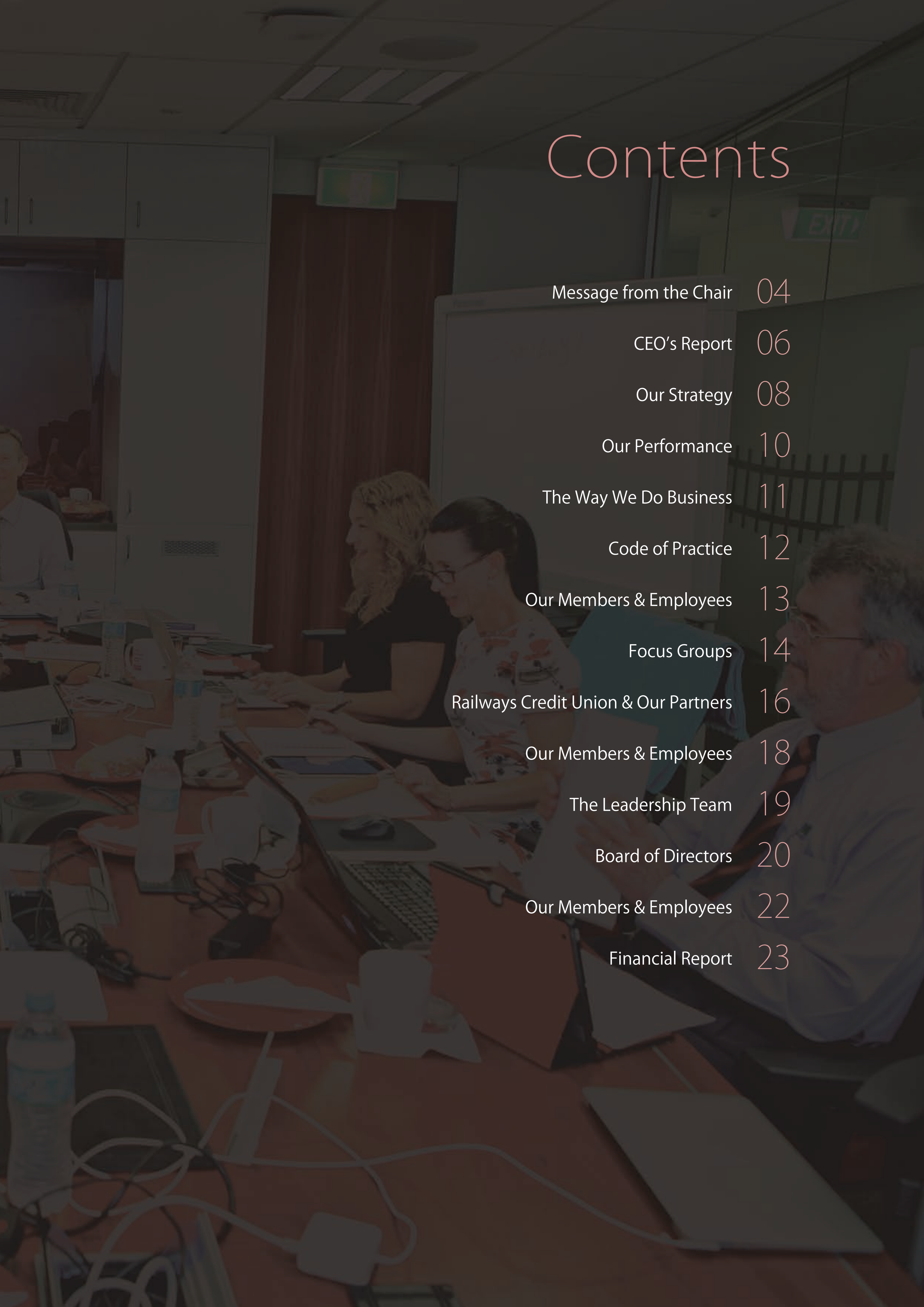
Annual Member Report

Railways Credit Union Ltd

ABN 91 087 651 090

Railways Credit Union Ltd Information

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



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Message from the Chair

The Board and Management have a positive culture and strong working relationship.

This is my first report as Chair of Railways Credit Union. Firstly I want to acknowledge the commitment and efforts of my predecessor, Graeme Sang. I have been very fortunate to inherit strong governance and a well-run organisation.

I would also like to thank my fellow directors and management for their support and commitment in my first six months as Chair. Both the board and management have a positive culture, strong values, a constructive working relationship and commitment to the Credit Union which makes my job as Chair much easier.

The 2012 annual general meeting presented a strong field of candidates competing for the vacant position resulting from Graeme Sang's retirement. The board has been very pleased to welcome Bronwyn Davies as our newest director. Bronwyn is very well qualified as an auditor and has relevant credit union and rail industry experience. Her skills complement the strong mix of skills we already have among our directors.

The Board's focus in the second half of the 2012-13 financial year has been on strategy and risk management. Our recent joint strategy workshop with management focussed on the long-term direction of Railways Credit Union.

We collectively completed a strategic directions document which represents our view of how the Credit Union should develop towards the year 2020. Management has further prepared a strategic plan which provides more detailed, shorter term strategies to enable progress to be made toward our longer term vision. These strategies have been made relevant to staff at all levels of the organisation.

"Our people need to excel and deliver the level of service our members deserve."

This year the board also decided to change two board committees. The role of the Remuneration committee has been expanded to include succession for both directors and executive management. The scope of the former Performance and Risk Management Committee has been reviewed and modified to focus on risk management. The performance function from this committee is now undertaken by the whole board at its regular meetings.

This year our advocacy organisation changed its name from Abacus to the Customer Owned Banking Association (COBA). This change has made it easier to explain the nature of COBA and improve its acceptance in lobbying for fairer competition with the big banks.

In closing, I would like to thank my fellow directors for their amazing commitment and willingness to give their time freely to ensure issues are adequately considered. I would also like to thank our CEO Julianne Plath and her executives as well as the management team for their passion and commitment in implementing our strategic direction, in particular the Aspire program. Our credit union is a people business. Members contact staff with their enquiries and we need our people to be the best they can be to deliver the level of service our members deserve. The Aspire program is the key to further improving all our peoples' performance.

Michael Scanlan
Chair

CEO's Report

I am forever thankful to you, our members, for allowing us the privilege of looking after your financial wellbeing.

This financial year has delivered some of the biggest challenges I've seen in my 29 years with Railways Credit Union. As members would be aware, Australia is currently experiencing a slowdown in the economy not seen since the beginning of the mining boom. RCU is not insulated from the effect of this change. The organisation has had to manage through a year of low interest rates, low demand for credit, and the effect of both Queensland Rail and Aurizon resizing their respective workforces.

All of these elements have contributed to the profit result RCU delivered for the 2013 financial year. I can, however, assure members that your Credit Union continues to exceed all prudential requirements which our regulator APRA imposes and has strengthened its financial position during the year.

The Board has taken a longer term approach to setting RCU's strategic direction and has set out their vision moving toward 2020. Our 'Go for Growth' strategy is focused in five key areas: People, Locations, Members, Products and Profit. Success in each of these areas is imperative to enable RCU to continue to be able to deliver real value to both existing and future members.

We have begun the transformation of our

people development by investing in their ability to deliver on our promise to members. RCU has put in place processes that encourage and support collaborative thinking and idea generation along with an online performance management tool. I am also excited about the launch of our fixed rate lending product in 2013. This product will give our members the choice of either a one or three year fixed rate period.

> "Both the board and management have a positive culture, strong values, a constructive working relationship and commitment to the Credit Union"

I am forever thankful to you, our members, for allowing us the privilege of looking after your financial wellbeing. I can assure you that this is a task we do not take lightly and the team will be working hard to ensure we continue to deliver products and services that add value to your lives. Thank you to the management of Queensland Rail and Aurizon for continued support of our partnership which enhances the lives of their employees. I also welcome Mike Scanlan to the role of Chair this year and thank him for providing a smooth and supportive transition. The Board's 2020 vision is a very clear message where they see the Credit Union and I thank them for their commitment to the Credit Union's values and strategy

I am extremely lucky to have fantastic people in the executive and leadership teams. Their passion and commitment to achieving the Board's vision is unwavering. However none of it would be possible without the people who are 100% committed to providing you, our members, with exceptional service every day. It is my privilege to work with a group of people who believe strongly in the idea of mutuality and who practice that belief.

2014 will no doubt deliver its own set of challenges. My commitment to you is that myself and the team at RCU will address those challenges with our members' best interests at heart.

Julianne Plath
Chief Executive Officer

Our Strategy

Go for Growth

Growing Railways Credit Union means we can better provide benefits to members. Our aim is to understand our members and their needs and deliver highly competitive financial products through exceptional service. This is what our Go For Growth strategy is designed to achieve. The three year plan has five key areas of focus: People, Locations, Members, Products and Profit.

People

RCU is committed to growing our people in order to be a high performance, results-focused culture. This includes undertaking regular employee engagement surveys and creating a competency framework for our team so that we can better identify skill gaps. By developing our people to their maximum potential we can deliver the exceptional level of service that our members deserve.

Locations

The Railways Credit Union is implementing a number of initiatives to better service our members in both Queensland and across the nation. These initiatives are designed to ensure that wherever members are located across Australia, they will enjoy a uniform level of service and support. This means that our Bond Partners employees and their families who are not familiar with Railways Credit Union will have full access to our products and services regardless of where they are located across Australia.

Members

The more members our Credit Union has, the better it is for all, and so we are aiming to grow our membership among both Queensland Rail and Aurizon employees and their families. We are increasing our visibility in the workplace and emphasising the benefits of RCU membership.

Products

Matching member needs to products is an ongoing priority for the Railways Credit Union. Through member surveys and focus groups we'll be better tailoring our products based on what members are telling us they want, and we will also be looking at new products such as packaged deals, and fixed rate mortgage loans.

Profit

Profits will build a sustainable future for Railways Credit Union. By managing our costs and increasing our returns we can capitalise growth and re-invest in the business for the benefit of all members. This focus allows the Credit Union to maintain all our prudential ratio's throughout the ever changing economic conditions. This continuous reinvestment in products and services whilst maintaining financial strength ensures the future of the Credit Union is secured.

Our Performance

"With Railways Credit Union you are not just a number"

Real member response - Member Survey May 2013

4.8% INCREASE

MORTGAGE LOANS

2.3% INCREASE

LOAN GROWTH

MEMBERS SURVEY

93.4% say RCU is very convenient to use

-6%

PROFIT REDUCED

Why are you a member?... "Low interest rates & good service"

95%

95% members say that representatives answer their questions extremely well

97.5%

97.5% of members say RCU is very responsive to their needs

WHAT OUR MEMBERS SAY

3 words to describe Railways Credit Union... "Professional, Friendly and Trustworthy".

Real Member Response - Member Survey May 2013

The Way We Do Business

Railways Credit Union's core values define the way we do business:

Integrity

Commitment

Exceptional Service

Innovation

Mutuality

These values create the cultural context in which we work; they define how we interact with our employees; and they shape the attitudes we adopt towards our members. Many members choose to use Railways Credit Union because of the values we uphold and have chosen to pursue.

These five values translate into benefits for our members in a variety of ways.

We believe in transparency and keeping an open dialogue with members. The channels of communication are always open and we are always interested in feedback. We even have a direct link on our website for members to talk with our CEO.

RCU understands the objections to high fees and unnecessary additional charges. We help members minimise or even avoid these charges altogether via tips in our monthly newsletters, on our website, and in person.

We believe in representation and send a Regional Member Care Consultant throughout regional Queensland to ensure that member needs continue to be met. This consultant represents RCU onsite so as to better service and develop relationships with current and potential members.

We also believe that it is important to give back to our members' communities. RCU has continued to develop a number of partnership programs with both Queensland Rail and Aurizon including the Vocational Excellence Awards for Apprentices and Trainees. We support goodwill events such as golf and bowls carnivals, charity fundraisers and dinners, fun runs, and locally based organisations including Queensland Rail Institute (QRI) clubs. RCU also has a regular presentation slot on Queensland Rail's GO program for employee inductions.

Meet-and-greets are another key part of our community engagement. As part of RCU's program of on-site visits and employee events, we regularly host both BBQ and morning/afternoon tea events for staff in both Brisbane and regional locations such as Cairns, Townsville, Mackay and Rockhampton.

Mutual Banking Code of Practice

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

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

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

Balance Banking

Railways Credit Union is supporting the Balance Banking campaign, which highlights the inequality of Australia's current banking system and provides an avenue for the average Australian's opinions and experiences to be heard.

Changes to Government regulations designed to promote consumer confidence during the GFC have unfortunately benefitted the major banks at the expense of customer owned banking institutions such as credit unions. These changes are bad for consumers, competition and choice. We need to get the balance right now or risk less competition and poor outcomes for everyday Australians in the future.

To get involved visit www.balancebanking.com.au. Here you can vote in weekly online polls, share your story and stay informed on the issues by signing up to the Balance Banking newsletter.

Rod Mattingley

Rod is aged 44 and has been with Railways Credit Union for three years. He cites great products, high interest for his savings, and easy-to-use phone banking as the reasons for choosing RCU. Rod has two Express Saver accounts - one for long-term savings and one for everyday use. He heard about RCU through working for Queensland Rail and many of his workmates are members.

Jacqui Adams

Member Care Consultant

“The people that I work with and the nature of RCU are the best things about my job. The environment is so supportive and friendly, it’s actually quite overwhelming to start with. There is no pressure here to hang your personal life up on the way in the door. It’s also really refreshing to know that everyone at RCU cares about members. I love that when we say ‘exceptional service’ the team here will actually provide it and do everything they can to help our members.”

Through a series of focus groups Railways Credit Union is seeking to clearly understand the interests, needs and lifestyles of our members to further improve our product and service offerings in the future.

Focus Group
Age 26-35 years

Railways Credit Union and our Partners

CUFA Cambodian Challenge

Railway Credit Union was very proud to partner with Aurizon this year to send employee Philippa Hindmarsh from Rockhampton, along with RCU's own Fiona Ingram, on the CUFA Leadership Challenge in Cambodia. Between them they raised over $11,000 towards the financial education and literacy of people in Cambodia.

RCU cycling team

RCU this year launched our partnership with the Railways Credit Union cycling team, which incorporates employees from Queensland Rail, Aurizon and anyone interested in riding and getting fit. On top of the team's regular Friday morning rides, they also undertake a number of key charity rides throughout the year.

Graduates program

The Aurizon Graduate Cohort has developed a close working relationship with RCU. We hosted a networking event in February at our Brisbane head office, and were part of the Cohort's fundraising efforts to send Philippa Hindmarsh to Cambodia in the CUFA Challenge. There are more fundraising and partnership events and programs planned for the coming 12 months.

Worksite and depot functions

RCU regularly visits a number of the larger worksites and depots for both Aurizon and Queensland Rail throughout the state including Cairns, Townsville, Mackay, Rockhampton, Gladstone and Brisbane. These morning tea and BBQ lunch events allow employees to meet with RCU staff to discuss their financial needs and bring the Credit Union directly to their place of business.

Aurizon's Club Red Donor program

The Club Red program is a group of Aurizon employees who regularly give blood to the Red Cross via the Club Red state-wide challenge. A number of RCU employees have also joined up with the Aurizon group to donate blood toward this most worthwhile and important cause.

Young professionals

The Young Professionals group is based within Queensland Rail and provides a forum for the company's leaders of tomorrow. RCU has enjoyed a strong involvement with the group for a number of years via our Lunch and Learn sessions for the group, as well as sponsorship of their Annual Conference Day. In 2013 RCU has also undertaken a major partnership with the Young Professionals for the coming financial year across a range of initiatives and events.

Glenn Nicol

Glen is aged 62 and is new to Railways Credit Union: just six weeks! He already has three products with RCU: a home loan with an offset facility, a savings account and Railnet. He says he loves that he's getting the best interest rates on the market and would definitely recommend RCU to others. He also appreciates the helpful service and thinks RCU is the best credit union he's dealt with.

Nikki Phillips-Duff

Loan Specialist

"RCU is an incredibly supportive employer. From our regularly scheduled training to the fantastic lifestyle and wellbeing programme, they do everything they can to make our workplace the best it can be. As a Loan Specialist, I help members with all of their home loan and investment loan needs, as well as providing insurances. We all share the united objective of making sure that everything we do is in the best interest of our members, and as a team we are very supportive of one another."

The Leadership Team

Gavin Burkhardt
Executive Manager - Commerce & Marketing

I enjoy enormously being part of the RCU team. Working within an organisation whose sole purpose is to benefit members through exceptional products and service is aligned with my own personal values. I am very proud to be part of a leadership team that is truly committed to our values each and every day.

Grant Freeman
Executive Manager Operations

Being a long term employee of the Credit Union, I really enjoy working within an organisation that strives to benefit all of its Members and their financial security. It's satisfying to be part of the leadership group and shape the way in which the Credit Union strives to serve its members, always working towards the future prosperity of its Members and the Credit Union.

Julianne Plath
CEO

It is a privilege to be CEO of RCU and I am passionate about continuing to add value to our members through outstanding products and exceptional service delivered by a fantastic team of people committed to our vision and values.

Board of Directors

The Board's focus in 2012-13 financial year has been on strategy and risk management.

Bronwyn Davies

Although we are small we achieve so much. We don't just talk about our values and our member focus, we actually do it - across our staff, management and the board. I am proud to be on the board of RCU

John Harnischfeger

Being a director of our Credit Union is a tremendous privilege and a big responsibility which I take very seriously. I see my role as contributing to the governance and direction of the Credit Union and ensuring members' interests are at the forefront of all decision making.

Henry Scheuber

I am proud to be a member of Railways Credit Union which strives to simplify our members' banking arrangements to suit their busy lifestyles while offering competitive interest rates on both loans and deposits. To be a part of the Board which governs this process is a privilege.

Michael Scanlan

I became a director of RCU because it had a real purpose. It is enjoyable to work with people who have the members' interest at heart. The high quality of management and the board has made my role easier and more satisfying.

Andrew Haynes

It is a privilege to serve as a Director of Railways Credit Union and to work with a professional and collegiate Board and a capable and experienced management team who live and breathe our values of Integrity, Commitment, Exceptional Service, Innovation and Mutuality.

Andrew Hughes

Similar to Queensland Rail, Railways Credit Union is steeped in tradition. I see my role as working with fellow directors and the management team to ensure RCU remains both financially strong and relevant to members in the increasingly complex world that we live in. This will ensure the vision, values and legacy developed by founding directors continues into the future.

Kellie Dyer

Being a director of RCU is both challenging and rewarding. The challenge comes from ensuring that we deliver great financial products that are of value to our members while being mindful of regulatory requirements and current financial issues. The rewards are knowing that we have helped many members achieve their goals by offering great products and exceptional service.

Jane Wainwright

Jane is 39 and has been a Railways Credit Union member for six years. She is especially impressed with the staff: always nice, always helpful. Jane has a RCU savings account, loans and a debit card and says she enjoys very good interest rates. She works for Queensland Rail and doesn't hesitate to recommend RCU to others.

Maria Robledo

Team Leader Support Services

"I joined RCU through an employment agency which was helping me finding the right employer for my career. The RCU team received me with open arms and everyone has been supportive during these 2 years with the organisation. During my first week working here it became clearly evident to me how everyone in the organisation really keeps our members' interests at heart in all instances. That feeling makes your work rewarding - we all truly believe in the reason why we are here."

Financial Report 2013

Railways Credit Union

Directors' Report

Your Directors submit their report on the Railways Credit Union Ltd (the 'Credit Union') for the financial year ended 30 June 2013.

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

DIRECTORS

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

Michael (Mike) G Scanlan (Chair)	
Graeme G Sang (Previous Chair)	(Retired: 8 November 2012)
John P Harnischfeger (Vice Chair)	
Bronwyn (Bron) D Davies	(Elected: 8 November 2012)
Kellie L Dyer	
Andrew R Haynes	
Andrew J Hughes	
Henry C Scheuber	

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

Bernard Luton
Julianne Plath

Qualifications, experience and special responsibilities

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

Graeme G Sang MAMI, MAICD, AMI Qld/NZ Reg Council Member
Position: Manager Service & Planning - Queensland Rail
Graeme has been a Director of the Credit Union since 2000. He was the Chair of the Board and a member of the Performance & Risk Management Committee, the Audit & Compliance Committee and the Remuneration & Succession Committee. He retired at the 2012 Annual General Meeting on the 8 November 2012.

John P Harnischfeger B.Com, CPA, MAMI, GAICD
Position: Employee of a Federal Government Agency
John has been a Director of the Credit Union since 2005. He is Vice Chair of the Board and a member of the Risk Management Committee.

Bronwyn (Bron) D Davies B. Econ, CPA, CIA, GAICD
Position: Head of Internal Audit, Sydney Trains
Bron was elected a Director of the Credit Union in 2012. She is a member of the Audit & Compliance Committee.

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

Andrew R Haynes B.A., LL.B., H Dip IS, Cert Legal Practice, FCIS, GAICD, MAMI, JP (Qual)
Position: Consultant, Board Matters Pty Ltd
Andrew has been a Director of the Credit Union since 2009. Prior to his current employment he held various roles in governance including Company Secretary of QR Limited. He is the Chair of the Risk Management Committee.

Directors' Report

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

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

Company Secretaries:

Qualifications and experience

Bernard Luton Bachelor of Laws, Grad Dip Applied Corporate Governance, GAICD
Position: Company Secretary
Bernard was appointed as Company Secretary on 13 November 2009.

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

All Directors have held their office from 1 July 2012 to the date of this report unless otherwise stated.

DIRECTORS' MEETINGS

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

		Meetings of committees		
	Board	Risk Management*	Audit & Compliance	Remuneration & Succession#
Number of meetings held:	11	6	5	5
Number of meetings attended:	Attended/Eligible to attend	Attended/Eligible to attend	Attended/Eligible to attend	Attended/Eligible to attend
Michael (Mike) G Scanlan (Chair)	11/11	4/4	5/5	5/5
Graeme G Sang (Previous Chair)	3/4	2/2	1/3	1/1
John P Harnischfeger (Vice Chair)	10/11	5/6	3/3	N/A
Bronwyn D Davies	7/7	N/A	2/2	N/A
Kellie L Dyer	11/11	2/2	2/2	4/4
Andrew R Haynes	10/11	6/6	N/A	1/1
Andrew J Hughes	10/11	N/A	5/5	4/5
Henry C Scheuber	11/11	4/4	3/3	4/4

* Formerly called Performance & Risk Management Committee
\# Formerly called Remuneration Committee

INSURANCE AND INDEMNIFICATION OF OFFICERS OR AUDITOR

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

No insurance cover has been provided for the benefit of the auditor of the Credit Union.

No indemnities have been given to the officers or auditor other than an agreement to indemnify Directors to the extent permitted by law.

Directors' Report

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

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

Operating Results for the Year
The net profit of the Credit Union for the year ended 30 June 2013 after providing for income tax was $2,907,875 (2012: $3,095,664).

DIVIDENDS

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

OPTIONS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors there have been no significant changes in the state of affairs during the year.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

PROCEEDINGS

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

REGULATORY DISCLOSURES

The disclosures required by APS 330 Public Disclosures (namely the common disclosures in Attachment A and the Regulatory Capital Reconciliation) may be seen on our website at www.railwayscreditunion.com.au/regulatory-disclosures

Directors' Report

AUDITOR INDEPENDENCE

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

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

Michael (Mike) G Scanlan	John P Harnischfeger
Chair	Vice Chair

Brisbane, 25 September 2013

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Australia

DECLARATION OF INDEPENDENCE BY M B TAYLOR TO THE DIRECTORS OF RAILWAYS CREDIT UNION LTD

As lead auditor of Railways Credit Union Ltd for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

M B Taylor
Director

BDO Audit Pty Ltd

Brisbane, 25 September 2013

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2013

	Note	**2013** **$**	2012 $
Interest income	5(a)	**33,529,448**	38,526,906
Interest expense	6(a)	**(22,435,850)**	(27,556,404)
Net interest income		**11,093,598**	10,970,502
Other revenue and income	5(b)	**2,756,001**	2,814,382
Employee benefits expense	6(b)	**(5,098,458)**	(4,758,334)
Depreciation and amortisation expense	6(c)	**(582,788)**	(626,850)
Impairment loss on loans and advances	6(d)	**(203,920)**	(170,943)
Other expenses	6(e)	**(3,870,312)**	(3,879,936)
Profit before income tax		**4,094,121**	4,348,821
Income tax expense	7	**(1,186,246)**	(1,253,157)
Profit for the year		**2,907,875**	3,095,664
Other comprehensive income, net of income tax			
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		**2,907,875**	3,095,664

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2013

	Note	***2013 $***	*2012 $*
ASSETS			
Cash and cash equivalents	8	**18,150,970**	18,712,239
Financial assets available for sale	9	**825,775**	825,840
Other receivables	10	**1,260,039**	928,447
Financial assets held to maturity	11	**65,056,779**	59,407,286
Loans and advances	12	**487,768,992**	476,784,103
Property, plant and equipment	14	**5,246,621**	5,494,093
Intangible assets	15	**231,682**	302,508
Other assets		**118,307**	154,491
TOTAL ASSETS		**578,659,165**	562,609,007
LIABILITIES			
Deposits	16	**523,174,899**	495,257,476
Other payables	17	**824,125**	813,753
Short term borrowings	18	**-**	15,000,000
Income tax payable		**223,072**	3,806
Provisions	19	**619,528**	572,773
Deferred tax liabilities	7	**342,790**	394,323
TOTAL LIABILITIES		**525,184,414**	512,042,131
NET ASSETS		**53,474,751**	50,566,876
EQUITY			
Redeemed preference share capital	20	**151,120**	141,910
Reserves	21	**53,323,631**	50,424,966
TOTAL EQUITY		**53,474,751**	50,566,876

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

Statement of Changes in Equity

For the year ended 30 June 2013

	Redeemed preference share capital $	*Retained earnings* $	*Reserves (note 21)* $	*Total equity* $
At 1 July 2012	**141,910**	**-**	**50,424,966**	**50,566,876**
Profit for the year	-	2,907,875	-	2,907,875
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**2,907,875**	**-**	**2,907,875**
Transfers				
Redeemed preference share capital	9,210	(9,210)	-	-
Transfers to/(from) reserves (Note 21)		(2,898,665)	2,898,665	-
Total transfers	**9,210**	**(2,907,875)**	**2,898,665**	**-**
Transactions with owners in their capacity as owners	**-**	**-**	**-**	**-**
At 30 June 2013	**151,120**	**-**	**53,323,631**	**53,474,751**
At 1 July 2011	134,650	-	47,336,562	47,471,212
Profit for the year	-	3,095,664	-	3,095,664
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	3,095,664	-	3,095,664
Transfers				
Redeemed preference share capital	7,260	(7,260)	-	-
Transfers to/(from) reserves (Note 21)	-	(3,088,404)	3,088,404	-
Total transfers	7,260	(3,095,664)	3,088,404	-
Transactions with owners in their capacity as owners	-	-	-	-
At 30 June 2012	141,910	-	50,424,966	50,566,876

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

Statement of Cash Flows

For the year ended 30 June 2013

	Note	*2013* $	*2012* $
Operating activities			
Interest received		**33,732,502**	38,969,893
Payments to suppliers and employees		**(8,920,840)**	(8,772,915)
Dividends received		**125,929**	177,540
Fees and commissions received		**2,711,463**	3,195,813
Other income		**54,704**	54,946
Interest and other costs of finance paid		**(23,335,957)**	(27,556,404)
Income tax paid		**(1,021,588)**	(1,693,754)
Net movement in financial assets held to maturity		**(5,649,493)**	592,714
Net movement in loans and advances		**(11,203,794)**	(14,009,321)
Net movement in deposits		**28,210,231**	34,091,172
Repayment of borrowings		**(15,000,000)**	(10,000,000)
Net cash flows from/(used in) operating activities	22(b)	**(296,843)**	15,049,684
Investing activities			
Net movement in financial assets available for sale		**65**	-
Purchase of property, plant and equipment and intangible assets		**(264,491)**	(309,147)
Net cash flows used in investing activities		**(264,426)**	(309,147)
Financing activities		**-**	-
Net cash flows from financing activities		**-**	-
Net increase/(decrease) in cash and cash equivalents		**(561,269)**	14,740,537
Cash and cash equivalents at 1st July		**18,712,239**	3,971,702
Cash and cash equivalents at 30th June	8	**18,150,970**	18,712,239

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2013

1 CORPORATE INFORMATION

The financial statements cover Railways Credit Union Ltd (the 'Credit Union') for the financial year ended 30 June 2013 and were authorised for issue in accordance with a resolution of the Directors on 25 September 2013.

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards including Australian Accounting Interpretations, and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

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

The presentation currency of the financial statements is Australian Dollars.

(b) Compliance with IFRS

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

(c) New and amended accounting standards and interpretations

The following new and amended standards and interpretations are mandatory for the first time for the financial year beginning 1 July 2012:

► AASB 112 Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets
► AASB 101 Presentation of Financial Statements (Amendment) – Presentation of Items of Other Comprehensive Income

The adoption of these standards and interpretations did not have any material impact on the current or any prior period and is not likely to materially affect future periods.

(d) New and amended accounting standards and interpretations not yet adopted

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements, except for the following:

Notes to the Financial Statements

For the year ended 30 June 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended accounting standards and interpretations not yet adopted (continued)

► AASB 9 *Financial Instruments* (effective from 1 January 2015)
The AASB aims to replace AASB 139 *Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard is being issued in phases. To date, the parts dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These parts are effective for annual periods beginning 1 January 2015. Further parts dealing with impairment and hedge accounting are still being developed.

Management have yet to assess the full impact that this amendment is likely to have on the financial statements. However, they do not expect to implement the amendments until all parts of AASB 9 have been released and they can comprehensively assess the impact of all changes.

► AASB 13 Fair Value Measurement

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. Management have yet to assess the full impact of this new standard.

(e) Financial assets and financial liabilities

<u>Introduction</u>

(i) Initial recognition

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

(ii) Derecognition

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

(iii) Offsetting

Financial assets and liabilities are set-off and the net amount presented in the Statement of Financial Position when, and only when, the Credit Union has a legal right to set-off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Notes to the Financial Statements

For the year ended 30 June 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and financial liabilities (continued)

Introduction (continued)

(iv) Amortised cost measurement

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

(v) Identification and measurement of impairment

Refer Note 2(f) for details.

Application

Cash and cash equivalents

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

Loans and advances to members

Loans and advances to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Credit Union does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Investment securities

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

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has a positive intent and ability to hold to maturity, and which are not designated as available for sale.

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

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

(ii) Available-for-sale

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

Notes to the Financial Statements

For the year ended 30 June 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and financial liabilities (continued)

Application (continued)

(ii) Available-for-sale (continued)

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

Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset below its cost (which constitutes objective evidence of impairment) the cumulative loss recognised in other comprehensive income is reclassified from the available-for-sale investments revaluation reserve to profit and loss as a reclassification adjustment. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be reversed through profit or loss. Reversals of impairment losses on debt instruments classified as available-for-sale can be reversed through profit or loss where the reversal relates to an increase in the fair value of the debt instrument occurring after the impairment loss was recognised in profit or loss.

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

Deposits

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method. Interest on deposits is brought to account on an accrual basis. Interest accrued at the end of the reporting period is shown as a part of deposits.

Borrowings

Refer to note 2(l) for details.

(f) Impairment – member loans & advances

A provision for losses on impaired loans is recognised when there is objective evidence that impairment of a loan has occurred. All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

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

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

Notes to the Financial Statements

For the year ended 30 June 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment – member loans & advances (continued)

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

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

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

Renegotiated loans are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members.

(g) Property, plant and equipment

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

Property
Freehold land and buildings are measured at their fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, less subsequent depreciation. 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.

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

It is the policy of the Credit Union to have an independent valuation every three years, with annual appraisals being made by the Directors.

Plant and Equipment
Plant and equipment are measured on the cost basis less depreciation and impairment losses, if any.

Depreciation
The depreciable amount of all property, plant and equipment including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives to the Credit Union commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Property, plant and equipment is depreciated on a straight-line basis.

A summary of the rates used is:
Buildings: 4%
Computer Hardware: 33.3%
Leasehold improvements: 10% - 48.5%
Office furniture and equipment: 10% - 15%
Motor vehicles: 20%

Notes to the Financial Statements

For the year ended 30 June 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment (continued)

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

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

(i) Leases

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

(j) Impairment of assets (excluding financial assets)

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in profit or loss (except for items carried at revalued amount).

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

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

(k) Intangibles

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

(l) Borrowings

Borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Credit Union chooses to carry the liabilities at fair value through the profit or loss. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest method.

(m) Employee benefits

Provision is made for the liability of employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled plus related on- costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

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

Notes to the Financial Statements

For the year ended 30 June 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Revenue

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

When a loan is classified as impaired, the Credit Union ceases to recognise interest and other income earned but not yet received. Loan interest is generally not brought to account if a loan has been transferred to a debt collection agency, a judgement has been obtained, or where repayments are in arrears and the prospect of a contribution from the member is minimal. However, accrued interest may be recovered as part of the recovery of the debt.

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

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

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

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

(o) Income tax

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

Deferred income tax is recognised in full, using the liability method, on temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Credit Union will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Notes to the Financial Statements

For the year ended 30 June 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

3 FINANCIAL RISK MANAGEMENT

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

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

(a) Risk management

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

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

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

(b) Market risk

Market risk is the potential adverse change in the Credit Union's income or the value of the Credit Union's net worth arising from movements in interest rates or other market prices. The objective of the Credit Union is to manage and control market risk exposure in order to minimise risk and optimise return. The Credit Union is not exposed to currency risk or any other significant price risk. It does not trade in the financial instruments it holds on its books and is only exposed to interest rate risk arising from changes in market interest rates.

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

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

Notes to the Financial Statements

For the year ended 30 June 2013

3 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk

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

Credit risk policy

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

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

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

Credit risk management

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

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

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

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

	Maximum credit exposure			
	% of total loans		$	
Industry	***2013***	*2012*	***2013***	*2012*
Aurizon (formerly QR National) and Queensland Rail employees	**55.04%**	60.48%	**268,909,223**	288,888,034

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

Notes to the Financial Statements

For the year ended 30 June 2013

3 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Credit risk management (continued)

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

- As a contracted recipient of banking, investment and borrowing facilities from Cuscal Ltd, the Credit Union must, under the terms of the Product Agreement: Loan Facility:-
  - maintain a minimum of 120% of Committed Facilities on deposit with Cuscal Ltd; and
  - be a participant in the Credit Union Financial Support Scheme (CUFSS)
- Under the terms of the Industry Support Contract with CUFSS the Credit Union must maintain a minimum of 3.2% of its on balance sheet assets on deposit with Cuscal Ltd or other CUFSS approved ADIs.
- High quality liquid assets (HQLA) in excess of the Credit Unions' obligations to Cuscal Ltd and CUFSS may be invested with authorised deposit taking institutions (ADI's) as follows:

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

* A minimum of 120% of committed facilities must be invested with Cuscal Ltd
** Deposits with Indue Limited (Indue) are excluded from the calculation relevant to these limits. The Credit Union must deposit with Indue a security amount calculated on the basis of previous twelve month's average banking transactions provided by Indue to the Credit Union.

Measurement of credit risk

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

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

Stress testing is an integral tool in the management of credit risk exposure, by projecting financial impacts of movements in market conditions, particularly movements in interest rates. Stress testing of the loan book is performed following interest rate movements. Recent stress testing has indicated that the Credit Union is resistant to moderate interest rate fluctuations.

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

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

Notes to the Financial Statements

For the year ended 30 June 2013

3 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Measurement of credit risk (continued)

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

	2013 Carrying value $	*2012 Carrying value $*
Cuscal Limited	**19,804,958**	27,516,720
ADI's – rated AA and above	**3,995,326**	-
ADI's– rated below AA	**59,407,465**	52,407,286
Total	**83,207,749**	79,924,006

Impairment and provisioning policies

(i) Loans and advances
The Credit Union recognises an impairment allowance for impairment losses in relation to loans based on losses that have been incurred at balance date using objective evidence for impairment.

Once a loan is past due by 90 days (14 days for overdrafts) it is considered impaired unless other factors indicate that the impairment should be recognised sooner. Management make judgements about a counterparty's financial situation and the net realisable value of any underlying collateral to estimate future cash flows.

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2013

3 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Credit risk exposure

The Credit Union's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position where the maximum credit risk exposure is $580,202,840 (2012: $561,929,906).

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

(d) Liquidity risk

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

Liquidity risk management

The Credit Union manages liquidity risk by:

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

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

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

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

	2013	*2012*
To total adjusted liabilities:		
- As at 30 June	**15.22%**	15.09%
- Average for the year	**16.00%**	14.07%
- Minimum during the year	**14.39%**	12.74%
To total deposits:		
- As at 30 June	**15.56%**	15.95%

Maturity profile of financial liabilities

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2013

3 FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Maturity profile of financial liabilities (cont)

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

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

Year ended 30 June 2013	*Carrying value*	*Within 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*No maturity*	*Gross nominal outflows*
	$	*$*	*$*	*$*	*$*	*$*	*$*
FINANCIAL LIABILITIES							
Short term borrowings	-	-	-	-	-	-	-
Deposits	**523,174,899**	**426,851,385**	**40,252,339**	**52,694,879**	**4,941,901**	**-**	**524,740,504**
Other payables	**824,125**	**531,202**	**-**	**-**	**-**	**292,923**	**824,125**
Total financial liabilities	**523,999,024**	**427,382,587**	**40,252,339**	**52,694,879**	**4,941,901**	**292,923**	**525,564,629**
Off balance sheet items undrawn (note 23(b)).	**-**	**91,621,935**	**-**	**-**	**-**	**-**	**-**

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

(e) Interest rate risk

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

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

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

Based on calculations as at 30 June 2013, the profit before tax and equity impact for a 1% (2012: 1%) movement in interest rates would be $508,600 (2012: $577,200).

Notes to the Financial Statements

For the year ended 30 June 2013

3 FINANCIAL RISK MANAGEMENT (continued)

(e) Interest rate risk (continued)

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

- ► the interest rate change would be applied equally to the loan products, term deposits and savings
- ► the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- ► the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable;
- ► savings deposits would all reprice in the event of a rate change within 30 days;
- ► mortgage loans would all reprice to the new interest rate within 30 days;
- ► personal loans would reprice to the new interest rate within 30 days;
- ► all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- ► 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 significant change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures interest rate risk in the reporting period.

Interest rate risk maturity profile

The Credit Union's exposure to interest rate risk, which is the risk that a financial instrument's value or cash flows will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate on classes of financial assets and financial liabilities, is set out below.

	Floating interest rate	Fixed interest rate maturing			Non-interest sensitive	Total	Effective interest rate
2013		**Within 1 year**	**1-5 years**	**Over 5 years**			
Assets	**$**	**$**	**$**	**$**	**$**	**$**	
Cash and cash equivalents	**15,150,970**	**3,000,000**	**-**	**-**	**-**	**18,150,970**	**2.66%**
Financial assets available for sale	**-**	**-**	**-**	**-**	**825,775**	**825,775**	**N/A**
Other receivables	**-**	**-**	**-**	**-**	**1,260,039**	**1,260,039**	**N/A**
Financial assets held to maturity	**-**	**65,056,779**	**-**	**-**	**-**	**65,056,779**	**3.42%**
Loans and advances	**487,768,992**	**-**	**-**	**-**	**-**	**487,768,992**	**5.87%**
	502,919,962	**68,056,779**	**-**	**-**	**2,085,814**	**573,062,555**	
Liabilities							
Short-term borrowings	**-**	**-**	**-**	**-**	**-**	**-**	**N/A**
Deposits from members	**390,621,113**	**127,733,207**	**4,820,579**	**-**	**-**	**523,174,899**	**3.89%**
Other payables	**-**	**-**	**-**	**-**	**824,125**	**824,125**	**N/A**
	390,621,113	**127,733,207**	**4,820,579**	**-**	**824,125**	**523,999,024**	
2012							
Assets							
Cash and cash equivalents	18,712,239	-	-	-	-	18,712,239	3.25%
Financial assets available for sale	-	-	-	-	825,840	825,840	N/A
Other receivables	-	-	-	-	928,447	928,447	N/A
Financial assets held to maturity	-	59,407,286	-	-	-	59,407,286	4.62%
Loans and advances	476,784,103	-	-	-	-	476,784,103	6.82%
	495,496,342	59,407,286	-	-	1,754,287	556,657,915	
Liabilities							
Short-term borrowings	-	15,000,000	-	-	-	15,000,000	4.55%
Deposits from members	337,752,019	154,027,557	3,477,900	-	-	495,257,476	4.84%
Other payables	-	-	-	-	817,966	817,966	N/A
	337,752,019	169,027,557	3,477,900	-	817,966	511,075,442	

Notes to the Financial Statements

For the year ended 30 June 2013

3 FINANCIAL RISK MANAGEMENT (continued)

(f) Operational risk

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

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

Systems of internal control are enhanced through:

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

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

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

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

(g) Capital management

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

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

Notes to the Financial Statements

For the year ended 30 June 2013

3 FINANCIAL RISK MANAGEMENT (continued)

(g) Capital management (continued)

For the purpose of calculating the Credit Union's capital base, Tier 1 capital consists of retained earnings, realised reserves, available for sale reserve (which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets) and current year earnings. The Credit Union's Tier 1 capital accordingly consists of only Common Equity Tier 1 capital.

Tier 2 capital includes other components that, to varying degrees, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of an institution as a going concern. Tier 2 capital consists of a general reserve for credit losses.

APS 110 was amended effective 1 January 2013. All prescribed deductions are now deducted from Tier 1 capital and the asset revaluation reserve is included in Common Equity Tier 1 capital. Previously, the Credit Union's asset revaluation reserve on the land and buildings was discounted to 45% of its value and was included in Tier 2 capital.

Capital in the Credit Union is made up as follows:

	2013 **$**	*2012* $
Tier 1 Capital		
General reserve	**46,310,619**	43,245,915
Retained earnings	**2,907,875**	3,095,664
Asset revaluation reserve	**3,127,933**	-
Prescribed deductions	**(1,057,457)**	(715,428)
Net Tier 1 capital	**51,288,970**	45,626,151
Tier 2 Capital		
Reserve for credit losses	**977,204**	955,449
Asset revaluation reserve	**-**	1,407,570
Prescribed deductions	**-**	(412,920)
Net Tier 2 capital	**977,204**	1,950,099
Total Tier 1 & Tier 2 Capital	**52,266,174**	47,576,250
Less deductions from total capital	**-**	-
Total Capital	**52,266,174**	47,576,250

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

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

2013	*2012*	*2011*	*2010*	*2009*
18.90%	17.45%	16.28%	15.41%	15.56%

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

To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board and the regulator if the capital ratio falls below 14%.

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

Notes to the Financial Statements

For the year ended 30 June 2013

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

(i) Significant accounting judgements

Impairment of non-financial assets
The Credit Union assesses impairment of all assets at each reporting date by evaluating conditions specific to the Credit Union and to the particular asset that may lead to impairment. No impairment indicators were noted during this review.

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

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

(ii) Significant accounting estimates and assumptions

Estimation of useful lives of assets
The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment), remainder of lease term (for leasehold improvements) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary. Depreciation charges are included in Note 14.

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

Notes to the Financial Statements

For the year ended 30 June 2013

5	INCOME	2013 $	2012 $
(a)	**Interest income on assets carried at amortised cost**		
	Cash and cash equivalents	**539,115**	395,791
	Financial assets held to maturity	**2,762,197**	3,456,393
	Loans and advances	**30,228,136**	34,674,722
	Total interest income	**33,529,448**	38,526,906
(b)	**Non-interest income**		
	Fees and commissions	**2,575,368**	2,581,896
	Dividends received - other corporations	**125,929**	177,540
	Bad debts recovered	**53,226**	50,197
	Frauds recovered	**934**	3,832
	Other	**544**	917
		2,756,001	2,814,382
	TOTAL INCOME	**36,285,449**	41,341,288

6	EXPENSES	2013 $	2012 $
(a)	**Interest expense on liabilities carried at amortised cost**		
	Borrowings	**131,352**	918,682
	Deposits	**22,304,498**	26,637,722
	Total interest expense	**22,435,850**	27,556,404
(b)	**Employee benefits expense**		
	Wages, salaries and other employee benefits expense	**4,688,988**	4,395,301
	Workers' compensation costs	**13,853**	11,982
	Defined contribution superannuation expense	**395,617**	351,051
	Total employee benefits expense	**5,098,458**	4,758,334
(c)	**Depreciation and amortisation expense**		
	Depreciation of non-current assets		
	Buildings	**117,996**	117,996
	Plant and equipment	**293,936**	332,435
	Total depreciation of non-current assets	**411,932**	450,431
	Amortisation of non-current assets		
	Computer software	**170,856**	176,419
	Total amortisation of non-current assets	**170,856**	176,419
	Total depreciation and amortisation expense	**582,788**	626,850
(d)	**Impairment**		
	Impairment of financial assets	**203,920**	170,943
		203,920	170,943
(e)	**Other expenses**		
	Member withdrawal expenses	**877,396**	971,976
	Minimum lease payments - operating lease	**122,157**	122,366
	Other occupancy expenses	**169,180**	142,352
	Other expenses	**2,701,579**	2,643,241
	Total other expenses	**3,870,312**	3,879,936

Notes to the Financial Statements

For the year ended 30 June 2013

7 INCOME TAX

	2013 $	2012 $
(a) Income tax expense		
The major components of income tax expense are:		
Current income tax		
Current income tax charge	**1,240,038**	1,230,361
Adjustments in respect of current income tax of previous years	**(2,252)**	2,251
Deferred income tax		
Relating to origination and reversal of temporary differences	**(51,540)**	20,545
Income tax expense	**1,186,246**	1,253,157

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

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

	2013 $	2012 $
Accounting profit before tax	**4,094,121**	4,348,821
At Company's statutory income tax rate of 30% (2012: 30%)	**1,228,236**	1,304,647
Adjustments in respect of current income tax of previous years	**(2,252)**	3
Non-deductible entertainment	**8,984**	10,714
Rebateable fully franked dividends	**(45,004)**	(53,262)
Tax building depreciation / building allowance	**(3,727)**	(8,945)
Other	**9**	-
Aggregative income tax expense	**1,186,246**	1,253,157

(c) Recognised deferred tax assets and liabilities

Deferred income tax at 30 June relates to the following:

	2013 $	2012 $
(i) Deferred tax liabilities		
Land & buildings - recognised in other comprehensive income	**202,950**	202,950
Land & buildings - recognised in profit or loss	**674,005**	709,404
Gross deferred tax liabilities	**876,955**	912,354
(ii) Deferred tax assets		
Provisions	**442,604**	427,448
Deferred application fees	**7,255**	20,150
Depreciation	**69,062**	57,833
Other	**15,244**	12,600
Gross deferred tax assets	**534,165**	518,031
Net deferred tax liabilities	**342,790**	394,323

Notes to the Financial Statements

For the year ended 30 June 2013

7 INCOME TAX (continued)

(d) The movement in deferred tax assets and liabilities for each temporary difference during the year is as follows:	***2013***	*2012*
	$	*$*
Deferred income tax at 30 June relates to the following:		
(i) Deferred tax liabilities		
Land & buildings – recognised in other comprehensive income		
Opening balance	**202,950**	202,950
Change recognised in other comprehensive income	**-**	-
Closing balance	**202,950**	202,950
Land & buildings – recognised in profit or loss		
Opening balance	**709,404**	744,802
Change recognised in profit or loss	**(35,399)**	(35,398)
Closing balance	**674,005**	709,404
Gross deferred tax liabilities	**876,955**	912,354
(ii) Deferred tax assets		
Provisions		
Opening balance	**427,448**	465,009
Change recognised in profit or loss	**15,156**	(37,561)
Closing balance	**442,604**	427,448
Deferred application fees		
Opening balance	**20,150**	48,160
Change recognised in profit or loss	**(12,895)**	(28,010)
Closing balance	**7,255**	20,150
Depreciation		
Opening balance	**57,833**	44,152
Change recognised in profit or loss	**11,229**	13,681
Closing balance	**69,062**	57,833
Other		
Opening balance	**12,600**	16,647
Change recognised in profit or loss	**2,644**	(4,047)
Closing balance	**15,244**	12,600
Gross deferred tax assets	**534,165**	518,031
Net deferred tax liabilities	**342,790**	394,323

(e) Franking credit balance

Balance of the franking account at year-end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the end of the reporting period based on a tax rate of 30% (2012: 30%)	**19,401,116**	18,412,525
	19,401,116	18,412,525

Notes to the Financial Statements

For the year ended 30 June 2013

8 CASH AND CASH EQUIVALENTS

	2013	2012
	$	$
Deposits with ADI's	**18,150,970**	18,712,239
	18,150,970	18,712,239

(a) Reconciliation to Statement of Cash Flows

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

	2013	2012
	$	$
Deposits with ADI's	**18,150,970**	18,712,239
	18,150,970	18,712,239

(b) Fair value

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

9 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2013	2012
	$	$
At Cost		
Shares in other entities	**825,775**	825,840
	825,775	825,840

	2013	2012
	$	$
Amount of financial assets available for sale expected to be recovered more than 12 months after the reporting date	**825,775**	825,840

Shares in Cuscal Limited

The shareholding in Cuscal Limited (Cuscal) is measured at cost as its fair value cannot be measured reliably. This company provides transactional banking, liquidity and capital management products and superannuation solutions to various financial institutions across Australia. The shares are not publicly traded and are not redeemable.

The financial statements of Cuscal record net tangible assets backing 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. The Credit Union is not intending, nor able to dispose of these shares, without the Board's approval.

10 OTHER RECEIVABLES

	2013	2012
	$	$
Accrued interest	**535,052**	738,106
Sundry debtors	**724,987**	190,341
	1,260,039	928,447

Fair value

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

Notes to the Financial Statements

For the year ended 30 June 2013

11 FINANCIAL ASSETS HELD TO MATURITY

	2013 $	2012 $
Deposits with Cuscal Limited	**19,500,000**	16,000,000
ADI interest bearing deposits	**45,556,779**	43,407,286
	65,056,779	59,407,286

	2013 $	2012 $
Amount of financial assets held to maturity expected to be recovered more than 12 months after the reporting date	**-**	-

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

12 LOANS AND ADVANCES

	2013 $	2012 $
Overdrafts	**131,044,015**	151,886,316
Term loans	**357,536,890**	325,811,525
Gross loans and advances	**488,580,905**	477,697,841
Deferred application fees	**(356,933)**	(346,790)
Specific provisions for impairment (note 13)	**(454,980)**	(566,948)
Net loans and advances	**487,768,992**	476,784,103

	2013 $	2012 $
Amount of loans and advances expected to be recovered more than 12 months after the reporting date	**464,568,221**	456,354,709

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

13 IMPAIRMENT OF LOANS AND ADVANCES

	2013 $	2012 $
(a) Provisions for impairment		
Opening balance	**566,948**	674,212
Doubtful debts (income)/expense	**(111,968)**	(107,264)
Closing balance	**454,980**	566,948

Details of credit risk management are set out in Note 3(c).

	2013 $	2012 $
(b) Provision for impairment calculation		
Provision prescribed by Prudential Standards	**297,123**	461,814
Additional specific provision	**157,857**	105,134
Closing balance	**454,980**	566,948
(c) Impairment expense on loans and advances		
Movement in provision for impairment	**(111,968)**	(107,264)
Bad debts written off directly to profit or loss	**315,888**	278,207
	203,920	170,943

Notes to the Financial Statements

For the year ended 30 June 2013

13 IMPAIRMENT OF LOANS AND ADVANCES (continued)

(d) Assets acquired from loan recovery

There were no assets acquired by the Credit Union during the financial year. The policy of the Credit Union is to exercise its power to sell the assets via auction at the earliest opportunity, after the measures to assist the members to repay the debts have been exhausted.

(e) Loans and advances by impairment class

	2013	*2012*
	$	*$*
Net impaired loans and advances – refer 13 (f)	**314,185**	553,380
Past due but not impaired – refer 13(g)	**2,982,262**	1,764,405
Neither past due or impaired – refer 13(h)	**484,472,545**	474,466,318
Net loans and advances	**487,768,992**	476,784,103

(f) Impaired loans and advances

	2013	*2012*
	$	*$*
Impaired loans	**769,165**	1,120,328
Provision for impairment	**(454,980)**	(566,948)
	314,185	553,380

Impaired loans are generally not secured.

Individually impaired loans and advances to members at reporting date:

	2013	*2012*
Purpose analysis	***$***	*$*
Housing	**157,380**	-
Personal including revolving credit	**611,785**	1,120,328
Provision for impairment	**(454,980)**	(566,948)
Carrying amount	**314,185**	553,380

(g) Past due but not impaired loans and advances

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

	2013	*2012*
Purpose analysis	***$***	*$*
Housing	**2,612,010**	1,372,766
Personal including revolving credit	**370,252**	391,639
Provision for impairment	**-**	-
Carrying amount	**2,982,262**	1,764,405

	2013	*2012*
Aging analysis	***$***	*$*
Past due [0-90] days in arrears	**2,190,679**	1,764,405
Past due [90-180] days in arrears	**408,144**	-
Past due [180-270] days in arrears	**383,439**	-
Carrying amount	**2,982,262**	1,764,405

Notes to the Financial Statements

For the year ended 30 June 2013

13 IMPAIRMENT OF LOANS AND ADVANCES (continued)

(h) Neither past due nor impaired loans and advances

Purpose analysis	***2013***	*2012*
	$	*$*
Housing	**438,634,568**	421,314,526
Personal including revolving credit	**45,837,977**	53,151,792
Provision for impairment	**-**	-
Carrying amount	**484,472,545**	474,466,318

The above values include the balance of re-negotiated loans and advances.

(i) Collateral held

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

	2013	*2012*
	$	*$*
Loans and advances with no collateral	**28,350,444**	31,643,811
Loans and advances with collateral	**460,230,461**	446,054,030
Gross loans and advances	**488,580,905**	477,697,841

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

14 PROPERTY, PLANT AND EQUIPMENT

	2013	*2012*
	$	*$*
Land and buildings		
At valuation - 2011	**4,450,000**	4,450,000
Accumulated depreciation	**(235,992)**	(117,996)
Net carrying amount	**4,214,008**	4,332,004
Plant and equipment		
At cost	**2,939,144**	2,774,684
Accumulated depreciation	**(1,906,531)**	(1,612,595)
Net carrying amount	**1,032,613**	1,162,089
Total property, plant and equipment		
At valuation - 2011	**4,450,000**	4,450,000
At cost	**2,939,144**	2,774,684
	7,389,144	7,224,684
Accumulated depreciation and impairment	**(2,142,523)**	(1,730,591)
Net carrying amount	**5,246,621**	5,494,093

Notes to the Financial Statements

For the year ended 30 June 2013

14 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2013	*2012*
	$	*$*
Land and buildings		
Net carrying amount at beginning of the year	**4,332,004**	4,450,000
Depreciation charge	**(117,996)**	(117,996)
Balance at the end of the year	**4,214,008**	4,332,004
Plant and equipment		
Net carrying amount at beginning of the year	**1,162,089**	1,421,440
Additions	**164,460**	73,084
Depreciation charge for the year	**(293,936)**	(332,435)
Balance at the end of the year	**1,032,613**	1,162,089

(b) Revaluation of land and buildings

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

The revaluations of freehold land and buildings were based on the capitalisation of estimated net return. The revaluation was made in accordance with a policy to revalue land and buildings every three years. Land and buildings were re-valued to $4,450,000 as at 30 June 2011 based upon this independent valuation.

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

	2013	*2012*
	$	*$*
Cost	**1,347,967**	1,347,967
Accumulated depreciation	**(908,380)**	(854,461)
Net book value	**439,587**	493,506

15 INTANGIBLE ASSETS

	2013	*2012*
	$	*$*
Computer software		
At cost	**1,328,864**	1,228,834
Accumulated amortisation	**(1,097,182)**	(926,326)
Net carrying amount	**231,682**	302,508

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

	2013	*2012*
Computer software	***$***	*$*
Balance at the beginning of the year at cost	**302,508**	242,864
Additions	**100,030**	236,063
Amortisation expense	**(170,856)**	(176,419)
Balance at the end of the year	**231,682**	302,508

Notes to the Financial Statements

For the year ended 30 June 2013

16 DEPOSITS

	2013 $	2012 $
Current		
Call deposits (including withdrawable shares)	**390,621,113**	337,752,019
Term deposits	**132,553,786**	157,505,457
	523,174,899	495,257,476

	2013 $	2012 $
Amount of deposits expected to be settled more than 12 months after the reporting date	**4,729,925**	3,477,900

(a) Concentration of deposits

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

Queensland Rail and Aurizon (formerly QR National) employees - % of total deposits	**13.99%**	15.29%
- Balance of deposits	**73,169,036**	75,704,384

(b) Fair value

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

17 OTHER PAYABLES

	2013 $	2012 $
Annual leave	**292,923**	203,849
Sundry creditors and accrued expenses	**531,202**	609,904
	824,125	813,753

Fair value

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

18 SHORT TERM BORROWINGS

	2013 $	2012 $
Wholesale funding - Cuscal Limited	**-**	15,000,000
	-	15,000,000

(a) Borrowing facilities

Refer to Note 26 for details of the borrowing facilities.

(b) Fair value

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

19 PROVISIONS

	2013 $	2012 $
Long service leave and associated costs	**619,528**	572,773
	619,528	572,773

Notes to the Financial Statements

For the year ended 30 June 2013

20 REDEEMED PREFERENCE SHARE CAPITAL

	2013	*2012*
	$	*$*
Redeemed preference share capital	**151,120**	141,910
	151,120	141,910

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

21 RESERVES

	Credit loss reserve (a)	*Asset revaluation reserve (b)*	*General reserve (c)*	*Total*
	$	*$*	*$*	*$*
At 1 July 2011	927,951	3,127,933	43,280,678	47,336,562
Transfers				
- credit loss reserve	27,498	-	(27,498)	-
- general reserve	-	-	3,088,404	3,088,404
At 30 June 2012	955,449	3,127,933	46,341,584	50,424,966
Transfers				
- credit loss reserve	**21,755**	**-**	**(21,755)**	**-**
- general reserve	**-**	**-**	**2,898,665**	**2,898,665**
At 30 June 2013	**977,204**	**3,127,933**	**49,218,494**	**53,323,631**

Nature and purpose of reserves

(a) *Credit loss reserve*

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

(b) *Asset revaluation reserve*

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

(c) *General reserve*

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

Notes to the Financial Statements

For the year ended 30 June 2013

22 CASH FLOW STATEMENT RECONCILIATION

(a) Cash flows presented on a net basis

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

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

	2013	*2012*
	$	*$*
(b) Reconciliation of net profit after tax to net cash flows from operating activities		
Net profit	**2,907,875**	3,095,664
Adjustments for:		
Depreciation	**411,932**	450,431
Amortisation	**170,856**	176,419
Impairment and write -off of non-current assets	**203,920**	170,943
Changes in assets and liabilities		
(Increase)/Decrease in other receivables	**(331,591)**	1,056,904
(Increase)/Decrease in financial assets held to maturity	**(5,649,493)**	592,714
(Increase)/Decrease in loans and advances	**(11,188,809)**	(14,025,731)
(Increase)/Decrease in other assets	**36,184**	(19,860)
(Decrease)/Increase in short-term borrowings	**(15,000,000)**	(10,000,000)
(Decrease)/Increase in current tax payable	**219,264**	(461,136)
(Decrease)/Increase in provisions	**46,755**	(14,053)
(Decrease)/Increase in other payables	**10,375**	(84,322)
(Decrease)/Increase in deferred tax liabilities	**(51,533)**	20,539
(Decrease)/Increase in deposits	**27,917,422**	34,091,172
Net cash flows from/(used in) operating activities	**(296,843)**	15,049,684

23 COMMITMENTS

(a) Leasing commitments

Operating lease commitments

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

	2013	*2012*
	$	*$*
Within one year	**111,376**	122,136
After one year but not more than five years	**81,771**	193,289
After more than five years	**-**	-
Total minimum lease payments	**193,147**	315,425

Notes to the Financial Statements

For the year ended 30 June 2013

23 COMMITMENTS (continued)

(a) Leasing commitments (continued)

Operating lease commitments comprise 3 leases:

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

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

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

(b) Outstanding loan commitments

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

	2013	*2012*
	$	*$*
Loans approved but not funded	**8,865,898**	8,611,761
Undrawn overdrafts	**82,756,037**	75,620,304

24 CONTINGENCIES

Credit Union Financial Support Scheme (CUFSS)

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

The balance of the debt at 30 June 2013 was Nil (2012: Nil).

25 AUDITORS' REMUNERATION

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

	2013	*2012*
	$	*$*
Amounts received or due and receivable by BDO Audit Pty Ltd for:		
• An audit or review of the financial report of the entity	**64,000**	62,000
• Regulatory or prudential audits	**35,775**	33,750
	99,775	95,750

Notes to the Financial Statements

For the year ended 30 June 2013

26 STANDBY BORROWING FACILITIES

The Credit Union has a gross borrowing facility of:

	Approved Facility $	Current Borrowing $	Net Available $
2013			
Pre-approved loan facility			
Overdraft facility (Cuscal)	**-**	-	**-**
Corporate Online Funds Transfer (NAB)	**500,000**	-	**500,000**
	500,000	**-**	**500,000**
2012			
Pre-approved loan facility			
Overdraft facility (Cuscal)	1,000,000	-	1,000,000
Corporate Online Funds Transfer (NAB)	500,000	-	500,000
	1,500,000	-	1,500,000

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

27 KEY MANAGEMENT PERSONNEL

(a) Directors

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

Michael (Mike) G Scanlan	
Graeme G Sang	(Retired: 8 November 2012)
John P Harnischfeger	
Bronwyn (Bron) D Davies	(Elected: 8 November 2012)
Kellie L Dyer	
Andrew R Haynes	
Andrew J Hughes	
Henry C Scheuber	

(b) Remuneration of Key Management Personnel

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

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

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

Julianne Plath	Chief Executive Officer
Gavin Burkhardt	Executive Manager Commerce & Marketing
Grant Freeman	Executive Manager Operations

Notes to the Financial Statements

For the year ended 30 June 2013

27 KEY MANAGEMENT PERSONNEL (continued)

(b) Remuneration of Key Management Personnel (continued)

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

	Directors		Other KMP	
	2013	2012	**2013**	2012
	$	$	**$**	$
Short-term	**259,190***	218,928	**763,383**	744,480
Post-employment	**23,327**	19,704	**55,547**	55,707
Other Long-term	**-**	-	**28,308**	27,251
	282,517	238,632	**847,238**	827,438

* This figure includes all amounts paid in the 2012/13 financial year including development incentives relating to the previous financial year. The adjustments in this regard are:

	2013
	$
Amount paid in 2012/13	**259,190**
Less: Amount relating to 2011/12	**(42,525)**
Total paid/payable for 2012/13	**216,665**

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

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

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

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

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

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

	2013	2012
	$	$
The aggregate value of loans	**1,294,896**	791,767

	2013	2012
	$	$
The total value of other credit facilities to KMP as at the balance date amounted to:	**285,000**	768,600
Less amounts drawn down and included in the above balance	**(86,104)**	(653,829)
Net balance available	**198,896**	114,771

Notes to the Financial Statements

For the year ended 30 June 2013

27 KEY MANAGEMENT PERSONNEL (continued)

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

	2013	*2012*
	$	*$*
During the year the aggregate value of loans disbursed to KMP amounted to:		
Term loans	**2,007,919**	975,902
	2,007,919	975,902
During the year the aggregate value of revolving credit facility limits granted or increased to KMP amounted to:	**-**	-
Interest and other revenue earned on loans and revolving credit facilities to KMP and related parties	**121,054**	102,526

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

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

	2013	*2012*
	$	*$*
Total value term and savings deposits at year end	**762,308**	612,150
Total interest paid on deposits	**27,128**	33,142

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

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

28 EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

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

Notes to the Financial Statements

For the year ended 30 June 2013

29 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments by class - carrying value

	2013	*2012*
	$	*$*
Loans and receivables - measured at amortised cost		
Cash and cash equivalents	**18,150,970**	18,712,239
Other receivables	**1,260,039**	928,447
Loans and advances	**487,768,992**	476,784,103
	507,180,001	496,424,789
Held to maturity investments - measured at amortised cost		
Financial assets held to maturity	**65,056,779**	59,407,286
Financial assets available for sale or at cost		
Financial assets	**825,775**	825,840
Financial liabilities measured at amortised cost		
Short term borrowings	**-**	15,000,000
Deposits	**523,174,899**	495,257,476
Other payables	**824,125**	813,753
	523,999,024	511,071,229

(b) Fair value of financial instruments

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

Liquid assets

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

Investments

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

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

Loans and advances

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

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

Deposits

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

The fair value of call and variable rate deposits, and fixed rate deposits repriced within twelve months, is the carrying value as at 30 June 2013.

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2013

29 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Fair value of financial instruments (continued)

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

		2013		*2012*	
	Note	***Carrying value***	***Fair value***	*Carrying value*	*Fair value*
		$	***$***	*$*	*$*
Financial Assets					
Cash and cash equivalents	8	**18,150,970**	**18,150,970**	18,712,239	18,712,239
Other receivables	10	**1,260,039**	**1,260,029**	928,447	928,447
Financial assets held to maturity	11	**65,056,779**	**65,056,779**	59,407,286	59,407,286
Loans and advances	12	**487,768,992**	**487,768,992**	476,784,103	476,784,103
Financial assets available for sale or at cost (iii)	9	**825,775**	**825,775**	825,840	825,840
Financial Liabilities					
Deposits	16	**523,174,899**	**523,012,464**	495,257,476	496,442,218
Short term borrowings	18	**-**	**-**	15,000,000	15,022,037
Other payables	17	**824,125**	**824,125**	813,753	817,966

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

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

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

Directors' Declaration

The Directors of Railways Credit Union Ltd declare that:

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

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

(ii) give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date.

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

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

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

Michael (Mike) G Scanlan
Chair
Brisbane

Andrew J Hughes
Chair - Audit & Compliance Committee
Brisbane

Dated this 25th day of September 2013.

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INDEPENDENT AUDITOR'S REPORT

To the members of Railways Credit Union Ltd

We have audited the accompanying financial report of Railways Credit Union Ltd, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Railways Credit Union Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

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

  (i) giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

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

BDO Audit Pty Ltd

BDO

M. B. Taylor

M B Taylor
Director

Brisbane, 25 September 2013

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The Credit Union Prayer

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

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

Our Values

Railways Credit Union

Integrity | Commitment | Exceptional Service | Innovation | Mutuality

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Twitter: www.twitter.com/RailwaysCU
AFSL/Australian Credit License number 234 536
ABN 91 087 651 090