



**Annual
Report
2012/13**





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Guardian Southside Pharmacy owners, Debra and John Tennant discuss their Health Award with bcu Director, Geoff Hardaker.

Our region

2013 saw the launch of the bcu Bill Ussher Enterprise and Innovation Awards and Scholarships, aimed at supporting businesses across the region and providing a boost to those engaged in study or starting out in their careers, while helping to create business and employment.

The Awards format saw the previously offered bcu Bill Ussher Agricultural Grant expanded to include five business categories comprising agriculture, retail & hospitality, health, building & construction and trades.

With more than \$60,000 on offer, the winning businesses each received financial support from bcu.

The aim of the Awards was to help create jobs and support the employment of young people, while providing businesses with the means to grow and develop.

Three Heartland Awards were also provided to businesses making a recognised contribution to the Nambucca Valley and surrounds, the region that developed, supported and nurtured bcu in its formative years.

bcu's aim to support and assist young people was promoted in the offering of scholarships to bcu members who were in year 10, 11 or 12, the first year of university or in the first year of a traineeship or apprenticeship.

More than 150 scholarship nominations were received and judges were impressed by the level of drive and determination demonstrated by young people across all areas of study and training.



bcu Regional Manager Mid North Coast, Russell Gardner, left, and Executive Manager Personal and Business Banking, Bill Rainnie, right, congratulate Scholarship winner Jason Cooper and his girlfriend Tash Paul.



Monique Buggy and Nathan Martin, winner of the Building and Construction Award and owner of A Green Kit Home, with Josh Freeman of bcu Coffs Harbour.



Scholarship winners

Maddison Wilkes & Ben Manlapaz

Health Award - Guardian Southside Pharmacy, Owners: John & Debra Tennant

Trades Award - Murwillumbah Transmission & Service Centre, Owners: Trevor & Val Hill

Building and Construction Award - A Green Kit Home, Owner: Nathan Martin

Agriculture Award - Comet Windmills Australia, Owners: Darren and Melissa Fitzgerald and Lyle Spalding

bcu Heartland Awards

- Macksville Automotive Service Centre, Owners: George & Maree Salloum
- G & K Bodycote Building, Owners: Karen & Greg Bodycote
- Black Duck Tours (Wirraal Bindarray), Owner: Michael Jarrett

Scholarship winners: Ben Manlapaz, Maddison Wilkes, Sebastian Schmidt, Cohen Finlay, Godwin Axisa, Rayna Neundorff, Tyler Fortescue, Jason Cooper, James Truman and Lachlan Smith.

Children learn with Scoot

bcu's children's ambassador, Scoot, made his first appearances this financial year as bcu launched stage two of its Scoot's super saver program to promote financial literacy to children across the region.

Visiting schools and conducting store-based Dollars and \$ense workshops that are fun and interactive, Scoot aims to educate primary school children aged 7-12 about basic money principles and the importance of good saving habits.

Since making his debut, Scoot has made appearances in Coffs Harbour, Maroochydore, Noosa and Brisbane and is keen to help youngsters across the region learn good savings skills and provide them with an understanding of money.

Upcoming workshops are scheduled for bcu Maroochydore, bcu Coffs Harbour and bcu Macksville. If you are interested in your children attending a Scoot's Dollars & \$ense workshop, or having Scoot speak to students at your school, email scoot@bcu.com.au



Giving back

Earlier this year bcu announced its corporate sponsorship of the 2013 bcu Macksville Gift Carnival, an iconic event, now in its 60th year.

It is expected that the upcoming event, to be held in November, will incorporate a whole weekend of activities from the highlight of the historic footrace to a Little Athletics carnival, dragon boat races and novelty events, bringing serious contenders and families to the Nambucca Valley.

With the main focus of corporate sponsorship on the 2013 bcu Bill Ussher Enterprise and Innovation Awards and Scholarships, bcu also supported the following groups and initiatives:

- ➔ Providing yourtutor access to bcu student members
- ➔ CSA donations
- ➔ bcu International Stadium
- ➔ bcu Coffs TRI
- ➔ bcu Bill Ussher Enterprise and Innovation Awards and Scholarships
- ➔ Sportz central, Coffs Harbour
- ➔ Luke Hartsuyker Chairty Bike Ride
- ➔ Rotary Bookfest
- ➔ Grafton Tafe Careers Expo
- ➔ National Breast Cancer Foundation
- ➔ Pink Hope
- ➔ Cancer Council

April saw bcu stores from Maclean to Macksville welcoming riders as part of the 2013

Luke Hartsuyker Charity Bike Ride which this year raised \$16,000 for the Mid North Coast Disabled Surfers' Association, the Macleay Vocational College and the Maclean Lower Clarence Hospital Auxiliary.

Pictured above: bcu Urunga Store Supervisor, Diana Christian welcomes Luke Hartsuyker with a cup of tea after the long ride from Maclean.





Kids, adults, athletes, teams and first-timers braved uncooperative weather to compete in the inaugural bcu Coffs TRI held in March 2013 on Coffs Harbour's Jetty Foreshore.

Almost 600 competitors aged 5 to 75 participated in the weekend's events which included an aquathlon, with more than 120 children competing in a 200m swim, 3km cycle and 1km run; an enticer event and the headline Olympic distance race. The event is the perfect partnership for bcu as it both supports and encourages the regional economy, while promoting a healthy and active lifestyle as families and individuals are drawn to the Coffs Coast to participate.

The bcu Coffs TRI has already become a much-anticipated fixture on the national triathlon calendar, thanks to a professional approach in managing and promoting the event by Village Sports.

For more pictures of the 2013 event and a link to the 2014 event website, go to: bcu.com.au/bcu-coffs-tri



Athletes of all ages and abilities joined in the individual and team events of the inaugural bcu Coffs TRI, which brought competitors from across the region and beyond to the Coffs Coast.



Got a big future ahead?

pay fewer fees with a fair go home loan

Our promotions

bcu launches a new online presence

Making banking information clear and easily accessible was paramount in designing and launching bcu's new website which makes access to information on bcu products and services available to our customers anywhere, anytime.

Enabling many bcu products to be opened online and a fast response to product enquiries, the website promotes bcu's

approach as a trusted advisor presenting products and information specifically to children, students, households and businesses through targeted website portals.

Increased interactivity encourages customers to make enquiries and download resources for a simple and streamlined banking experience.

With changing imagery, and a practical, uncluttered design, the website features:

- games and educational activities for children
- savings and banking tips for students and households
- product facts and links
- competitions
- a member2member hub
- a detailed interactive 'find us' function
- photo galleries



Showcasing our region

Stunning photography of the Coffs Coast set the tone for a series of bcu television advertisements launched in June featuring longboard champion and local bcu member, Harley Ingleby.

Emphasising bcu's brand line "your region, your money" the advertisements demonstrate how bcu is working to support the lifestyle enjoyed by those who live and work in our region.

Introducing Apps, eStatements and Alerts

bcu recently launched new apps for iPhone & iPad devices bringing useful information to customers on atm and store locations, foreign currency conversions, home and car loan repayment calculators and interest rates.

Work is underway on modifying iBank for mobile devices and introducing mobile payment functionality. The development

of apps for Android devices will commence in the near future.

Also in the digital realm, bcu recently launched eStatements, giving members the chance to receive their statements electronically and securely.

bcu Alerts offer an avenue for our customers to receive up to date information about

transactions and events relating to their product/s via email, SMS or iBank.

Using bcu Alerts, you can nominate to be notified when your balance falls outside a nominated range, if there is a withdrawal or deposit outside a nominated range or receive a regular balance update. For more information on bcu Alerts, visit www.bcu.com.au

Chief Executive's Report

The year in review

In the past 12 months the Australian economy has weakened from the flow on impact of the economic and political turmoil in Europe and weakening economic growth in China, with domestic economic growth cut by precautionary savings from households, weak investment from businesses and the withdrawal of capital by investors and banking institutions.

Many business segments outside of those related to mining have experienced tough trading conditions as a result of the decline in consumer confidence, higher Australian dollar, tighter capital requirements and households tightening their budgets.

With this uncertainty households are saving at rates not experienced for many decades, and similarly the demand for loans is at low levels not experienced in many decades.

These subdued economic conditions led the Reserve Bank of Australia (RBA) to decrease the official interest rate numerous times to 2.5%.

During this period of decreasing interest rates, bcu's focus was to strike a balance between meeting the competing needs of depositing members and those of borrowing members.

bcu passed on to depositors, a less amount of the total RBA interest rate reductions that it passed on to borrowers. As a result, bcu absorbed the difference in the form of higher interest expense, which adversely impacted bcu's profit.

“The past year has also seen the government further tightening regulation around the banking sector”

The past year has also seen the government further tightening regulation around the banking sector, adding significantly to the cost and restricting the way that bcu offers lending and banking products and also the way in which financial advice can be given.

The regulations governing the skills, experience and propriety of people employed to manage and be on the Board of bcu are now much more onerous than they used to be, and place a legal obligation on bcu.

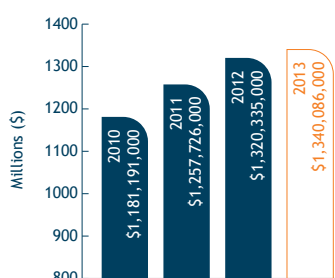
As a result bcu's primary focus is to attract management and directors with the appropriate skills and experience now demanded. As a result of bcu's adherence to legislation, decisions regarding the management of bcu may sometimes seem at odds with the origins of the credit union and expectations of communities, but at the core of these decisions is the importance of building a sustainable business so bcu can continue to provide a fair go banking alternative, as our founders set out to do in the early 1970s.

Performance in a volatile market

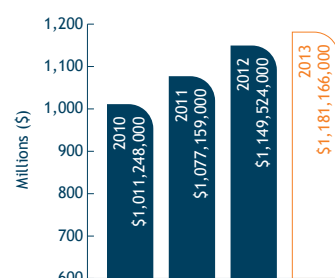
bcu has managed the challenging environment of the past financial year by focusing on continuing with the program to significantly reinvest in the business to rejuvenate an aging network of branches, atms and internet banking services that had not been invested in for many years. This has included:

- replacing 95% of existing aging atms over the last two years, significantly improving the reliability of the service compared to what was provided four years ago.
- adding new atms to its representation, more than doubling the number of atms from Port Macquarie to the Sunshine Coast in the past three years, making it more convenient for people to access their money. In the region of Macksville, Coffs Harbour and Grafton, bcu has added an extra eleven atms in total.
- bcu has improved internet banking functionality so members can do much more of their banking online. This was an important development for bcu as the volume of members wanting to do business via internet banking is increasing each year.

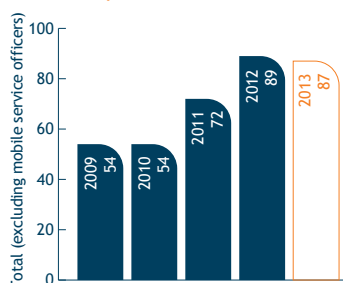
Total assets



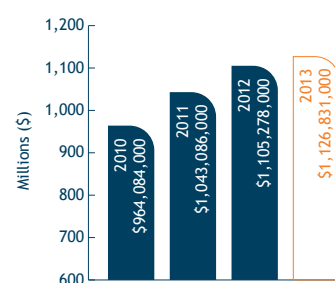
Deposits



Points of presence

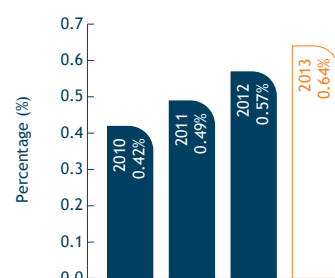


Loans and Advances



In addition to the above initiatives, bcu has prudently increased provisions for doubtful debts, providing a stronger coverage for any unexpected increase in loan defaults. This provision provides a higher level of strength to bcu's balance sheet and increased security for member deposits.

Loan loss provisions as % of gross loans



Striving for sustainable profitability and providing a fair go!

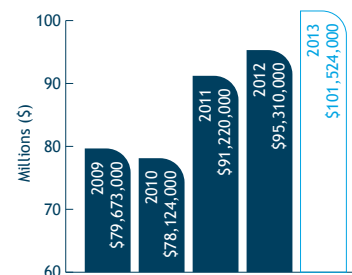
There is a balance that must be reached between making a profit to ensure the sustainability of bcu and providing fair and competitive products and services. bcu does not aim to make a profit to satisfy shareholders. The aim of making a profit is for bcu to remain sustainable, so bcu can:

- Fund significant investment in the business over the next few years to continue with the program of modernising and upgrading bcu's stores and systems to improve our member's banking experience with bcu;
- Reinvest in the range of products and services offered;
- Continue to expand bcu's financial sponsorship of worthwhile initiatives;
- Maintain the level of capital coverage as bcu grows, and to comply with APRA prudential capital standards. The primary means for bcu to increase capital is through profitability.

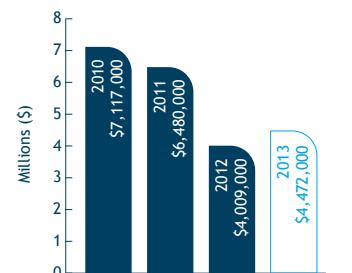
In this regard, bcu's primary focus is to balance making a profit with providing fair go banking services as bcu's founders did. The provision of banking services that are fair has been the driving motivation behind the initiatives implemented over the last few years.

Profit has not grown this financial year due to the investment program in modernising the business, the provision of competitive product benefits, the strong competition for household deposits, bcu absorbing some of the higher funding cost and not passing this on to borrowers, and the significant slowing in demand for loans.

Capital base



Profit for the year



Looking ahead

Storm clouds are forming on the horizon again for the Australian economy with the American economy continuing to struggle. Europe's fiscal and political troubles are far from over and may deteriorate before improving, and China's economic growth continues to weaken.

The demand by China for Australia's commodities, which has helped to insulate Australia from the worst of the economic downturn which has gripped America and most of Europe since 2008, is weakening.

Depending on how much China's growth slows, this increases the level of uncertainty for the strength of mining and economic growth in Australia over the next few years.

Notwithstanding this cautionary outlook, with the high rate of savings by households and subdued property prices, the outlook for mortgage serviceability is improving.

The regulations governing banking institutions are set to become significantly more onerous in relation to the type of instruments that qualify as liquidity and instruments allowable as capital.

Under these rules, raising capital for mutual banking institutions will largely be restricted to profits.

These additional rules have been developed largely in response to the banking failures overseas.

The cost and restrictions this will place on bcu and mutual banking institutions we feel is unbalanced and will be counter-productive to supporting diversity and competition in the banking industry.

Ultimately, this will mean that mutual banking institutions will have to become more profit focused.

Despite these challenges, as proud as we are of our past, we are excited about what lies ahead for bcu.

We thank bcu's members for their ongoing support and staff for their hard work and resilience in facilitating the changes needed to continue providing a competitive, sustainable banking alternative.

We are committed to putting the fair go into banking. We look forward to delivering many new initiatives to further improve bcu's service and convenience to the people of our region.



Lyndon Kingston
Chief Executive

Concise Financial Report 2012-13

The concise financial report is an extract from the full financial report for the year ended 30 June 2013. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report. The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position, financing and investing activities of the consolidated entity, being Bananacoast Community Credit Union Ltd (bcu) and its controlled entities, as the full financial report. Further financial information can be obtained from the full financial report. The full financial report and auditor's report will be sent to members on request, free of charge. Please call (02) 6690 3266 and a copy will be sent to you.

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Registered Name:

Bananacoast Community Credit Union Ltd

Registered Office:

Level 2, 144-148 West High Street,
Coffs Harbour NSW 2450

Telephone: 1300 228 228

Internet: www.bcu.com.au

ABN: 50 087 649 750

Australian Credit Licence Number: 241077

External auditor:

BDO Audit Pty Ltd, Level 10,
12 Creek St, Brisbane QLD 4000

Directors' Report 2012-2013

The Directors present their report for the consolidated entity, being Bananacoast Community Credit Union Ltd (bcu) and its controlled entities, for the year ended 30 June 2013.

Non-Executive Directors

Independent Non-Executive Directors in office at any time during the year or since the end of the year are:

Mr Grant Andrew Wallace

BBus, GAICD, CA, FTIA, NTAA

- Chairman (since 31 July 2012)
- Board Governance Committee (Chairman since 31 July 2012)
- Board Audit and Risk Committee (Chairman until 31 July 2012)

Experience and expertise

Director since 2009. Chair of the Board Audit and Risk Committee from June 2010. Grant brings strong corporate governance and financial management understanding to the Board as a result of 30-years' experience in the accounting profession advising medium and large family business coupled with post graduate development in taxation, finance, financial planning and corporate governance. He continues to advise family owned business in a range of industry sectors such as agriculture, engineering, medical and property. He also holds Directorships and committee roles with organisations within the private and public sectors.

Interests in shares

- 1 redeemable preference share

Mr Gerald James Regan

MAMI

- Chairman (until 30 July 2012)
- Board Governance Committee (Chairman until 30 July 2012)
- Board Audit and Risk Committee (until 30 July 2012)

Experience and expertise

Director since 1988. Chairman from 2005. Retired on 30 July 2012. Gerry is a retired engineer and worked in the co-operative movement all his professional life. He strongly believed that the bcu board had to remain focused on serving the financial needs of its members and supported the local community through the provision of professional and fair banking services. As Chairman, Gerry was dedicated to setting a strategic direction for the benefit of all members.

Interests in shares

- 1 redeemable preference share

Mr John Owen Hoey

DipCM, FFIN, FAIM

- Deputy Chairman (since 2 July 2012)
- Board Governance Committee (since 2 July 2012)
- Board Audit and Risk committee

Experience and expertise

Director since 2010. John has over 40-years' experience in the Banking and Finance industry with a wealth of knowledge spanning retail banking, commercial banking, insurance and financial services as well as broad experience in the area of customer service. Through his involvement with the Australian Institute of Management,

as a past Director and Chairman, John also brings insights into best practice corporate governance and the importance of attracting, developing and retaining talented people to enhance organisational capability.

Interests in shares

- 1 redeemable preference share

Mr Peter Edward Dunstan

DipJustAdmin, MAMI, JP

- Deputy Chairman (until 2 July 2012)
- Board Governance Committee (until 2 July 2012)
- Board Audit and Risk Committee (until 2 July 2012)

Experience and expertise

Director since 1999. Deputy Chairman from June 2010. Retired on 2 July 2012. Peter is a retired Senior Police Officer and was proud to be a part of an organisation that is more than just a financial institution. bcu has a unique make-up and identity that provides exceptional financial services and benefits to all members. As a foundation member, and directly involved in the initial formation of the NSW Police Credit Union, Peter brought a long standing belief and commitment to the credit union philosophy.

Interests in shares

- 1 redeemable preference share

Directors' Report 2012-2013 Cont.

Mr David Hamilton Christy

BEcon, DipFS, AAICD

- ➔ Board Governance Committee (since 31 July 2012)
- ➔ Board Audit and Risk Committee (Chairman since 31 July 2012)

Experience and expertise

Director since June 2011. David held the position of Group Resources Manager with a large, government-owned energy generator until his retirement in September 2012. A qualified Economist, he has over 30-years' experience within the resources and trading sector, including responsibility for negotiating and managing multi-billion dollar long-term contracts and relationships with national and multi-national resource companies. A significant component of his professional activity involved spending time in regional towns to understand the manner in which commercial decisions affected local communities. Application of David's commercial experience contributes to the sound, long term focus and governance of bcu's operations. In addition, having also been a small business owner and currently holding commercial real estate within regional communities, David is acutely aware of the issues and challenges facing bcu.

Interests in shares

- ➔ 1 redeemable preference share

Mr Geoffrey Keith Hardaker

JP

- ➔ Board Audit and Risk Committee

Experience and expertise

Director since April 2011. Geoff is a self-employed businessman and Managing Director of Coffs Harbour Office Choice

that has stores located in Coffs Harbour, Port Macquarie and Taree. He has been involved in the office equipment industry for almost 40 years. Geoff sees the opportunity to serve on the Board of bcu as a privilege and has previously served as Chairman of the Westpac Rescue Helicopter, Coffs Harbour. Geoff previously worked in the real estate industry in Coffs Harbour and has owned and still owns commercial properties in the city.

Interests in shares

- ➔ 1 redeemable preference share

Mr Michael Wayne Gould

B Eng (Hons), GDEME, AMP173, CPEng, FAICD

- ➔ Board Audit and Risk Committee (since 26 March 2013)

Experience and expertise

Director since March 2013 and is to stand for election at the next Annual General Meeting. Mike's experience of more than 35 years' in the private sector on projects throughout Australia covers strategic planning, design, procurement, delivery and asset performance for public and private infrastructure. He brings to the Board experience in the building and construction industry along with corporate governance understanding from his work on board and advisory positions on a number of companies.

Interests in shares

- ➔ 1 redeemable preference share

Executive Directors

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

Mr Lyndon Allen Kingston

MCom, BBus, GradDipFin, GradDipBus, FFin, ACA

- ➔ Chief Executive

Experience and expertise

Chief Executive since 2008 after having served as bcu's Chief Financial Officer. Executive Director since May 2012. A Chartered Accountant with over 20 years' experience within the finance and commercial sector, Lyndon came to bcu from the Australian Prudential Regulation Authority, the organisation responsible for overseeing the governance and prudential operation of authorised deposits taking institutions, insurers and superannuation entities.

Interests in shares

- ➔ 1 redeemable preference share

Company Secretary

Company Secretaries at any time during the year or since the end of the year are:

Mr Peter Hunter Waters

DipFS, FACUI, JP

Company Secretary since 2008. Peter has considerable finance experience having worked in the industry for the past 40-years. Peter is the Executive Manager Governance and is responsible for the Company Secretarial duties along with the Internal Audit, Compliance and Operational Risk functions.

Directors' Report 2012-2013 Cont.

Principal activities

bcu is a company registered under the Corporations Act 2001 and is domiciled in Australia. The principal continuing activities during the year were the provision of financial products and services to members. No significant changes in the nature of these activities occurred during the year.

Review of operations and financial position

Despite economic conditions remaining subdued, bcu's profit for the year was \$4.472 million compared to the previous year's profit of \$4.009 million.

The increase of \$0.463 million (or 11.6%) was primarily due to higher net interest income, lower non-interest expenses and lower impairment losses on loans and advances.

Net interest income was higher by \$0.400 million (or 1.2%) when compared to the prior year. The increase was due to disciplined net interest margin management amidst continued monetary policy easing by the Reserve Bank of Australia, continued growth (albeit at a lower level than previous years), diversification of loans and advances and the repayment of fixed rate bond borrowings during the last 2 years.

Non-interest expenses (excluding net impairment loss) decreased by \$0.660 million (or 1.9%) from the previous year. This decrease was mainly attributable to lower employment expenses. The operating expense to income ratio (excluding impairment losses) decreased to 81.7% from 83.0% the previous year.

The impairment loss on loans and advances decreased by \$0.403 million (or 23.2%). Despite a decrease of \$0.452m in prescribed provisions, additional

specific provisions increased by \$0.353m and the collective provision increased by \$1.000m. bcu continued to prudently increase total loan loss provisions by \$0.901m as economic conditions remain subdued.

Other revenue and income decreased by \$0.534 million (or 6.1%) compared to the previous year with the decrease primarily attributable to lower dividend income from financial assets, reduced fee income due to reductions in bcu fees and charges, and decreased loan fee income due to lower loans growth. Income tax expense increased by \$0.456 million during the year primarily due to higher profit before income tax and a reduction in franked dividend income and other non-assessable items.

Other comprehensive income for the year (net of income tax) of -\$0.791 million was due to a fair value adjustment to freehold land and buildings following a revaluation performed by an independent valuer as at 30 June 2013. Other comprehensive income includes items that do not form part of the profit for the year but result in a change in equity.

Total assets ended the year at \$1.340 billion representing an increase of \$19.751 million (or 1.5%) for the year. The largest contributor to asset growth was a \$21.553 million (or 2.0%) increase in loans and advances. Lower growth than previous years reflects slower credit growth in the markets in which bcu operates.

Total liabilities ended the year at \$1.243 billion representing an increase of \$16.092 million (or 1.3%) on the prior year. This included growth in deposits of \$31.642 million (or 2.8%) and a decrease in borrowings of \$16.641 million (or 27.5%). The decrease in borrowings was largely attributable to the repayment of fixed rate bond borrowings.

Total equity increased by \$3.659 million to \$97.013 million (or 3.9%). The main influences were the inclusion of the \$4.472 million profit for the year in retained earnings which more than offset the adjustment in fair value adjustment of land and buildings, and the redemption of \$0.022 of member bonus shares.

Business strategies and prospects for future financial years

bcu intends to continue to pursue the principal activities of providing financial products and services to members. bcu's activities expose it to a variety of risks, including: credit risk; liquidity risk; market risk; and operational risk. Management of these risks is critical to bcu's prospects for future financial years. Please refer to the notes to the Full Financial Report for information on bcu's risk management policy and objectives. Further information about business strategies and prospects for future financial years has not been included in this report because disclosure of the information is likely to result in unreasonable prejudice to bcu.

Significant changes in state of affairs

There were no significant changes in the state of the affairs of bcu during the year.

Events subsequent to the end of the reporting period

No other 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 bcu in subsequent financial years.

Directors' Report 2012-2013 Cont.

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 bcu.

Options

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

Proceedings

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

Auditor's independence

The auditor's independence declaration for the year ended 30 June 2013 forms part of this report and a copy of this declaration is attached.

Indemnification of directors, officers and auditors

Insurance premiums have been paid to insure each of the Directors and Officers of bcu, 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 bcu. 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 bcu.

Environmental regulation

bcu's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Rounding

The amounts contained in the financial statements and the Directors' Report have been rounded to the nearest one thousand dollars in accordance with ASIC Class Order 98/100. bcu is permitted to round to the nearest one thousand dollars (\$'000) for all amounts except prescribed disclosures that are shown in whole dollars.

Regulatory disclosures

The disclosures, required by Prudential Standard APS330 Public Disclosures, namely the common disclosures in Attachment A and the Regulatory Capital reconciliation, are available on bcu's website at www.bcu.com.au/resources.

Directors' meetings

The number of meetings of Directors (including committee meetings) and the number of meetings attended by each Director during the financial year were:

Director's Name	Board		Board Audit and Risk Committee		Board Governance Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
G J Regan	1	1	-	-	-	-
P E Dunstan	1	1	-	-	-	-
G A Wallace	12	12	6	6	8	8
J O Hoey	12	11	6	5	8	7
D H Christy	12	12	6	6	8	8
G K Hardaker	12	12	6	6	-	-
L A Kingston	12	12	6	6	-	-
M W Gould	3	2	1	1	-	-

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



G A Wallace
Chairman

6 September 2013
Brisbane



J O Hoey
Deputy Chairman



Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

**DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF BANANACOST
COMMUNITY CREDIT UNION LTD**

As lead auditor of Bananacoast Community Credit Union Ltd for the year ended 30 June 2013,
I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bananacoast Community Credit Union Ltd and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'T J Kendall', is written over a horizontal line.

T J Kendall

Director

BDO Audit Pty Ltd

Brisbane, 6 September 2013

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2013

	2013 \$'000	2012 \$'000
Interest income	80,368	90,008
Interest expense	(46,959)	(56,999)
Net interest income	33,409	33,009
Other revenue and income	8,266	8,800
Employment expense	(16,058)	(17,535)
Occupancy expense	(3,686)	(3,253)
Depreciation and amortisation expense	(2,117)	(1,946)
Impairment loss on loans and advances	(1,336)	(1,739)
Impairment loss on other financial assets	(10)	-
Other expenses	(12,193)	(11,980)
PROFIT BEFORE INCOME TAX	6,275	5,356
Income tax expense	(1,803)	(1,347)
PROFIT FOR THE YEAR	4,472	4,009
OTHER COMPREHENSIVE INCOME		
Loss on revaluation of land and buildings	(1,130)	-
Income tax relating to this item	339	-
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX	(791)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,681	4,009

Discussion and analysis of the Consolidated Statement of Profit and Loss and Other Comprehensive Income

bcu's profit for the year was \$4.472 million compared to the previous year's profit of \$4.009 million. The increase of \$0.463 million (or 11.6%) was primarily due to higher net interest income; lower non-interest expenses and lower impairment losses on loans and advances.

Net interest income was higher by \$0.400 million (or 1.2%) when compared to the prior year. The increase was due to disciplined net interest margin management amidst continued monetary policy easing by the Reserve Bank of Australia; continued growth (albeit at a lower level than previous years) and diversification of loans and advances; and the repayment of fixed rate bond borrowings during the last 2 years.

Non-interest expenses (excluding net impairment loss) decreased by \$0.660 million (or 1.9%) from the previous year. This decrease was mainly attributable to lower employment expenses. The operating expense to income ratio (excluding impairment losses) decreased to 81.7% from 83.0% the previous year.

The impairment loss on loans and advances decreased by \$0.403 million (or 23.2%). Despite a decrease of \$0.452m in prescribed provisions, additional specific provisions increased by \$0.353m and the collective provision increased by \$1.000m. bcu continued to prudently increase total loan loss provisions as economic conditions remained subdued.

Other revenue and income decreased by \$0.534 million (or 6.1%) compared

to the previous year with the decrease primarily attributable to lower dividend income from financial assets; reduced fee income reflecting reductions in bcu fees and charges; and decreased loan fee income due to lower loans growth.

Income tax expense increased by \$0.456 million during the year primarily due to higher profit before income tax and a reduction in franked dividend income and other non-assessable items.

Other comprehensive income for the year (net of income tax) of -\$0.791 million was due to a fair value adjustment to freehold land and buildings following a revaluation performed by an independent valuer as at 30 June 2013. Other comprehensive income includes items that do not form part of the profit for the year but result in a change in equity.

The accompanying notes form part of this Concise Financial Report.

Consolidated Statement of Financial Position

As at 30 June 2013

	2013 \$'000	2012 \$'000
ASSETS		
Cash and cash equivalents	135,175	114,606
Financial assets available for sale	1,815	2,695
Other receivables	3,763	4,291
Financial assets held to maturity	54,399	74,843
Loans and advances	1,126,831	1,105,278
Property, plant and equipment	13,024	14,067
Investment property	875	990
Net deferred tax assets	3,294	2,754
Intangible assets	326	260
Other assets	584	551
TOTAL ASSETS	1,340,086	1,320,335
LIABILITIES		
Deposits	1,181,166	1,149,524
Other payables	9,225	7,858
Income tax payable	533	346
Provisions	2,781	3,244
Borrowings	43,868	60,509
Subordinated borrowings	5,500	5,500
TOTAL LIABILITIES	1,243,073	1,226,981
NET ASSETS	97,013	93,354
EQUITY		
Member bonus shares	3,419	3,441
Reserves	39,338	40,078
Retained earnings	54,256	49,835
TOTAL EQUITY	97,013	93,354

Discussion and analysis of the Consolidated Statement of Financial Position

Total assets ended the year at \$1.340 billion representing an increase of \$19.751 million (or 1.5%) for the year. The largest contributor to asset growth was a \$21.553 million (or 2.0%) increase in loans and advances. Lower growth than previous years reflects slower credit growth in the markets in which bcu operates.

Cash and financial assets held to maturity remained largely unchanged, increasing \$0.125 million (or 0.1%). bcu's high quality liquid assets ratio decreased from 15.0% to 14.5% during

the year and remained above minimum prudential requirements.

Total liabilities ended the year at \$1.243 billion representing an increase \$16.092 million (or 1.3%) on the prior year. This included growth in deposits of \$31.642 million (or 2.8%) and a decrease in borrowings of \$16.641 million (or 27.5%). This decrease in borrowings was largely attributable to the repayment of fixed rate bond borrowings.

Total equity increased \$3.659 million to \$97.013 million (or 3.9%). The main

influences were the inclusion of the \$4.472 million profit for the year in retained earnings which more than offset the \$0.791 million adjustment in fair value adjustment of freehold land and buildings, following a revaluation performed by an independent valuer as at 30 June 2013, and the redemption of \$0.022 of member bonus shares. bcu's capital adequacy ratio increased from 12.8% to 13.1% during the year and remained above minimum prudential requirements.

The accompanying notes form part of this Concise Financial Report.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

	Member Bonus Shares \$'000	Redeemed Preference Shares \$'000	General Reserve \$'000	Reserve for Credit Losses \$'000	Revaluation Reserves \$'000	Retained earnings \$'000	Total Equity \$'000
BALANCE AT 1 JULY 2011	3,551	513	34,087	2,467	2,961	45,876	89,455
TOTAL COMPREHENSIVE INCOME FOR THE YEAR							
Profit for the year						4,009	4,009
Other comprehensive income for the year					-		-
Transfer from retained earnings to redeemed preference share reserve		50				(50)	-
Member bonus shares redeemed	(110)						(110)
BALANCE AT 30 JUNE 2012	3,441	563	34,087	2,467	2,961	49,835	93,354
BALANCE AT 1 JULY 2012	3,441	563	34,087	2,467	2,961	49,835	93,354
TOTAL COMPREHENSIVE INCOME FOR THE YEAR							
Profit for the year						4,472	4,472
Other comprehensive income for the year					(791)		(791)
Transfer from retained earnings to redeemed preference share reserve		51				(51)	-
Member bonus shares redeemed	(22)						(22)
BALANCE AT 30 JUNE 2013	3,419	614	34,087	2,467	2,170	54,256	97,013

Discussion and analysis of the Consolidated Statement of Changes in Equity

Total equity increased \$3.659 million to \$97.013 million (or 3.9%). The main influences were the inclusion of the \$4.472 million profit for the year in retained earnings which more than offset the \$0.791 million adjustment in fair value adjustment of freehold land and buildings, following a revaluation performed by an independent valuer as at 30 June 2013, and the redemption of \$0.022 of member bonus shares.

Consolidated Statement of Cash Flows

For the year ended 30 June 2013

	2013 \$'000	2012 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	80,687	90,647
Dividends received	239	440
Fees and commissions received	7,823	8,342
Interest paid	(48,603)	(58,008)
Payments to suppliers and employees	(28,743)	(32,859)
Net movement in loans and advances	(22,903)	(63,980)
Net movement in deposits	32,875	73,129
Income taxes paid/(refunded)	(3,200)	(2,992)
Net cash provided by/(used in) operating activities	18,175	14,719
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(2,079)	(3,590)
Loss from sale of property, plant and equipment	(177)	(16)
Net movement in financial assets held to maturity	20,444	(15,599)
Net movement in financial assets available for sale	870	-
Net cash provided by/(used in) investing activities	19,058	(19,205)
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of member bonus shares	(23)	(110)
Repayment of borrowings	(25,000)	(15,000)
Net movement in securitised loans	8,359	2,754
Net cash provided by/(used in) financing activities	(16,664)	(12,356)
Net increase/(decrease) in cash held	20,569	(16,842)
Cash at the beginning of the financial year	114,606	131,448
CASH AT THE END OF THE FINANCIAL YEAR	135,175	114,606

Discussion and analysis of the Consolidated Statement of Cash Flows

Cash at the end of the financial year increased from \$114.606 million to \$135.175 million representing an increase of \$20.569 million during the year.

The cash provided by operating activities during the year was \$18.175 million compared to \$14.719 million the previous year. The increase in cash provided by operating activities was largely due to a decrease in payments to suppliers and employees. The net cash provided by deposits of \$32.875 million exceeded the net cash used in the provision of loan

and advances of \$22.903 million. The net movement in loans and advances demonstrates continued growth albeit at a lower level than the previous year. Lower interest cash flows reflect the impact of continued monetary policy easing by the Reserve Bank of Australia.

The cash provided by investing activities during the year was \$19.058 million compared to \$19.205 million used in investing activities the previous year. The increase was mainly due to the redemption of \$20.444 million of

financial assets held to maturity. The cash provided by investing activities was largely used for financing activities.

The net cash used in financing activities during the year was \$16.664 million compared to \$12.356 million the previous year. The increase was mainly due to the repayment of \$25.000 million of fixed rate bond borrowings. This was partially offset by cash received from the securitisation of loans.

Notes to the Concise Financial Report

For the year ended 30 June 2013

The concise financial report was authorised for issue on 6 September 2013 by the Board of Directors.

NOTE 1

Basis of preparation of the Concise Financial Report

The concise financial report relates to the consolidated entity consisting of Bananacoast Community Credit Union Ltd (bcu) and Special Purpose Vehicle (SPV) for the year ended 30 June 2013. The consolidated entity operates within the finance industry within Australia and its principal continuing activities during the year comprised the provision of financial products and services to members.

The concise financial report has been prepared in accordance with the requirements of the Corporations Act 2001 and Accounting Standard AASB 1039 Concise Financial Reports. bcu is a for profit mutual entity.

The concise financial report has been prepared on an accruals basis and are based on historical costs except for land and buildings, investment property, derivatives and financial assets available for sale that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks that are being hedged.

Accounting policies have been consistently applied to all years presented, unless otherwise stated. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current

year. Note 1 of the full financial report details all accounting policies.

The presentation currency of the concise financial report is Australian Dollars.

bcu has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the concise financial report and directors' report have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

NOTE 2

Statement of compliance

The full financial report complies with all Australian equivalents to International Financial Reporting Standards in the entirety.

NOTE 3

Accounting estimates and judgements

Management has made accounting estimates and judgements when applying bcu's accounting policies. Information about the significant accounting estimates and judgements is detailed in Note 1 of the full financial report. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on bcu and that are believed to be reasonable under the circumstances.

NOTE 4

Dividends and options

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended

or provided for. No options over issued shares were granted during or since the end of the financial year and there were no options outstanding at the date of the concise financial report.

NOTE 5

Events subsequent to the end of the reporting date

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

NOTE 6

Income

	2013 \$'000	2012 \$'000
INTEREST INCOME	80,368	90,008
NON-INTEREST INCOME		
Dividend revenue	239	440
Transaction and account fees	4,325	5,093
Loan fees and other commissions	3,305	3,146
Rental income	144	121
OTHER	253	-
TOTAL NON-INTEREST INCOME	8,266	8,800
TOTAL INCOME	88,634	98,808

NOTE 7**Profit before income tax**

Profit before income tax has been determined after the following items:

	2013 \$'000	2012 \$'000
EXPENSES		
Employment expenses	16,058	17,535
General and administration expense	7,671	7,777
Fees and commission expenses	4,282	4,079
Rental expense on operating leases	1,802	1,493
Occupancy expenses	1,884	1,760
Net impairment loss on loans and receivables	1,336	1,739
Impairment loss on other financial assets	10	-
Depreciation of plant and equipment	1,108	896
Amortisation of computer software	165	227
Amortisation of leasehold improvements	453	387
Net loss on disposal of property, plant and equipment	240	124
Depreciation of buildings	391	436

NOTE 8**Prudential remuneration disclosures**

The Board Governance Committee is responsible for overseeing remuneration. The members of the Board Governance Committee are:

GA Wallace (Chairman) - Chairman of the Board and Non-Executive Director

JO Hoey - Deputy Chairman of the Board and Non-Executive Director

DH Christy - Chairman of the Board Audit and Risk Committee and Non-Executive Director

The Board Governance Committee's mandate includes responsibility for overseeing the remuneration structure for the Board, the Chief Executive, Executive Management and other persons whose activities in the opinion of the committee may affect the financial soundness of the institution. The Board Governance Committee confirms that thirteen persons are senior managers in accordance with Prudential Standard CPS510 (2012-12). No persons were considered to be material risk-takers as per Prudential Standard CPS510 (2012-nil).

The Board Governance Committee meets as required with the number of meetings held during the year and attendance noted in the Directors' Report. There is no separate remuneration paid to the Board Governance Committee members in relation to their duties on this committee.

Advice regarding levels of remuneration and remuneration management practices is sought annually from McGuirk Management Consultants Pty Ltd.

bcu's Remunerations Policy is approved by the Board and was reviewed on and approved by the Board Governance Committee on the 30 April 2013. The Remuneration Policy applies to all employees of bcu and its controlled entities. The key features and objectives and the policy are to:

- establish a Remuneration Policy for bcu that complies with the APRA Prudential Standards and aligns remuneration to enterprise wide risk management;
- outline bcu's remuneration objectives;
- outline bcu's remuneration arrangements for any performance based structures applicable to the Board, the Chief Executive, Executive Management or other persons whose activities in the opinion of the Board Governance Committee may affect the financial soundness of the bcu; and
- establish a mechanism whereby performance based remuneration practices for the Board, the Chief Executive, Executive Management and other persons are regularly reviewed.

Balanced key performance indicators covering risk, capital, compliance, financial performance, people management, sales, service and reporting are taken into account in determining fixed and variable components of remuneration. As detailed in the Remuneration Policy, remuneration arrangements comprise the following components:

- a fixed component consisting of salary, FBT charges related to employee benefits, leave entitlements and employer contribution to

superannuation funds dependent on position accountability, responsibility, strategic direction, decision-making capability, performance and demonstrated leadership.

- a discretionary capped variable or short term cash bonus component differentiated by performance that takes into account the achievement of both individual and institution-wide financial and non-financial key performance indicators, business plans and priorities. The timing and payment of short term bonuses for senior managers (excluding the Chief Executive) is at the discretion of the Chief Executive. The timing and payment of a performance bonus for the Chief Executive is at the discretion of the Chairman of the Board. Given the discretionary nature of bonuses, there is no entitlement or guarantee to bonuses if either individual or institution-wide metrics are weak.
- bcu does not offer and has not awarded or paid during the year any of the following: long term incentives (including deferred fixed or variable remuneration); shares and share-linked instruments; sign-on awards; and/or guaranteed bonuses.

Total remuneration levels and performance are measured and on a regular basis but at a minimum, at least annually.

During the year the Remuneration Policy was reviewed and amended by the Board Governance Committee with the cap on individual's performance bonuses, when expressed as a percentage of their fixed remuneration, being amended.

Management of risk is critical to bcu's continuing profitability and sustainability and bcu actively manages risk through the operational responsibilities of management in accordance with policies approved by the Board and the Board

Audit and Risk Committee. The following key risks are taken into account in the performance and remuneration:

Risk	Measure
Capital	Capital adequacy ratio
Credit	Prescribed and specific provisions, Loan write-offs, Arrears, Geographic and industry exposures, Credit risk review findings
Market	Net interest income at risk, Value at risk as a percentage of capital
Liquidity	High quality liquidity asset ratio
Operational	Number and category of fraud events and losses, Number and category of operational losses, Customer feedback, Turnover and absenteeism
Compliance	Adherence to APRA requirements, Internal and external audit findings, Credit risk review findings

The performance and remuneration of risk and compliance staff is assessed in accordance with the framework contained in the remuneration policy (as described above). Performance is assessed according to key performance indicators related to the risk and compliance role undertaken. The key performance indicators may cover risk, capital, compliance, financial control, people management, service and reporting. The performance and remuneration of risk and compliance staff is reviewed annually to ensure that it is appropriate. Payment of any performance bonuses to risk and compliance staff is at the discretion of the Chief Executive.

The total value and type of remuneration for senior managers

during the year is listed in the table below. Senior managers are defined as per Prudential Standard APS330 Public Disclosure and do not include Directors. Prudential Standard APS330 Public Disclosure does not require comparatives to be provided this year.

	2013 \$'000	2013 \$'000
UNRESTRICTED DEFERRED		
FIXED REMUNERATION		
Cash-based (including short-term, long-term and post-employment benefits)	2,768	-
Shares and share-linked instruments	-	-
Other	-	-
DISCRETIONARY VARIABLE REMUNERATION		
Cash-based (including short-term, long-term and post-employment benefits)	273	-
Shares and share-linked instruments	-	-
Other	-	-

The number of senior managers who received discretionary variable remuneration during the year was 6.

No termination payments were made to senior managers during the year.

No persons were exposed to implicit or explicit adjustments of deferred remuneration and retained remuneration.

No remuneration was provided to material risk takers. Material risk-takers are defined as per Prudential Standard APS330 Public Disclosure.

Directors' Declaration

The Directors of Bananacoast Community Credit Union Ltd declare that:

- (a) The concise financial report of the entity for the year ended 30 June 2013 is in accordance with *Accounting Standard AASB 1039 Concise Financial Reports*; and
- (b) The financial statements and specific disclosures included in the concise financial report have been derived from and are consistent with the full financial report for the year end 30 June 2013.

This declaration is made in accordance with a resolution of the Board of Directors.



G A Wallace
Chairman



J O Hoey
Deputy Chairman

6 September 2013
Brisbane



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INDEPENDENT AUDITOR'S REPORT

To the members of Bananacoast Community Credit Union Ltd

Report on the Concise Financial Report

We have audited the accompanying concise financial report of Bananacoast Community Credit Union Ltd which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and related notes, derived from the audited financial report of Bananacoast Community Credit Union Ltd for the year ended 30 June 2013 and the discussion and analysis. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report not a substitute for reading the audited financial report.

Directors' Responsibility for the Concise Financial Report

The directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with Auditing Standards ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Bananacoast Community Credit Union Ltd for the year ended 30 June 2013. We expressed an unmodified opinion on that financial report in our reported dated 6 September 2013. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with the requirements laid down in AASB 1039 *Concise Financial Reports*.



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 Bananacoast Community 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, the concise financial report including the discussion and analysis of Bananacoast Community Credit Union Ltd for the year ended 30 June 2013 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

BDO Audit Pty Ltd

BDO
A handwritten signature in black ink, appearing to read 'T J Kendall', is written over the BDO logo.

T J Kendall
Director

Brisbane, 6 September 2013

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*Your region, **your money***