Annual Report
2011-2012

"By refinancing I saved $200 a week and was able to renovate my kitchen and bathroom."
Debrah, member since 1989

Teachers Mutual Bank
We put you first

"TMB has helped me save so I can follow my dream to dance at Disney World in the USA."

Samantha, member since 2007

Our vision

Teachers Mutual Bank will be the 'first choice' bank for all teachers and their families for all of their financial needs.

Our mission statement

Teachers Mutual Bank will create and deliver personalised products and services specifically for teachers.

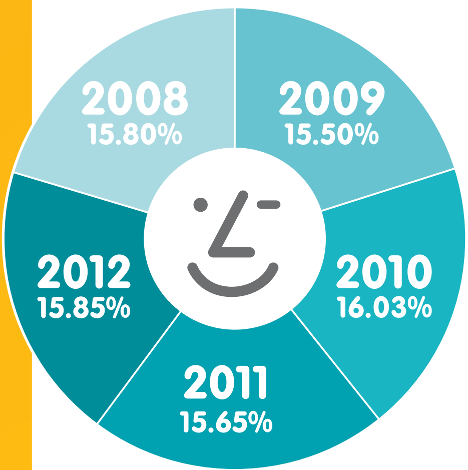
We will make it easier for them to save money and make money at every stage of their life in order for them to maximise their financial health and wellbeing.

Teachers Mutual Bank will protect and improve our competitive positioning, member equity and value through sustainable business practice.

Contents

Key financial performance

Our focus is to maintain sustainable growth to ensure we provide the competitive products and services that enable our members to secure their financial future.



Capital adequacy ratio

Capital adequacy is an industry ratio which measures the strengths of a capital protects depositiors institution. We are well above APRA's minimum requirements of 8%.

Membership

2008	155,314
2009	157,589
2010	155,875
2011	155,765
2012	156,523

Reserves

2008	$216,275,154
2009	$236,339,918
2010	$261,008,909
2011	$290,151,835
2012	$313,225,866

Reserves are accumulated profits held by us to protect depositors and ensure our ability to safely grow.

Profit after income tax

2008	$20,014,025
2009	$17,557,829
2010	$24,668,991
2011	$29,142,926
2012	$23,088,169

Profit after income tax is the amount of money we generate from operating our products and services minus the cost of providing those products and services, including all taxes.

Loan balances

2008	$2,029,522,844
2009	$2,194,521,508
2010	$2,435,145,369
2011	$2,777,971,717
2012	$3,085,021,899

Loan balances are the total of money owed to us by our members from personal loans, home loans, credit cards and overdrafts.

Member deposits

2008	$1,960,757,245
2009	$2,474,949,302
2010	$2,552,498,881
2011	$2,860,306,385
2012	$3,194,006,014

Member deposits are made up of savings, investments and shares, excluding interest accrued.

Assets

2008	$2,408,985,873
2009	$2,892,928,815
2010	$3,098,793,613
2011	$3,522,278,955
2012	$3,767,736,726

Assets are the total of all Teachers Mutual Bank assets.

"With TMB's help we were able to purchase a second property."
David, member since 2012

When we became Teachers Mutual Bank we promised to continue to do what we've always done – put you, our members, first.

John Kouimanos, Chairperson and Steve James, CEO

Chairperson and Chief Executive's report

The 2012 financial year saw us maintain our strong financial position. Our asset base grew by a healthy 7% to $3.8 billion, a robust result given the widespread uncertainty in the world economy.

Our capital adequacy ratio at 15.85% continues to be well above minimum requirements at year end and we expect this to continue. This gives us a substantial buffer to counter market pressures, and also to meet any future prudential requirements under Basel III.

While other institutions are struggling to attract borrowers, our loan portfolio continues to grow above industry levels at 11.05%. We have planned for above industry level growth in 2013 whilst continuing our prudent lending and strong loan quality which is reflected by our low loan arrears. Our deposit growth of 6.91% over the year has allowed us to reduce our excessive liquidity levels. Managing our wholesale deposits has improved profitability while meeting loan demands.

Our surplus for the year of $23.1 million down from $29.1 million in 2011, is a reflection of some of the more challenging market conditions, including greater competition in home lending, and subdued consumer sentiment. That said, we are pleased to report our capital reserves increased to $313 million.

The banking regulator, APRA (Australian Prudential Regulation Authority), will be implementing the new Basel III regime in Australia, ahead of most other economies. Although the majority of these requirements begin in 2015, we may well begin to see their impact as early as 2013.

Under the new regime all deposit-taking institutions will be more favourably treated by APRA if they source a greater portion of their longer term funds locally, reducing their reliance on overseas wholesale funds; and increase the proportion of local mortgage loans in their loan portfolio. We will see the major banks refocusing their attention on the retail financial market – our traditional market for both deposits and consumer loans – and the competition to win customers/members will intensify.

7%
asset base growth

$313 million
capital reserves

This is good news for consumers, as banks will be competing harder for business. We look forward to rising to this challenge. It will undoubtedly mean more pressure on our interest margins (the difference between what we receive on loans and pay on deposits) and will continue to impact on our revenue and profit.

As one of the biggest mutuals in Australia, with a strong brand identity and good member engagement, your directors and management are confident that Teachers Mutual Bank is well placed to manage these challenges, retain our competitiveness and grow market share.

When we became Teachers Mutual Bank in April we made a commitment to do what we've always done – put you, our members, first. We will continue to enhance member services and value, by offering easy and accessible financial services and investing in our people, infrastructure and technology.

Over the next 12 months we will improve our product range (including our Everyday transaction account), introduce a loan offset savings account and provide more flexible credit products for casual and temporary teachers.

Continuing our quest for innovative solutions that deliver better experiences through our mobile and internet banking platforms, we will implement one of the latest payment technologies to allow members to make instant mobile payments to anyone at any time.

Our commitment to providing customised products and services to support teachers will see further developments in our Future Teacher and Beginning Teacher programs. We will also be reviewing our school contacts program to ensure there are more opportunities for members to speak face to face with our staff and that we are delivering exceptional member service at every point of contact.

We trust that our endeavours will continue to honour the commitments we have made to you and that our years under the banner of 'Teachers Mutual Bank' will be our finest.

John Kouimanos

Steve James

Sustainability

For us, sustainability is simply the way we do business; it is built in, not bolted on.

Sustainability is and always has been an integral part of our business. It is reflected in our Constitution, embedded in our Values and is at the heart of our Mission Statement.

As a mutual bank, we believe that profit has a purpose. We don't pay dividends to shareholders. Instead, our profits help us deliver competitive rates, fairer fees, responsible lending and personalised service, and support our members' communities.

Our sustainability approach underpins the way we do business – ensuring that we not only run a responsible and profitable business, but that we give back to our communities, and manage our impact on people and the planet.

This year we have substantially improved our sustainability efforts. Our strategic business plan mandates that sustainability is integrated throughout the business and embedded in policies, procedures and practices.

Through surveys and regular engagement with our members we know that being a sustainable business is important.

Our five sustainability priority areas are – our **members**, our **sustainable business practises**, the **education community**, the **environment** and our **employees**.

We have revised our Sustainability Policy and set a total of 74 targets which will be reported on annually.

We are making good progress. We scored 79% and achieved Bronze status in the International Corporate Responsibility Index CRI[1], published in the London Financial Times amongst the 110 winners.

The CRI is a leading business benchmark, and provides a systematic approach to managing, measuring and reporting on responsible business practice.

CR INDEX 2012 BRONZE
BUSINESS IN THE COMMUNITY

Bronze status

in the International Corporate Responsibility Index

"I love the wide range of products and services and find your staff will always go the extra mile."
Doreen, member since 2002

Sustainability

We are 100% committed to doing what's right.

"A mortgage-free year removes a lot of stress"

Emma and John, members since 1996 and 2003. Winners of our 'mortgage free for a year' competition.

Advocacy

We aim to be everything you want in a bank – so you'll want to talk about us.

Members

Our aim is to help members achieve financial wellbeing by providing simple, practical and responsible banking solutions.

Making banking even easier

As a remote service provider, it's important to us that our members have access to information and are able to speak to a financial expert when they need to. We understand our membership is diverse and seek to ensure our members can access us easily. We are committed to ongoing investment in the enhancement and innovation of our online services as well as our mobile services. This includes maintaining mobile offices and business centres in key metropolitan and regional areas, as well as visiting schools, TAFE/CIT's and universities.

Putting members first

Putting members first is our mantra and our member satisfaction is the most important measurement of our success.

Earlier this year we received a 93% member satisfaction rating for our service in the Roy Morgan Research Customer Satisfaction Awards [2], which is one of the highest ratings in the industry. This is the second year in a row Teachers Mutual Bank has received this high rating. It is a testament to our continued focus to put you, our members first.

Over the past 12 months we have:

- **Introduced an iPad, iPhone & Android mobile banking application[3]** – Giving members even greater convenience to access mobile banking on the go.
- **Added functionality to SMS & email alerts** – Allowing members to monitor their account activity and be alerted to deposits and balance changes on their accounts. This makes it easy for members to manage their finances. Members can register for SMS banking through internet banking, or by completing an SMS banking registration form.
- **payWave functionality on our Visa cards** – This simple, secure and quick payment method allows members to wave their card on a secure Visa payWave reader to make small transactions, rather than 'swiping or dipping' the card. With no need for a PIN, it offers members a new level of speed and convenience when buying small items.
- **Competitive interest-only repayment option** – To assist members get into the investment market we now offer an interest-only repayment option on our most competitive Solutions Plus Home Loan and Smart Home Loan.
- **Expanded ATM network** – Members now have access to over 3,800 ATMs with the inclusion of Bank of Queensland and NAB ATMs.

93% member satisfaction

rating in the Roy Morgan Research Customer Satisfaction Awards[2]

Helping our members

achieve financial success is our number one priority

Employees

Our employees are our most valuable resource. We strive to create an engaged workforce by providing a supportive, safe and professional workplace with opportunities for staff to fulfil their potential.

Our culture is clearly defined by education. We encourage and support our staff to further their education, develop a career path and maintain a healthy work/life balance. We have a strong reputation for genuinely caring for staff and attract and retain high quality employees with our flexible work practices, strong leadership programs, generous remuneration and attractive benefits.

Employer of Choice for Women

For the fifth year in a row we have been recognised as an Employer of Choice for Women (EOCFW)[4]. We are one of only 125 organisations across Australia to receive the 2012 citation from the Equal Opportunity for Women in the Workplace Agency (EOWA).

EOWA Employer of Choice for Women

The EOCFW citation is awarded to non-government organisations with more than 100 employees that have demonstrated they have policies and practices dedicated to supporting women across the organisation, achieving positive outcomes for both women and the business.

A finalist in the 2011 Australian HR Awards

We were finalists in the Australian HR Awards 2011[5], in the Employer of Choice category (for less than 1,000 employees). This indicates our commitment to supporting our employees and enhancing their working environment, which was also confirmed by our employee satisfaction rating of 86%[6].

Staff training and development

We encourage and support staff to further their education, develop a career path and gain new skills. We currently have 22% of staff who are either undertaking studies or have completed a university degree, diploma, MBA or certificate. We have also developed a new course for our Credit Control department.

Health and wellbeing

We have a range of workplace health and safety (WH&S) initiatives that support the health and wellbeing of our staff and assist them to be the best they can be. These include subsidised City to Surf entries, massages, fitness classes, supporting corporate sport teams and a Weight Watchers program, plus we recently introduced a Mens Health promotional pack. We also run an annual Health Expo and continue to offer fresh fruit and flu shots. Through our long standing partner, IPS, we offer support to those who require help for personal issues. We have also acquired two Automatic External Defibrillator units.

10.56%

staff turnover, industry average 21.15%

31.25%

of staff have been employed with us for 10+ years

"I feel lucky to have had the opportunity to work in different roles. I have grown professionally and am now part of our Business Development team."

Rising Star 2011, Jazmin, Business Development Support Officer

We are passionate about being the best of the best – and putting members first in everything we do.

We invest a minimum 3% of our net profit after tax into a diverse range of community partnerships and initiatives each year.

"Being awarded this money means that I can concentrate on my studies, whilst my family is dealing with the immense costs of rebuilding our farm after the floods."

Emily, Future Teacher Scholarship recipient

Community

We are passionate about education and we invest in a diverse range of activities for teachers and the education communities to help them flourish.

We believe we have a responsibility to support the communities in which we conduct our business. By giving back to the education community, we feel we are also supporting our existing and future members and their families. This is good for the community and good for business.

We invest a minimum 3% of our net profit after tax into a diverse range of community partnerships and initiatives each year. We measure and benchmark our total community investments using the London Benchmarking Group (LBG) framework.

Helping teachers reach their full potential through professional development is a major focus of our investment. We help in professional learning by supporting conferences and events for Principals, Deputy Principals, teachers, school administration and support employees.

We have provided financial support through sponsorships, partnerships, grants, scholarships, donations. Including:

- Over 100 teacher development conferences
- Schools Spectacular, NSW
- Step into the Limelight, ACT
- NSW Department of Education and Community programs in the Creative and Performing Arts program
- CUFA
- Bush Children's Education Foundation
- WA Education Awards
- ACT School Sport
- Stewart House
- NSW Primary and High School Sport

Future Teacher Scholarships

We are passionate about assisting education students pursue their dreams of becoming a teacher. Our Future Teacher Scholarships provide $5,000 in financial assistance to university students studying to become teachers, to help them focus on their studies. The Future Teacher Scholarships were created as part of our commitment to education, and to support students who are facing financial hardship.

In 2012 we received a record 300 applications and awarded seven aspiring teachers from across Australia a Future Teacher Scholarship.

Since 2009, we have distributed

$110,000

in Future Teacher Scholarships to 22 teachers across NSW, ACT, NT and WA

Environment

We believe we have a responsibility to use resources wisely.

We are committed to continually addressing our environmental impact and taking practical steps to minimise and optimise our use of environmental resources. We help improve the environment in two ways – through management of our own footprint, and through the provision of grants to schools.

Our footprint

We have set a range of new targets to measure our impact on the environment.

We introduced a policy that all new cars added to our fleet have at least a 3.5 star rating in the Green Vehicle Guide.

We are committed to improving the sustainability performance and impacts across our supply chain. We have started to set tougher sustainability criteria for our print and production, because this is a major component of our footprint.

Grants

We provide funding to public schools for environmental projects through our Teachers Environment Fund. These projects provide teachers with the opportunity to promote and implement environmental awareness and practices through learning experiences.

Since 2008, the Teachers Environment Fund has distributed over $250,000 to 90 schools and 3 TAFE/CITs in NSW, ACT, NT and WA.

Fairfield High School expanded its organic vegetable garden to include a worm farm, equipment shed, a chicken coop and raised garden beds. The school uses the garden program as a practical way of enhancing literacy and numeracy in students with mild to moderate intellectual disabilities and those with Autism.

Warners Bay Public School expanded its organic vegetable garden with a tool shed, a small greenhouse for propagation, compost bins, worm farms and on-site mulching. Since the garden was first established in 2009, the program has been integrated into maths, language and science courses while also encouraging students to take part in a healthy, hands-on, outdoor activity.

$250,000

to 90 schools and 3 TAFE/CITs

"The project has been a great success. It's provided students with experience and allowed them to become involved with the environment. They have enthusiastically participated and have learnt specific gardening skills, which has helped them develop their skills and given them an appreciation for nature and a healthy lifestyle."

Oz Ozturk, Teacher, Special Education Faculty, Fairfield High school

The Teachers Environment Fund grant provides schools with the opportunity to promote and implement environmental awareness and practices through learning experiences.

"I like the fact that TMB has supported me throughout my career and are developing products and services that will assist the new teachers into the future."

Robert, member since 1977

Sustainability KPIs and targets

Key Performance Indicator	2011-12	2010-11	2009-10
Overall			
Corporate Responsibility Index (CRI) overall score	Bronze, 79%	The submission was due early 2012	N/A[7]
Members			
Member satisfaction rating	93%[2]	89%	87%
CANSTAR Member Valuation – against the four major banks[8]	N/A	$423.75	$235.63
Mobile offices and business centres held	62	57	64
Home loan and investment seminars held	37	34	38
Formal complaints received by external bodies	14	8	13
Members assisted through the Credit Assistance service	140 members	217 members	213 members
Community			
Total community investment	$755,600	$791,555	$532,335
Conferences supported	115	109	111
Employee fundraising	$17,623	$23,860	$20,289
Environment			
Paper recycled	44 tonnes	29 tonnes	65 tonnes
Waste generated	68 tonnes, 171 kg per FTE	70 tonnes, 175 kg per FTE	60 tonnes, 153 kg per FTE
Paper consumed	6,903 sheets per FTE	8,779 sheets per FTE	6,659 sheets per FTE
GHG emissions generated	2,150 tonnes, 5.4 tonnes per FTE	2,509 tonnes, 6.1 tonnes per FTE	2,168 tonnes, 5.8 tonnes per FTE
Toner cartridges recycled	320 kg	298 kg	266 kg
Water consumed	13,732 litres per FTE	12,045 litres per FTE	18,705 litres per FTE
Employees			
Percentage of females in management	37.5%	37.5%	37.5%
Employee satisfaction[6]	86%	83%	86%
Employee engagement rating[6]	85%	84%	86%[8]
Employee turnover rate	10.56%	4.94%	5.6%
Employees who have or are currently studying	22%	23%	22%
Study leave days granted	238	366	330
Number of workers compensation claims	13	13	6
Number of accident statistics reported	30	39[10]	36
Number of new WH&S Programs	6	7	3
Employee's satisfaction with WH&S	91%	94%	92%
Average lost time incident rate (in days)	9.7	4.3	6.6

Sustainability is a core business value and, to ensure that it is embedded across the business, we have revised our business targets for 2012/2013. There are 74 targets.

1. Sustainable business practices

Targets	
Achieve a Silver rating in the 2013 CRI (Corporate Responsibility Index)	Compliance with all relevant industry codes and legislation
Achieve >90% and above the sector average in the Workplace section of the CRI	Undertake a stakeholder mapping exercise and implement a revised stakeholder engagement plan
Benchmark and report our community investment using the LBG methodology	Establish mechanisms for two-way sustainability dialogue with stakeholders
All staff, Grade 6 and above, have sustainability KPIs in their performance plans	Survey key suppliers on how they incorporate CSR issues into their products, services and management practices
Review and improve sustainability training and education available to employees	Increase the purchase of more sustainable products and services
Assign Board responsibilities for sustainability	Produce a sustainable print and paper policy
Launch a revised Sustainability Policy and review annually	Introduce sustainability criteria into specific RFPs and contracts
Sustainability embedded into business policies, practices and decision making	Actively research and trial more sustainable products with third party verification e.g. FSC, Fair Trade
Revise and launch a new Sustainability Committee Charter	Maintain a zero tolerance culture for corruption and fraud

2. Members

Targets	
Achieve member satisfaction ratings at or above 90%	Host external events for members
Improve CANSTAR Member Valuation	Visit members' workplaces
Improve member retention rates	90% of members feel they have adequate access to banking services
Reduce number of complaints received by external bodies each year	90% of members feel they have adequate access to information and assistance
All complaints responded to within 1 business day	100% of marketing campaigns complying with responsible marketing guidelines
Achieve best practise for all complaints resolved within 14 days	Zero breaches of responsible marketing guidelines
100% of front line staff trained in complaints handling	Assist members in financial difficulty
Zero breaches of the Privacy Act	

3. Community

Targets	
Maintain our minimum commitment of 3% NPAT invested in sustainability initiatives	Improve our support for indigenous education initiatives
Provide financial support for the education community via sponsorship and donations	Enhance the professional development of teachers via the support of teacher conferences and events
Prioritise collaboration with state education departments in NSW, ACT, WA and NT	Provide Teachers Environment Fund grants for sustainability in schools
Foster effective relationships with the education community	Financially assist student teachers with Future Teachers Scholarships
Continue to be a leading corporate sponsor of Stewart House	Fund the NSW Premier's Teachers Mathematics Scholarship
Assist poverty alleviation in Asia Pacific via Platinum Sponsorship of CUFA	Support employee-driven charity programmes

4. Employees

Targets	
Maintain employee satisfaction rating at or above 85%	Zero tolerance to discrimination, harassment and bullying
Maintain employee engagement at or above 80%	Exceed the ASX average of the percentage of females in Board, Executive and Management positions
Achieve employee engagement rating above global average for financial services industry	Be recognised as an employer of choice for women by the EOWA
Minimum 85% of employees recommending TMB as a good place to work	Continue to develop and implement diversity, anti- discrimination and flexible working practices for recruitment, training and personal development
Maintain staff turnover at least 10% below industry average	Reduce LTIR (Long Term Injury Rate) in days
Minimum 20% of staff engaged in studying	Target an accident and injury free workplace
All employees have completed annual performance reviews	Maintain staff satisfaction with WH&S at or above 85%
All employees have completed annual development plans	Make health, safety and wellbeing an integral part of all employee's roles
Continue to develop and implement policies and procedures that reflect best practise in employee relations	

5. Environment

Targets	
Improve data collection processes for energy, waste, water, paper and supply chain	Introduce new technology and processes to reduce paper wastage and improve efficiency
Engage and train employees on sustainable office practices	Implement revised sustainable print and paper policy
Buy a minimum of 10% renewable electricity for owned buildings	Increase the number of members receiving online statements/newsletters
5% reduction in Headquarter's energy/GHG emissions to 2013, and 10% by 2015	25% reduction in head office water use by 2013
Implement new staff engagement programmes to save energy	Reduce total waste to landfill on 2011
All new cars purchased for our fleet to achieve at least a 3.5 star rating in the Green Vehicle Guide	Improve our recycling programme for printers, toners, IT, phones, paper and cardboard

Things you should know

[1] www.bitc.org.uk.

[2] Roy Morgan Research Customer Satisfaction Award given in February 2012. Roy Morgan Research has over 70 years' experience in collecting objective, independent information on consumers. Their customer satisfaction ratings are collected from Roy Morgan's Single Source survey of approximately 50,000 Australians annually and Business Single Source survey of 22,000 business decision makers annually - the world's largest ongoing single source survey.

[3] We have tested our mobile application on devices running iOS4.0 and Android 2.3.3 and above. Our aim is to ensure compatibility with the majority of popular devices used by members, but cannot guarantee that it will be compatible with all devices and operating systems.

[4] Organisations are assessed for EOCFW against rigorous application criteria which consider a number of workplace issues including pay equity, women in executive management, flexibility, sex based harassment and career development training. Importantly, the citation requires the organisation's CEO to be the driving force behind the culture which supports the advancement of female employees.

[5] This award recognises the best small to mid-sized organisation to work for in Australia. Once nominations are submitted, extensive research is conducted and organisations are evaluated on a set of key criteria.

[6] Staff engagement and satisfaction scores were taken from Teachers Mutual Bank's annual Staff Survey results, which were conducted externally by Quantum Management Consultants.

[7] We did not participate in the CRI this year.

[8] This CANSTAR member valuation is a measurement of the return provided on the investment that the member share represents. The study was commissioned by Teachers Mutual Bank based on April 2011 figures. CANSTAR is an independent financial services research group.

[9] This was measured as part of our 2010 staff satisfaction survey.

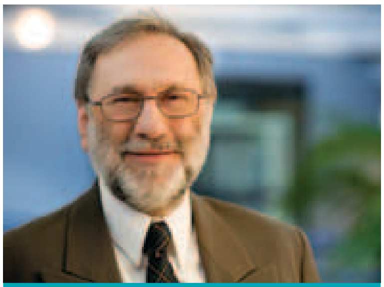
[10] Includes 13 Motor Vehicle Accidents.

Directors' report

Your Directors present their report on Teachers Mutual Bank Limited (previously Teachers Credit Union Limited) for the financial year ended 30th June 2012. Teachers Mutual Bank is a company registered under the Corporations Act (Cth) 2001.

Information on Directors

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



John Kouimanos
(Chairperson)

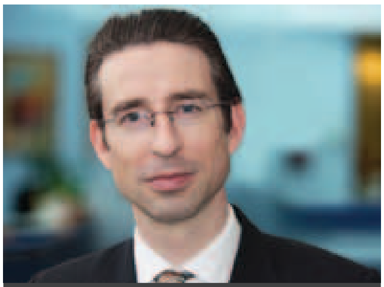
BA, Dip. Ed

John Kouimanos commenced teaching in 1967 and retired as Head Teacher Social Sciences at Greystanes High School in February 2004. He was a member of the Supervisory Committee for six months and has served as a Director since 1974. Mr Kouimanos is Chair of the Board Remuneration Committee and a member of the Large Exposures Committee.

Linda Green
(Deputy Chairperson)

Dip. Teach, B.Ed (Primary Education), GAICD

Linda Green commenced teaching in 1979 and is currently Principal of Robert Townson Primary School. She served as a member of the Supervisory Committee for two years and was elected to the Board in 1997, and as Deputy Chairperson in 2009. Mrs Green is Chairperson of the Marketing, Media and Member Relations Committee, and a member of the Development and Education Committee and Board Remuneration Committee.



Tyrone Carlin
(Director)

B Com, LLB (Hons), M Com (Hons), LLM, PhD, Grad Dip Fin SIA, CA, FCPA, FFin, MAICD, MFP

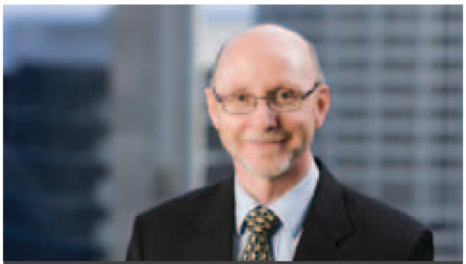
Tyrone Carlin is Professor of Financial Regulation and Reporting and Pro Vice Chancellor (Education Operations) of the University of Sydney. He has held a variety of prior senior academic appointments including Acting Dean of the University of Sydney Business School, Dean of Law at Macquarie University and Director of Academic Programs at Macquarie Graduate School of Management. Professor Carlin teaches in the areas of financial reporting and management, corporate acquisitions and reconstructions and corporate and commercial law, and has published more than 100 scholarly articles in his areas of expertise. He has been engaged as a consultant by a substantial number of leading corporate, professional services and Government organisations. He is a director of CPA Australia and Chair of Sydney Talent Ltd. Professor Carlin is a member of the Audit, Risk and Compliance and Large Exposures Committees.

Michelene Collopy

(Director)

B.Ec, CA (FPS), GAICD

Michelene Collopy has over 20 years' experience in financial markets and has held senior roles in compliance, funds management, treasury and financial reporting. Michelene is currently a Director of Perpetual Superannuation Limited, is on the Compliance Committee of Citigroup Global Markets Australia Pty Limited, and works as a consultant for Manresa Financial Services Pty Ltd. Ms Collopy is a qualified chartered accountant and financial planning specialist, a registered company auditor, licensed operator on the Australian Stock Exchange, and Justice of the Peace. She is Chairperson of the Audit, Risk and Compliance Committee, and a member of the Board Remuneration Committee.

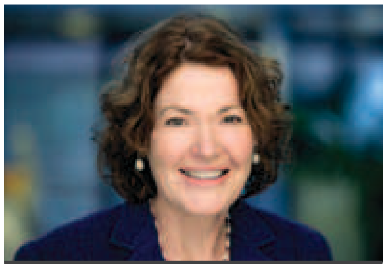


Tony FitzGerald

(Director)

B. Ec, Fellow of FINSIA, JP

Tony FitzGerald has nearly 40 years' experience in the financial services sector. Currently he is the non-executive Chairman of Colonial First State Global Asset Management's Credit Committee, the asset management division of the Commonwealth Bank of Australia. He is also a member of the Board Finance Committee of the Royal Australasian College of Physicians, a member of the Investment Committee of UniSuper and a member of the Investment Advisory Committee of Altius Asset Management. He brings to the Board extensive experience in credit and risk management, having held senior roles in Australia, Europe, Asia and the US. Mr FitzGerald is Chair of the Large Exposures Committee and a member of the Audit, Risk and Compliance Committee.



Jennifer Leete

(Director)

BA, Dip. Ed

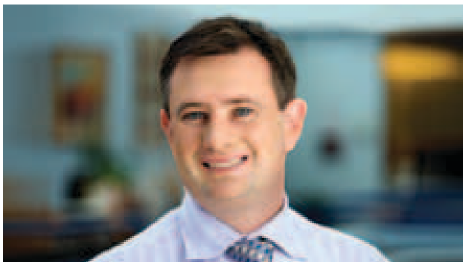
Jennifer Leete commenced teaching in 1977. Her last teaching position was as Head Teacher Social Sciences at Narrabeen High School. She became an organiser for the NSW Teachers Federation in 1989 and was the Deputy President of the Federation from 1998 to 2005. Ms Leete was elected as a Director in October 2005. She is Chairperson of the Development and Education Committee, and a member of the Board Nominations Committee and Marketing, Media and Member Relations Committee.

Graeme Lockwood

(Director)

Dip. Teach, Grad Dip C. Ed, GAICD

Graeme Lockwood commenced teaching in 1974 and is currently Head Teacher (Administration) at Normanhurst Boys High School. He served on the Supervisory Committee and Members Committee for many years and was elected to the Board in 2004. He is a member of the Audit, Risk and Compliance Committee, Board Nominations Committee and Development and Education Committee. Also, he is Chairman of QT Travel Pty. Ltd (trading as Diploma Travel).



Connuil McEvedy

(Director)

MBT, Grad Dip Corporate Governance, Grad Dip Science (Security), Grad Cert Engineering (Risk), Chartered Company Secretary, JP

Connuil McEvedy has over 20 years' experience in governance, risk management and compliance and currently is the Executive Manager, Risk & Compliance, Property & Infrastructure at Colonial First State Global Asset Management, the consolidated asset management division of Commonwealth Bank of Australia group. Mr McEvedy has worked for state and federal public sector agencies as well as listed and unlisted private sector organisations across Australia and around the world in financial services, law, information technology, gaming and telecommunications. He is also a Certified Compliance Professional and a Certified Business Continuity Professional. Mr McEvedy is a Member of the Australasian Compliance Institute, the Australian Institute of Management, the Risk Management Institute of Australia and the Australasian Mutuals Institute, and a Graduate Member of the Australian Institute of Company Directors. He is a member of the Audit, Risk and Compliance Committee.

Maree O'Halloran AM

(Director)

AM, BA/Dip Ed, LLM, Dip Legal Practice

Maree O'Halloran is currently Director (CEO) of the Welfare Rights Centre, where she also practises as a solicitor. The Welfare Rights Centre advocates for and assists some of the most disadvantaged people in the community. Ms O'Halloran has also worked as a teacher in public schools, TAFE and Corrective Services. She has been an active voice for the teaching community, having served in numerous positions, including president, of the NSW Teachers Federation, and served as a director of Teachers Federation Health and the SAS Trustee Corporation. She is a member of the Marketing, Media and Member Relations Committee.

Ms O'Halloran was awarded the Member of the Order of Australia (AM) in the 2011 Australia Day Honours List, in recognition of her service to industrial relations and the education sector.

Information on company secretaries

The names of the Company Secretaries in office at the end of the year are:

Steve James
(Chief Executive)

Master of Business Administration (UWS), Diploma in Company Directors Course (AICD), Advanced Accounting Certificate (TAFE).

Steve James is the Chief Executive of Teachers Mutual Bank. Having worked in a diverse range of management roles at Teachers Mutual Bank over the last 30 years, Steve has played a significant role in its growth and success. He became Chief Executive in 2005. Steve has been an active participant in both the national and global credit union movement, including participating on many national credit union committees, developing his understanding and appreciation of the environment of credit unions and mutual banks. He is committed to ensuring Teachers Mutual Bank maintains its high level of member service, employee satisfaction, and financial performance.

Brad Hedgman
(Deputy Chief Executive)

Master of Business (UTS), Graduate Certificate in Business and Technology (UNSW), Diploma in Company Directors Course (AICD). Fellow of Finsia and MAICD.

Brad Hedgman joined Teachers Mutual Bank in 1982 and has worked in a diverse range of management positions since that time. While working primarily in the areas of finance, information technology, administration and risk, he has played an integral part in Teachers Mutual Bank's strength and success. In his current role he remains committed to the unique environment of mutual banks and the provision of responsible financial services to our members.

Directors' board meetings

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

(A) Number of meetings attended

(B) Number of meetings entitled to attend.

Leave of absence was granted where Directors were unable to attend Board of Directors meetings.

* Scheduled to attend a Board Meeting remotely but was prevented due to technical issues.

Total Board of Directors meetings: 16

Board of Directors meetings attended by:	A	B
John Kouimanos	16	16
Linda Green	16	16
Tyrone Carlin	14*	16
Michelene Collopy	16	16
Tony FitzGerald	14	16
Jennifer Leete	14	16
Graeme Lockwood	16	16
Connuil McEvedy	15	16
Maree O'Halloran	16	16

Committees of Directors' meetings

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

	Audit, Risk and Compliance		Board Remuneration		Development and Education		Large Exposures		Marketing, Media and Member Relations		Nominations	
	A	B	A	B	A	B	A	B	A	B	A	B
Total meetings		5		3		2		3		4		2
John Kouimanos	5	5	3	3			3	3				
Linda Green			3	3	2	2			4	4	1	1
Tyrone Carlin	5	5					3	3				
Michelene Collopy	5	5	3	3								
Tony FitzGerald	5	5					3	3				
Jennifer Leete					2	2			4	4	1	1
Graeme Lockwood	5	5			2	2					1	1
Connuil McEvedy	5	5					1	1				
Maree O'Halloran									4	4	1	1

A Number of meetings attended. B Number of meetings entitled to attend. Leave of absence was granted where Directors were unable to attend any of the above meetings.

Directors' benefits

No Director has received, or become entitled to receive, during or since the financial year, a benefit because of a contract made by the mutual bank, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 29 of the financial report.

Indemnifying officers or auditors

Insurance premiums have been paid to insure each of the Directors and officers of the mutual bank, against 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 mutual bank. 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 auditors of the mutual bank.

Financial performance disclosures

Principal activities

The principal activities of the mutual bank during the year were the provision of retail financial services 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

The net profit of the mutual bank for the year after providing for income tax was $23.0 million (2011 $29.1 million).

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the mutual bank.

Review of operations

The results of the mutual bank's operations from its activities of providing financial services did not change significantly from those of the previous year.

Significant changes in state of affairs

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

Events occurring after balance date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the mutual bank in subsequent financial years.

Likely developments and results

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

(i) The operations of the mutual bank

(ii) The results of those operations; or

(iii) The state of affairs of the mutual bank

in the financial years subsequent to this financial year.

Auditors' independence

The auditors have provided the declaration of independence to the Board of Directors as prescribed by the Corporations Act 2001 as set out below.

Rounding

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Class Order 98/100 (as amended by 06/709). The mutual bank is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures which are shown in whole dollars.

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

Signed on behalf of the Board of Directors by:

John Kouimanos,
Chairperson

Michelene Collopy,
Chairperson of Audit,
Risk and Compliance Committee

Signed and dated this 17th September 2012

Directors' declaration

The Directors of Teachers Mutual Bank Limited declare that:

The financial statements comprising the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows and accompanying notes, are in accordance with the Corporations Act 2001 and:

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

(b) give a true and fair view of the financial position of the mutual bank as at 30th June 2012 and performance for the year ended on that date.

The mutual bank has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

In the Board of Directors' opinion, there are reasonable grounds to believe that the mutual bank will be able to pay its debts as and when they become due and payable.

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

Signed on behalf of the Board of Directors by:

John Kouimanos,
Chairperson

Signed and dated this
17th September 2012

Grant Thornton

Mr J Kouimanos
Chairperson
Teachers Mutual Bank Ltd
PO Box 7501
Silverwater NSW 2128

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Auditor's Independence Declaration
To the Directors of Teachers Mutual Bank Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Teachers Mutual Bank Ltd for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Neville Sinclair
Director - Audit & Assurance

Sydney_Market_St, 14 September 2012

Grant Thornton

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Independent Auditor's Report
To the Members of Teachers Mutual Bank Limited

We have audited the accompanying financial report of Teachers Mutual Bank Limited (the "Company"), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company .

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 of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 and fair presentation of the 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 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.

Electronic presentation of audited financial report

This auditor's report relates to the financial report of Teachers Mutual Bank Limited and controlled entities for the year ended 30 June 2012 included on Teachers Mutual Bank Limited's web site. The Company's Directors are responsible for the integrity of Teachers Mutual Bank Limited's web site. We have not been engaged to report on the integrity of Teachers Mutual Bank Limited's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

a the financial report of Teachers Mutual Bank Limited 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 2012 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 the notes to the financial statements.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Neville Sinclair
Director - Audit & Assurance

Sydney, 17 September 2012

Financial statements

Notes to the financial statements

Statement of comprehensive income

For the year ended 30th June 2012

		Note	2012 $'000	2011 $'000
Interest revenue		2a	249,372	227,041
Interest expense		2c	(159,299)	(137,844)
Net interest income			90,073	89,197
Fee, commission and other income		2b	21,344	21,585
Sub total			111,417	110,782
Less:	Non-interest expenses			
	- Impairment losses on loans and advances	2d	(2,528)	(2,108)
	General administration	2e		
	- Employees compensation and benefits		(39,603)	(34,970)
	- Depreciation and amortisation		(4,387)	(4,103)
	- Transaction expenses		(10,768)	(10,656)
	- Information technology		(5,838)	(4,452)
	- Office occupancy		(2,805)	(2,318)
	- Other administration		(13,038)	(11,313)
Total general administration			(76,439)	(67,812)
Total non-interest expenses			(78,967)	(69,920)
Profit before income tax			32,450	40,862
Income tax expense		3	(9,362)	(11,719)
Profit after income tax			23,088	29,143
Other comprehensive income				
	Net movement on cash flow hedge	20	(14)	-
Total comprehensive income			23,074	29,143

Statement of changes in member equity

For the year ended 30th June 2012

	Capital reserve $'000	General reserve for credit losses $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total members' equity $'000
Total at 1st July 2010	329	16,379		244,301	261,009
Total comprehensive income for the year – as reported	-	-	-	29,143	29,143
Dividends paid and provided	-	-	-	-	-
Sub total	329	16,379	-	273,444	290,152
Transfers to (from) reserves	76	2,442	-	(2,518)	-
Total at 30th June 2011	405	18,821	-	270,926	290,152
Balance as at 1st July 2011	405	18,821	-	270,926	290,152
Total comprehensive income for the year – as reported	-	-	(14)	23,088	23,074
Dividends paid and provided	-	-	-	-	-
Sub total	405	18,821	(14)	294,014	313,226
Transfers to (from) reserves	63	2,055	-	(2,118)	-
Total at 30th June 2012	468	20,876	(14)	291,896	313,226

Statement of financial position

For the year ended 30th June 2012

	Note	2012 $'000	2011 $'000
Assets			
Cash on hand and deposits at call		123,187	345,080
Receivables from financial institutions	4	507,481	337,818
Derivative assets	5	22	-
Receivables	6	15,694	27,259
Prepayments		1,622	1,722
Loans and advances to members	7 & 8	3,081,729	2,774,659
Available for sale investments	9	4,383	4,383
Property, plant and equipment	10	24,533	23,669
Taxation assets	11	5,631	5,407
Intangible assets	12	3,455	2,282
Total assets		3,767,737	3,522,279
Liabilities			
Wholesale sector deposits	13	51,089	97,860
Retail deposits	14	3,373,762	3,105,674
Derivative liabilities	5	37	-
Creditors accruals and settlement accounts	15	12,813	12,608
Taxation liabilities	16	2,713	3,384
Provisions	17	14,097	12,601
Total liabilities		3,454,511	3,232,127
Net assets		313,226	290,152
Member equity			
Capital reserve account	18	468	405
General reserve for credit losses	19	20,876	18,821
Cash flow hedge reserve	20	(14)	-
Retained earnings		291,896	270,926
Total members' equity		313,226	290,152

Statement of cash flows

For the year ended 30th June 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Interest received		256,065	220,935
Fees and commissions		17,046	17,880
Dividends received		942	2,209
Other non-interest income received		1,869	781
Interest paid on deposits		(159,085)	(132,910)
Borrowing costs		(45)	(26)
Expenses paid to suppliers and staff		(71,101)	(61,195)
Income tax paid		(10,348)	(12,393)
Net increase in loans and advances to members		(308,270)	(343,293)
Net increase in retail deposits		272,258	366,145
Net cash flows from operating activities	34b	(669)	58,133
Cash flows from investing activities			
Acquisition of property, plant and equipment		(4,544)	(1,860)
Acquisition of intangible assets		(1,880)	(1,312)
Sale of property, plant and equipment		585	185
Increase/(decrease) in deposits with other financial institutions		(169,663)	253,182
Net cash flows used in investing activities		(175,502)	250,195
Cash flows from financing activities			
Increase/(decrease) in wholesale sector deposits		(45,722)	17,401
Net cash flows from (used in) financing activities		(45,722)	17,401
Net increase/(decrease) in cash held		(221,893)	325,729
Add opening cash brought forward		345,080	19,351
Closing cash carried forward	34a	123,187	345,080

Notes to the financial statements

1. Statement of accounting policies

This financial report is prepared for Teachers Mutual Bank Limited (previously Teachers Credit Union Limited) as a single entity, for the year ended the 30th June 2012. The report was authorised for issue on the 17th September 2012, in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), Interpretations of the Australian Accounting Standards Board, and the Corporations Act 2001. Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures the financial statements and notes comply with the International Financial Reporting Standards (IFRS).

a. Basis of measurement

The financial statements have been prepared on an accruals basis and are based on historical costs, which do not take into account changing money values or current values of non-current assets, except for the treatment of derivative financial instruments stated in Note 1i, Employee Entitlements stated in Note 1n and Leasehold make good costs stated in Note 1o. The accounting policies are consistent with the prior financial year unless otherwise stated.

b. Loans to members

Basis of recognition

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the mutual bank at balance date, less any allowance or provision against debts considered doubtful.

Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Bad debts are written off when identified and are recognised as expenses in the statement of comprehensive income.

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below.

Non-accrual loans are loans and advances, including savings accounts drawn past their approved credit limit, where the recovery of all interest and principal is considered to be reasonably doubtful. Interest charged and not received on this class of loan is not recognised as revenue.

Restructured loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities of comparable risk. Loans, where interest has been stopped or is less than the mutual bank's average cost of funds, are included in non-accrual loans.

Assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

Past-due loans are loans where payments of principal and/or interest are at least 30 days in arrears that are not non-accrual loans or restructured loans. Full recovery of both principal and interest is expected.

Interest earned

Variable and fixed rate loans Loan interest is calculated on the daily balance outstanding and is charged in arrears on the last day of each month. All home loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.

Fixed interest loans Loan interest is calculated at a fixed rate on the daily balance and is charged in arrears on the last day of each month.

Overdrafts Loan interest is calculated on the daily balance outstanding and is charged in arrears on the last day of each month.

Overdrawn savings Loan interest is calculated on the daily balance outstanding and is charged in arrears on the last day of each month.

Credit cards Loan interest is calculated on the outstanding balance, after any interest-free period applicable, that has not been paid for by the due date. Interest is charged in arrears on the last day of the statement period.

Balance offset loans Loan interest is calculated on the same basis as variable rate loans but with the daily balance outstanding reduced by 65% of the balance held in the Balance Offset Savings Account for that day.

Green loans Payments received under the Australian Government Green Loans Program are recognised as interest upon receipt.

Loan origination fees

Loan establishment fees are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

Transaction costs

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

Fees on loans

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

c. Loan impairment

Specific provision

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board of Directors to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8.

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

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

Reserve for credit losses

In addition to the above specific provision, the Board of Directors has deemed it prudent to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve is based on estimation of risks inherent in the business of the mutual bank but which are not capable of being specifically identified. It is determined at the rate of 0.60% of the aggregate of all drawn on-statement of financial position loans, redraw rights attaching to loans paid in advance and irrevocable credit commitments.

d. Bad debts written off

Loan balances are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are recognised as expenses in the statement of comprehensive income.

e. Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation, less impairment losses.

Property, plant and equipment with the exception of freehold land, are depreciated on a straight line basis to write off the net cost of each asset over its expected useful life to the mutual bank. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the balance date are as follows:

- Buildings - 40 years.
- Leasehold improvements - up to 5 years (term of lease).
- Plant and equipment - 2.5 to 7 years.

f. Intangible assets

Items of computer software which are not integral to the computer hardware owned by the mutual bank are classified as intangible assets and amortised over an expected useful life of 2.5 to 4 years.

g. Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

h. Receivables from financial institutions

Term deposits and Negotiable Certificates of Deposit (NCDs) are unsecured and have a carrying amount equal to their purchase price. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

i. Derivative financial instruments

Interest rate swaps

The mutual bank enters into interest rate swaps to manage its exposure to interest rate risk. Interest rate swaps are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The interest rate swaps are designated as hedges of highly probable forecast transactions (cash flow hedges).

Hedge accounting

At the inception of the hedge the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions is documented. Furthermore, at the inception of the hedge and on an ongoing basis, the mutual bank documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Details of the fair value of the derivative instruments used for hedging purposes are provided in Note 25 while movements in the hedging reserves are provided in Note 20.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. Hedge accounting is discontinued when the hedging relationship is revoked, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

j. Equity investments and other securities

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

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

k. Retail deposits

Basis for determination

Retail savings and term deposits are quoted at the aggregate amount of money owing to depositors.

Interest payable

Savings Savings account interest is calculated on the daily balance and credited monthly.

Mortgage breaker accounts Savings balance is offset against the loan account as described in Balance Offset Loans in Note 1b.

Fixed term deposits Interest on fixed term deposit accounts is calculated on a daily basis at the agreed rate and is paid in accordance with the terms of the deposit. Interest payable is included in the amount of retail deposits in the statement of financial position.

l. Wholesale sector deposits

Basis for determination

Wholesale term deposits and Negotiable Certificates of Deposit (NCDs) are quoted and issued at the aggregate amount of money owing to depositors.

Interest payable

Interest on fixed term deposit accounts is calculated on a daily basis at the agreed rate and is paid in accordance with the terms of the deposit. Interest payable is included in the amount of wholesale sector deposits in the statement of financial position.

m. Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

n. Provision for employee benefits

Provision is made for the mutual bank's liability for employee entitlements arising from service rendered by employees to balance date. Employee entitlements expected to be settled within one year, liability for termination of employment contracts and entitlements arising from wages, salaries and annual leave including annual leave loading have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability, are used.

Employee entitlements expenses and revenues arise in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- Other types of employee entitlements are charged against profits on a net basis in their respective categories.

o. Leasehold on premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted at the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability. Increases in the provision in future years shall be recognised as part of the interest expense.

p. Income tax

The income tax expense shown in the statement of comprehensive income is based on the operating profit before income tax adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity, are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the mutual bank will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

q. Goods and services tax (GST)

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

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense, unless specifically stated otherwise.

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

r. Business Combinations

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued, the value of the equity instruments is their market value as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The transaction costs of acquiring the business other than for the issue of equity instruments, such as due diligence costs, legal and accounting fees, are to be expensed as incurred by the mutual bank as part of operating expenses.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised in equity.

s. Impairment of assets

At each reporting date the mutual bank assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in the statement of comprehensive income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

t. Accounting estimates and judgements

Management has made judgements when applying the mutual bank's accounting policies with respect to the classification of assets as available for sale.

The detail of the critical accounting estimates and assumptions are set out in Note 8 for the impairment provisions for loans.

u. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30th June 2012 reporting periods. The mutual bank's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Nature of change	Application date	Impact on initial application
AASB 2011-6 issued November 2011	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets.	Annual reporting periods commencing on or after 1st July 2012.	Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 9 Financial Instruments issued December 2009 and amended December 2010	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to: Classification and measurement of financial liabilities; and Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1st January 2015.	Due to the recent release of these amendments and that adoption is only mandatory for the 31st December 2015 year end, the entity has not yet made an assessment of the impact of these amendments.
AASB 13 Fair Value Measurement issued September 2011	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.	Annual reporting periods commencing on or after 1st January 2013.	When this standard is adopted for the first time for the year ended 30th June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1st July 2014. When this standard is adopted for the first time on 1st July 2014, additional disclosures will be required about fair values.
AASB 119 Employee Benefits reissued September 2011	Main changes include: Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans. Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in other comprehensive income rather than in profit or loss, and cannot be reclassified in subsequent periods. Subtle amendments to timing for recognition of liabilities for termination benefits. Employee benefits expected to be settled (as opposed to due to be settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods commencing on or after 1st January 2013.	The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for 30th June 2014 year end, annual leave liabilities will be recalculated on 1st July 2013. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1st July 2013 and a corresponding increase in retained earnings at that date.

2. Income statement

a. Interest revenue

	2012 $'000	2011 $'000
Cash - deposits at call	6,168	6,065
Receivables from financial institution deposits	30,133	25,616
Loans and advances to members	213,069	195,341
Other	2	19
Total interest revenue	249,372	227,041

b. Non-interest revenue comprises

	2012 $'000	2011 $'000
Fee and commission revenue		
Loan fee income - other than loan origination fees	2,116	1,772
Other fee income	6,017	6,974
Insurance commissions	3,799	4,087
Other commissions	5,230	4,907
Total fee and commission revenue	17,162	17,740
Other income		
Dividends received on available for sale assets	942	2,209
Bad debts recovered	989	883
Gain on disposal of assets:		
- Property, plant and equipment	585	185
Transfers from provisions:		
- Impairment losses on loans and advances	339	-
- Environment fund	-	3
- Sick leave	103	-
- Director development	-	20
Miscellaneous revenue	1,224	545
Total non-interest revenue	21,344	21,585

c. Interest expenses

	2012 $'000	2011 $'000
Overdraft	45	26
NCDs issued	50	-
Wholesale deposits	2,150	5,305
Retail deposits	157,042	132,513
Other	12	-
Total interest expenses	159,299	137,844

d. Impairment losses

	2012 $'000	2011 $'000
Increase in provision for impairment	-	242
Bad debts written off directly against profit	2,528	1,866
Total impairment losses	2,528	2,108

e. Prescribed expense disclosures

	2012 $'000	2011 $'000
Employees costs include		
Personnel costs	35,247	30,733
Superannuation contributions	2,787	2,519
Net movement in provisions for employee annual leave	323	282
Net movement in provisions for employee long service leave	1,246	1,318
Net movement in provisions for employee sick leave	-	118
Sub total	39,603	34,970
Depreciation and Amortisation expense comprises		
Buildings	549	541
Plant and equipment	2,424	2,305
Leasehold improvements (including lease make good provisions)	165	161
Written down value of assets disposed	542	213
Intangible assets - computer software	707	883
Sub total	4,387	4,103
Auditor's remuneration (excluding GST) Following the transfer of the audit partner and staff of BDO Audit (NSW-VIC) Pty Ltd (BDO) to Grant Thornton Audit Pty Ltd (Grant Thornton), all fees incurred prior to the 1st May 2012 are fees due to the former BDO entity.		
Audit and review of financial statements:		
- Auditors of Teachers Mutual Bank - Grant Thornton	50	-
- Other auditors - BDO	91	136
Other services:		
- Taxation services - other auditors - BDO	-	6
- Other services - other auditors - BDO	4	23
Sub total	145	165
Other operating expenses include		
Transaction expenses	10,768	10,656
Information technology	5,838	4,452
Office occupancy	2,805	2,318
Net movement on provision for director development	28	-
Other administration	12,865	11,148
Sub total	32,304	28,574
Total general administration	76,439	67,812

3. Income tax expense

a. The income tax expense comprises amounts set aside as

	2012 $'000	2011 $'000
Provision for income tax - current year	9,343	12,515
Under (over) provision in prior years	133	43
Increase (decrease) in the deferred tax liability	-	-
Decrease (increase) in the deferred tax asset	(114)	(839)
Income tax expense attributable to profit	9,362	11,719

b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows

	2012 $'000	2011 $'000
Profit	32,451	40,862
Prima facie tax payable on operating profit before income tax at 30%	9,735	12,259
Add: - tax effect of expenses not deductible	61	53
Less: - tax effect of income not assessable	(213)	-
Sub total	9,583	12,312
Add (less): - Adjustment to recognise deferred tax assets at 30%	41	867
Add (less): - Adjustment to recognise deferred tax liability at 30%	-	-
Less: - Franking rebate	(281)	(664)
Current Income tax provision attributable to profit	9,343	12,515

c. Franking credits

Franking credits held by the mutual bank after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year	116,532	106,142

4. Receivables from financial institutions

	2012 $'000	2011 $'000
Negotiable certificates of deposit held	487,481	168,818
Term deposits	20,000	169,000
Total receivables from financial institutions	507,481	337,818

5. Derivative financial instruments

The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or the credit risk. Fair value measurement is classified as Level 2 in the fair value hierarchy with the methodology and basis for valuation explained in Note 22b. See also Note 20.

Derivatives used as cash flow hedges	2012 $'000		2011 $'000	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	22	37	-	-

Net movement on derivatives during the year	2012 $'000	2011 $'000
Recognised in interest income	(1)	-
Charged to comprehensive income	(14)	-
Balance at the end of the year	(15)	-

Notional principal amounts and period of expiry of the interest rate swap contracts	2012 $'000			2011 $'000		
	Pay Fixed	Receive Fixed	Notional Amount	Pay Fixed	Receive Fixed	Notional Amount
Within 1 year	-	8,000	8,000	-	-	-
>1 to 2 years	-	-	-	-	-	-
>2 to 3 years	2,000	-	2,000	-	-	-
Total	2,000	8,000	10,000	-	-	-

6. Receivables

	2012 $'000	2011 $'000
Interest receivable on deposits with other financial institutions	10,392	17,121
Sundry debtors and settlement accounts	5,302	10,138
Total receivables	15,694	27,259

7. Loans and Advances

a. Amount due comprises

		2012 $'000	2011 $'000
Overdrafts and credit cards		98,951	93,993
Term loans		2,985,895	2,683,655
Overdrawn savings		177	324
Sub-total		3,085,023	2,777,972
Add:	- Amortised loan origination fees	(1,250)	(930)
Sub total		3,083,773	2,777,042
Less:	- Provision for impaired loans Note 8	(2,044)	(2,383)
Total loans and advances to members		3,081,729	2,774,659

b. Credit quality - security held against loans

	2012 $'000	2011 $'000
Secured by mortgage over real estate	2,758,125	2,443,662
Partly secured by goods mortgage	74,147	69,012
Wholly unsecured	252,751	265,298
Total	3,085,023	2,777,972

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

Security held as mortgage against real estate is on the basis of:		
- Loan to valuation ratio of less than 80%	1,935,326	1,729,378
- Loan to valuation ratio of more than 80% but mortgage insured	669,654	534,808
- Loan to valuation ratio of more than 80% and not mortgage insured	153,145	179,476
Total	2,758,125	2,443,662

c. Concentration of loans

The values discussed below include on-statement of financial position values and off-statement of financial position undrawn facilities as described in Note 26.

i) There are no members who individually or collectively have loans, which represent 10% or more of members' equity.

ii) Details of classes of loans, which represent in aggregate, 10% or more of members' equity, are set out below.

This information was derived from the mutual bank's records of Direct Entry receipts.

	2012 $'000	2011 $'000
Balance of loans held by memberships who are receiving payments from		
NSW Department of Education and Community	1,337,805	1,339,890
State Super Financial Services	83,117	72,300
ACT Department of Treasury	62,599	54,602
Catholic Education Office	39,588	39,760
Total	1,523,109	1,506,552

	2012 Number	2011 Number
Number of memberships with loans who are receiving payments from		
NSW Department of Education and Community	18,154	19,111
State Super Financial Services	2,601	2,327
ACT Department of Treasury	603	583
Catholic Education Office	403	412
Total	21,761	22,433

For the purposes of this note, membership includes both shareholding and non-shareholding.

iii) Geographical concentrations - includes loan balances and loan financial commitments in Notes 26a, 26b and 26c.

	2012 $'000				2011 $'000			
	Housing	Personal	Business	Total	Housing	Personal	Business	Total
NSW	2,561,825	735,792	21,651	3,319,268	2,338,416	706,092	7,606	3,052,114
Victoria	26,060	9,814	-	35,874	22,629	8,916	-	31,545
Queensland	56,446	18,282	-	74,728	48,291	17,254	-	65,545
South Australia	4,915	1,858	-	6,773	3,948	1,516	-	5,464
Western Australia	89,568	18,654	-	108,222	53,790	12,174	-	65,964
Tasmania	5,592	1,526	-	7,118	4,706	1,452	-	6,158
Northern Territory	11,293	3,745	-	15,038	7,597	3,802	-	11,399
ACT	132,530	25,476	-	158,006	112,950	25,966	-	138,916
Other	106	3,504	-	3,610	-	718	-	718
Total	2,888,335	818,651	21,651	3,728,637	2,592,327	777,890	7,606	3,377,823

Loans by purpose	2012 $'000	2011 $'000
Housing loans and facilities	2,888,335	2,592,327
Personal loans and facilities	818,651	777,890
Total-households	3,706,986	3,370,217
Business loans and facilities	21,651	7,606
Total	3,728,637	3,377,823

8. Provision on impaired loans

a. Total provision comprises

	2012 $'000	2011 $'000
Collective provision	2,036	2,324
Individual specific provision	8	59
Total provision	2,044	2,383

b. Movement in the provision for impairment

Balance at the beginning of year	2,383	2,141
Add (less): - Transfers from (to) statement of comprehensive income	(339)	242
Balance at end of year	2,044	2,383

c. Impaired loans written off

Amounts written off directly to expense	2,528	1,866
Total bad debts	2,528	1,866
Bad debts recovered in the period	989	883

d. Analysis of loans that are impaired or potentially impaired by class

In the Note below:

- Carrying value is the amount of the statement of financial position.
- Impaired loans value is the 'on-statement of financial position' loan balances and includes non-accrual loans and restructured loans stated in Note 1b.
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.

	2012 $'000			2011 $'000		
Loans to members	Carrying value	Value of impaired loans	Provision for impairment	Carrying value	Value of impaired loans	Provision for impairment
Housing	2,547,687	6,305	343	2,278,844	7,405	229
Personal	422,492	3,003	860	397,581	3,184	1,103
Credit Card	68,198	1,590	698	62,366	1,672	790
RediCredit	30,733	294	141	31,612	427	259
Total-households	3,069,110	11,192	2,042	2,770,403	12,688	2,381
Business	15,913	2	2	7,569	2	2
Total	3,085,023	11,194	2,044	2,777,972	12,690	2,383

It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

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

	2012 $'000		2011 $'000	
	Carrying value	Provision	Carrying value	Provision
Less than 30 days	1,322	8	2,595	47
30 to less than 90 days in arrears	1,535	-	1,414	10
90 to less than 182 days in arrears	3,802	327	3,888	553
182 to less than 273 days in arrears	994	256	1,172	243
273 to less than 365 days in arrears	678	297	407	266
365 days and over in arrears	1,067	319	1,100	135
Overdrawn savings/overlimit facilities over 14 days	1,796	837	2,114	1,129
Total	11,194	2,044	12,690	2,383

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

f. Loans with repayments past due but not regarded as impaired

There are loans with a value of $6.450 million past due which are not considered to be impaired and where payments of principal and/or interest are at least 30 days in arrears. Full recovery of both principal and interest is expected. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

Loans with repayments past due but not impaired are in arrears as follows:

	2012 $'000				2011 $'000		
	>1 to 2 months	>2 to 3 months	>6 to 9 months	Total	>1 to 2 months	>2 to 3 months	Total
Housing	3,048	1,818	210	5,076	1,708	826	2,534
Personal	750	138	-	888	421	116	537
Credit Card	177	74	-	251	157	41	198
RediCredit	197	38	-	235	111	4	115
Total	4,172	2,068	210	6,450	2,397	987	3,384

g. Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report the mutual bank has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the mutual bank 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 as per Australian Prudential Guidance Note AGN 220.3 Prescribed Provisioning.

9. Available for sale investments

	2012 $'000	2011 $'000
Shares in unlisted companies, at cost		
- Cuscal Limited (Cuscal)	4,382	4,382
- Q.T. Travel Pty. Ltd. (Diploma Travel)	52	52
Total value of investments	4,434	4,434
Less: provisions for amortisation - Q.T. Travel Pty. Ltd. (Diploma Travel)	(51)	(51)
Total available for sale investments	4,383	4,383

Disclosures on shares held at cost

a. Cuscal Limited (Cuscal)

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company is an APRA Approved Deposit-taking Institution that supplies settlement, transaction processing, card, interchange and other services to organisations including Mutual Banks, Credit Unions and Building Societies – refer to Note 30. The shares are able to be traded. No trades with a disclosed price occurred over the year.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily. The mutual bank is not intending to dispose of these shares.

b. Q.T. Travel Pty. Ltd. trading as Diploma World Travel Service

The shareholding in Diploma World Travel Service is measured at cost as its fair value could not be measured reliably. Diploma Travel is operated for the mutual bank members and their families. The original purchase price has been amortised to $1,001 to recognise the shares are held not for their investment value but for the ongoing service to members. The shares are not able to be traded and are not redeemable.

10. Property, plant and equipment

	2012 $'000	2011 $'000
Fixed assets: - Land, at cost	6,782	6,782
Buildings, at cost	22,129	21,875
Less: - provision for depreciation	(11,763)	(11,214)
Net building	10,366	10,661
Total land and buildings	17,148	17,443
Plant and equipment, at cost	25,083	23,124
Less: - provision for depreciation	(17,916)	(17,248)
Sub total	7,167	5,876
Capitalised leasehold improvements, at cost	869	856
Less: - provision for amortisation	(651)	(506)
Sub-total	218	350
Total property, plant and equipment	24,533	23,669

Movement in the assets balances during the year

2012 $'000	Property	Plant and equipment	Leasehold improvement	Total
Opening balance	17,443	5,876	350	23,669
Purchases	254	4,254	36	4,544
Less: - Assets disposed	-	(539)	(3)	(542)
Less: - Depreciation charge	(549)	(2,424)	(165)	(3,138)
Closing balance	17,148	7,167	218	24,533

2011 $'000				
Opening balance	17,696	6,836	479	25,011
Purchases	288	1,558	32	1,878
Less: - Assets disposed	-	(213)	-	(213)
Less: - Depreciation charge	(541)	(2,305)	(161)	(3,007)
Closing balance	17,443	5,876	350	23,669

11. Taxation assets

Deferred tax assets comprise	2012 $'000	2011 $'000
Accrued expenses not deductible until incurred	163	201
Provisions for impairment on loans	673	786
Provisions for employee benefits	4,163	3,818
Provisions for other liabilities	108	96
Depreciation on fixed assets	162	203
Prepaid loan expenses	62	93
Amortisation of intangible assets	104	124
Deferred tax assets	5,435	5,321

Other tax debtor		
GST debtor	98	86
Land Tax	98	-
Total taxation assets	5,631	5,407

12. Intangible assets

	2012 $'000	2011 $'000
Computer software, at cost	8,236	6,378
Less: - provision for amortisation	(4,781)	(4,096)
Total intangible assets	3,455	2,282
Movement in the assets balances during the year		
Opening balance	2,282	1,853
Purchases	1,880	1,312
Less: - amortisation charge	(707)	(883)
Balance at the end of the year	3,455	2,282

13. Wholesale sector deposits

	2012 $'000	2011 $'000
Negotiable certificates of deposit issued	24,940	-
Wholesale deposits	26,149	97,860
Total wholesale sector deposits	51,089	97,860

14. Retail deposits

a. Retail deposits

	2012 $'000	2011 $'000
At call	1,340,940	1,228,403
Term	2,031,257	1,875,713
Member withdrawable shares	1,565	1,558
Total retail deposits	3,373,762	3,105,674

b. Concentration of liabilities

i) There are no depositors who, individually or collectively, have deposits which represent 10% or more of total liabilities.

ii) Details of classes of deposits, which represent in aggregate, 10% or more of total liabilities are set out below.
This information was derived from the mutual bank's records of direct entry receipts.

Balance of accounts held by depositors who are receiving payments from	2012 $'000	2011 $'000
NSW Department of Education and Community	684,233	639,186
State Super Financial Services	656,069	539,186
Total	1,340,302	1,178,372

Number of depositors who are receiving payments from	2012 Number	2011 Number
NSW Department of Education and Community	40,632	44,809
State Super Financial Services	8,848	10,242
Total	49,480	55,051

iii)

Geographical concentrations	2012 $'000	2011 $'000
NSW	3,143,966	2,895,712
Victoria	26,804	24,640
Queensland	55,628	53,193
South Australia	8,282	7,003
Western Australia	22,310	24,174
Tasmania	9,979	8,360
Northern Territory	6,144	6,763
ACT	62,622	61,708
Other	36,461	22,563
Total	3,372,196	3,104,116

15. Creditors, accruals and settlement accounts

	2012 $'000	2011 $'000
Creditors and accruals	11,298	10,857
Unearned income	883	783
Settlement accounts	632	968
Total creditors, accruals and settlement accounts	12,813	12,608

16. Taxation liabilities

	2012 $'000	2011 $'000
Current income tax liability	2,297	3,144
Accrual for other tax liabilities	416	240
Total taxation liabilities	2,713	3,384
Current income tax liability comprises		
Balance, previous year	3,144	2,937
Less: - paid	(3,277)	(2,980)
Over (under) statement in prior year	(133)	(43)
Liability for income tax in current year	9,410	12,557
Less: - instalments paid in current year	(7,113)	(9,413)
Current income tax liability	2,297	3,144

17. Provisions

	2012 $'000	2011 $'000
Employee Entitlements	13,885	12,419
Lease make good of premises	39	37
Provisions - other	173	145
Total provisions	14,097	12,601

	2012 $'000		2011 $'000	
Movement in other provisions during the year were	**Environment fund**	**Director development**	**Environment fund**	**Director development**
Opening balance	-	145	3	165
Less: - paid	-	(53)	(3)	(47)
Liability increase	-	81	-	27
Closing balance	-	173	-	145

18. Capital reserve account

	2012 $'000	2011 $'000
Opening balance	405	329
Transfer from retained earnings on share redemptions	63	76
Total capital reserve account	468	405

Share redemption

The accounts represent the amount of redeemable preference shares redeemed by the mutual bank since 1st July 1999. The Law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

19. General reserve for credit losses

	2012 $'000	2011 $'000
Opening balance	18,821	16,379
Increase (decrease) transfer from retained earnings	2,055	2,442
Total general reserve for credit losses	20,876	18,821

General reserve for credit losses

This reserve is maintained to comply with the Prudential Standards set down by Australian Prudential Regulation Authority.

20. Cash flow hedge reserve

	2012 $'000	2011 $'000
Opening balance	-	-
Increase (decrease) transfer from retained earnings	(14)	-
Total cash flow hedge reserve	(14)	-

Cash flow hedge reserve

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit and loss consistent with the applicable accounting policy. See also Notes 5 and 22b.

21. Financial risk management objectives and policies

Overview

The mutual bank has exposure to the following risks:

- market risk
  – interest rate risk
  – liquidity risk
- credit risk, and
- operational risk.

This note outlines the mutual bank's management of these risks, including its objectives, policies and processes for measuring and managing those risks, in addition to the mutual bank's management of its capital.

Governance

The Board of Directors has overall responsibility for the establishment and oversight of the mutual bank's enterprise risk management framework. This responsibility includes approving the enterprise risk management framework and the policies that comprise that framework and setting the mutual bank's risk appetite. In order to discharge its duties and responsibilities in an appropriate and effective manner, the Board of Directors use a coordinated approach to identify, manage and report risks. This is represented at an operational level within business units and management, at an assurance level through Internal Audit, Risk and Regulatory Services staff as well as External Audit, and at a Governance Level, through Board subcommittees and the Board of Directors.

The Board of Directors has established an Audit, Risk and Compliance Committee, comprising five Directors, to oversee financial reporting, the effectiveness of audits, the management of risk and the program of compliance. The Committee is required to devote time and expertise to these areas over and above the time prescribed in scheduled board meetings and provide reasonable assurance to the Board of Directors that core business goals and objectives are being achieved in an effective, efficient and economical manner, within an appropriate framework of internal control, governance and risk management.

The Audit, Risk and Compliance Committee assists the Board of Directors in:

- appointing the internal and external auditor
- liaising with auditors on the scope of their work, and experience in conducting effective audits
- monitoring audit reports and management responses thereto
- ensuring that external auditors remain independent
- overseeing compliance with statutory responsibilities relating to financial disclosure
- assessing the performance of auditors
- overseeing Australian Prudential reporting requirements, as well as other reporting requirements
- approving the compliance program
- monitoring compliance reports and management responses thereto
- reviewing, and if applicable updating, the mutual bank's risk profile, including the mutual bank's risk appetite; and
- reviewing, and if applicable updating, the mutual bank's policies, and system of risk management and internal controls.

The Board of Directors has also established a Large Exposures Committee comprising three Directors, with the purpose of reviewing, and in certain cases approving, all proposals that could expose the Mutual Bank to a large credit risk, be it in relation to lending or investing.

In addition to the Board of Directors and the Audit, Risk and Compliance Committee, the mutual bank has an Assets and Liabilities Committee, to oversee the financial operations of the mutual bank. This committee recommends policy, sets strategy and monitors compliance regarding:

- market risk in relation to interest rate risk and liquidity risk
- credit risk in relation to investment risk
- profitability
- capital management, and
- growth.

Market risk

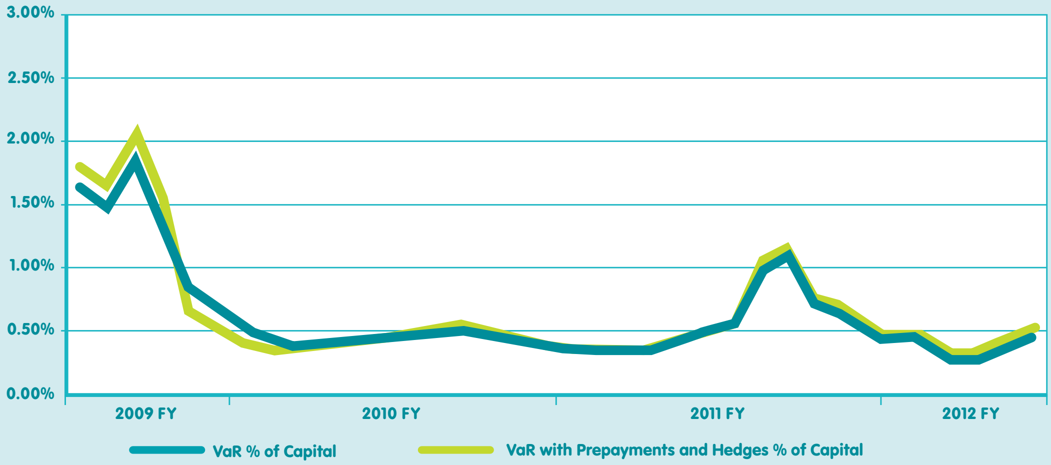
Interest Rate Risk

The mutual bank is not exposed to currency risk and other price risk. The mutual bank does not trade in the financial instruments it holds on its books. The mutual bank is exposed to interest rate risk in the banking book arising from changes in market interest rates.

The policy of the mutual bank is to maintain a balanced 'on book' hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. However, acknowledging that member demand and competition in the different products may not always allow the mutual bank to achieve a balanced 'on book' position, the mutual bank has a Board approved hedging policy in place to ensure appropriate use of derivatives such as interest rate swaps. The mutual bank uses a number of techniques to measure and monitor the interest rate risk, these include:

- Short, medium and long term forecasts that are regularly updated
- Monitoring of product totals to targets and the impact on current and future profitability, from likely rate changes
- Monthly Gap analysis
- Monthly Sensitivity analysis (Present Value of a Basis Point or Sensitivity is a measure of the change in the current value of the cash positions on the yield curve by shifting the yield across the curve down 1 basis point)
- Monthly 200 Basis Point Sensitivity as a percentage of Capital
- Monthly Value at Risk analysis (VaR is a statistical measure of the maximum loss expected to be incurred due to a change in market conditions, arising from the currently held positions, given a certain confidence level [99%], observation period [250 working days] and holding period [20 working days] expressed in dollars and as a percentage of capital)
- Monthly Value at Risk analysis based on a confidence level [99%], observation period [1500 working days] and holding period [250 working days] expressed in dollars and as a percentage of capital
- Quarterly Accrued Income Simulations including projections based on flat rates, yield curve, and upward and downward shock rates
- Annual benchmarking against industry.

Value at Risk (VaR) as a % of capital. 99% confidence interval, 20-day holding period, 250-day observation period



The mutual bank groups cash flows into buckets based on the likely repricing periods. Consideration is given for both operational and competitive restraints which may differ from the contractual dates as this better reflects the risk in the portfolio. The mutual bank has set a limit for our Value at Risk as a percentage of Capital. This limit is set with reference to industry benchmarks. The mutual bank has kept within those limits throughout the entire year.

The above reports are sourced internally and by contracted consultants and are subject to scrutiny by Internal Audit, who also has used independent consultants to review the accuracy and adequacy of the reporting and controls.

The level of mismatch on the banking book is set out in Note 24. The table set out at Note 24 displays the period that each asset and liability will reprice as at the balance date.

Liquidity risk

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

The mutual bank manages liquidity risk by:

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

The mutual bank has set out in Note 23 the maturity profile of the financial liabilities, based on the contractual repayment terms.

The mutual bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours under Australian Prudential Standards. The mutual bank policy is to apply 13.5% 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 of Directors have plans and procedures in place to address the matter and ensure that the liquid funds are obtained from new deposits (either from Authorised Deposit-taking Institutions (ADIs), retail and wholesale depositors), or borrowing facilities available. Note 27 describes the borrowing facilities as at the balance date. The mutual bank also participates in a loan securitisation scheme. The mutual bank has a longstanding arrangement under an approved industry support contract with CUFSS Limited which can access industry funds to provide support to the mutual bank should it be necessary at short notice.

'Total Adjusted Liabilities', for the purpose of this Liquidity measurement, is defined as total on-statement of financial position liabilities (including equity) and irrevocable commitments, less the capital base defined in accordance with Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.

	2012	2011
Total adjusted liabilities	**3,959,847,351**	**3,695,280,028**
As at 30th June	15.93%	18.48%
Average for the year	18.85%	17.79%
Minimum during the year	14.69%	15.05%

Credit risk

The credit risk of a financial institution is the risk that customers (members), financial institutions and other counterparties will be unable to meet their obligations to the institution which may result in financial losses. Credit risk arises principally from the mutual bank's loan book and investment assets.

Credit risk - loans

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities, overdraft facilities and credit cards limits). The details are shown in Note 26.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7b describes the nature of the security held against the loans as at the balance date.

All loans and facilities are within Australia. The geographic distribution is detailed in Note 7c.

Concentrations are described in Note 7c. The mutual bank has a concentration in the retail lending for members who comprise employees and family in the education sector. This concentration is considered acceptable on the basis that the mutual bank was formed to service these members, the industry is an essential and stable industry and the employment concentration is not restricted to one employer. Should members leave the sector the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

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

The mutual bank has established policies over the following:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, and security requirements
- Limits of acceptable exposure over the value to individual borrowers, maximum loan to valuation ratios with/without lenders mortgage insurance dependant on the type and location of the security
- Portfolio Limits to cap exposures within segments of the portfolio
- Reassessing and review of the credit exposures on loans and facilities
- Establishing appropriate provisions to recognise the impairment of loans and facilities
- Debt recovery procedures, and
- Review of compliance with the above policies.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the mutual bank that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 30 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily monitoring of the loan repayments to detect delays in repayments and recovery action is undertaken. For loans where repayments are doubtful, the exposures to losses arise predominantly in personal loans and revolving credit where facilities are not secured by registered mortgages over real estate.

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

In addition to specific provisions against individual loans, the mutual bank makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

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

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some principal will not be repaid or recovered.

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the 'on-statement of financial position' loan balances which are past due by 30 days or more.

Details are as set out in Note 8.

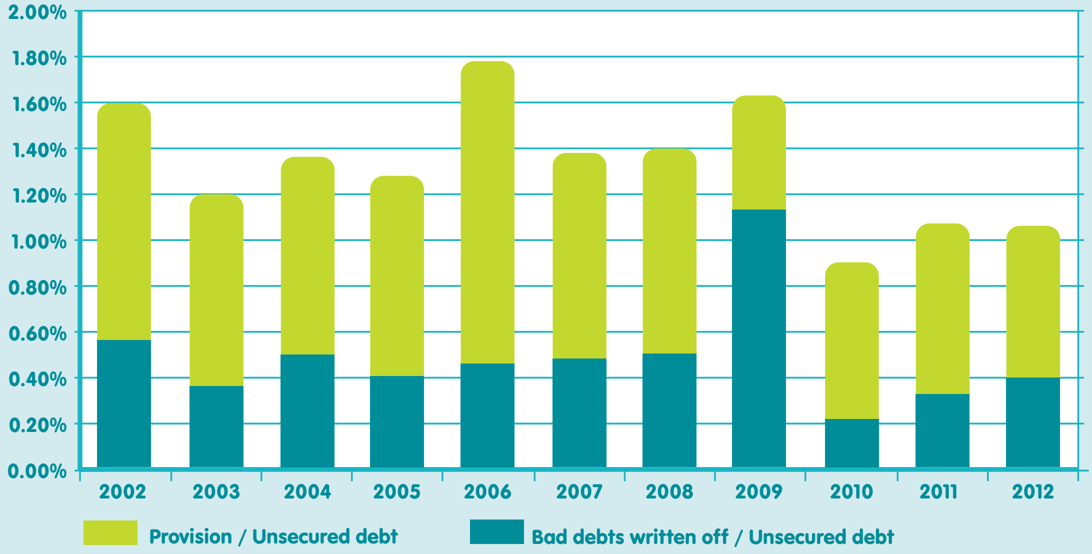
Bad debts

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

On secured loans, the write off takes place after considering ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 8.

As the mutual bank has experienced little loss from mortgage secured debt, we monitor losses as a portion of unsecured debt. The loss ratio remains relatively low.

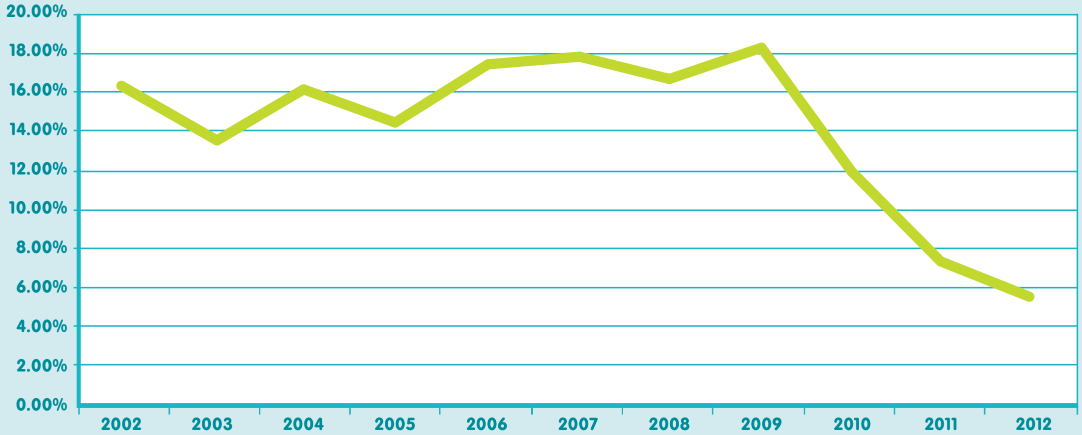


Provision/ Unsecured debt and Bad debts written off/ Unsecured debt

Collateral securing loans

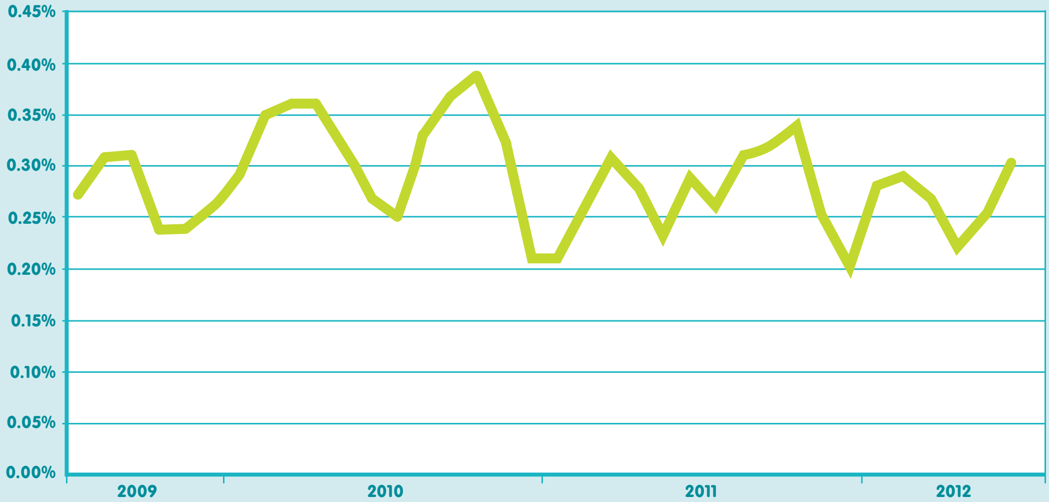
The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7b describes the nature and extent of the security held against the loans held as at the balance date.

A sizeable portion of the loan book is secured on residential property in Australia. Therefore, we are exposed to risks of the reduction of the Loan to Value Ratio (LVR) should the property market be subject to a decline. The Board of Directors monitors the portion of loans that are secured by residential mortgages which carry a loan to valuation ratio of more than 80% without Lenders Mortgage Insurance.



Loan to Valuation Ratio of more than 80% without Lenders Mortgage Insurance as a percentage of Mortgage Loans

Performance of the Mortgage Secured portfolio is managed by monitoring the proportion of loan balances in arrears.



Percentage of mortgage portfolio in arrears

Credit risk - liquid investments

The risk of losses on liquid investments is mitigated through the application of investment limits per counterparty based upon independent ratings of counterparties and by limiting exposure to groups of counterparties within a rating band.

The exposure values associated with each credit quality step are as follows:

				2012
Investments with:	**No. of institutions**	**Carrying value**	**Past due value**	**Provision**
ADIs-rated A-1+ or A-1 (short-term)	6	455,350,859	-	-
ADIs-rated AA or A+ (long-term)		-	-	-
ADIs-rated A-2 (short-term)	7	160,732,221	-	-
ADIs-rated A-3 (short-term)	1	13,362,915	-	-
Total	14	629,445,995	-	-

				2011
Investments with:	**No. of institutions**	**Carrying value**	**Past due value**	**Provision**
ADIs-rated A-1+ or A-1 (short-term)	5	352,675,983	-	-
ADIs-rated AA or A+ (long-term)		130,000,000	-	-
ADIs-rated A-2 (short-term)	7	186,817,980	-	-
ADIs-rated A-3 (short-term)	1	12,000,000	-	-
Total	13	681,493,963	-	-

Credit risk - equity investments

All investments in the equity instruments are solely for the benefit of service to the mutual bank. The mutual bank invests in entities set up for the provision of services such as treasury, transactions processing and settlement, and travel services etc where specialisation demands quality staff and systems which is best secured by one entity. Further details of the investments are set out in Note 9.

Capital management

Capital levels are managed to ensure compliance with Australian Prudential Regulation Authority requirements. Those requirements encompass a framework of three pillars.

Pillar 1 – Minimum capital requirements, including a specific capital charge for operational risk.

Pillar 2 – Enhanced supervision of capital management including the application of an internal capital adequacy assessment process.

Pillar 3 – More extensive disclosure requirements.

Pillar 1

Capital is measured as prescribed by Australian Prudential Regulation Authority prudential standards. These standards act to deliver capital requirements in respect of credit risk, market risk and operational risk.

Credit risk

Credit risk is measured using the Standardised Approach defined in Prudential Standard APS112. The capital charge attached to each asset is based on weightings prescribed in Australian Prudential Standards as detailed in the table below.

On-statement of financial position exposures	Carrying value	Risk weighting	Risk weighted amount
Cash	1,221,821	0%	-
Deposits in highly rated ADIs	493,589,328	20%	98,717,866
Deposits in less highly rated ADIs	135,856,667	50%	67,928,334
Standard loans secured against eligible residential mortgages up to 80% LVR (up to 90% with Lenders Mortgage Insurance)	2,222,863,199	35%	778,002,119
Standard loans secured against eligible residential mortgages over 80% LVR	507,211,846	50-75%	257,389,271
Other standard mortgage loans	10,026,028	100%	10,026,028
Non-standard mortgage loans	1,774,712	35-100%	1,280,245
Other loans	341,102,368	100%	341,102,368
Other assets	42,046,742	100%	42,046,742
Total	3,755,692,711		1,596,492,973

Non-market related Off-statement of financial position exposures	Notional principal amount	Credit conversion factor	Credit equivalent amount	Risk weighting	Risk weighted amount
Loans approved and not advanced	97,483,457	100%	97,483,457	35%-100%	50,644,100
Redraws available	296,792,445	50%	148,396,222	35%-100%	58,192,235
Guarantees	100	100%	100	100%	100
Unused revolving credit limits	249,337,644	0%	-	-	-
Possible contribution to CUFSS	119,899,550	0%	-	-	-
Total	763,513,196		245,879,779		108,836,435

Market related Off-statement of financial position exposures	Notional principal amount	Credit conversion factor	Potential future exposure	Current exposure	Credit equivalent amount	Risk weighted amount
Residual maturity 1 year or less	8,000,000	0%	-	19,660	19,660	3,932
Residual maturity > 1 year to 5 years	2,000,000	0.5%	10,000	-	10,000	2,000
Total	10,000,000		10,000	19,660	29,660	5,932

Total weighted credit risk exposures	1,705,335,340

Market risk

The mutual bank is not required to allocate capital against market risk as no trading activity is undertaken and the Standardised Approach does not result in any allocation against interest rate risk in the banking book.

Operational risk

Operational risk is measured using the Standardised Approach defined in Prudential Standard APS114. The capital charge is based upon portfolio balances and revenue streams with scaling and risk factors applied to reflect Australian Prudential Regulation Authority's assessment of the particular risk profiles.

Operational risk capital requirement for retail banking	**31-Dec-09**	**30-Jun-10**	**31-Dec-10**	**30-Jun-11**	**31-Dec-11**	**30-Jun-12**
Total gross outstanding loans and advances for retail banking	2,313,217,856	2,436,539,080	2,562,109,970	2,771,806,877	2,912,194,314	3,070,330,500
- multiplied by 3.5% scaling factor	80,962,625	85,278,868	89,673,849	97,013,241	101,926,801	107,461,568
- multiplied by 12% risk factor	9,715,515	10,233,464	10,760,862	11,641,589	12,231,216	12,895,388
Average of the 6 half year results = Total operational risk capital requirement for retail banking						11,246,339

Operational risk capital requirement for commercial banking						
Total gross outstanding loans and advances for commercial banking	490,890,671	608,957,249	588,319,324	689,062,584	792,341,065	645,359,216
- multiplied by 3.5% scaling factor	17,181,173	21,313,504	20,591,176	24,117,190	27,731,937	22,587,573
- multiplied by 15% risk factor	2,577,176	3,197,026	3,088,676	3,617,579	4,159,791	3,388,136
Average of the 6 half year results = Total operational risk capital requirement for commercial banking						3,338,064

Operational risk capital requirement for all other activity						
Adjusted gross income	1,921,721	2,808,222	2,111,070	3,401,488	2,030,846	3,906,064
- multiplied by 18% risk factor	345,910	505,480	379,993	612,268	365,552	703,091
Average of the 3 annual results = Total operational risk capital requirement for all other activity						970,765

Total operational risk capital requirement	15,555,168
Risk Weighted Asset (RWA) equivalent amount for operational risk capital requirement = Operational risk capital * 12.50	194,439,594
Total credit and operational risk weighted	1,899,774,934

Capital resources

Tier 1 capital

The majority of Tier 1 capital consists of retained profits.

Tier 2 capital

Consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by Australian Prudential Standards. Tier 2 capital generally comprises a reserve for credit losses.

A minimum capital ratio of 8% is required to be maintained at all times. Our policy requires reporting to the Board of Directors and the regulator if the capital ratio falls below 14%.

The capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The mutual bank manages capital through reviewing the ratio monthly and monitoring major movements in asset levels. Further, a 3 year capital projection is maintained to assess how strategic decisions or trends may impact on the level of capital. A stress test based on various asset growth and profitability assumptions is conducted annually.

Capital in the mutual bank is made up as follows:	**2012**	**2011**
Tier 1 Retained earnings	292,350,079	271,331,159
- Less prescribed deductions	(9,845,560)	(8,864,035)
Net Tier 1 capital	282,504,519	262,467,124
Tier 2 Reserve for credit losses	20,875,787	18,820,676
- Less prescribed deductions	(2,191,166)	(2,191,166)
Net Tier 2 capital	18,684,621	16,629,510
Total capital	301,189,140	279,096,634

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

2012	**2011**	**2010**	**2009**
15.85%	15.65%	16.03%	15.50%

Pillar 2 risk capital

Pillar 2 of the Prudential Framework relates to any risk factor to which an ADI might be exposed that is not included in Pillar 1.

These risks fall into 3 categories.

- Pillar 1 risks not fully captured by the Pillar 1 process, for example credit concentration risk.
- Inherent risks not covered by Pillar 1, including:
  - interest rate risk in the banking book
  - liquidity risk
  - strategic risk
  - reputation risk.
- Risks arising from external factors such as business cycles effects and the macroeconomic environment.

The mutual bank documents, analyses and sets its own internal capital requirements to meet Pillar 2 risks. The methodologies used to assess the required capital are a combination of quantitative and qualitative assessment and by their nature are based on a degree of collective subjective judgement of senior management and the Board of Directors.

Risks requiring uplift

The following risks were assessed as being of sufficient significance to require additional capital support over and above the Pillar 1 capital requirement (uplift):

Credit Risk

- Counterparty default risk

Strategic Risk

- Business environment risk
- Economic environment risk
- Technology risk.

Market Risk

- Lack of diversification of funding sources
- Interest rate risk

An additional 4% capital was determined to be adequate to cover these risks.

Internal capital adequacy management

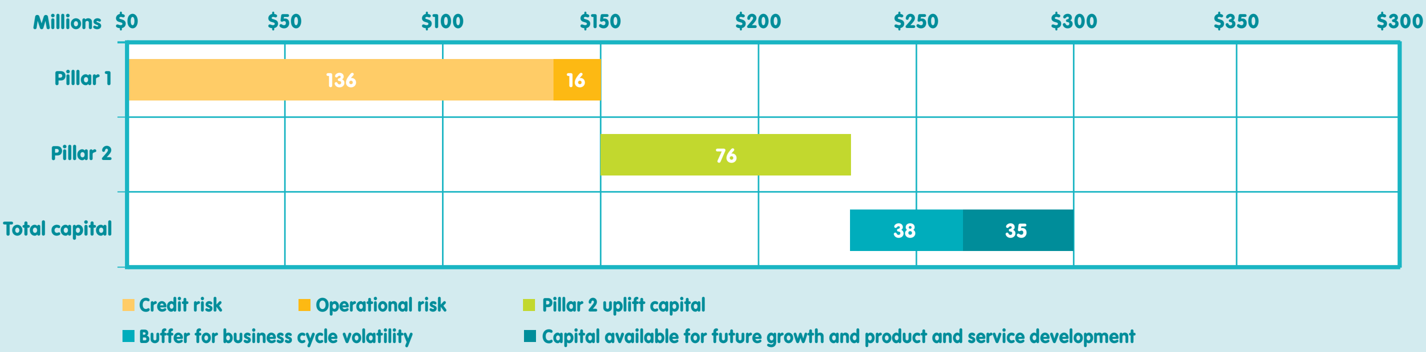
The mutual bank manages its internal capital levels for both current and future activities through a combination of committees. The outputs of the individual committees are reviewed by the Board of Directors in its capacity as the primary governing body. The capital required for any change in the mutual bank's forecasts for asset growth or unforeseen circumstances are assessed by the board. The capital resource model is then produced for further Board consideration. Management then updates the forecast capital resources models produced and the impact upon the overall capital position of the mutual bank is reassessed.

Contingency buffer

Based on historical fluctuations in capital the mutual bank incorporates a contingency buffer of 2% when targeting minimum levels of capital and when preparing its Capital Management Plan to cover volatility in the risks identified above.

	RWA	Minimum	% Equivalent of RWA
Credit risk	1,705,335,340	136,426,826	8.00%
Operational risk	194,439,594	15,555,168	8.00%
Total	1,899,774,934	151,981,994	8.00%
Pillar 2 uplift capital		75,990,997	4.00%
ICAAP capital required		227,972,991	12.00%
Buffer for business cycle volatility		37,995,499	2.00%
Capital available for future growth and product and service development		35,220,650	1.85%
Risk-based capital ratio		301,189,140	15.85%
Tier 1 capital ratio		282,504,520	14.87%
Tier 2 capital ratio		18,684,620	0.98%

Categorisation of capital



22. Categories of financial instruments

a. The following information classifies the financial instruments into measurement classes

Financial assets - carried at amortised cost	Note	2012 $'000	2011 $'000
Cash on hand and deposits at call		123,187	345,080
Receivables from financial institutions	4	507,481	337,818
Receivables	6	15,694	27,259
Loans and advances to members	7 & 8	3,081,729	2,774,659
Total carried at amortised cost		3,728,091	3,484,816
Cash flow hedge derivative assets - carried at fair value	5	22	-
Available for sale investments - carried at fair value	9	4,383	4,383
Total financial assets		3,732,496	3,489,199

Financial liabilities - carried at amortised cost	Note	2012 $'000	2011 $'000
Wholesale sector deposits	13	51,089	97,860
Retail deposits	14	3,373,762	3,105,674
Creditors, accruals and settlement accounts	15	12,813	12,608
Total carried at amortised cost		3,437,664	3,216,142
Cash flow hedge derivative liabilities - carried at fair value	5	37	-
Total financial liabilities		3,437,701	3,216,142

b. Assets measured at fair value

Fair value measurement at end of the reporting period using:	Balance $'000	Level 1	Level 2	Level 3
Cash flow hedge derivatives	22	-	22	-
Available for sale investments	4,383	-	-	4,383
Total	4,405	-	22	4,383

The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)

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

(a) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Cash flow hedge derivatives

The fair value of derivative financial instruments (interest rate swaps) are calculated using discounted cash flow models using interest rates derived from market interest rates that match the remaining term of the swaps. Thus the basis for determining the fair value of derivative financial instruments is classified as Level 2.

Available for sale investments

Due to the lack of publicly available data on the transfer of these shares, the mutual bank has measured the shares at cost and is classified as Level 3.

23. Maturity profile of financial assets and liabilities

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

2012 Assets $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	>5 years	No maturity	Total	Statement of financial position
Cash on hand and deposits at call	123,187	-	-	-	-	-	123,187	123,187
Receivables from financial institutions	45,824	347,041	114,616	-	-	-	507,481	507,481
Cash flow hedge derivative assets	1	-	39	-	-	-	40	22
Receivables	6,459	9,138	4,783	-	-	-	20,380	15,694
Loans and advances to members	38,791	77,032	338,397	1,152,634	4,099,740	-	5,706,594	3,081,729
Available for sale investments	-	-	-	-	-	4,383	4,383	4,383
Total financial assets	214,262	433,211	457,835	1,152,634	4,099,740	4,383	6,362,065	3,732,496

2012 Liabilities $'000								
Wholesale sector deposits	20,992	15,140	15,400	-	-	-	51,532	51,089
Retail deposits	1,609,261	840,314	756,220	211,118	-	1,983	3,418,896	3,373,762
Cash flow hedge derivative liabilities	3	-	7	50	-	-	60	37
Creditors, accruals and settlement accounts	12,813	-	-	-	-	-	12,813	12,813
Total financial liabilities	1,643,069	855,454	771,627	211,168	-	1,983	3,483,301	3,437,701

2011 Assets $'000								
Cash on hand and deposits at call	345,080	-	-	-	-	-	345,080	345,080
Receivables from financial institutions	197,818	90,000	50,000	-	-	-	337,818	337,818
Cash flow hedge derivative assets	-	-	-	-	-	-	-	-
Receivables	13,621	10,067	6,752	-	-	-	30,440	27,259
Loans and advances to members	38,225	75,895	333,297	1,133,338	3,860,802	-	5,441,557	2,774,659
Available for sale investments	-	-	-	-	-	4,383	4,383	4,383
Total financial assets	594,744	175,962	390,049	1,133,338	3,860,802	4,383	6,159,278	3,489,199

2011 Liabilities $'000								
Wholesale sector deposits	50,979	36,150	11,396	-	-	-	98,525	97,860
Retail deposits	1,368,937	605,477	1,008,541	180,785	-	2,086	3,165,826	3,105,674
Cash flow hedge derivative liabilities	-	-	-	-	-	-	-	-
Creditors, accruals and settlement accounts	12,608	-	-	-	-	-	12,608	12,608
Total financial liabilities	1,432,524	641,627	1,019,937	180,785	-	2,086	3,276,959	3,216,142

24. Interest rate change profile of financial assets and liabilities

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

2012 Assets $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	Non interest bearing	Total
Cash on hand and deposits at call	121,965	-	-	-	1,222	123,187
Receivables from financial institutions	45,824	347,041	114,616	-	-	507,481
Cash flow hedge derivative assets	22	-	-	-	-	22
Receivables	-	-	-	-	15,694	15,694
Loans and advances to members	2,712,573	36,589	122,865	212,832	164	3,085,023
Available for sale investments	-	-	-	-	4,383	4,383
Total financial assets	2,880,384	383,630	237,481	212,832	21,463	3,735,790

2012 Liabilities $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	Non interest bearing	Total
Wholesale sector deposits	20,962	15,023	15,104	-	-	51,089
Retail deposits	1,608,508	832,553	736,265	194,453	1,983	3,373,762
Cash flow hedge derivative liabilities	37	-	-	-	-	37
Creditors, accruals and settlement accounts	-	-	-	-	12,813	12,813
On-statement of financial position	1,629,507	847,576	751,369	194,453	14,796	3,437,701
Undrawn loan commitments Note 26a, 26b, 26c	643,613	-	-	-	-	643,613
Total financial liabilities	2,273,120	847,576	751,369	194,453	14,796	4,081,314

2011 Assets $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	Non interest bearing	Total
Cash on hand and deposits at call	343,676	-	-	-	1,404	345,080
Receivables from financial institutions	197,818	90,000	50,000	-	-	337,818
Cash flow hedge derivative assets	-	-	-	-	-	-
Receivables	-	-	-	-	27,259	27,259
Loans and advances to members	2,410,847	30,182	124,438	212,279	226	2,777,972
Available for sale investments	-	-	-	-	4,383	4,383
Total financial assets	2,952,341	120,182	174,438	212,279	33,272	3,492,512

2011 Liabilities $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	Non interest bearing	Total
Wholesale sector deposits	50,854	35,860	11,146	-	-	97,860
Retail deposits	1,368,368	599,559	968,570	167,091	2,086	3,105,674
Cash flow hedge derivative liabilities	-	-	-	-	-	-
Creditors, accruals and settlement accounts	-	-	-	-	12,608	12,608
On-statement of financial position	1,419,222	635,419	979,716	167,091	14,694	3,216,142
Undrawn loan commitments Note 26a, 26b, 26c	599,851	-	-	-	-	599,851
Total financial liabilities	2,019,073	635,419	979,716	167,091	14,694	3,815,993

25. Fair value of financial assets and liabilities

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are regularly traded by the mutual bank and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

	2012 $'000			2011 $'000		
Assets	**Fair value**	**Book value**	**Variance**	**Fair value**	**Book value**	**Variance**
Cash on hand and deposits at call	123,187	123,187	-	345,080	345,080	-
Receivables from financial institutions	508,297	507,481	816	337,613	337,818	(205)
Cash flow hedge derivative assets	22	22	-	-	-	-
Receivables	15,694	15,694	-	27,259	27,259	-
Loans and advances to members	3,085,952	3,081,729	4,223	2,774,178	2,774,659	(481)
Available for sale investments	4,383	4,383	-	4,383	4,383	-
Total financial assets	3,737,535	3,732,496	5,039	3,488,513	3,489,199	(686)

Liabilities						
Wholesale sector deposits	51,117	51,089	28	97,851	97,860	(9)
Retail deposits	3,379,348	3,373,762	5,586	3,114,304	3,105,674	8,630
Cash flow hedge derivative liabilities	37	37	-	-	-	-
Creditors, accruals and settlement accounts	12,813	12,813	-	12,608	12,608	-
Total financial liabilities	3,443,315	3,437,701	5,614	3,224,763	3,216,142	8,621

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

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

Liquid assets and receivables from other financial institutions

The carrying value of cash is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of receivables from other financial institutions. The rates applied to give effect to the discount of cash flows were 3.47%-4.34% (2011 4.76%-6.00%).

Loans and advances

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

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

The rates applied to give effect to the discount of cash flows were 5.68%-11.50% (2011 6.55%-11.50%). The fair value of impaired loans was calculated by discounting expected cash flows using a rate, which includes a premium for the uncertainty of the flows.

Wholesale sector and retail deposits

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

Wholesale sector deposits: The rates applied to give effect to the discount of cash flows were 3.81%-4.24% (2011 5.55%-6.32%).

Retail deposits: The rates applied to give effect to the discount of cash flows were 2.83-5.13% (2011 2.67%-6.24%).

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

26. Financial commitments

a. Outstanding loan commitments

	2012 $'000	2011 $'000
The loans approved but not funded	97,483	105,531

b. Loan redraw facilities

The loan redraw facilities available	296,792	253,276

c. Undrawn loan facilities

Loan facilities available to members for overdrafts and credit cards are as follows:		
Total value of facilities approved	348,170	334,911
Less: Amount advanced	(98,832)	(93,867)
Net undrawn value	249,338	241,044

d. Future capital commitments

The mutual bank has entered into a contract to purchase motor vehicles for which the amount is to be paid over the following periods:

Not later than one year	-	-

e. Computer capital commitments

Not later than one year	686	384
Total	686	384

f. Lease expenditure commitments

Operating leases on property occupied by the mutual bank		
Not later than one year	682	682
Later than 1 year but not 2 years	247	596
Later than 2 years but not 5 years	509	108
Over 5 years	43	-
Total	1,481	1,386

The operating leases are in respect of property used for providing office space for staff. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 and 5 years and options for renewal are usually obtained for a further 3 years.

There are no restrictions imposed on the mutual bank so as to limit the ability to undertake further leases or borrow funds.

27. Standby borrowing facilities

The mutual bank has borrowing facilities with Cuscal as follows:

2012 $'000	Gross	Current borrowings	Net available
Loan facility	-	-	-
Overdraft facility	50,000	-	50,000
Total standby borrowing facilities	50,000	-	50,000

2011 $'000			
Loan facility	30,000	-	30,000
Overdraft facility	20,000	-	20,000
Total standby borrowing facilities	50,000	-	50,000

Cuscal holds an equitable mortgage charge over all of the assets of the mutual bank as security against loan and overdraft amounts drawn under the facility arrangements.

28. Contingent liabilities

Liquidity support scheme

The mutual bank is a member of the CUFSS Limited, a company limited by guarantee, established to provide financial support to member Australian Mutual Authorised Deposit Taking Institutions (ADIs) in the event of a liquidity or capital problem. As a member, the mutual bank is committed to maintaining 3.2% of the total assets as deposits with Cuscal.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating mutual ADI member would be 3.2% of the mutual bank's total assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating Australian Mutual Authorised Deposit Taking Institutions' (ADIs') irrevocable commitment under the ISC.

29. Disclosures on Directors and other Key Management Persons

a. Remuneration of Key Management Persons (KMP)

Key Management Persons (KMP) have authority and responsibility for planning, directing and controlling the activities of the mutual bank, directly or indirectly, including any Director (whether executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

KMP have been taken to comprise the Directors and the seven members of the executive management (2011-2012) responsible for the day to day financial and operational management of the mutual bank.

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

					2012 $'000
Directors	**Short-term**	**Post-employment**	**Motor vehicle**	**Net increases in long service leave provision**	**Total**
Short-term employee benefits					
J Kouimanos	27	44	21	-	92
L Green	58	5	-	-	63
T Carlin	46	4	-	-	50
M Collopy	51	30	-	-	81
A FitzGerald	16	36	-	-	52
J Leete	46	4	-	-	50
G Lockwood	47	4	-	-	51
C McEvedy	47	4	-	-	51
M O'Halloran	42	9	-	-	51
Short-term employee benefits – other	26	-	-	-	26
Reimbursement to Employer	8	-	-	-	8
Total	414	140	21	-	575
Other KMP	2,437	256	70	133	2,896

					2011 $'000
Directors	**Short-term**	**Post-employment**	**Motor vehicle**	**Net increases in long service leave provision**	**Total**
Short-term employee benefits					
J Kouimanos	6	49	9	-	64
L Green	49	4	-	-	53
T Carlin	37	3	-	-	40
M Collopy	48	5	-	-	53
A FitzGerald	6	44	-	-	50
S Jacob	5	1	-	-	6
J Leete	42	5	-	-	47
G Lockwood	46	4	-	-	50
C McEvedy	44	4	-	-	48
M O'Halloran	37	9	-	-	46
Short-term employee benefits – other	28	-	-	-	28
Reimbursement to Employer	10	-	-	-	10
Total	358	128	9	-	495
Other KMP	2,197	193	73	193	2,656

In the table on the previous page, remuneration shown as short-term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, and value of fringe benefits received, but excludes out-of-pocket expense reimbursements.

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

Post-employment includes contributions to superannuation, incorporating those made under salary sacrifice arrangements.

b. Other transactions with related parties

The disclosures are made in accordance with AASB 124 and include disclosures relating to a financial institution policy for lending to related parties and, in respect of related party transactions, the amount included in:

- Each of loans and advances, deposits and acceptances and promissory notes.
- Each of the principal types of income, interest expense and commissions paid.
- The amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date.
- Irrevocable commitments and contingencies and commitments arising from off-statement of financial position items.

c. Loans to Directors and other Key Management Persons

The mutual bank's policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit. There are no loans, which are impaired in relation to the loan balances with Directors or other KMP.

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

	2012 $'000			2011 $'000		
	Mortgage term loans	Other term loans	Revolving credit facilities	Mortgage term loans	Other term loans	Revolving credit facilities
Funds available to be drawn	1,289	32	166	466	27	148
Balance	3,656	50	41	3,911	79	56
Amounts disbursed or facilities increased in the year	4,945	82	207	4,377	106	204
Interest and other revenue earned	256	8	13	286	9	10

Other transactions between related parties include deposits from Directors and other KMP are:	2012 $'000	2011 $'000
Total value term and savings deposits from Directors and KMP	4,494	4,147
Total interest paid on deposits to Directors and KMP	237	155

The mutual bank's policy for receiving deposits from Directors and KMP is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

d. Transactions with other related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors, and other KMP.

The mutual bank's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

There are no benefits paid or payable to the close family members of the Directors and KMP.

There are no service contracts to which Directors and KMP or their close family members are an interested party.

30. Economic dependency

The mutual bank has an economic dependency on the following suppliers of services.

Cuscal Limited (CUSCAL) This company is an APRA Approved Deposit-taking Institution that supplies settlement, transaction processing, card, interchange and other services to organisations including Mutual Banks, Credit Unions and Building Societies.

It supplies to the mutual bank rights to offer/or issue member cheques, rediCARDS and Visa cards in Australia and provides services in the form of settlement with banks of member cheques, Electronic Funds Transfer (EFT), Direct entry, BPAY and Visa card transactions along with the supply of Visa cards and rediCARDS for use by members.

First Data Resources Australia Limited This company operates the switching computer used to link rediCARDS and Visa cards through rediATMs and other ATMS, other approved EFT suppliers and Visa acquirers and merchants to the mutual bank computer systems.

Ultradata Australia Pty Ltd This company provides and maintains software utilised by the mutual bank.

31. Segmental reporting

The mutual bank operates exclusively in the retail financial services industry within Australia.

32. Superannuation liabilities

The mutual bank contributes to the NGS Super Plan for the purpose of the Superannuation Guarantee and other superannuation benefits provided on behalf of employees.

The mutual bank has no interest in the Superannuation Plan (other than as a contributor) and the only possible liability that could arise in respect of those 2 staff (2011 – 2 staff) where a minimum defined benefit guarantee applies. The minimum benefit guarantee applies to those staff who were members of the predecessor fund of the NGS Super Plan at 30th June 1992, being the date the plan restructured from a defined benefit basis to a defined contribution (accumulation) basis, and who have not elected to transfer to the accumulation basis. These members are in a defined benefit sub-plan in the NGS Super Plan.

Following the last valuation dated 30th June 2011, the actuary, Anna Collins of Mercer Consulting (Australia) Pty Ltd, confirmed that the defined benefit sub-plan in the NGS Super Plan was in a satisfactory financial condition.

33. Transfers of financial assets

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

In addition, the mutual bank is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year the mutual bank assigned no loans (2011 $nil) to Integris. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there are no residual benefits to the mutual bank. The mutual bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to members.

	2012 $'000	2011 $'000
The amount of securitised loans under management	1,363	1,418

The values of above securitised loans are qualifying for de-recognition as they meet the conditions meet the criteria in accounting standard AASB 139, where the mutual bank assumes the contractual obligation to pay all cash flows it received on the loans to the trust, but receives no benefit from the net gains or losses in the trust.

Integris Securitisation Services Pty Limited
The Integris securitisation trust is an independent securitisation vehicle established by Cuscal.

The mutual bank does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

34. Notes to statement of cash flows

a. Reconciliation of cash

	2012 $'000	2011 $'000
Cash includes cash on hand, and deposits at call with other financial institutions and comprises		
Cash on hand and deposits at call	123,187	345,080

b. Reconciliation of cash from operations to accounting profit

	2012 $'000	2011 $'000
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax		
Profit after income tax	23,088	29,143
Add (less):		
- Provision for impairment and bad debts written off (net)	2,528	1,866
- Depreciation of property, plant and equipment	3,845	3,890
- Provision for employee entitlements	1,466	1,718
- Other provisions	(309)	201
- Loss on disposal of plant and equipment (net)	(43)	28
- Bad debts recovered	(989)	(883)
Changes in assets and liabilities		
- Prepaid expenses and sundry debtors	(10)	237
- Accrued expenses and sundry creditors	9	794
- Interest receivable	6,729	(6,167)
- Interest payable	167	4,908
- Other income receivable	(253)	4
- Unearned income	101	216
- Increases in loans and advances to members	(308,270)	(343,293)
- Increase in retail deposits	272,258	366,145
- Provision for income tax	(872)	165
- Deferred tax assets	(114)	(839)
Net cash flows from operating activities	(669)	58,133

35. Events occurring after balance date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations or state of affairs of the mutual bank in subsequent financial years.

36. Corporate information

Teachers Mutual Bank Limited (previously Teachers Credit Union Limited) is a company limited by shares, and is registered under the Corporations Act (Cth) 2001. The address of the registered office and principal place of business is 28-38 Powell Street, Homebush NSW 2140. The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the mutual bank.

Need more information, we're here to help

13 12 21
8am to 7pm, weekdays
9am to 3pm, Saturday

tmbank.com.au

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Affiliates

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Asian Confederation of Credit Unions
Credit Union Financial Support Scheme
Credit Union Foundation Australia
Cuscal Ltd
World Council of Credit Unions

00506S-COR-0712