Pulse

CREDIT UNION LTD

ABN 35 087 651 670

AFS Licence 239293

Directors' Report and Financial Statements for the year ended 30 June 2012

Annual Financial Report

PULSE CREDIT UNION LIMITED

Board of Directors:		**Administration:**	
Chairman	N. McDonald		
Deputy Chairman	J. Green	K. Warham	- Chief Executive Officer
	M. Brand	D. Andrews	- General Manager Operations
	D. Bulman	S. Neave	- General Manager Finance
	P. McGrath		
	S. Muir		
	P. Talevski		
	R. Young		
	S. Young		

Company Secretary

D. Andrews

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Bankers

National Australia Bank Ltd

Auditors

External Auditors: Jeffrey Thomas & Partners
Internal Auditors: Mike Jolley & Associates Pty. Ltd.

Solicitors

Velos Lawyers
Daniels Bengtsson

Insurer

QBE Insurance

Registered Office

Level 6, 766 Elizabeth Street
Melbourne, Vic 3000
(03) 9347 9588

Web Site

http://www.pulsecredit.com.au

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DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2012.

DIRECTORS

The names and details of the directors of the Company at the date of this report are:

Names and qualifications

N. McDonald (Chairman)	Retired. Previously Manager Research, Faculty of Health Sciences, La Trobe University. Over 15 years administration management experience in tertiary institutions. Convenor of the Remuneration Committee
J. Green (Deputy Chairman)	BEcon. *Tas,* LLB *Deakin,* FCSA FCPA FIAA FICD. Member of Risk Management Institute of Australia. Faculty Course Governance and Compliance Officer, Victoria University Faculty of Business and Law.Member of Remuneration, and Planning & Resources Committees.
M. Brand	FRMIT *Bus.Studs.* Medical Practice Manager. Member Australian Association of Practice Managers. Over 25 years experience in management, human resources and information technology in the Health and Information Technology industries. Member of the Planning and Resouces Committee.
D. Bulman	FCPA. Diploma in Financial Management. Current holder of a Private Practice Certificate providing financial services to Indigenous Community Organisations in the Goulburn Valley Region. 15 years financial experience in the health industry. Member of the Audit Committee.
P. McGrath	Bbus (Accounting) *RMIT,* GradDip Commercial Data Proc *RMIT.* Member of CPA Australia, Member of Institute of Internal Auditors – Australia (IIA-A). Convenor of the Audit Committee.
S. Muir	B.Ec (Hons.) M.Ec. LaTrobe, Member ANZAM, Member EAA, Research Fellow, La Trobe Institute for Social and Environmental Sustainability, La Trobe University. Member of the Audit Committee.
P. Talevski	CPA, Batchelor of Commerce, Diploma of Financial Services, Associate Diploma in Accounting. Public Tax Accountant (own practice). Member of the Remuneration Committee.
R. Young	MBA *La Trobe,* GradDip Management *RMIT.* Member AIRAH. .Director and Sales Manager, The Cooling Tower Company Pty Ltd. Member of Planning & Resources Committee.
S. Young	BSc. *Adel,* MBA *Melb.* Senior Policy Offier, Information Technology Services, The University of Melbourne. Member of Audit Committee.

COMPANY SECRETARY D. Andrews

General Board and Audit Committee attendance

	Board Meetings 30 June to 30 September 2011	Audit Meetings 30 June to 30 September 2011	Board Meetings 1 October 2011 to 30 June 2012	Audit Meetings 1 October 2011 to 30 June 2012
Number of meetings held:	3	2	8	5
Number of meetings attended:				
N. McDonald			8	4
J. Green			8	
A.Bird	3			
M. Brand	1		8	
C. Brisci	3			
D. Bulman	3	2	8	5
P. McGrath			7	5
S. Muir			8	5
W. Smith	1			
P. Talevski	3	2	7	
K. Warham	3			
R. Young			6	
S. Young			7	4

DIRECTORS' REPORT

Remuneration and Planning & Resources Committees' attendance

1st October 2011 to 30th June 2012	Remuneration Committee	Planning & Resources Committee
Number of meetings held:	**4**	**4**
Number of meetings attended:		
N. McDonald	4	4
J. Green	4	3
M. Brand		4
D. Bulman		
P. McGrath		
S. Muir		
W. Smith	1	
P. Talevski	2	4
R. Young		3
S. Young		

Shaded areas denote meetings that directors were not eligible to attend.

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 Credit Union, 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.

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was receiving funds on deposits, advancing loans and providing insurance services to members.

There has been no significant change in the nature of these activities during the year.

OPERATING RESULTS

The amount of profit of the company for the financial year, after providing for income tax, was $112,834 (2011: $191,604).

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 Credit Union.

REVIEW OF OPERATIONS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 1 October 2011 the Credit Union received transfers of engagements from La Trobe University Credit Union Co-operative Ltd and Melbourne University Credit Union Ltd. The transfers increased reserves by almost $3.4m. Details are disclosed at Note 5.

AFTER BALANCE DATE EVENTS

The directors are not aware of any events occurring after balance date which will have a material affect on the Company's financial statements for the next succeeding year.

FUTURE DEVELOPMENTS

The next 12 months will be focussed on consolidation following the merger and implementation of a fully integrated core-banking platform.

DIRECTORS' REPORT

INDEMNIFICATION OF OFFICERS

During the year, a premium was paid in respect of a contract insuring the directors and officers of the company against liability.

The officers of the company covered by the insurance contract include directors, executive officers, secretary and employees.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the company.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307c of the Corporations Act 2001 is set out on page 5.

ROUNDING

The amounts contained in this report and in the financial statements have been rounded off under the option available in accordance with ASIC Class Order 98/100, as the company is one that has total assets in excess of $10,000,000.

Signed in accordance with a resolution of the directors.

John Green
Director

Peter McGrath
Director

Melbourne, 3rd October 2012

JT&P | JEFFREY THOMAS & PARTNERS

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PULSE CREDIT UNION LIMITED
ABN 35 087 651 670

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PULSE CREDIT UNION LTD

I declare that, to the best of my knowledge and belief, during the period ended 30 Jun 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Jeffrey Thomas + Partners

JEFFREY THOMAS & PARTNERS
Chartered Accountants

Sam Claringbold
Partner

Melbourne 4th October 2012

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 June 2012

	Note	2012 $'000	2011 $'000
INTEREST INCOME	2	**4,181**	2,184
INTEREST EXPENSE	2	**(1,855)**	(1,070)
NET INTEREST INCOME		**2,326**	1,114
OTHER REVENUE	3	**391**	469
BAD AND DOUBTFUL DEBTS (EXPENSE)/WRITEBACK	4	**(30)**	(9)
EMPLOYEE BENEFITS EXPENSE	4	**(1,152)**	(534)
OCCUPANCY EXPENSES	4	**(203)**	(115)
DEPRECIATION AND AMORTISATION EXPENSES	4	**(88)**	(49)
OTHER EXPENSES	4	**(1,130)**	(606)
PROFIT BEFORE INCOME TAX		**114**	270
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**114**	270
INCOME TAX EXPENSE	6	**(1)**	(78)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS		**113**	192

STATEMENT OF CHANGES IN MEMBER EQUITY FOR THE YEAR ENDED 30 June 2012

	General Reserve $'000	Retained Profits $'000	Reserve for Credit Losses $'000	Asset Revaluation Investment Property $'000	Total $'000
Total at 1 July 2011	2,231	-	78	820	3,129
Net Profit for the period	-	113	-	-	113
Total comprehensive income	-	113	-	-	113
Acquired from merger	3,382	-	105		3,487
Transfers to (from) Reserves	113	(113)	-	-	-
Total at 30 June 2012	5,726	-	183	820	6,729
Total at 1 July 2010	2,196	-	78	663	2,937
Net profit for the period		35	-	157	192
Total comprehensive income	-	35	-	157	192
Transfers to (from) Reserves	35	(35)	-	-	-
Total at 30 June 2011	2,231	-	78	820	3,129

The accompanying notes form part of the financial statements

STATEMENT OF FINANCIAL POSITION AS AT 30 June 2012

	Note	2012	2011
		$'000	$'000
ASSETS			
Cash and liquid assets		**4,918**	804
Advances to other financial institutions	7	**22,245**	10,802
Receivables	8	**354**	356
Loans and advances	9	**49,037**	20,593
Investments	10	**204**	90
Investment / Dual Use Property	11	**1,925**	1,925
Property, plant and equipment	11	**180**	143
Intangible Assets	11	**232**	149
Deferred tax assets	12	**165**	5
Other assets	13	**89**	97
TOTAL ASSETS		79,349	34,964
LIABILITIES			
Deposits and short term borrowings	14	**70,790**	31,150
Creditor accruals and settlement accounts	15	**1,033**	201
Deferred tax liability	12	**352**	352
Provision for Tax	17	**69**	-
Provisions	18	**376**	132
TOTAL LIABILITIES		72,620	31,835
NET ASSETS		6,729	3,129
EQUITY			
Reserves	19	**6,729**	3,129
Retained profits	20	**-**	-
TOTAL EQUITY		6,729	3,129

The accompanying notes form part of the financial statements

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 June 2012

	Note	2012	2011
		$'000	$'000
OPERATING ACTIVITIES			
Revenue Inflows			
Interest received		**4,335**	2,042
Other non-interest income received		**490**	240
Interest paid		**(1,919)**	(1050)
General Expenses Paid		**(2,212)**	(1,314)
Income tax paid		**(4)**	(1)
Net cash provided by (used in) operating activities	**27b**	**690**	(83)
Cash flows from investing activities			
Net (decreases)/increases in loans		**(4,336)**	(614)
Payments for property, plant and equipment and software		**(28)**	(21)
Proceeds on sale of property, plant and equipment		**-**	-
Net redemption of investing activities		**3,603**	(554)
Cash acquired from business combination	**5**	**3,308**	
Net Cash from Investing Activities		**2,547**	(1,189)
Cash flows from Financing Activities			
Net increase in members' deposits		**877**	1,392
Net Cash from Financing Activities		**877**	1,392
Total Net Cash increase / (decrease)		**4,114**	120
Cash at Beginning of Year		**804**	684
Cash at End of Year	**27a**	**4,918**	804

The accompanying notes form part of the financial statement

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

The financial statements cover Pulse Credit Union Limited as an individual entity, incorporated and domiciled in Australia. Pulse Credit Union Limited is a company limited by guarantee.

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001*. The company is a for profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for the cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar.

The financial statements were authorised for issue on 2nd October 2012 by the directors of the company.

a) Loans to Members

(i) 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 income statement 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 Credit Union at balance date, less any allowance or provision against debts considered doubtful.

(ii) Interest Earned

Term Loans - The loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Overdraft –The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Non-Accrual Loan Interest – while still legally recoverable, interest is not brought to account as income where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors

b) Loan Impairment

(i) Specific Provision

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The specific provision for doubtful debts is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.
Irrespective of the determination a minimum provision is maintained, based on specific percentages of the loan balance which are contingent upon the length of time the repayments are in arrears.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

(ii) Reserve for Credit Losses (formerly held as a General Provision)

In addition to the above specific provision, the Board has recognised the need to make an allocation from General Reserves to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve is a minimum of 0.50% of total assets weighted in accordance with APRA Prudential Standards.
As a result of changes to Accounting Standards prescribed by AIFRS, the General Provision is no longer eligible for recognition as a provision to be offset against the gross balance of loans. The provision for general credit risk in the loan portfolio is now recognised as the Reserve for Credit Losses.

c) Bad Debts Written Off

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for doubtful debts if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the Income Statement.

d) Property, Plant and Equipment

Property, plant and equipment with the exception of freehold land and dual purpose investment property, are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Credit Union.

Estimated useful lives are as follows:
- Buildings - 40 years.
- Leasehold Improvements - 10 years.
- Plant and Equipment - 3 to 15 years.
- Assets less than $300 are not capitalised.

e) Investment Property

Investment property is carried at fair value, supported by independent property valuations. These valuations are reviewed on a regular basis and any changes to the fair value are recorded in the income statement.

f) Deposits with Other Financial Institutions

Term deposits are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the Balance Sheet.

g) Equity Investments and Other Securities

Investments in shares where a market value is readily available are revalued to market value, with the gains and losses reflected in Equity through the Asset Revaluation reserve. Investments in shares which do not have ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for impairment. All investments are in Australian currency.

h) Member Savings

(i) Basis for Determination

Member savings and term investments are quoted at the aggregate amount of money owing to depositors.

(ii) Interest Payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

i) Provision for Employee Entitlements

Provision is made for the credit union's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimates of future cash outflows to be made for those entitlements. Provision for long service leave is on a pro-rata basis after 5 years anniversary of employment with the Credit Union based on the present value of its estimated future cash flows. Annual leave is accrued in respect of all employees on pro-rata entitlement for part year of service and leave entitlement due but not taken at balance date. Contributions are made by the Credit Union to an employee's superannuation fund and are charged to expense as incurred.

j) Leasehold on premises

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

k) Income Tax

The Credit Union adopts the liability method of tax-effect accounting whereby the income tax expense shown in the Income Statement is based on the operating profit before income tax adjusted for any permanent differences between accounting profit and taxable income. Timing differences which arise due to the different periods in which items of revenue and expense are recognised for tax purposes are brought to statement as either provision for deferred income tax or an asset described as future income tax benefit, at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. Timing differences are presently assessed at 30%.

Future income tax benefits are not brought to statement unless realisation of the asset is assured beyond any reasonable doubt. 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 Credit Union 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.

l) Intangible Assets

Under the AIFRS, items of computer software which are not integral to the computer hardware owned by the credit union are classified as Intangible Assets, not as part of Plant and Equipment. Computer software held as intangible assets is amortised over the expected useful life of the software. These lives range from 2 to 10 years.

m) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (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. Receivables and payables are stated with the amount of GST included where applicable GST is collected.

n) Business Combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given or liabilities incurred or assumed at the date of exchagne plus costs directly attributable to the combination.

Except for non-cuirrent assets or disposal groups classified as held for sale (which are measured at fair value less cost to sell), all identifiable assets acquired and liabilties and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition (or merger) date. Transaction costs ahve been expensed through the income statement.

o) Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Key Estimates

Impairment
The freehold land and buildings were independently valued in April 2011. The valuation was based on the fair value less cost to sell. The critical assumptions adopted in determining the valuation included the location of the land and buildings, the current strong demand for land and buildings in the area and recent sales data for similar properties.

At 30 June 2012 the directors reviewed the key assumptions made by the valuers in April 2011. They have concluded that these assumptions remain materially unchanged, and are satisfied that carrying value does not exceed the recoverable amount of land and buildings at 30 June 2012.

p) New Accounting Standards for Application in Future Periods

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

– AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

  These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

  The key changes made to accounting requirements include:

  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
  - requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
  - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

The company has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

  AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

  - Tier 1: Australian Accounting Standards; and
  - Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

  Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

- AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (applies to periods beginning on or after 1 January 2012).

  This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

  Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

  The amendments are not expected to significantly impact the company.

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 10 replaces parts of AASB 127 (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The company has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

  AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

  AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the company.

  To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

- AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

  AASB 13 requires:

  - inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
  - enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

  These Standards are not expected to significantly impact the company.

- AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (applicable for annual reporting periods commencing on or after 1 July 2012).

  The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

  This Standard affects presentation only and is therefore not expected to significantly impact the company.

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

  These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The company does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to:

(a) require only those benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service to be classified as short-term employee benefits. All other employee benefits are to be classified as either other long-term employee benefits, post-employment benefits or termination benefits, as appropriate; and

(b) the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

  (i) where for an offer that may be withdrawn – when the employee accepts;

  (ii) where for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and

  (iii) where the termination is associated with a restructuring of activities under AASB 137 and if earlier than the first two conditions – when the related restructuring costs are recognised.

The company has not yet been able to reasonably estimate the impact of these changes to AASB 119.

2. INTEREST REVENUE AND BORROWING COSTS

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are month end averages.

	Note	Average Balance $'000	Interest $'000	Average Interest Rate %
Interest Revenue 2012				
Deposits with other financial institutions		**23,135**	**1,254**	**5.42**
Loans and advances		**41,070**	**2,927**	**7.12**
		64,205	**4,181**	**6.51**
Borrowing Costs 2012				
Customer deposits		**60,285**	**1,851**	**3.07**
Short-term borrowings		**-**	**4**	**-**
		60,285	**1,855**	**3.07**
Net Interest Income 2012			**2,326**	**3.44**
Interest Revenue 2011				
Deposits with other financial institutions		11,045	661	6.08
Loans and advances		20,337	1,523	7.45
		31,382	2,184	6.97
Borrowing Costs 2011				
Customer deposits		30,691	1,068	3.44
Short-term borrowings		-	2	-
		30,691	1,070	3.44
Net Interest Income 2011			1,114	3.53

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012	2011
		$'000	$'000
3. REVENUE FROM ORDINARY ACTIVITIES			
Interest		**4,181**	2,184
Fees and commissions		**321**	183
Proceeds on disposal of fixed assets		**-**	-
Bad debts recovered		**1**	1
Revaluation Increment		**-**	225
Other revenue		**69**	60
		391	469
		4,572	2,653
4. PROFIT FROM ORDINARY ACTIVITIES			
Profit from ordinary activities before Income tax expense has been determined after:			
(a) Expenses			
Bad and doubtful debts	9(d)	**30**	9
Depreciation and amortisation			
- plant and equipment		**26**	29
- leasehold improvements			
- buildings			-
- intangible assets		**62**	20
Total depreciation and amortisation		**88**	49
General and administration			
- personnel costs		**1,152**	534
- computer costs		**418**	213
- occupancy		**203**	115
- insurance		**61**	38
- products and services		**229**	120
- audit and consultancies		**114**	60
- postage		**24**	18
- telephone		**23**	16
- bank fees and cash escorts		**12**	2
- stationery and printing		**43**	23
- other		**162**	80
Rental expense on operating leases		**44**	36
		2,485	1,255

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

5. BUSINESS COMBINATIONS

Merger with La Trobe University Credit Union Ltd and Melbourne University Credit Union Ltd

The Credit Union merged with La Trobe University Credit Union Limited (LTUCU) and Melbourne University Credit Union limited (MUCU) on 1st October 2011 via a total voluntary transfer of each business. On this date all the assets and liabilities of MUCU and LTUCU were transferred to Pulse Credit Union Limited at carrying value. The difference between fair value and carrying value was insignificant. No consideration was paid in respect of these transactions.

Due to the business combination on 1st October 2011 the current year figures include 9 months contribution from LTUCU and MUCU. Disclosure of the amount of the acquiree's revenue and profit and loss since acquisition date included in the acquirer's statement of comprehensive income for the period would be impracticable, since this is indistinguishable in the Credit Union's accounts post merger date.

The Credit Union incurred acquisition costs of $28,000 relating to external legal fees and due diligence costs these amounts have been recognised in the statement of comprehensive income.

Business Combinations 1 October 2011 $'000	**MUCU Carrying Value**	**MUCU Fair Value**	**LTUCU Carrying Value**	**LTUCU Fair Value**	**Combined Carrying Value**	**Combined Fair Value**
Identifiable assets						
Cash and liquid assets	2,129	2,129	1,179	1,179	**3,308**	**3,308**
Advances to Other Financial Institutions	8,110	8,110	6,936	6,936	**15,046**	**15,046**
Receivables	100	100	109	109	**209**	**209**
Loans and Advances	7,593	7,593	16,546	16,546	**24,139**	**24,139**
Investments	49	49	65	65	**114**	**114**
Property, Plant & Equipment	13	13	54	54	**67**	**67**
Intangible Assets	17	17	122	122	**138**	**138**
Deferred Tax Assets	0	30	48	52	**48**	**82**
Total identifiable assets	18,010	18,040	25,059	25,064	**43,069**	**43,104**
Identifiable liabilities						
Member deposits	16,164	16,164	22,600	22,600	**38,764**	**38,764**
Trade Creditors and Accruals	**211**	**248**	376	415	**587**	**663**
Provisions	41	41	137	137	**177**	**177**
Current Tax Liabilities	35	37	0	(24)	**35**	**13**
Total identifiable liabilities	16,451	16,488	23,113	23,126	**39,564**	**39,617**
Net Assets	**1,559**	**1,552**	**1,946**	**1,938**	**3,505**	3,487
Total Identifiable Net Assets						**3,487**
Deemed Consideration						3,487

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012	2011
		$'000	$'000
6. INCOME TAX			
The prima facie tax on operating profit items differs from the income tax provided in the accounts as follows:			
Prima facie tax on operating profit from ordinary activities before income tax at 30 % (2011 – 30%)		**34**	81
Tax effect of:			
Tax free threshold			-
Franking credits converted to losses		-	(5)
Non-allowable items		**(2)**	2
Under provision of Income Tax in the prior year			-
Other		**(31)**	-
Income tax expense / (benefit) attributable to operating profit		**1**	78
Income Tax expense comprises amounts set aside as:			
Income tax expense attributable to current year		**79**	1
Deferred income tax (refer Note 11)		**78**	77
Income Tax expense / benefit (refer Note 1k)		**1**	78
Balance of the franking account at year end, adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables and franking credits that may be prevented from distribution in the subsequent financial year.		**403**	380
7. ADVANCES TO OTHER FINANCIAL INSTITUTIONS			
Interest earning deposits		22,245	10,802
Maturity Analysis			
At call		7,422	700
Not longer than 3 months		5,697	4,547
Longer than 3 and not longer than 12 months		7,628	4,058
Longer than 1 and not longer than 5 years		1,498	1,497
		22,245	10,802
8. RECEIVABLES			
Interest receivable		354	349
Other		-	7
		354	356

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012 $'000	2011 $'000
9. LOANS AND ADVANCES			
Overdrafts		**413**	448
Term loans		**48,734**	20,169
Provision for impairment	9(d)	**(110)**	(24)
Total loans and advances (net)		**49,037**	20,593
(a) Maturity Analysis			
Overdrafts and Lines of Credit		**671**	448
Not longer than 3 months		**503**	563
Longer than 3 and not longer than 12 months		**1,396**	1,471
Longer than 1 and not longer than 5 years		**7,346**	4,215
Longer than 5 years		**39,231**	13,920
		49,147	20,617
(b) Concentration of Risk			
The company has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:			
- Victorian residents		**48,416**	20,554
- Other		**731**	63
		49,147	20,617
(c) Loans in excess of 10% of Capital Base			
- Number		**1**	**17**
- Balance		**656**	**5,498**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012	2011
		$'000	$'000
9. LOANS AND ADVANCES (cont'd)			
(d) Provision for Impairment			
Specific provision			
Opening balance		**24**	30
Bad debts previously provided for written off during the year		-	(6)
Doubtful debts provided for during the year		**86**	-
Closing balance		**110**	24
The specific provision is the prescribed provisions under the APRA Prudential Standards.			
Bad and doubtful debts expense comprises:			
Specific provision		**86**	-
Bad debts recognised directly		-	9
		86	9
(e) Impairment of Loans and Advances			
Non Accrual Loans			
Balances with specific provisions for impairment		**124**	29
Specific provision for impairment		**(110)**	(24)
Net non accrual loans		**14**	5
Interest revenue on non-accrual and restructured loans		-	-
Interest foregone on non-accrual loans and restructured loans		**1**	2
10. INVESTMENTS			
Unlisted shares – Credit Union Services Corporation (at cost)		**204**	90
		204	90

The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions. These shares are held to enable the Credit Union to receive essential banking services. The shares are not able to be traded and are not redeemable. 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 and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012 $'000	2011 $'000
11. PROPERTY, PLANT AND EQUIPMENT			
Investment / Dual-Use Property			
The property at 766 Elizabeth Street, Melbourne is occupied by the Credit Union and two tenants and is primarily held for sale. Revaluation increments are apportioned in terms of the applicable accounting standards for Investment Property (tenanted portion).			
At independent valuation April 2011		**1,925**	1,925
Total Investment/ Dual Use Property		**1,925**	1,925
Leasehold improvements			
At cost		**170**	51
Less accumulated depreciation		**170**	51
Total leasehold improvements		**-**	-
Plant and equipment			
At cost		**922**	533
Less accumulated depreciation		**742**	390
Total plant and equipment		**180**	143
Intangible Assets			
At cost		**576**	201
Less accumulated depreciation		**344**	52
Total intangible assets		**232**	149

Movement in the asset balances during the year were:

<u>2012</u>	Investment / Dual Use Property $,000	Leasehold Improvements $,000	Plant and Equipment $,000	Intangible Assets $,000	Total $,000
Balance at the beginning of year	1,925	-	143	149	2,217
Purchases	-	-	63	145	208
Revaluation Increment/ (Decrement)	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation expense	-	-	(26)	(62)	(88)
	1,925	-	180	232	2,337

<u>2011</u>	Investment / Dual Use Property $,000	Leasehold Improvements $,000	Plant and Equipment $,000	Intangible Assets $,000	Total $,000
Balance at the beginning of year	1,700	-	150	169	2,019
Purchases	-	-	21	-	21
Revaluation Increment/ (Decrement)	225	-	-	-	225
Disposals	-	-	-	-	-
Depreciation expense	-	-	(28)	(20)	(48)
	1,925	-	143	149	2,217

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012	2011
		$'000	$'000
12. TAX ASSETS			
Deferred Tax Asset		**165**	5
Deferred Tax Liability		**(352)**	(352)
		(187)	(347)
13. OTHER ASSETS			
Prepayments		**85**	51
Other		**4**	46
		89	97
14. DEPOSITS AND SHORT TERM BORROWINGS			
Call deposits		**40,374**	18,623
Term deposits		**30,349**	12,475
Non-interest bearing deposits		**67**	52
		70,790	31,150
Maturity Analysis			
On call		**45,394**	18,729
Not longer than 3 months		**8,756**	5,310
Longer than 3 and not longer than 12 months		**15,753**	6,559
Longer than 1 and not longer than 5 years		**887**	552
		70,790	31,150
Concentration of Deposits			
- Victoria		**67,992**	30,347
- other States		**2,798**	803
		70,790	31,150
Deposits which represent 10% or more of total liabilities		-	-
15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS			
Trade creditors		**703**	106
Accrued interest payable		**330**	95
		1,033	201

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012 $'000	2011 $'000
16. INTEREST-BEARING LIABILITIES			
Bank Overdraft - secured		-	-
Maturity Analysis			
Not longer than 3 months		-	-
17. TAX LIABILITIES			
Provision for Income Tax		69	-
		69	-
18. PROVISIONS			
Employee entitlements		376	132

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012	2011
		$'000	$'000
19. RESERVES			
General Reserve		**5,726**	2,231
Asset Revaluation Reserve – Investment / Dual Use Property		**820**	820
General Reserve for Credit Losses		**183**	78
		6,729	3,129
General reserve			
Movements during the year			
Opening balance		**2,231**	2,196
Transfer from retained profits		**113**	35
Transfer of reserves from merger		**3,382**	
Transfer (to) / from General Reserve for Credit Losses		**-**	-
Closing balance		**5,726**	2,231
Asset revaluation reserve – Investment Property			
Movements during the year			
Opening balance		**820**	663
Revaluation increment arising on revaluing Dual Purpose Investment Property		**-**	157
Closing balance		**820**	820
General Reserve for Credit Losses			
This reserve records the amount set aside as a General Provision and is maintained to comply with APRA Prudential Standards			
Movements during the year			
Opening balance		**78**	78
Transfer of reserves from merger		**105**	
Transfer (to) / from General Reserve		**-**	-
Closing balance		**183**	78
20. RETAINED EARNINGS			
Retained earnings at the beginning of the financial year.		**-**	-
Net operating profit		**113**	192
Transfer to General Reserve		**(113)**	(35)
Transfer to Asset Revaluation Reserve – Investment Property		**-**	(157)
Closing Balance		**-**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012 $'000	2011 $'000
21. EXPENDITURE COMMITMENTS			
Operating lease commitments contracted for but not capitalised in the financial statements (non-cancellable) payable:-			
- not later than 1 year		**118**	25
- later than 1 year but not later than 5 years		**254**	49
- later than 5 years		-	-
		372	74
22. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS			
Approved but undrawn loans and credit limits		**6,802**	2,554

The Co-operative is a participant in the Credit Union Financial Support System (CUFSS). The purpose of CUFSS is to protect the interests of co-operative members, increase stability in the industry and provide liquidity in excess of current borrowing limits in times of need.

	2012 $'000	2011 $'000
23. REMUNERATION AND RETIREMENT BENEFITS – Key Personnel		
- short-term employee benefits	**356**	159
- superannuation contributions	**30**	17
- long service leave provisions	**15**	2
	401	178

The directors and key management personnel of Pulse Credit Union Ltd. during the financial year were:

N. McDonald, J. Green, M. Brand, D. Bulman, P. McGrath, S. Muir, P. Talevski, R. Young, S. Young, K. Warham, D. Andrews and S. Neave.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012	2011
		$	$
24. AUDITORS REMUNERATION			
Amounts received or due and receivable by the auditors of Pulse Credit Union Ltd. for:-			
- audit of the financial statements		**90,000**	22,000
- other services		-	8,000
		90,000	30,000

25. RELATED PARTY TRANSACTIONS

Transactions with directors and key management personnel of Pulse Credit Union Ltd.

As at 30 June 2012 the relevant directors and key management personnel who had loans or overdrafts with Pulse Credit Union Ltd were S. Muir, R. Young, M. Brand, P. Talevski, D. Andrews, K. Warham and S. Neave.

	2012	2011
Total funding to loan and overdraft accounts	**461,749**	629,826
Total repayments to loan and overdraft accounts	**122,518**	498,275

All loans made to directors and key management personnel have been made on normal terms and conditions which it would have been reasonable to expect the company to adopt if dealing with a member at arms length in the same circumstances.

All terms and conditions in respect of all loans to directors have not been breached.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

26. ECONOMIC DEPENDENCIES

Material service contracts entered into and economically depended on by the Society are:

<u>Credit Union Services Corporation (Australia) Ltd (CUSCAL)</u>
CUSCAL supplies the Credit Union with overdraft and other loan facilities and banking services in the form of cheque clearing, direct entry, settlement facilities and production of Redicards for use by members.

<u>The System Works Pty Ltd (TSW)</u>
TSW provides the Credit Union with data processing requirements and disaster recovery facilities.

<u>Transaction Solutions Ltd (TAS)</u>
TAS provides the Credit Union with data processing requirements and disaster recovery facilities.

<u>First Data Resources Australia Ltd (FDRA)</u>
FDRA operates the network used to link the Credit Union's debit card to ATM and EFTPOS outlets.

<u>Ultradata Australia Pty Limited</u>
Ultradata provides and maintains the Credit Union's core banking and accounting software.

<u>Data Action Pty Limited</u>
Ultradata provides and maintains the Credit Union's core banking and accounting software. It also provides the Credit Union with data processing requirements and disaster recovery facilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Note	2012	2011
		$'000	$'000
27. CASH FLOW INFORMATION			
(a) Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Balance Sheet as follows:			
Cash		**372**	188
Deposits at Call		**4,546**	616
		4,918	804
(b) Reconciliation of Net Cash provided by Operating activities to Operating Profit after Income Tax			
Operating Profit after income tax		**113**	192
Add (Deduct)			
Depreciation Expense		**88**	49
Bad and doubtful debts		**30**	(7)
Revaluation		-	(225)
Changes in Assets and Liabilities			
(increase)/decrease in assets:			
Trade and other receivables		**128**	(145)
Other assets		**127**	(44)
Deferred Tax Assets		**(112)**	9
Increase/(decrease) in liabilities			
Trade Creditor and accruals		**(64)**	13
Interest payable on deposits		**279**	20
Employee entitlement provisions		**66**	(8)
Deferred tax payable		-	68
Income tax payable		**35**	(5)
Net Cash From OperatingActivities		**690**	(83)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

28. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The Company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

	Balance Sheet Note	Accounting Policies	Terms and Conditions
(i) Financial assets			
Loans and Advances	9	The loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month.	All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
Bills of exchange and promissory notes	-	Bills of exchange and promissory notes are stated at the lower of cost or net realisable value.	
Unlisted shares	10	Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are received.	
(ii) Financial liabilities			
Bank overdraft	16	The bank overdraft is carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at Credit Union Services Corporation's benchmark rate. Details of the security over the bank overdraft are set out in Note 15.
Deposits and Short-term borrowings	14	Deposits are recorded at the principal amount.	Details of maturity terms are set out in note 13. Interest is calculated on the daily balance outstanding.
Payables and Other Liabilities	15	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company.	Trade liabilities are normally settled on 30 day terms

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

28. FINANCIAL INSTRUMENTS (cont'd)

(b) Interest rate risk

The Company's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		More than 5 years		Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 %**	2011 %
(i) Financial assets														
Cash and liquid assets	**4,546**	616	-	-		-	-	-	**372**	188	**4,918**	804	**0.55**	0.75
Due from other financial institutions	-	-	**20,747**	9,305	**1,498**	1,497	-	-	-	-	**22,245**	10,802	**5.42**	6.08
Unlisted shares	-	-	-	-	-	-	-	-	**204**	90	**204**	90	**N/A**	N/A
Accrued Receivables	-	-	-	-	-	-	-	-	**354**	356	**354**	356	**N/A**	N/A
Loans and advances	**48,288**	17,769	**347**	439	**402**	2,356	-	-	-	29	**49,037**	20,593	**7.12**	7.45
Total financial assets	**52,834**	18,385	**21,094**	9,744	**1,900**	3,853	-	-	**930**	663	**76,758**	32,645	-	-
(ii) Financial liabilities														
Bank overdrafts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and short term borrowings	**54,084**	18,677	**15,753**	11,869	**887**	552	-	-	**66**	52	**70,790**	31,150	3.07	3.44
Payables and other liabilities	-	-	-	-	-	-	-	-	**1,033**	201	**1,033**	201	N/A	N/A
Total financial liabilities	**54,084**	18,677	**15,753**	11,869	**887**	552	-	-	**1,099**	253	**71,823**	31,351	-	-

N/A - not applicable for non-interest bearing financial instruments.

28. FINANCIAL INSTRUMENTS (cont'd)

(c) Net fair values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at the balance date, are as follows.

	Total carrying amount as per the statement of financial position		Aggregate net fair value (i), (ii)	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Financial assets				
Cash and liquid assets	**4,918**	804	**4,918**	684
Due from other financial institutions	**22,245**	10,802	**22,245**	10,802
Accrued Receivables	**354**	356	**354**	356
Unlisted Shares	**204**	90	**204**	90
Loans and advances	**49,037**	20,593	**49,037**	13,884
Total financial assets	**76,758**	32,645	**76,758**	25,816
Financial liabilities				
Bank overdrafts	-	-		-
Deposits and short term borrowings	**70,790**	31,150	**70,790**	31,105
Payables and other liabilities	**1,033**	201	**1,033**	201
Total financial liabilities	**71,823**	31,351	**71,823**	31,306

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

Liquid Assets and Accrued Receivables

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

Loans, Advances and Receivables from other Financial Institutions

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

The net fair value for loans, advances and receivables from other Financial Institutions is calculated by utilising discounted cash flow models based on the maturity of the loans and receivables. The discount rates applied were based on the current inflation rate.

Unlisted Shares

Unlisted shares are carried at net market/net fair value.

Deposits From Members

The net fair value of deposits from members is calculated by utilising discounted cashflow models. The discount rates used were based on the current inflation rate.

Short Term Borrowings and other payables

The carrying value of payables approximate their net fair value as they are short term in nature and reprice frequently.

28. FINANCIAL INSTRUMENTS (cont'd)

(d) Credit risk exposures

The Company's maximum exposures* to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position.

Concentrations of credit risk
The Company minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members within Victoria. However, the majority of those members are concentrated in the health industry.

Concentrations of credit risk on loans receivable arise in the following categories:

	Maximum credit risk exposure* for each concentration			
	Percentage of total loans receivable (%)		$'000	
Domicile	**2012**	**2011**	**2012**	**2011**
Victorian Residents	98.51	99.69	48,415	20,554
Other	1.49	0.31	731	63
	100.00	100.00	49,146	20,617

Credit risk in loans receivable is managed in the following ways:
- a risk assessment process is used for all customers; and
- credit insurance is obtained for high risk customers.

* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

29. CAPITAL MANAGEMENT

Capital is managed by a quarterly analysis by the Board of:

- The 5 year Capital Management plan that contains assessments of trends and future growth plans in key business areas of loans, deposits and investments.
- The Internal Capital Adequacy Assessment which monitors current capital adequacy against potential significant adverse movements in interest rates, the value of Credit Union's investment in real estate, credit risk and operations risk.

Capital Adequacy is derived in accordance with APRA prescribed formulae by risk weighting assets for Credit Risk and applying a charge for Operational Risk.

As at 30 June 2012 Capital Adequacy was 16.07% (2011 -16.69%). In October 2008 the Australian Government Guaranteed Eligible Deposits of up to $1m with Authorised Deposit Taking Institutions until at least 12 October 2011. This significantly changed the risk weight applied to those relevant assets.

30. EVENTS AFTER REPORTING DATE

The directors are not aware of any events occurring after balance date which will have a material affect on the Company's financial statements for the succeeding year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

31. Risk Management Objectives and Policies

The credit union has undertaken the following strategies to minimise the risks arising from financial Instruments.

Market risk and Hedging policy

The credit union is not exposed to currency risk, and other price risk. The credit union does not trade in the financial Instruments it holds on its books.
The credit union is exposed to interest rate risk arising from changes in market interest rates.
The policy of the credit union is to maintain a balanced 'on book' hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive.
Details of the interest rate risk profile are set out in Note 28(b).

Market Risk -Sensitivity Analysis

- **Interest Rate Risk**
  As at 30 June 2012, if interest rates relevant to variable rate financial assets and liabilities had been 1% lower over the year with <u>all other factors unchanged</u> pre-tax profit would have been approximately $16,000 higher. Conversely if rates had been 1% higher pre-tax profit would have been approximately $16,000 lower. On a post-tax basis equity would have decreased or increased by approximately $9,000. Interest Rate risk sensitivity is analysed quarterly and the result is one of the determinants in the internal assessment of Capital Adequacy.
- **Property**
  The Credit Union owns its premises at 766 Elizabeth Street, Melbourne. The property value is assessed annually. The effect of a 20% devaluation of that property would reduce the Revaluation Reserve by $385,000 to $435,000 (ex deferred taxation liability).

Credit risk – loans

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board closely monitors lending activity and delinquency reports on a monthly basis to ensure that lending policy is receiving compliance and to provide early detection of deterioration in lending quality. As at 30 June 2012 loans totalling $42,291,640m (86% of total loans) were secured by mortgages over land and buildings where the loan to valuation ratio was less than 80%. The remaining loan balances are secured by goods mortgages over property or are unsecured.

Credit risk – Liquid Investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity and the current Government Guarantee for deposits less than $1m.
All investment must be with financial institutions with a rating in excess of BBB or Credit Unions. Exposure to individual Credit Unions is capped at a maximum of 2% of total liabilities less capital.

Liquidity Risk

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The credit union policy is to apply a minimum 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily.

32. Company Details

The registered office of the company is:

Level 6
766 Elizabeth Street
MELBOURNE VIC 3000

DIRECTORS' DECLARATION

The directors of Pulse Credit Union Limited declare that:

1. The financial statements and notes, as set out on pages 6 to 33 are in accordance with the Corporations Act 2001:
    a. comply with Accounting Standards and the Corporations Regulations 2001; and
    b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

John Green
Director

Peter McGrath
Director

Melbourne, 3rd October 2012

JT&P | JEFFREY THOMAS & PARTNERS

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PULSE CREDIT UNION LIMITED
ABN 35 087 651 670

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PULSE CREDIT UNION LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Pulse Credit Union Ltd., 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.

Directors' Responsibility for the Financial Report

The directors of the credit union are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Independence

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

Opinion

In our opinion the financial report of Pulse Credit Union Ltd is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the credit union's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Jeffrey Thomas + Partners

JEFFREY THOMAS & PARTNERS
Chartered Accountants

SAM CLARINGBOLD
Partner

Signed at Melbourne this 4th **day of** October **2012**