



HOLIDAYCOAST
credit union

Half-Year Report
For the period ended 31 December 2010

Contents

	Page
Directors' Report	1
Auditor's Independence Declaration	3
Statement of Comprehensive Income	4
Statement of Financial Position	5
Statement of Changes in Equity	6
Statement of Cash Flows	8
Notes to the Financial Statements	9
Directors' Declaration	11
Independent Auditor's Review Report	12

DIRECTORS' REPORT

Your Directors submit this financial report of the Credit Union for the half-year ended 31 December 2010.

DIRECTORS

The names of directors who held office during or since the end of the half-year:

Jeffrey Brian Pattinson	Chairman of Board Chairman Remuneration and Succession Planning Committee Chairman Director Nominations Committee Chairman Risk Committee
Allan Greenlees Gordon	Deputy Chairman of Board Chairman Budget & Performance Committee
Phillip Wayne Bryant	
Paul Donald Longworth	
John Daniel McCarthy	Chairman Audit Committee
Susan Elizabeth McGinn OAM	Chairman Governance Committee
Neville Lyle Parsons	Chief Executive Officer

REVIEW OF OPERATIONS

The Credit Union achieved an annualised growth in total assets of 9.00% with loans to members increasing by 7.47% and deposits from members increasing by 9.05%.

Reserves and retained profits grew at an annualised rate of 1.97%. The profit for the half-year ended 31 December 2010 amounted to \$416,998 as compared to a profit of \$1,484,231 for the half-year ended 31 December 2009.

The decline in profit was primarily attributable to the following:

Net Interest Income decreased by \$233,000

There was a decrease in the net interest margin during the period. Although there was an increase in the balance of members' loans, which resulted in an increase in interest income, this increase was offset by an increase in the cost of funds as a result of the competition in the retail deposits market. This increase in competition put pressure on interest rates for members' term deposits and at call deposits. The increase of borrowings from the Bridges funds also impacted on net interest income.

Other Income decreased by \$481,000

Decreased transaction fee income and other commissions has adversely impacted on other income.

Other income has also declined as a result of the sale of the ATM network during the year ended 30 June 2009 and the impact of the loss of income from ATM interchange fees.

A decision to decrease the actual fee charged for dishonor fees also impacted on the level of other income for the six months ended 31 December 2010.

Non-Interest Expenses increased by \$696,000

The main factors contributing to the increase in non-interest expenses were:

Employee benefits expense increased by \$119,000 reflecting the impact of wage and salary adjustments that were applied from January 2010.

DIRECTORS' REPORT

Bad and doubtful debts expense increased by \$166,000 a direct reflection of the increased hardship being experienced by members at this time.

Remote access and service costs increased by \$125,000 a result of the larger volumes of transactions and increases in the fees charged to the credit union for such transactions.

Marketing costs increased by \$150,000 as we continue to take advantage of the environment to encourage bank customers to switch to Holiday Coast Credit Union.

We have continued to provide what our Board describes as a "mutuality dividend" to members in the form of lowered transaction fees and reduced fees and charges for dishonours as well as premium loan products without the corresponding ongoing fees and charges of most of our competitor's similar products.

The Credit Union will continue to pursue a level of profitability, reserves and capital adequacy consistent with prudential requirements and to provide the foundation for future business growth and development.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Credit Union that occurred during the half-year period ending 31 December 2010.

ROUNDING OF AMOUNTS

The Credit Union has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the Directors' Report have been rounded off to the nearest \$1,000.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 3 of this Interim Financial Report for the half-year ended 31 December 2010.

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



J B Pattinson
Chairman of the Board of Directors



J D McCarthy
Chairman - Audit Committee

Dated at Wauchope this 23rd day of February 2011

AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF HOLIDAY COAST CREDIT UNION LIMITED

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2010 there have been:

- a) no contraventions of the auditor independence requirements as set out in 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.

NorthCorp Accountants



Robert Magnussen
Partner
Registered Company Auditor

51 Cameron Street
Wauchope NSW 2446

Dated: 23rd February 2011

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	31 Dec 10	31 Dec 09
	\$'000	\$'000
Interest revenue	15,672	13,021
Interest expense	(9,036)	(6,152)
Net interest income	6,636	6,869
Other income	1,706	2,187
Net operating income	8,342	9,056
Non-Interest Expenses		
Impairment losses on loans and advances	(295)	(129)
Employee benefit expenses	(3,571)	(3,452)
Depreciation and amortisation expense	(470)	(448)
Other expenses	(3,446)	(3,057)
Total non-interest expense	(7,782)	(7,086)
Profit before income tax	560	1,970
Income tax expense	(144)	(485)
Profit for the period	416	1,485
Other comprehensive income		
Transferred realised gains to other income	-	(239)
Other comprehensive income for the period, net of tax	-	(239)
Total comprehensive income for the period	416	1,246
Profit attributable to members of the Credit Union	416	1,485
Total comprehensive income attributable to members of the Credit Union	416	1,246

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

	31 Dec 10 \$'000	30 Jun 10 \$'000
ASSETS		
Cash and cash equivalents	16,653	13,557
Advances to other financial institutions	65,725	62,796
Receivables	1,349	1,098
Investments	1,935	1,935
Loans and advances to members	352,781	339,985
Property, plant and equipment	5,006	4,899
Taxation assets	960	783
Intangible assets	108	171
TOTAL ASSETS	444,517	425,224
LIABILITIES		
Borrowings	11,000	6,000
Deposits from members	389,520	372,533
Payables, accruals and settlement accounts	5,739	8,339
Taxation liabilities	504	895
Provisions	1,520	1,505
Subordinated debt	5,000	5,000
TOTAL LIABILITIES	413,283	394,272
NET ASSETS	31,234	30,952
EQUITY		
Permanent share capital	3,279	3,279
Redeemed share capital account	245	236
Reserves	1,670	1,470
Retained profits	26,040	25,967
TOTAL EQUITY	31,234	30,952

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Contributed equity	Redeemed share capital account	Asset revaluation reserve	General reserve for credit losses	Other reserve for credit losses	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2010	3,279	236	721	700	49	25,967	30,952
Profit attributable to members of the Credit Union	-	-	-	-	-	416	416
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	416	416
Transfers to and from reserves	-	-	-	200	-	(200)	-
Redeemed withdrawable shares movement	-	9	-	-	-	(9)	-
Dividends paid or provided	-	-	-	-	-	(134)	(134)
Balance at 31 December 2010	3,279	245	721	900	49	26,040	31,234

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Contributed equity	Redeemed share capital account	Asset revaluation reserve	General reserve for credit losses	Other reserve for credit losses	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2009	3,279	216	959	1,407	101	23,295	29,257
Profit attributable to members of the Credit Union	-	-	-	-	-	1,485	1,485
Other comprehensive income	-	-	(239)	-	-	-	(239)
Total comprehensive income for the period	-	-	(239)	-	-	1,485	1,246
Transfers to and from reserves	-	-	-	(707)	7	700	-
Redeemed withdrawable shares movement	-	9	-	-	-	(9)	-
Dividends paid or provided	-	-	-	-	-	(121)	(121)
Balance at 31 December 2009	3,279	225	720	700	108	25,350	30,382

STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	31 Dec 10 \$'000	31 Dec 09 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	15,708	12,918
Other non-interest income received	1,517	2,506
Dividends received	62	62
Borrowing costs	(9,310)	(7,390)
Payments to suppliers and employees	(9,658)	(8,098)
Income taxes paid	(712)	(174)
<i>Changes in operating assets and liabilities:</i>		
Net (increase) / decrease in member loans	(12,918)	2,999
Net (increase) / decrease in amounts with other financial institutions	(2,929)	(18,112)
Net increase / (decrease) in member deposits	16,987	3,446
Net cash provided by / (used in) operating activities	(1,253)	(11,843)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for property, plant and equipment	(538)	(510)
Proceeds from sale of property, plant and equipment	23	117
Payments for intangible assets	(4)	(3)
Net cash provided by / (used in) investing activities	(519)	(396)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase / (decrease) in borrowings	5,000	12,000
Dividends paid	(132)	(101)
Net cash provided by / (used in) financing activities	4,868	11,899
Net increase / (decrease) in cash held	3,096	(340)
Cash at the beginning of the period	13,557	14,130
Cash at the end of the period	16,653	13,790

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

NOTE 1: BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Holiday Coast Credit Union Ltd (the Credit Union). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Credit Union for the year ended 30 June 2010, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

	31 Dec 10 \$'000	31 Dec 09 \$'000
NOTE 2: DIVIDENDS – MEMBER INVESTMENT SECURITIES		
Interim fully franked irredeemable non-cumulative preference dividend of 3.4405 (2009: 2.6186) cents per share franked at the tax rate of 30% (2009: 30%)	132	100

NOTE 3: CONTINGENT LIABILITIES

The following contingent liabilities have changed since the last annual reporting date:

Guarantees

In the normal course of business the Credit Union provides financial guarantees which are conditional commitments issued by the Credit Union to guarantee the performance of a member to a third party. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

1,950	1,823
--------------	-------

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

NOTE 4: FINANCIAL COMMITMENTS

31 Dec 10 31 Dec 09
\$'000 \$'000

Future capital commitments

The Credit Union has entered into capital expenditure contracts with amounts payable within one year:

Leasehold improvements	-	-
Plant and equipment	-	110
Intangible assets	-	107
	-	217
Payable not later than one year	-	217

NOTE 5: EVENTS SUBSEQUENT TO INTERIM REPORTING DATE

(a) Credit Union's Product Agreement from Cuscal Limited

The Credit Union's Product Agreement from Cuscal Limited (Cuscal) to provide Overdraft and Standby Facilities totaling \$14,000,000 (30 June 2010: \$14,000,000) expired on the 1st February 2011. At the date of this report the Credit Union has not been provided with the new Product Agreement, however, Cuscal has indicated that it has a backlog of Agreements to review and process and as such the current Agreement will continue on the same terms and conditions until such time as a new Agreement is submitted by Cuscal for review and acceptance by the Credit Union.

As at the 31 December 2010 the Credit Union had advised Cuscal that as a result of the pressure on interest margin that the Credit Union had fallen below the Interest Cover Covenant and an increase of 0.25%pa across most variable rate loans on and from 1 March 2011 will according to our Forecasts bring this Interest Cover ratio back in line by 30 April 2011.

The advice to members with variable rate loans will issue by post on or before 25 February 2011.

(b) Grant Application lodged with the Department of Education, Employment and Workplace Relations

On the 18th February 2011, the Credit Union lodged an application for grant funds under the Federal Government's Social Enterprise Development and Investment Funds (SEDIF) Grants Program. The principal objective of the SEDIF is to establish two or more investment funds which generate social impact investment in addition to financial return and increase capital for social enterprises in Australia through capacity building. The Credit Union has applied for \$10million to be used to support the establishment of a Loan Fund for the support of start up businesses and social enterprises within the StartUp Business Development Program Inc. Successful Applicants will be advised prior to 30 June 2011.

In the opinion of the Directors, there were no other matters or circumstances that have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union in future financial years.

DIRECTORS' DECLARATION

The Directors of Holiday Coast Credit Union Ltd declare that:

1. The financial statements comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to and forming part of the financial statements, are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - b. giving a true and fair view of the Credit Union's financial position as at 31 December 2010 and of its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that Holiday Coast Credit Union Ltd 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.



J B Pattinson
Chairman of the Board of Directors



J D McCarthy
Chairman - Audit Committee

Dated at Wauchope this 23rd day of February 2011

Independent Auditor's Review Report

To the members of Holiday Coast Credit Union Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Holiday Coast Credit Union Limited, which comprises the condensed statement of financial position as at 31 December 2010, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Credit Union's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Holiday Coast Credit Union Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Holiday Coast Credit Union Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Credit Union's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

NorthCorp Accountants

**51 Cameron Street
Wauchope NSW 2446**



**Robert Magnussen
Partner**

23 February 2011