Australian Settlements Limited

ABN: 14 087 822 491

Annual Report

2012-13

AUSTRALIAN SETTLEMENTS LIMITED

ABN: 14 087 822 491

DIRECTORS' REPORT

The directors of Australian Settlements Limited (ASL) present their report on the company for the financial year ended 30 June 2013.

The names of the directors of ASL in office at any time during or since the end of the year to the date of this report, are:

Mr Peter Milton Andrews
Mr Kevin Peter Dupe
Ms Michelle Louise Jarvie
Mr David John Lawler
Mr Donald Allan Magin
Mr Barry John McWilliams
Mr John Francis Minz (alternate for Mr Walter John Williams)
Mr Robert James Ryan
Mr Walter John Williams

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated. None of the directors has any interest in a contract or proposed contract with ASL, with the exception of those identified in note 25 to the financial statements, and has not declared such an interest since the date of the last Directors' Report.

DIRECTORS

Peter Milton ANDREWS BEc FFin JP (Chairman)
Age 67

Mr Andrews is an independent director of ASL. He had a career spanning 37 years with the Commonwealth Bank of Australia (CBA) and held the roles of General Manager, National Sales and Service; General Manager, Information Technology; and General Manager, Victoria. Mr Andrews is the Chairman or member of the board of five other organisations. Mr Andrews is a member of the company's Audit and Risk Committees, and Chairman of the Remuneration, Human Resources (HR), Nominations, Pricing and Signing Committees.

Kevin Peter DUPE BEc FAICD FAMI
Age 57

Mr Dupe is the Chief Executive Officer of the Community Mutual Group. He brings a strong economic background to the ASL board. He has over 20 years' experience in the credit union sector, including 15 years at Community Mutual Group. Prior to entering the mutual sector, Mr Dupe spent 14 years as a director in various economic and socioeconomic policy units in the Federal Government. Mr Dupe is a member of the company's Nominations Committee.

Michelle Louise JARVIE B Comm CA ACSA A Fin MIIA (Aust)
Age 46

Ms Jarvie is the Chief Risk Officer of Newcastle Permanent Building Society and has been in this role since 2007. Ms Jarvie has over 25 years' experience in the financial services industry, including senior roles in the chartered accounting firms of PricewaterhouseCoopers and KPMG. Ms Jarvie is Chair of the company's Risk Committee.

David John LAWLER BA (Hons) Business Studies FCPA CIA CISA
Age 63

Mr Lawler is an independent director of ASL and of Security Holdings Investment Entity Linking Deals Ltd (SHIELD) a securitisation vehicle with links to the CBA. He has a career spanning nine years with the CBA and 19 years with Citibank. Mr Lawler has held roles of Executive General Manager, Financial Controller and Group Auditor with the CBA. Mr Lawler is a member of the audit committee of seven other organisations, primarily in the public sector. He is also a past President of the Institute of Internal Auditors Australia. Mr Lawler is the Chairman of the company's Audit Committee as well as a member of the company's HR, Nominations, Risk, Remuneration, Signing and Pricing Committees.

Donald Allan MAGIN B Maths Grad Dip Mgt
Age 60

Mr Magin is the Chief Executive Officer of Greater Building Society Ltd. He has 25 years' experience in the financial services industry, having joined Greater Building Society in 1986. Mr Magin is a member of the company's Remuneration and HR Committees.

Barry John McWILLIAMS LLB (Hons) (Deputy Chairman)
Age 67

Mr McWilliams is an independent director of ASL and a retired partner of Mallesons Stephen Jaques (now King & Wood Mallesons), formerly practicing in general corporate and commercial law and specialising in securities management, prospectuses, stock exchange listings, the unit trust industry, the building society industry and the funds management industry. He had previously specialised in banking and financing law. Mr McWilliams is the Chairman of Retail Responsible Entity Limited and a Non-Executive Director of a number of other companies. Mr McWilliams is a member of the Pricing and Signing Committees.

John Francis MINZ B Comm Grad Dip Commercial Computing GCert Bank Fin F Fin FAICD FAIM
Age 56

Mr Minz is the Chief Executive Officer of Heritage Bank Limited. He has been in the industry for 18 years and has extensive experience in leadership, strategy, risk management, internal audit, IT systems and infrastructure, internet banking, phone banking, card payments systems, ATMs, the strategic and operational planning of banking distribution, and organisation-wide process re-engineering. Mr Minz is an alternate director for Mr Walter John Williams.

Robert James RYAN BEc MCommLaw FCIS FCIM ACA FTIA
Age 52

Mr Ryan is the Chief Executive Officer of IMB Limited. Mr Ryan joined IMB Limited in 1999. He is also a director of IMB Financial Planning Limited and King Financial Services Pty Ltd. Prior to joining IMB, Mr Ryan held the positions of Managing Director, Chief Financial Officer and Company Secretary at Australian Resources Limited. Mr Ryan is a member of the company's Audit and Risk Committees.

Walter John WILLIAMS AssocDipEng AssocDipAppSc (Maths) GradCertBus GAICD FACS AIMM
Age 53

Mr Williams is the Chief Operating Officer of Heritage Bank Limited and has 20 years experience in the financial services industry. He has extensive experience in information technology, payments systems, project management, collections, facilities and operations management. Mr Williams is the Chairman of the company's IT Committee and is a member of the company's Risk Committee and an alternate member (for Mr Ryan) of the Audit Committee.

COMPANY SECRETARY

David Craig JAY BEc MBA FCPA FFIN AICD MIIA FAMI
Age 50

Mr Jay has over 25 years' experience in the financial services industry which included roles in financial markets, internal audit and retail banking. Mr Jay is the company's Chief Executive Officer. Mr Jay is also a director of The Australian Payments Clearing Association, the Australia Rugby League Referees Association and an alternate director of Eftpos Payments Australia Limited.

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of ASL during the financial year were:

Directors	Board		Audit		Risk		Remn.		HR		Nomns.		Pricing		Signing		I.T.	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Mr P M Andrews	5	4	5	4	5	4	3	3	2	2	3	3	1	1	-	-	5	5
Mr K Dupe	5	4	-	-	-	-	-	-	-	-	2	2	-	-	-	-	-	-
Ms M L Jarvie	5	4	-	-	5	4	-	-	-	-	1	1	-	-	-	-	-	-
Mr D J Lawler	5	5	5	5	5	5	3	3	2	2	3	3	1	1	-	-	-	-
Mr D A Magin	5	5	-	-	-	-	3	3	2	2	-	-	-	-	-	-	-	-
Mr B J McWilliams	5	5	-	-	-	-	-	-	-	-	-	-	1	1	-	-	-	-
Mr J F Minz *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr R J Ryan	5	4	5	4	5	4	-	-	-	-	-	-	-	-	-	-	-	-
Mr W J Williams	5	5	1	1#	5	5	-	-	-	-	-	-	-	-	-	-	5	5

A – Number of meetings held during the time the director held office during the year.

B – Number of meetings attended.

* Mr Minz was not called upon to act as alternate director during the financial year.

Mr Williams attended as alternate for Mr Ryan.

PRINCIPAL ACTIVITIES

The principal activities of ASL during the financial year ended 30 June 2013 were providing members with settlement services for ATM/EFTPOS, VISA, Direct Entry, BPAY and high value transactions, maintaining a risk management system, acting as a focal point for financial institutions to participate in the payments system, and developing payments services and strategies.

The profit of the company for the financial year, after providing for income tax, amounted to $431,932 (2012: $136,353).

REVIEW OF OPERATIONS

A review of the operations of ASL during the financial year is as follows:

ASL operates an Exchange Settlement Account (ESA) at the Reserve Bank of Australia (RBA) which is used for the settlement of payment obligations of members. Building societies, banks and credit unions use ASL's settlement services.

ASL is a principal member of APCA, BPAY, VISA, EPAL and Austraclear, and accepts responsibility for settling the payment system obligations of certain Authorised Deposit-taking Institutions (ADIs) that arise within APCA, BPAY, VISA, EPAL and Austraclear. Members provide ASL with a pool of funds which ASL uses to meet their settlement obligations. The ASL board has set the level of the pool of funds appropriate to the level of risk. The formula for determination of the required contribution of members to the pool of funds has been approved by the Australian Prudential Regulation Authority (APRA).

ASL is subject to prudential supervision by APRA. ASL is committed to maintaining best practice in all its activities, having regard to the size and nature of its operations. In so doing, ASL complies with all applicable prudential standards and guidance notes issued by APRA.

Since inception, ASL has successfully met all its settlement and other obligations as they have fallen due.

ASL has devoted considerable resources to further developing its risk management systems and to the ongoing strengthening of back-up and recovery resources, which have been successfully tested by independent audit review.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There has been no significant change in the state of affairs or significant change in the nature of activities of ASL during the year ended 30 June 2013 other than those disclosed in this report or in the financial statements.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no matters or circumstances that have arisen since 30 June 2013 that are likely to have affected or to significantly affect, in future financial years, the operations of ASL, the results of those operations or the state of affairs of ASL.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

There are no likely or expected developments that are likely to affect the operations of ASL or the expected results of those operations in financial years subsequent to the financial year ended 30 June 2013.

SHARES UNDER OPTION

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report (2012: nil).

INSURANCE OF OFFICERS

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court under section 237 of the *Corporations Act 2001* to bring proceedings on behalf of the company, or intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

ENVIRONMENTAL REGULATION

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

DIVIDEND

No dividend was declared nor paid during the financial year (2012: nil).

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 7.

Signed in accordance with the resolution of directors. The directors have the power to amend and reissue the financial statements.

Barry John McWilliams
Director

David John Lawler
Director

Dated this 29th day of August 2013

Auditor's Independence Declaration

As lead auditor for the audit of Australian Settlements Limited for the year ended 30 June 2013, 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.

Steve Baker
Partner
PricewaterhouseCoopers

Canberra
29 August 2013

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AUSTRALIAN SETTLEMENTS LIMITED
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FINANCIAL STATEMENTS

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $	2012 $
Interest revenue	2	8,749,793	10,070,470
Borrowing costs	2	(7,558,185)	(9,358,507)
Net interest revenue		**1,191,608**	**711,963**
Non-interest revenue – system fees		7,834,833	6,919,738
Processing costs		(4,483,741)	(4,170,108)
Net non-interest revenue		**3,351,092**	**2,749,630**
Gross profit		**4,542,700**	**3,461,593**
Miscellaneous income		105,632	59,386
Depreciation		(111,859)	(49,874)
Impairment of plant & equipment		(36,329)	-
Employee benefits expenses		(2,078,130)	(1,812,776)
Administrative expenses		(1,801,051)	(1,459,398)
Profit for the year before income tax		**620,963**	**198,931**
Income tax expense	4(a)	(189,031)	(62,578)
Profit for the year after income tax		**431,932**	**136,353**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**431,932**	**136,353**
Dividends per share		-	-

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

AUSTRALIAN SETTLEMENTS LIMITED
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STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	2013 $	2012 $
Assets			
Cash and cash equivalents	7	265,991,266	264,698,237
Trade and interest receivables	8	1,487,086	1,591,495
Other assets	9	78,811	91,365
Property, plant, equipment	10	517,099	246,261
Current tax assets		-	16,138
Deferred tax assets	4(b)	152,668	49,942
Total Assets		268,226,930	266,693,438
Liabilities			
Trade and other payables	11	1,726,642	1,626,035
Current tax liabilities		238,434	-
Provisions	12	192,518	97,142
Borrowings	17	261,028,572	260,361,428
System participant shares	19	19	20
Total Liabilities		263,186,185	262,084,625
Net Assets		**5,040,745**	**4,608,813**
Equity			
Contributed equity	13	2,624,181	2,624,181
Retained earnings		2,416,564	1,984,632
Total Equity		**5,040,745**	**4,608,813**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Contributed Equity $	Retained Earnings $	Total Equity $
Balance at 1 July 2011	**2,624,181**	**1,848,279**	**4,472,460**
Profit for the year	-	136,353	136,353
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**136,353**	**136,353**
Transactions with owners in their capacities as owners:			
Dividends provided for or paid	-	-	-
Balance at 30 June 2012	**2,624,181**	**1,984,632**	**4,608,813**
Profit for the year	-	431,932	431,932
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**431,932**	**431,932**
Transactions with owners in their capacities as owners:			
Dividends provided for or paid	-	-	-
Balance at 30 June 2013	**2,624,181**	**2,416,564**	**5,040,745**

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

AUSTRALIAN SETTLEMENTS LIMITED
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Interest received		8,948,357	9,841,294
Interest paid		(7,730,957)	(9,307,621)
Receipts from customers		7,848,787	6,977,133
Payments to suppliers and employees		(7,984,222)	(7,097,826)
Income tax paid		(37,055)	(183,890)
Net cash flows from operating activities	**16(ii)**	**1,044,910**	**229,090**
Cash flows from investing activities			
Purchase of plant and equipment		(419,026)	(175,865)
Proceeds from sale of plant and equipment		-	-
Net cash flows (used in) investing activities		**(419,026)**	**(175,865)**
Cash flows from financing activities			
Proceeds/(refund) from borrowings		667,145	66,064,345
Net cash flows from / (used in) financing activities		**667,145**	**66,064,345**
Net Increase/(decrease) in cash and cash equivalents		**1,293,029**	**66,117,570**
Cash and cash equivalents at the beginning of the financial year		**264,698,237**	**198,580,667**
Cash and cash equivalents at end of the year	**16(i)**	**265,991,266**	**264,698,237**

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements have been prepared for ASL as an individual entity.

a. Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. ASL is a for profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS
These financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the company
None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iii) Early adoption of standards
The company has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012.

(iv) Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

b. Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

The company is a co-operative for income tax purposes.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

c. Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The carrying amount of plant and equipment is reviewed annually to ensure it is not stated in excess of its recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

The depreciable amount of all fixed assets, including capitalised lease assets, is depreciated on a straight line basis over the asset's useful life commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Asset	2013	2012
Computer hardware and software	3 to 5 years	3 to 5 years
Office equipment	3 to 15 years	3 to 15 years
Furniture and fittings	5 to 15 years	5 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

d. Leases

Leases of property, plant and equipment where the company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the statement of financial position based on their nature.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

e. Investment and other financial assets

Classification

The company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables and receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. If the company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non‑derivatives that are either designated in this category or not classified in any of the other categories. They are included in non‑current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets – reclassification

The company may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available‑for‑sale categories if the company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date, the date on which the company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

e. Investments and other financial assets (Cont.)

Measurement

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Loans and receivables and held to maturity investments are subsequently carried at amortised cost using the effective interest method.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the company’s right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Impairment

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

f. Impairment of assets

At each reporting date the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

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

g. Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

h. Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

i. Contributed equity

Ordinary shares and non-voting shares are classified in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

j. Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

k. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and includes interest income on short term monetary investments and proceeds from system fees. Revenue is recognised for the major business activities as follows:

- Interest income is recognised on a time proportion basis using the effective interest method.
- Fee income is recognised in the period in which the services are rendered.

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

l. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

m. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

n. Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

NOTE 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 borrowing cost and the average interest rate. Most averages are daily, whilst other averages may also be used provided they are representative of the actual averages over the financial period.

	Average Balance ($000's)	Amount $	Average Rate %
2013			
Interest Revenue			
Cash and cash equivalents	249,319	8,749,793	3.51%
		8,749,793	
Borrowing Costs			
Borrowings	246,415	7,546,056	3.06%
Subordinated Debt – Tranche 1	332	12,129	3.66%
Subordinated Debt – Tranche 2	2,090	-	0.00%
		7,558,185	
2012			
Interest Revenue			
Cash and cash equivalents	223,180	10,070,470	4.51%
		10,070,470	
Borrowing Costs			
Borrowings	216,495	9,342,743	4.32%
Subordinated Debt – Tranche 1	332	15,764	4.75%
Subordinated Debt – Tranche 2	2,090	-	0.00%
		9,358,507	

NOTE 3: AUDITOR'S REMUNERATION

	2013 $	2012 $
(a) PwC Australia		
Audit & other assurance activities		
- financial statement audit	28,250	30,650
- other assurance services	16,750	19,250
	45,000	49,900

	2013 $	2012 $

NOTE 4: INCOME TAX EXPENSE

(a) Income tax expense

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

	2013 $	2012 $
Accounting profit before income tax	620,963	198,931
Tax at the Australian tax rate of 30% (2012: 30%)	186,289	59,680
Increase in income tax expense due to:		
Other items	2,742	2,898
Income tax expense	189,031	62,578

Total income tax expense is made up of:

	2013 $	2012 $
Deferred tax assets	(102,726)	(7,607)
Current income tax payable	291,757	70,185
Total income tax expense reported in the statement of comprehensive income	**189,031**	**62,578**
The applicable weighted average effective tax rates are as follows:	30%	30%

(b) Deferred tax assets

Future income tax benefit

Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% (2012 – 30%) on the following items:

	2013 $	2012 $
Provisions for employee entitlements not currently deductible for tax purposes	57,756	29,143
Expenses not currently deductible for tax purposes	106,985	19,460
Difference between depreciation for tax and accounting purposes	(12,073)	1,339
Balance at the end of the year	**152,668**	**49,942**

NOTE 5: KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of key management personnel
Directors of ASL during the year include:

Mr Peter Milton Andrews
Mr Kevin Peter Dupe
Ms Michelle Louise Jarvie
Mr David John Lawler
Mr Donald Allan Magin
Mr Barry John McWilliams
Mr John Francis Minz (see (a) below)
Mr Robert James Ryan
Mr Walter John Williams

(a) Mr J F Minz acts as an alternate director for Mr WJ Williams.

The executives of ASL during the year include:

Mr David Craig Jay (Chief Executive Officer)
Mr Chek Khing Huon (Chief Financial Officer)
Mr Bruce Melville Potter (Head of Member Care)
Mr Christopher David Merrett (Head of Industry & Innovation) - Appointed 20 August 2012

Executives have been in office since the start of the financial year to the date of this report unless otherwise stated.

Details of key management personnel compensation	**2013** **$**	**2012** **$**
Short term employee benefits	1,108,702	905,358
Other long term employee benefits	88,906	70,808
	1,197,608	976,166

NOTE 6: FRANKING CREDIT BALANCE

The amount of franking credits available for the subsequent financial year are:

- Franking account balance at the end of the financial year at 30% (2012: 30%)	1,035,038	851,149
- Franking credits on income tax for current year paid	37,055	183,889
Franking credit balance at the end of the year	1,072,093	1,035,038

The ability to utilise the franking credits is dependent upon there being available profits to declare dividends.

NOTE 7: CASH AND CASH EQUIVALENTS

	Note	2013 $	2012 $
Cash on hand		627	784
Exchange Settlement Account (RBA)		89,800,683	89,800,683
Deposits with Australian banks		172,009,955	170,716,769
Deposits with other financial institutions (ADIs)		4,180,001	4,180,001
	16(i)	265,991,266	264,698,237

(a) Exchange Settlement Account
ASL holds mandated prudential funds from its members to cover 9:00 AM settlement obligations. Parts of the mandated prudential funds are held in an Exchange Settlement Account with the RBA.

(b) Deposits with Australian banks
These cash balances represent part of the members' mandated prudential funds and the excess of member funds above their individual mandated prudential funding requirements. Members hold excess funds with ASL generally as a tool of their own short-term liquidity management. These funds are held in at call accounts with Australian banks. Interest is calculated and earned on these balances at prevailing market rates. It also includes the working capital of ASL.

(c) Deposits with other financial institutions (ADIs)
These balances represent term deposits of varying lengths with Australian banks and other Australian ADIs.

NOTE 8: TRADE AND INTEREST RECEIVABLES

Current

	2013 $	2012 $
Interest receivable – RBA (see (a) below)	184,522	242,956
Interest receivable – banks	585,008	725,139
Trade debtors (see (b) below)	717,556	623,400
	1,487,086	**1,591,495**

(a) Interest receivable – RBA

Interest receivable represents interest payable by the RBA on funds held in the company's Exchange Settlement Account.

(b) Trade debtors

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for doubtful debts is made when there is objective evidence that a trade receivable is impaired. No allowance has been recognised as an expense for the current year as there is no difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

NOTE 9: OTHER ASSETS

Current

	2013 $	2012 $
Prepayments	76,811	81,517
Other receivables	-	6,848
Accrued income	2,000	3,000
	78,811	**91,365**

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	2013 $	2012 $
Computer hardware and software - at cost	530,683	534,173
Less: Accumulated depreciation	(94,177)	(355,380)
	436,506	**178,793**
Office equipment - at cost	34,157	108,699
Less: Accumulated depreciation	(22,662)	(76,964)
	11,495	**31,735**
Furniture & fittings - at cost	105,302	219,270
Less: Accumulated depreciation	(36,204)	(183,537)
	69,098	**35,733**
Total plant and equipment	**517,099**	**246,261**

Movements in carrying amounts

Movements in the carrying amounts for each class of plant and equipment are set out below:

	2013 $	2012 $
Computer hardware and software		
Carrying amount at beginning of year	178,793	32,721
Additions	339,157	173,518
Disposals	-	-
Depreciation charge for the year	(81,444)	(27,446)
	436,506	**178,793**
Office equipment		
Carrying amount at beginning of year	31,735	41,872
Additions	13,020	2,021
Disposals	-	-
Impairment losses	(20,338)	-
Depreciation charge for the year	(12,922)	(12,158)
	11,495	**31,735**
Furniture and fittings		
Carrying amount at beginning of year	35,733	45,678
Additions	66,850	325
Disposals	-	-
Impairment losses	(15,992)	-
Depreciation charge for the year	(17,493)	(10,270)
	69,098	**35,733**
Total property, plant and equipment	**517,099**	**246,261**

NOTE 11: TRADE AND OTHER PAYABLES

	2013 $	2012 $
Current		
Trade payables (see (a) below)	527,345	534,822
Other payables	613,358	332,502
Interest payables (see (b) below)	585,939	758,711
Total trade and other payables	**1,726,642**	**1,626,035**

(a) Trade payables

Trade payables are non-interest bearing and are generally on 30 day terms.

(b) Interest payables

This represents the interest payable on mandated prudential funds and excess funds placed by members with ASL. Interest is normally paid to members monthly in arrears.

NOTE 12: PROVISIONS

	2013 $	2012 $
Current		
Employee benefits provision		
- Annual Leave	165,814	86,843
- Long Service Leave	-	-
	165,814	86,843
Non-Current		
Employee benefits provision		
- Long Service Leave	26,704	10,299
Total provisions	**192,518**	**97,142**

NOTE 13: CONTRIBUTED EQUITY

	2013 $	2012 $
54,627 fully paid ordinary shares (2012: 54,627 shares)	54,627	54,627
2,569,554 fully paid non-voting shares (2012: 2,569,554 shares)	2,569,554	2,569,554
	2,624,181	**2,624,181**

(a) Ordinary shares

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

(b) Non-voting shares

Fully paid non-voting shares do not carry any voting rights but do carry the right to dividends.

(c) Capital management

The company manages its capital in order to maintain a sound debt to equity ratio, provide the shareholders with adequate returns and ensure that the company can fund its operations and continue as a going concern.

The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There is an externally imposed minimum capital requirement placed on the company by APRA calculated under Basel II (refer note 18).

The company effectively manages its capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses included management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by the company to manage its capital since the prior year.

NOTE 14: COMMITMENTS

(a) Operating lease commitment

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2013 $	2012 $
Payable:		
Within one year	251,573	53,377
Later than one year but not later than five years	810,154	57,023
	1,061,727	110,400

The property lease on the Sydney Office is a non-cancellable lease with a five year term commencing 15 September 2012, with rent payable monthly in advance.

The property lease on the Canberra Office is a non-cancellable lease with a five year term commencing 1 September 2012, with rent payable monthly in advance.

The property lease on the Canberra disaster recovery site is a non-cancellable lease with a three year term commencing 1 February 2012, with rent payable monthly in advance.

NOTE 15: SEGMENT REPORTING

The company operates predominantly in one business and one geographical segment. The company's operations are confined to Australia and involve providing members with settlement services for ATM/EFTPOS, VISA, Direct Entry, BPAY and high value transactions, maintaining a risk management system, acting as a focal point for financial institutions to participate in the payments system, and developing payments services and strategies.

NOTE 16: CASH FLOW INFORMATION

	Note	2013 $	2012 $
(i) Reconciliation of cash			
For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank and on hand and short term deposits. Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:			
Cash and cash equivalents	7	265,991,266	264,698,237
(ii) Reconciliation of profit after income tax to cash flows from operations			
Profit for the year		431,932	136,353
Non-cash flows in profit:			
Depreciation		111,859	49,874
Impairment losses		36,329	-
Changes in assets and liabilities:			
(Increase)/decrease in trade and interest receivables		104,408	(220,199)
(Increase)/decrease in other receivables		12,554	78,391
(Increase)/decrease in current tax assets		16,138	(16,138)
(Increase)/decrease in deferred tax assets		(102,726)	(7,608)
Increase/(decrease) in trade and other payables		100,607	288,497
Increase /(decrease) in provisions		95,375	18,355
Increase/(decrease) in current tax liabilities		238,434	(98,435)
		1,044,910	**229,090**

(iii) Non-cash financing activities

During the financial year the entity did not acquire plant and equipment by means of finance leases.

NOTE 17: BORROWINGS

	2013 $	2012 $
Mandated Prudential Funds (see (a) below)	141,886,685	165,513,893
Other high quality liquid asset funds (see (b) below)	116,720,154	92,425,802
Perpetual subordinated debt (see (c) below)	2,421,733	2,421,733
	261,028,572	**260,361,428**
Maturity Analysis		
At call	258,606,839	257,939,695
No maturity specified	2,421,733	2,421,733
	261,028,572	**260,361,428**

Concentration of borrowings

Except for lease liabilities (when applicable), borrowings are from ADIs who participate in the company's exchange settlement function with the RBA.

(a) Mandated Prudential funds

ASL holds mandated prudential funds from its members to cover 9:00 AM settlement obligations. These funds are held in the Exchange Settlement Account at the RBA and in at call deposit accounts with Australian banks.

(b) Other high quality liquid assets

These funds represent the excess of member funds above their individual prudential funding requirements. Members hold excess funds with ASL generally as a tool for their own short-term liquidity management. Any excess funds provided at the discretion of members are held in at call accounts with Australian banks.

(c) Perpetual subordinated debt

Perpetual subordinated debt was issued by ASL. The debt is subordinated to all other creditors of ASL, is perpetual, and the lenders cannot claim repayment of the debt or offset the debt other than in very narrow circumstances.

NOTE 18: CAPITAL ADEQUACY

	2013	2012
Risk weighted assets	53,782,499	52,125,991
Tier 1 Capital (minimum 4% of eligible capital)	9.1%	8.8%
Tier 2 Capital (remainder of eligible capital)	4.1%	4.7%
	13.2%	13.5%

The Prudential Standards issued by APRA require ADIs to maintain a risk-based capital ratio in excess of a Prudential Capital Ratio (PCR). The Board of Directors has set the minimum capital ratio at 10% of total risk weighted assets. Eligible capital is assessed in two tiers:

- Tier 1 (core capital) - consisting of the highest quality elements; and

- Tier 2 (supplementary capital) - consisting of other elements which, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of the ADI.

Assets are weighted according to broad categories of relative risk. The higher the risk, the greater the capital backing required.

NOTE 19: SYSTEM PARTICIPANT SHARES

	2013 $	2012 $
19 fully paid system participant shares (2012: 20 shares)	19	20

Each member of ASL must hold one fully paid system participant share. The effect of holding the share is to bind the member to ASL's By-Laws including the settlement procedures and rules. These shares are redeemable and do not carry any voting rights or the right to dividends.

NOTE 20: SETTLEMENT OBLIGATIONS

The company is liable to settle the liabilities of any member of the company which cannot meet its settlement obligations. The company holds mandated prudential funds from each member specifically for this purpose. At 30 June 2013 all company members within the settlements system met their settlement obligations.

The company may be liable to bear some proportion of the loss in the event a non-ASL member counterparty in the Bulk Electronic Clearing Stream fails to meet settlement obligations. At 30 June 2013 there was no such liability.

NOTE 21: DIVIDENDS

No dividend was declared nor paid during the financial year (2012: nil).

NOTE 22: FINANCIAL RISK MANAGEMENT

The company’s activities expose it to a variety of financial risks, including but not limited to, liquidity risk, credit risk and market risk.

The company's principal financial instruments comprise deposits from members, perpetual subordinated debt, cash and short-term deposits. The main purpose of these financial instruments is to fund the company's settlement operations. The company has other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations.

The company holds the following financial instruments:

Financial assets	**Note**	**2013** **$**	**2012** **$**
Cash and cash equivalents	7	265,991,266	264,698,237
Trade and interest receivables	8	1,487,086	1,591,495
Total financial assets		**267,478,352**	**266,289,732**
Financial liabilities			
Trade and other payables	11	1,726,642	1,626,035
Borrowings	17	261,028,572	260,361,428
Total financial liabilities		**262,755,214**	**261,987,463**

i. *Financial risk management policies*

The Audit and Risk Committees meet on a regular basis to analyse financial risk exposures and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The Committees’ overall risk management strategies seek to assist the company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

The Audit and Risk Committees operate under policies approved by the Board of Directors. Risk management policies are approved and reviewed by the Board on a regular basis. These include credit risk policies and future cash flow requirements.

ii. *Specific financial risk exposures and management*

The main risks the company is exposed to through its financial instruments are liquidity, credit and market risks (foreign exchange, price and interest rate risks). The Audit and Risk Committees constantly monitor these risks through internal reports and take action where appropriate to minimise the impact and likelihood of adverse events.

a) *Liquidity risk*

The company’s major liquidity risk is derived from its function of settling payments system obligations on behalf of its members. Members provide the company with a pool of mandated prudential funds which is used to meet their settlement obligations. The Board has set the level of the pool of mandated prudential funds appropriate to the level of risk. The amount of prudential funding is recalculated on the last business day of each calendar month to reflect growth in the underlying settlement obligations. Members are prevented from withdrawing the prudential funds whilst ever the company has a settlement exposure to that member.

NOTE 22: FINANCIAL RISK MANAGEMENT (CONT.)

The tables below detail the undiscounted cash flows of financial liabilities based on the earliest date the company can be required to pay. The tables include both interest and principal payable and as a result may not reconcile to items on the balance sheet.

Maturity analysis for financial liabilities at 30 June 2013	Less than 6 months	6 – 12 months	1 – 5 years	5+ years	At call	No maturity specified	Total
	$	$	$	$	$	$	$
Trade and other payables	1,726,642	-	-	-	-	-	1,726,642
Borrowings	-	-	-	-	258,606,839	2,421,733	261,028,572
Total financial liabilities	**1,726,642**	**-**	**-**	**-**	**258,606,839**	**2,421,733**	**262,755,214**

Maturity analysis for financial liabilities at 30 June 2012	Less than 6 months	6 – 12 months	1 – 5 years	5+ years	At call	No maturity specified	Total
	$	$	$	$	$	$	$
Trade and other payables	1,626,035	-	-	-	-	-	1,626,035
Borrowings	-	-	-	-	257,939,695	2,421,733	260,361,428
Total financial liabilities	**1,626,035**	**-**	**-**	**-**	**257,939,695**	**2,421,733**	**261,987,463**

The nature and terms of borrowings are detailed at note 17.

b) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in the company suffering a financial loss.

The company's major credit risk relates to its cash and cash equivalents. This risk is mitigated as these assets are held exclusively with the RBA, major Australian banks and other ADI's, in accordance with the Board's Large Exposures Policy. Other receivable balances are monitored on an on-going basis, resulting in the company not having a significant exposure to bad debts. At the reporting date, the carrying value of all classes of financial assets best represents the maximum credit risk exposure, without taking account of the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments. Concentrations of credit risk, where applicable, are identified in the notes to the respective financial assets.

There are no material amounts of collateral held as security at 30 June 2013 (2012: nil).

The company does not have any material credit risk exposure to any single receivable or group of receivables.

c) Market risks

Foreign exchange risk

The company is not exposed to any material fluctuations in foreign currencies.

Price risk

The company is not exposed to any material commodity price risk.

Interest rate risk

Interest rate risk is composed of cash flow and fair value interest rate risks. Financial instruments that expose the company to these risks are set out in the following tables.

NOTE 22: FINANCIAL RISK MANAGEMENT (CONT.)

		2013 $	Weighted Average Interest Rate
i. Financial assets			
Cash and cash equivalents			
Within one year	Non-interest bearing	4,180,628	0.00%
	Floating Rate	261,810,638	3.51%
		265,991,266	
Trade and other receivables			
Within one year	Non-interest bearing	1,487,086	0.00%
ii. Financial liabilities			
Borrowings			
Within one year	Floating Rate	258,606,839	3.06%
No maturity specified	Floating Rate	331,733	3.06%
	Non-interest bearing	2,090,000	0.00%
		261,028,572	
Trade and other payables			
Within one year	Non-interest bearing	1,726,642	0.00%

		2012 $	Weighted Average Interest Rate %
i. Financial assets			
Cash and cash equivalents			
Within one year	Non-interest bearing	4,180,785	0.00%
	Floating Rate	260,517,452	4.51%
		264,698,237	
Trade and other receivables			
Within one year	Non-interest bearing	1,591,495	0.00%
ii. Financial liabilities			
Borrowings			
Within one year	Floating Rate	257,939,695	4.32%
No maturity specified	Floating Rate	331,733	4.32%
	Non-interest bearing	2,090,000	0.00%
		260,361,428	
Trade and other payables			
Within one year	Non-interest bearing	1,626,035	0.00%

The company's exposure to the risk of changes in market interest rates relates primarily to the funds placed on deposit with the company by its members. This risk is mitigated as the company's rules and procedures provide that the interest rate paid on these deposits is less than or equal to the interest rate earned by the company on the funds.

NOTE 22: FINANCIAL RISK MANAGEMENT (CONT.)

Sensitivity analysis

The company has performed a sensitivity analysis relating to its exposures to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

At 30 June 2013, the effect on profit and equity as a result of changes in interest rates, with all other variables remaining constant, would be as follows:

	2013 $	**2012** $
Change in profit		
- Increase in interest rates by 2%	36,018	85,269
- Decrease in interest rates by 2%	(36,018)	(85,269)
Change in equity		
- Increase in interest rates by 2%	36,018	85,269
- Decrease in interest rates by 2%	(36,018)	(85,269)

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged, and has been calculated on the net interest revenue.

No sensitivity analysis has been performed on foreign exchange risk, as the entity has only minor exposure to foreign currency fluctuations.

NOTE 23: CONTINGENT LIABILITIES/ASSETS

The company had no contingent liabilities or assets as at 30 June 2013 (2012 – nil).

NOTE 24: EVENTS OCCURING AFTER THE REPORTING PERIOD

There have been no matters or circumstances that have arisen since 30 June 2013 that are likely to have affected or to significantly affect, in future financial years, the operations of ASL, the results of those operations or the state of affairs of ASL.

NOTE 25: RELATED PARTY TRANSACTIONS

Australian Settlements Limited had no related party transactions other than those already disclosed in note 5.

Ms Jarvie as CRO of Newcastle Permanent Building Society, Mr Magin as CEO of Greater Building Society, Mr Minz as CEO and Mr Williams as COO of Heritage Bank Limited, Mr Dupe as CEO of the Community Mutual Group and Mr Ryan as CEO of IMB have interests in contracts pursuant to which the company provides services to their institutions.

NOTE 26: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The company's assessment of the impact of these new standards and interpretations is set out below. The company does not intend to adopt any new standards before their operative date.

(i) AASB 9 Financial Instruments, AASB 2009‑11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until financial year beginning after 1 January 2013 but is available for early adoption.

Application of this standard by the company will not affect any of the amounts recognised in the financial statements.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2012-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective for financial year beginning after 1 January 2013)

In August 2012, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the company does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa.

Application of these standards by the company will not affect any of the amounts in the financial statements or disclosures in the accompanying notes.

NOTE 26: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONT.)

(iii) AASB 13 Fair Value Measurement and AASB 2012-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective for financial year beginning after 1 January 2013)

AASB 13 was released in September 2012. It explains how to measure fair value and aims to enhance fair value disclosures. The company has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The company does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iv) Revised AASB 119 Employee Benefits, AASB 2012-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2012) and AASB 2012-11 Amendments to AASB 119 (September 2012) arising from Reduced Disclosure Requirements (effective 1 January 2013). In September 2012, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits.

Application of these standards by the company will not materially affect any of the amounts in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTE 27: COMPANY DETAILS

Australian Settlements Limited is an unlisted public company limited by shares and incorporated in Australia. The company is an ADI and operates an ESA at the RBA. The ESA is used for the settlement of payment obligations between certain ADIs, currently building societies, banks and credit unions and other clearers. The registered office and principal place of business of the company is:

Australian Settlements Limited
ASL House
6C Geils Court
Deakin ACT 2600

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 9 to 35 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the entity's financial position as at 30 June 2013 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1 (a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Barry John McWilliams
Director

David John Lawler
Director

Dated this 29th day of August 2013

Independent auditor's report to the members of Australian Settlements Limited

Report on the financial report

We have audited the accompanying financial report of Australian Settlements Limited (the company), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

PricewaterhouseCoopers, ABN 52 780 433 757
28 Sydney Avenue, FORREST ACT 2603, GPO Box 447, CANBERRA CITY ACT 2601
T: + 61 2 6271 3000, F: + 61 2 6271 3999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Australian Settlements 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 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001.*

(b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

Steve Baker
Partner

Canberra
29 August 2013