



ANNUAL REPORT 2009

AMP Credit Union Ltd / ACN 087 649 723 / AFSL 236856

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CHAIRMAN'S REPORT

2009 Chairman's Report

There is no doubt that 2008-09 will be best remembered for the global financial crisis and for the actions undertaken by our Reserve Bank in cutting interest rates by over four percentage points. This action provided Australia with the lowest interest rates in 40 years. Add to this the stimulus packages released by the Government, it would appear that Australia will avoid the severe recessions experienced elsewhere in the world. However conditions will continue to be difficult.

This operating environment was challenging for all financial institutions including your Credit Union. Margins have come under pressure and these conditions will prevail for some time. Despite this, I am pleased to announce another solid performance enabling your Credit Union to continue to grow in strength. We finished the year with a pre-tax profit of \$1,255,880 and after tax profit of \$900,420.

Our objective remains to provide competitive products and services that members require. During the year we launched two new mortgage products that have proven to be very successful. They both provide additional options and the flexibility that our members desire.

We continue to plan for the future and have a number of initiatives that will add value for our members. These are outcomes of our three year strategic plan and our ongoing planning sessions. In particular, we plan to enhance our product range and to strengthen our interest rate offerings in a number of areas.

I would like to take this opportunity to thank a long-term director Murray Mills, who is retiring from the Board after 11 years of service. Murray has made a significant contribution to the Credit Union, both as a director and member of the Audit & Risk Committee.

Finally, I would like to thank my fellow directors, our CEO Therese Turner, and all our staff for their support and contribution throughout the year.

In conclusion, while the financial environment will remain challenging, I am very confident in our ability to continue to provide real and substantial value to our members and I look forward to the coming year.

Michael Carley
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

2009 Chief Executive Officer's Report

The 2008-09 financial year was a year of many challenges for all financial institutions, mainly due to the impact of the global financial crisis (GFC). However, despite this difficult environment, the Credit Union took the opportunity to continue to improve our offering and to introduce a number of initiatives that have strengthened the Credit Union and enhanced value for our members, which are outlined in this report.

Strong Financial Performance

Overall growth was quite strong for the year, with Total Assets increasing by \$7m. This compares very favourably to our asset growth in the previous year which was less than \$2m. Underpinning our improved growth performance is our improved term deposit offering, which has attracted significant new funds to the Credit Union.

While overall profitability inevitably fell (due to contracting margins in a very low interest rate environment), the Credit Union still delivered a very respectable after-tax profit figure of \$900k. This ensures that our profitability (compared to our asset size) remains one of the best in the Australian credit union industry. It also ensures that a further \$900k is added to our Reserves, increasing them by 7.6% to almost \$13m as well as another solid increase in our capital adequacy ratio from 21.13% to 21.46% (and up from just 18.11% in 2007).

One of the most pleasing areas in our operations is our continued level of cost-efficiency. Our costs-to-assets ratio is one of the lowest in the industry and a prime driver of our ability to continue to provide low cost home loans.

The lending and collection practices that we implemented in the prior year continue to provide benefits for the Credit Union. Delinquency rates remain among the lowest in the credit union industry and are a good contributor to our low cost operations and profitability.

The Credit Union has also achieved good balanced growth in both its loan and deposit portfolios. The loan portfolio grew by \$6.5m, whereas the deposit portfolio grew by \$7.7m. This solid growth is a reflection of the Credit Union's attractive offerings in these areas; with the Credit Union's home loan rate remaining one of the best in the country and an improved offering for term deposit interest rates.

Product and Service Improvements

The Credit Union made a number of improvements to its offerings during the year, and has plans to make more in 2009/10 as part of its Strategic Plan initiatives. In particular we introduced a choice of Basic and Premium Home Loans (which allows members to choose the best home loan to suit their needs based on price and additional features such as a redraw and offset).

In addition, the Credit Union's Visa Debit product has continued to prove popular, with almost 40% of members taking up this flexible access facility in the past two years.

We continued to make regular improvements to services and we are currently in the process of upgrading to a new Internet Banking system in late 2009. The improved Internet Banking System will offer additional services such as web loans, online term deposits, estatements and 2nd line security for higher value transactions.

CHIEF EXECUTIVE OFFICER'S REPORT continued

Probably the most noticeable change for our members was the introduction of ATM Direct Charging legislation in March 2009. An initiative of the Reserve Bank to make ATM usage fees more transparent to consumers meant for the first time, that AMP Credit Union members could be charged a fee for using an ATM. Fortunately members can continue to enjoy transaction fee-free banking if they use either a rediATM or more recently National Australia Bank (NAB) ATM. The rediATM network (which now includes NAB ATMs) has over 3,100 ATMs making it one of Australia's largest ATM networks.

Our members have actively embraced the combined rediATM/NAB network with more than 50% of transactions conducted at these ATMs (well up from around 10% usage in the prior year).

Recognition of Performance

During the year, AMP Credit Union was identified as a leading credit union within the industry by ABACUS (the credit union industry body). This was based on the deepening relationships we have with our membership and various other key performance indicators. But more importantly, our members are very satisfied with our offerings. This is demonstrated by the solid growth performance and the high percentage of new members being referred by family members and friends through word-of-mouth.

Fraud Prevention Initiatives

One of the emerging challenges in the financial services industry is the increasing frequency of sophisticated fraud (such as the ATM skimming and counterfeit cards). This trend is of significant concern to all banks and credit unions. AMP Credit Union has been very active in combating these threats and has implemented a number of changes throughout the year.

One of the most effective changes is the introduction of the EMV Chip Visa Card. The chip card offers enhanced protection against fraud and is considered the new global standard in card security. From August 2009, all new and renewal Visa Debit cards issued have the new chip technology.

The Credit Union has also invested resources in increased monitoring of remote access channels, such as Visa, BPay and Internet Banking. These changes have already proved effective and we have been able to quickly identify a number of attempted frauds.

Unfortunately, we did have to restrict the use of the standard Redicard to Australia in order to reduce the likelihood of ATM card skimming. As an alternative, most affected members are entitled to be upgraded to a Visa Debit card, which also provides greater functionality.

Recognition

Clearly the GFC has made this year a difficult and challenging one, which required a substantial team effort to achieve our very pleasing overall results and new initiatives. Therefore, I would like to thank my Finance Manager and all the Credit Union staff for their efforts, ideas, dedication and hard work throughout the year. And finally, I would like to sincerely thank the Chairman and all the Board Members for their guidance and support.

Therese Turner
Chief Executive Officer

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2009.

DIRECTORS

The names and details of the directors of the AMP Credit Union Ltd in office during the financial year and until the date of this report are:

Michael John CARLEY (FCII, MAMI)

Retired Executive, AMP Services Ltd
Director since 1982
Chairman, Board of Directors since 1992
Member, Corporate Governance Committee

Peter William CLARKE (B Ec., CPA, F Fin, ANZIIF (Snr Assoc), MAICD, MAMI)

Retired Managing Director, Cobalt Solutions (AMP)
Director since 2008
Chairman, Mergers & Acquisition Committee

Alan FRESHWATER (B Bus, CPA, DIP FS (FP), AFPA, MAMI)

Proprietor, RetireInvest Bondi
Director since 1997
Deputy Chair, Board of Directors
Chairman, Audit & Risk Committee

Andrew John GREGORY (B Com, AAICD, MAMI)

Relationship Manager, AMP Services Ltd
Associate Director since May 2008
Member, Audit & Risk Committee

Guy HARDING (MBA, DipFS, FCIB, Ffin, MAMI)

Chief Risk Officer – Business and Private Banking, Commonwealth Bank
Director since January 2008
Member, Mergers & Acquisition Committee
Member, Corporate Governance Committee

Cheryl HOLLEBON (B Bus, ANZIIF (Fellow), CIP, AACI, DIP FS (FP) , MAMI)

Compliance Manager, MetLife Insurance Limited
Director since July 2006
Chairman, Corporate Governance Committee

Murray Calver MILLS (AAII, DIP FP, MAMI)

Retired Executive, AMP Services Ltd
Director since 1998
Member, Audit & Risk Committee

DIRECTORS' REPORT continued

Christopher John OLD (B Bus, FCPA, DIP All, FCIS, GAICD, MAMI)

Managing Director, GLOBAL Life Re
Director since July 2006
Deputy Chair, Audit & Risk Committee
Member, Mergers & Acquisition Committee

Leonard Anthony WHELAN (BA (Econ), DIP All, MAMI)

Executive, AMP Services Ltd
Director since 1992
Member, Audit & Risk Committee

The name and details of the company secretary of the AMP Credit Union Ltd in office during the financial year:

Therese Lyn TURNER (MBA, Advanced Diploma in Accounting, MAMI)

Chief Executive Officer
Member, Corporate Governance Committee

DIRECTORS' REPORT continued

FINANCIAL PERFORMANCE DISCLOSURES

PRINCIPAL ACTIVITIES

The principal activity of AMP Credit Union Ltd (“the Credit Union”) is to receive deposits from and make loans to its members.

There has been no significant change in the nature of these activities during the year ended 30 June 2009.

OPERATING RESULTS

Operating profit after income tax for the financial year was \$900,420 (2008; \$1,431,025).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Credit Union during the financial year under review not disclosed in this report or the financial statements of the Credit Union.

REVIEW OF OPERATIONS

The scope and results of operations of the Credit Union have not changed significantly during the year. The directors have undertaken a review of operations for the year to date, and have satisfied themselves that the income statement, balance sheet, statement of changes in member equity and cashflow statement and accompanying notes, reflect the results of that review.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No other events or circumstances have arisen 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 subsequent years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Disclosure of information relating to the likely developments in the operations of the Credit Union and the expected results of those operations in subsequent financial years which will not, in the opinion of the directors, be prejudicial to the interest of the Credit Union, is contained in the Chairman’s Report.

DIRECTORS' REPORT continued

DIRECTORS' BENEFITS

During or since the financial year, no director of the Credit Union has received or become entitled to receive any benefit, apart from details disclosed in note 31 of the notes to the financial statements, by reason of a contract entered into by the Credit Union or a body corporate that was related to the Credit Union when the contract was made or when the director received, or became entitled to receive, the benefit with:

- a director, or
- a firm of which a director is a member, or
- an entity in which a director has a substantial financial interest.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year, a premium was paid in respect of an insurance contract insuring directors and officers of the Credit Union against certain liabilities. The officers of the Credit Union covered by the insurance contract include the directors, executive officers, secretary and employees.

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

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

AUDITORS' INDEPENDENCE

The directors received the auditor's independence declaration and this is presented on page 10.

DIRECTORS' REPORT continued

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

	Directors Meetings		Audit & Risk Committee		Corporate Governance Committee		Merger & Acquisition Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
M Carley	13	13	-	-	4	4	-	-
P Clarke	13	11	-	-	-	-	4	4
A Freshwater	13	12	10	9	-	-	-	-
A Gregory	13	10	6	5	-	-	-	3
G Harding	13	10	-	-	2	2	4	3
C Hollebon	13	12	4	4	4	4	-	-
M Mills	13	11	10	8	-	-	-	-
C Old	13	11	10	9	-	-	4	4
L Whelan	13	10	6	6	3	3	-	-

Signed in accordance with a resolution of the directors.

Michael Carley
Chairman

29 September 2009

AUDITOR'S INDEPENDENCE



BDO Kendalls

Auditor's Independence Declaration to the Directors of AMP Credit Union

As lead auditor of AMP Credit Union Ltd for the financial year ended 30 June 2009, I declare to the best of my knowledge and belief, there have been no contraventions of;

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit, and
- (ii) any applicable code of professional conduct in relation to the audit.

BDO Kendalls Audit Assurance (NSW-VIC) Pty Ltd

Neville Sinclair
Director

23 September 2009

INDEPENDENT AUDIT REPORT



BDO Kendalls

Independent auditor's report to the directors of AMP Credit Union Ltd

We have audited the accompanying financial report of AMP Credit Union ('the Credit Union'), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in member equity and cashflow statement 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. 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.

INDEPENDENT AUDIT REPORT continued

Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of AMP Credit Union Limited, would be in the same terms if provided to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

1. the financial report of AMP Credit Union Ltd is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of AMP Credit Union Ltd at 30 June 2009 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.
2. the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

BDO Kendalls Audit Assurance (NSW-VIC) Pty Ltd

Neville Sinclair
Director

30 September 2009

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of AMP Credit Union Ltd, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Credit Union are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards; and
- (b) there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

On behalf of the Board,

Michael Carley
Chairman

29 September 2009

INCOME STATEMENT

YEAR ENDED 30 JUNE 2009

	Note	2009	2008
		\$	\$
REVENUE FROM CONTINUING OPERATIONS			
Interest revenue	2	8,313,419	9,312,687
Interest expense	3	4,047,742	4,323,397
Net interest revenue		<u>4,265,677</u>	<u>4,989,290</u>
Non interest revenue	2	307,843	234,596
Total revenue		<u>4,573,520</u>	<u>5,223,886</u>
Impairment losses for loans and advances	3(c)	80,917	27,879
Operating expenses	3	3,236,723	3,182,640
Total expenses		<u>3,317,640</u>	<u>3,210,519</u>
PROFIT BEFORE INCOME TAX		1,255,880	2,013,367
Income tax expense	4	355,460	582,342
PROFIT AFTER INCOME TAX	19	<u>900,420</u>	<u>1,431,025</u>

BALANCE SHEET

AS AT 30 JUNE 2009

	Note	2009	2008
		\$	\$
ASSETS			
Cash	5	657,254	2,738,990
Advances to other financial institutions	6	33,219,253	30,250,000
Receivables	7	845,082	1,401,504
Available for sale securities	8	410,925	410,417
Loans and advances	9	95,726,347	89,230,767
Plant and equipment	11	46,703	19,533
Taxation assets	12	155,129	110,182
Intangible assets	13	71,694	34,079
TOTAL ASSETS		<u>131,132,387</u>	<u>124,195,472</u>
LIABILITIES			
Deposits	14	116,184,014	108,452,746
Payables	15	1,981,196	3,454,172
Taxation liabilities	16	18,736	229,287
Provisions	17	177,699	188,945
TOTAL LIABILITIES		<u>118,361,645</u>	<u>112,325,150</u>
NET ASSETS		<u>12,770,742</u>	<u>11,870,322</u>
EQUITY			
Reserves	18	7,418,225	7,035,494
Retained profits	19	5,352,517	4,834,828
TOTAL MEMBER EQUITY		<u>12,770,742</u>	<u>11,870,322</u>

STATEMENT OF CHANGES IN MEMBER EQUITY

YEAR ENDED 30 JUNE 2009

	Retained earnings \$	General reserve \$	Reserve for credit losses \$	Capital profit reserve \$	Total \$
Total at 1 July 2007	6,700,808	3,430,000	308,489	-	10,439,297
Net profit for the year	1,431,025	-	-	-	1,431,025
<i>Transfers to/(from):</i>					
General reserve	(3,120,529)	3,120,529	-	-	-
Reserves for credit losses	(100,918)	-	100,918	-	-
Capital profit reserve	(75,558)	-	-	75,558	-
Total at 30 June 2008	4,834,828	6,550,529	409,407	75,558	11,870,322
Net profit for the year	900,420	-	-	-	900,420
<i>Transfers to/(from):</i>					
General reserve	(297,169)	297,169	-	-	-
Reserves for credit losses	(75,638)	-	75,638	-	-
Capital profit reserve	(9,924)	-	-	9,924	-
Total at 30 June 2009	5,352,517	6,847,698	485,045	85,482	12,770,742

CASHFLOW STATEMENT

YEAR ENDED 30 JUNE 2009

	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Inflows		
Interest received	8,799,308	8,639,951
Other non interest revenue received	307,484	236,319
Outflows		
Borrowing costs paid	(4,044,687)	(4,342,414)
Payments to suppliers and employees	(3,344,995)	(3,071,665)
Income tax paid	(610,504)	(537,562)
Net cash from revenue activities	20(a) <u>1,106,606</u>	<u>924,629</u>
Inflows/(outflows) from other operating activities		
Increase in member loans (net)	(6,549,271)	(6,585,015)
(Increase)/decrease in advances to other financial institutions (net)	(2,969,253)	6,250,000
Increase in member deposits and shares (net)	7,731,268	1,661,073
Net cash from operating activities	<u>(680,650)</u>	<u>2,250,687</u>
INVESTING ACTIVITIES		
Inflows		
Proceeds from sale of plant and equipment	-	24,993
Outflows		
Purchase of plant and equipment	(48,051)	(7,552)
Purchase of intangible assets	(66,334)	(27,700)
Purchase of available for sale assets	(508)	(3,950)
Net cash from investing activities	<u>(114,893)</u>	<u>(14,209)</u>
FINANCING ACTIVITIES		
Net increase in deposits and other borrowings	(1,286,193)	(1,498,035)
Net cash from financing activities	<u>(1,286,193)</u>	<u>(1,498,035)</u>
Net increase/(decrease) in cash	(2,081,736)	738,443
Cash at beginning of year	2,738,990	2,000,547
Cash at end of year	5 <u>657,254</u>	<u>2,738,990</u>

NOTES TO THE ACCOUNTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate information

AMP Credit Union Ltd ACN 087 649 723 was incorporated on 1 July 1999 with its registered office located at Ground Floor, 33 Alfred Street, Sydney. The Credit Union was originally formed in 1971 as AMP Employees & Agents Credit Union Limited.

(b) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements have been prepared in accordance with the historical cost convention, unless stated otherwise.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(c) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

(d) Cash

Cash on hand and in banks is stated at fair value.

For the purposes of the cashflow statement, cash includes cash on hand and in banks net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

(e) Advances to other financial institutions

Other financial assets include term deposits and money market investments with other financial institutions.

Advances to other financial institutions are initially recognised at cost, being the fair value of the consideration given and subsequently measured at amortised cost using the effective interest method.

(f) Available for sale securities

Listed shares are carried at fair value with any increase in value above original cost taken to the asset revaluation reserve. Fair value is determined at the quoted market price at reporting date. Unlisted shares are carried at the lower of cost and net realisable value.

NOTES TO THE ACCOUNTS continued

(g) Loans and advances

Loans and advances are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired.

The Credit Union assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Provision for impairment

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate, short term balances are not discounted. The amount of the loss is recognised in the income statement.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The expected future cash outflows for group or financial assets with similar credit risk characteristics are estimated based on historical loss experience.

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, the previously recognised impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(h) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is provided on a straight line basis on all plant and equipment over the estimated useful life of the asset.

Major depreciation periods are:

	2009	2008
Plant and equipment	3 to 7 years	3 to 7 years
Motor vehicle	5 Years	5 Years

NOTES TO THE ACCOUNTS continued

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sale line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

(i) Intangible assets

Intangible assets are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.

(j) Payables

Liabilities for trade creditors and other payables are carried at cost which is the fair value of the consideration to be paid for goods and services received, whether or not billed to the Credit Union.

(k) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Fees and Commissions

Control of a right to be compensated for services is evidenced by approval of contract by a member.

Interest Income

Interest income is recognised on time proportion basis using the effective interest method.

NOTES TO THE ACCOUNTS continued

(l) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(m) Goods and services tax (GST)

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

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office (ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

NOTES TO THE ACCOUNTS continued

(n) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation as a result of past transactions or other past events, it is probable that an on flow of benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(o) Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other entitlements up to the reporting date. They are measured at the amounts expected to be paid when liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The provision for long service leave is maintained in respect of all permanent employees on a pro-rata basis for each year of service for the leave entitlement due but not taken at balance date.

(p) Member's deposits

Members' deposits are initially recognised at the fair value of the consideration received. Members' deposits are classified as financial liabilities and subsequently measured at amortised cost. As these financial liabilities amortise, cost will equate to the face value.

(q) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

NOTES TO THE ACCOUNTS continued

(r) New or emerging standards

Certain new accounting standards and interpretations have been published however they are not all mandatory for 30 June 2009 reporting periods. The Credit Union's assessment of the impact of these new standards and interpretations is set out below.

AASB Reference	Nature of Change	Application Date	Impact on initial Application
AASB 8 (Issued Feb 2008) Operating segments	Replaces the disclosure requirements of AASB 114: Segment Reporting.	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, disclosures required for the operating segments will be significantly different to what is currently reported (business and geographical segment).
AASB 123 (revised Jun 2008) Borrowing costs	To the extent that borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, the option of recognising borrowing cost immediately as an expense has been removed. Consequently all borrowing costs qualifying assets will have to be capitalised.	Periods commencing on or after 1 January 2009	The transitional provisions of this standard only require capitalisation of borrowing costs on qualifying assets where commencement date for capitalisation is on or after January 1 2009. As such, there will be no impact on prior period financial statements when this standard is adopted.
AASB 101 (Revised Sep 2008) Presentation of financial statements	Amendments to presentation and naming of the financial statements.	Annual reporting periods commencing on or after 1 January 2009	As this is a disclosure only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.

NOTES TO THE ACCOUNTS continued

AASB Reference	Nature of Change	Application Date	Impact on initial Application
<p>AASB 3 (reissued March 2009)</p> <p>Business combination</p>	<p>Released as part of long term international convergence project between IASB and FASB. The revised standard introduces more detailed guidance on accounting for step acquisitions, adjustments to contingent consideration, assets acquired that the purchaser does not intend to use, reacquired rights and share-based payments as part of purchase consideration. Also, all acquisition costs will have to be expensed instead of being recognised as part of goodwill.</p>	<p>Business combinations where the acquisition date is on or after the beginning of the first reporting period that commences 1 July 2009 or later.</p>	<p>As there is no requirement to retrospectively restate comparative amounts for business combinations undertaken before this date, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.</p> <p>However, due to the nature of some of the changes in the revised standard, business combinations that the entity undertakes after this date may in the future impact negatively on the entity.</p> <p>For example:</p> <ul style="list-style-type: none"> ▪ The Credit Union will be required to comply with the standard ▪ Acquisition costs will have to be expensed instead of being recognised as part of goodwill ▪ The net assets acquired will be taken to equity not revenue ▪ Deferred tax assets that do not satisfy recognition criteria when business combination is initially accounted for, but do subsequently qualify for recognition post acquisition date, will be recognised as a credit to the income statement and there will be no consequent write-down of goodwill for a similar amount, provided that the deferred tax assets are recognised outside the initial measurement period of 12 months from acquisition date.

NOTES TO THE ACCOUNTS continued

AASB Reference	Nature of Change	Application Date	Impact on initial Application
AASB 136 Impairment of assets	Additional disclosure requirements about discounted cash flow assumptions used for the fair value less costs to sell method.	Periods commencing on or after 1 January 2009.	There will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only.
AASB 138 Intangible assets	<p>Where expenditure is incurred to provide future economic benefits to an entity but no intangible asset is created, such amounts must be expensed as follows:</p> <ul style="list-style-type: none"> ▪ For the supply of goods – when entity has right to access those goods; and ▪ For the supply of services when entity receives the services. <p>Expenditure incurred on mail order catalogues is also to be expensed when incurred, not when used.</p>	Periods commencing on or after 1 January 2009	Initial adoption of this amendment will have no impact on the entity as the entity expenses all advertising brochures/mail order catalogues when printing is complete.
AASB 138 Intangible assets	Clarifies that the amortisation method for intangible assets could result in a lower amount of accumulated amortisation than under the straight line method.	Periods commencing on or after 1 January 2009	Initial adoption of this amendment will have no impact on the entity as the entity will continue to use the straight line basis as the most appropriate amortisation method for intangibles.

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
2. INTEREST & NON-INTEREST REVENUE		
(a) Analysis of interest revenue		
Advances to other financial institutions	1,943,006	2,938,747
Loans and advances	6,370,413	6,373,940
Total interest revenue	<u>8,313,419</u>	<u>9,312,687</u>
(b) Fee commission and other income		
Fee income on loans	5,510	3,160
Other fee income	50,988	46,459
Other commissions	128,606	114,081
Total fee commission and other income	<u>185,104</u>	<u>163,700</u>
(c) Other revenue		
Dividends	93,011	50,832
Bad debts recovered	29,728	19,648
Net gain on disposal of assets	-	416
Total other revenue	<u>122,739</u>	<u>70,896</u>
Total non-interest revenue	<u>307,843</u>	<u>234,596</u>

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
3. INTEREST & NON-INTEREST EXPENSE		
(a) Interest expense		
Member deposits	4,044,981	4,318,089
Short term borrowings	2,761	5,308
Total interest expense	<u>4,047,742</u>	<u>4,323,397</u>
(b) Other expenses from ordinary activities		
Depreciation	20,881	10,339
Amortisation	28,719	11,588
General administration expenses	484,084	388,930
Salaries and employee benefits expense	964,229	1,012,993
Information technology expense	294,660	233,580
Office occupancy expense	233,175	146,816
Member transaction costs	1,018,222	1,156,106
Member protection benefits	206,862	198,050
Total expenses from ordinary activities	<u>3,250,832</u>	<u>3,158,402</u>
(c) Impairment losses for loans and advances		
(Decrease)/increase in provision	14,109	(24,238)
Bad debts written off against profit	66,808	52,117
Total impairment expense	<u>80,917</u>	<u>27,879</u>

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
4. INCOME TAX		
(a) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Credit Union's applicable income tax rate is as follows:		
Prima facie tax calculated at 30% on the profit from ordinary activities	376,764	604,010
Tax effect of permanent differences	(21,456)	(21,668)
Others	152	-
Income tax expense attributable to operating profit	<u>355,460</u>	<u>582,342</u>
(b) Total income tax expense is made up of amounts set aside for:		
Provision for income tax	341,582	564,731
Deferred tax	13,793	17,611
Under/(over) provision in prior year	85	-
Total income tax expense attributable to operating profit	<u>355,460</u>	<u>582,342</u>
Deferred income tax expense comprises:		
Increase/(decrease) in deferred tax assets	(13,793)	(17,933)
(Increase)/ decrease in deferred tax liability	-	322
	<u>(13,793)</u>	<u>(17,611)</u>

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
5. CASH		
Cash on hand and at banks	657,254	2,738,990
	<u>657,254</u>	<u>2,738,990</u>
6. ADVANCES TO OTHER FINANCIAL INSTITUTIONS		
<i>Deposits held with:</i>		
CUSCAL	17,250,000	20,500,000
Deposits with other societies	2,969,253	4,000,000
Deposits with other banks	13,000,000	5,750,000
	<u>33,219,253</u>	<u>30,250,000</u>
7. RECEIVABLES		
Interest receivable	370,204	855,734
Prepayments	79,588	26,351
Other receivables	395,290	519,419
	<u>845,082</u>	<u>1,401,504</u>
8. AVAILABLE FOR SALE SECURITIES		
Unlisted shares – CUSCAL	379,667	379,667
Unlisted shares – CFP	31,258	30,750
	<u>410,925</u>	<u>410,417</u>

Disclosures on Shares held at cost

(a) Cuscal Limited

The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services – refer to note 33.

The financial reports of CUSCAL record net tangible asset backing of these shares exceeding their cost value.

NOTES TO THE ACCOUNTS continued

Disclosures on Shares held at cost (continued)

Based on the net assets of CUSCAL, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

The Credit Union is not intending, nor able to, dispose of these shares.

(b) Combined Financial Processing Ltd (CFP)

The shareholding in CFP is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential technological services – refer to note 33.

The shares are not able to be traded and are not redeemable.

The Credit Union is not intending, nor able to dispose of these shares as the services supplied by the company are relevant to the day to day activities of the Credit Union.

	2009	2008
	\$	\$
9. LOANS AND ADVANCES		
Term loans	94,643,482	87,806,140
Overdrafts	1,141,812	1,470,457
	<u>95,785,294</u>	<u>89,276,597</u>
Provision for impairment	(57,516)	(43,407)
Deferred Income	(1,431)	(2,423)
Net loans and advances	<u>95,726,347</u>	<u>89,230,767</u>
 (a) Security dissection		
Secured by mortgage	87,608,332	79,270,775
Partly secured by mortgage	3,943,888	4,056,698
Wholly unsecured	4,233,074	5,949,124
	<u>95,785,294</u>	<u>89,276,597</u>

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
<i>(b) Credit quality of loans</i>		
It is not practical to value all collateral as at the balance date due to the variety of assets and conditions. A breakdown of the quality of the residential mortgage security held on a portfolio basis is as follows:		
<i>Loan to valuation ratio</i>		
- less than 80%	87,419,600	76,901,394
- more than 80% but mortgage insured	-	-
- more than 80% and not mortgage insured	188,732	2,369,381
	<u>87,608,332</u>	<u>79,270,775</u>

(c) Concentration of risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

<i>Individual or related groups of members</i>		
Loans which exceed 10% of member equity	<u>-</u>	<u>-</u>
<i>Geographic concentration</i>		
NSW residents	83,105,876	79,394,480
Victorian residents	5,108,005	3,091,440
Queensland residents	3,742,319	3,208,351
Western Australian residents	2,197,291	1,811,272
Other	1,631,803	1,771,054
	<u>95,785,294</u>	<u>89,276,597</u>

10. IMPAIRMENT OF LOANS AND ADVANCES

(a) Total provision comprises

Collective provision	37,129	33,511
Individual specific provision	20,387	9,896
	<u>57,516</u>	<u>43,407</u>

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
(b) Provision for impairment		
Opening balance	43,407	67,645
Add: Transfer from/(to) income statement	14,109	(24,238)
Closing balance	<u>57,516</u>	<u>43,407</u>
(c) Impaired loans written off		
Bad debts recognised directly in profit and loss	<u>66,808</u>	<u>52,117</u>
Bad debts recovered	<u>29,728</u>	<u>19,648</u>

(d) Analysis of loans that are impaired or potentially impaired by class

In the note below the carrying value is the amount on the balance sheet, while all loans in arrears are considered past due. The value of impaired loans is the 'on balance sheet' loan balances that are generally past due by 90 days or more and the allocated provision for each class of loans.

	2009			2008		
	Carrying Value	Impaired Loans	Provision for Impairment	Carrying Value	Impaired Loans	Provision for Impairment
	\$	\$	\$	\$	\$	\$
Mortgages	87,608,332	-	-	79,270,775	-	-
Personal	7,027,849	61,811	48,914	8,523,646	63,741	40,381
Overdrafts	828,774	12,918	8,602	1,059,117	2,906	3,026
Natural persons	95,464,955	74,729	57,516	88,853,538	66,647	43,407
Corporate borrowers	320,339	-	-	423,059	-	-
Total	95,785,294	74,729	57,516	89,276,597	66,647	43,407

It is not practicable to determine the fair value of all collateral as at the balance date.

The provision for impairment is based on the key assumptions detailed on page 33 as well as a specific provision assigned by the Board for individual impaired loans.

NOTES TO THE ACCOUNTS continued

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

	2009		2008	
	Carrying Value	Provision	Carrying Value	Provision
<i>Period of impairment:</i>	\$	\$	\$	\$
Less than 30 days	11,500	-	3,033	-
30 to 89 days	23,303	-	28,480	9,896
90 to 181 days	27,574	22,059	2,906	1,162
182 to 272 days	22,738	22,738	-	-
273 to 365 days	-	-	-	-
Over 365 days	-	-	29,323	29,323
Over limit facilities over 14 days	23,098	12,719	3,206	3,026
Total loans in arrears	108,213	57,516	66,948	43,407
Total loans not in arrears	95,677,081	-	89,209,649	-
Total loans	95,785,294	57,516	89,276,597	43,407

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date.

Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report the Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment as follows:

Period of Impairment	%
Up to 90 days	0
90 days to 181 days	40
182 days to 272 days	60
273 days to 365 days	80
Over 365 days	100

NOTES TO THE ACCOUNTS continued

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

There are loans with a value of \$118,494 (2008: \$0) past due which are not considered to be impaired as the value of the related security is in excess of the loan due.

2009					
	1-3 months	3-6 months	6-12 months	> 1 year	Total
	\$	\$	\$	\$	\$
Mortgage Loans	106,958	-	-	-	106,958
Personal Loans	11,536	-	-	-	11,536
Total	118,494	-	-	-	118,494

2008					
	1-3 months	3-6 months	6-12 months	> 1 year	Total
	\$	\$	\$	\$	\$
Mortgage Loans	-	-	-	-	-
Personal Loans	-	-	-	-	-
Total	-	-	-	-	-

	2009	2008
	\$	\$
11. PLANT AND EQUIPMENT		
<i>Plant and equipment comprises:</i>		
At cost	159,449	124,934
Accumulated depreciation	(112,746)	(105,401)
Written down value	<u>46,703</u>	<u>19,533</u>

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
<i>Reconciliation of plant and equipment</i>		
Opening net book value	19,533	48,531
Additions	48,051	7,552
Assets written off	-	(26,211)
Depreciation expense	(20,881)	(10,339)
	<u>46,703</u>	<u>19,533</u>

12. TAXATION ASSETS

Deferred tax asset	74,123	87,916
Other receivables	17,908	22,266
Tax instalments pre-paid	63,098	-
	<u>155,129</u>	<u>110,182</u>

Deferred tax asset comprises:

Accrued expenses not deductible until incurred	13,687	18,211
Provision for impairment on loans	17,255	13,022
Depreciation on fixed assets	(10,129)	-
Provision for employee entitlements	53,310	56,683
	<u>74,123</u>	<u>87,916</u>

13. INTANGIBLE ASSETS

Computer software	132,534	66,200
Amortisation	(60,840)	(32,121)
Written down value	<u>71,694</u>	<u>34,079</u>

Reconciliation of intangible assets

Opening net book value	34,079	17,967
Additions	66,334	27,700
Amortisation expense	(28,719)	(11,588)
	<u>71,694</u>	<u>34,079</u>

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
14. DEPOSITS		
Call deposits	84,607,907	81,963,131
Term deposits	31,477,021	26,383,669
Total deposits	<u>116,084,928</u>	<u>108,346,800</u>
Member withdrawable shares	99,086	105,946
Total deposits and shares	<u><u>116,184,014</u></u>	<u><u>108,452,746</u></u>

(a) Concentration of deposits

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments as follows:

Individual or related groups of members

Deposits which exceed 10% of liabilities	<u>-</u>	<u>-</u>
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Geographic concentration

NSW residents	93,088,272	87,709,192
Victorian residents	9,726,061	8,687,842
Queensland residents	6,375,220	5,924,252
Western Australian residents	4,117,608	3,596,940
Other	2,876,853	2,534,520
Total deposits	<u><u>116,184,014</u></u>	<u><u>108,452,746</u></u>

15. PAYABLES

Other creditors	1,644,513	3,120,544
Accrued interest payable	336,683	333,628
	<u>1,981,196</u>	<u>3,454,172</u>

16. TAXATION LIABILITIES

Provision for income tax	-	205,739
Other creditors	18,736	23,548
	<u>18,736</u>	<u>229,287</u>

NOTES TO THE ACCOUNTS continued

	Note	2009 \$	2008 \$
<i>Current income tax liability comprises:</i>			
Balance – previous year		205,739	178,571
Under/(over) statement in prior year		85	-
Liability for income tax in current year		341,582	564,731
Less instalment paid in current year		(610,504)	(537,563)
Tax instalments pre-paid	12	63,098	-
		<u>-</u>	<u>205,739</u>

17. PROVISIONS

Long service leave		41,746	29,436
Other employee entitlements		135,953	159,509
		<u>177,699</u>	<u>188,945</u>

18. RESERVES

General reserve		6,847,698	6,550,529
General reserve for credit losses		485,045	409,407
Capital profit reserve		85,482	75,558
Total reserves		<u>7,418,225</u>	<u>7,035,494</u>

(a) General reserve

The general reserve is for purposes of financial security

Opening balance		6,550,529	3,430,000
Transfer (to)/from retained earnings		297,169	3,120,529
		<u>6,847,698</u>	<u>6,550,529</u>

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
(b) General reserve for credit losses		
This reserve records amounts previously set aside as a general provision for doubtful debts and is maintained to comply with the Prudential Standards set down by APRA.		
Opening balance	409,407	308,489
Transfer (to)/from retained earnings	75,638	100,918
	<u>485,045</u>	<u>409,407</u>

(c) Capital profit reserve

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

Opening balance	75,558	-
Transfer (to)/from retained earnings on share redemptions	9,924	75,558
	<u>85,482</u>	<u>75,558</u>

19. RETAINED PROFITS

		(restated)
Retained profits at beginning of year	4,834,828	6,700,808
Transfer (to)/from general reserve	(297,169)	(3,120,529)
Transfer (to)/from general reserve for credit losses	(75,638)	(100,918)
Transfer (to)/from capital profit reserve	(9,924)	(75,558)
Adjusted opening balance	<u>4,452,097</u>	<u>3,403,803</u>
Net profit attributable to members	900,420	1,431,025
Retained profits at end of the year	<u>5,352,517</u>	<u>4,834,828</u>

In prior years, a separate reserve was not held for the value of redeemed preference shares. A capital profit reserve of \$75,558 was brought to account on 30 June 2008 to represent the value of redeemed shares from 1 July 1999 to 30 June 2008. This amount was previously disclosed as retained profits.

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
20. CASHFLOW STATEMENT		
(a) Reconciliation of the operating profit after tax to the net cash flows from operations		
Profit from ordinary activities		
Operating profit after income tax	900,420	1,431,025
Non-cash flows		
Depreciation	20,881	10,339
Amortisation	28,719	11,588
Gain on disposal of fixed asset	-	1,218
Changes in operating assets and liabilities		
Bad debts and provision for impairment	53,691	73,932
Increase/(decrease) in employee entitlements	(11,246)	(24,406)
Increase/(decrease) in interest payable	3,055	(19,017)
Increase/(decrease) in accrued expenses	(65,709)	82,638
(Increase)/decrease in taxation liabilities	(210,551)	30,210
(Increase)/decrease in revenue receivables	485,530	(671,012)
(Increase)/decrease in prepayments	(53,237)	(14,172)
(Increase)/decrease in deferred tax assets	(49,601)	20,277
(Increase)/decrease in FBT receivable	4,654	(7,991)
Net cash flow from operating activities	<u>1,106,606</u>	<u>924,629</u>
(b) Reconciliation of cash		
Cash on hand and at banks	<u>657,254</u>	<u>2,738,990</u>
Closing cash balance	<u>657,254</u>	<u>2,738,990</u>

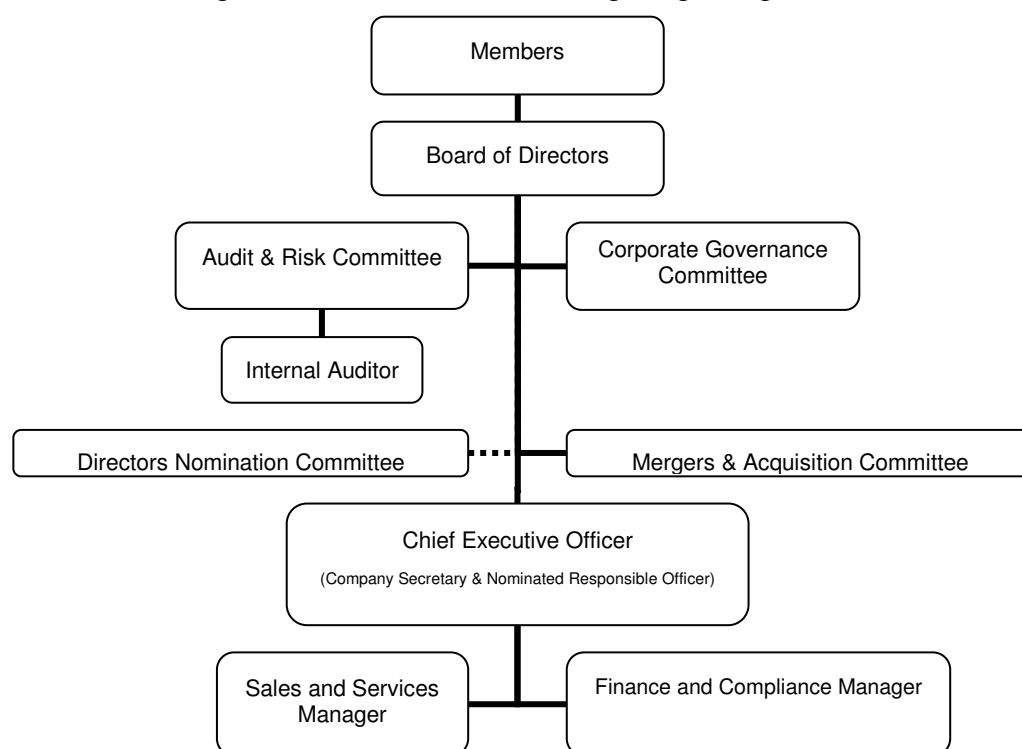
NOTES TO THE ACCOUNTS continued

21. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

The Credit Union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Audit & Risk Committee which are integral to the management of risk. The following diagram gives an overview of the structure:



The main elements of risk governance are as follows:

Board

This is the primary governing body. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks.

Audit & Risk Committee

This is a key body in the control of risk, and consists of representatives from the Board. This Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks.

The Audit & Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

NOTES TO THE ACCOUNTS continued

The Audit & Risk Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan, and receives quarterly internal audit reports on assessment and compliance with the controls, and provides feedback to the Board for their consideration.

Senior Management

Management have the responsibility for the operational function of the Credit Union and for ensuring timely production of information is presented to the Audit & Risk Committee, as well as ensuring instructions passed down from the Board via the Audit & Risk Committee and recommendations made are implemented.

Internal Audit

Internal audit (outsourced function) has the responsibility for the testing and assessment of control implemented by Management and as required by the Audit & Risk Committee.

Key risk management policies encompassed in the overall risk management framework include:

- Market risk
- Liquidity management
- Credit risk management
- Operations risk management

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments.

MARKET RISK

The objective of the Credit Union's market risk management is to manage and control market risk exposures in order to minimise risk and optimise desired return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities that will have an adverse effect on the Credit Union's financial condition or results. The Credit Union does not operate a trading book or involve itself in foreign exchange, commodities or equity markets. The Credit Union is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of senior management, who report directly to the Board.

Interest rate risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates. Most banks are exposed to interest rate risk within their treasury operations. The Credit Union does not have a treasury operation and does not trade in financial instruments.

NOTES TO THE ACCOUNTS continued

Interest rate risk in the banking book

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets (members' loans and Credit Union investments) and liabilities (member deposits).

The interest rate risk on the banking book is measured monthly and reported to the Board. The level of mismatch on the banking book is set out in note 24. The table set out at note 24 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant enough to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The Credit Union manages its interest rate risk by the use of an interest rate sensitivity analysis tool. The detail and assumptions used are set out below:

Interest rate sensitivity

The Credit Union's exposure to market risk is measured and monitored using interest rate sensitivity models. The policy of the Credit Union to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels.

The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Union's exposure to interest rate risk is set out in note 24 which details the contractual interest change profile.

The Credit Union performs a sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Credit Union for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over to the loan products and term deposits;
- savings deposits would be repriced equally except in the case of the minimum interest rate payable being less than the interest change;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- all loans and saving products would reprice to the new interest rate immediately;
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

Based on the calculations as at 30 June 2009 (30 June 2008) the approximate net profit impact for a 1% increase in interest rates would be approximately \$335,385 (2008: \$108,049) and a 1% decrease is -\$355,808 (2008: -\$270,154).

NOTES TO THE ACCOUNTS continued

Price risk – Equity investments

The Credit Union is not exposed to price risk on the value of shares. The available for sale securities are not traded on the market.

LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments e.g borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that management maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands as requested.

The Credit Union manages liquidity risk by:

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

The Credit Union has a long standing arrangement with the industry liquidity support scheme, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should it be necessary at short notice.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union policy is to maintain a minimum 15% of funds as liquid assets to maintain adequate liquidity for meeting member withdrawal requests. Liquidity is monitored daily and should it fall below the Credit Union policy, management and the Board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available. Note 27 describes the borrowing facilities as at balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and liabilities based on the contractual repayment terms set out in note 23.

The ratio of liquid funds over the past year is set out below:

	2009	2008
	%	%
Total adjusted liabilities		
As at 30 June	25.00%	26.74%
Average for the year	27.17%	30.79%
Minimum during the year	23.21%	26.74%
Total member deposits:		
As at 30 June	28.30%	27.89%

NOTES TO THE ACCOUNTS continued

CREDIT RISK

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets.

(i) Credit risk - Loans

The analysis of the Credit Union's loans by class is as follows:

	2009			2008		
	Carrying Value	Off-Balance Sheet	Maximum Exposure	Carrying Value	Off-Balance Sheet	Maximum Exposure
	\$	\$	\$	\$	\$	\$
Mortgages	87,608,332	5,099,705	89,516,182	79,270,775	2,523,400	81,993,310
Personal	7,027,849	137,850	7,027,849	8,523,646	199,135	8,523,646
Overdrafts	828,774	3,281,527	4,110,301	1,059,117	3,791,696	4,850,813
Natural persons	95,464,955	8,519,082	100,654,332	88,853,538	6,514,231	95,367,769
Corporate borrowers	320,339	406,770	727,109	423,059	481,697	904,756
Total	95,785,294	8,925,852	101,381,441	89,276,597	6,995,928	96,272,525

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described within note 9(c). The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and by close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The Credit Policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy.

The Credit Union has established policies over the:

- credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- limits of acceptable exposure over the value to individual borrowers, non-mortgage secured loans and commercial lending;
- re-assessing and review of the credit exposures on loans and facilities;
- establishing appropriate provisions to recognise the impairment of loans and facilities;
- debt recovery procedures; and
- review of compliance with the above policies.

NOTES TO THE ACCOUNTS continued

Past due and impaired

A financial asset is past due when the counterparty has failed to make a repayment when contractually due. Past due does not mean the counterparty will never pay, but it can trigger various actions such as re-negotiation, enforcement of covenants or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

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

Balance sheet provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

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

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the 'on-balance sheet' loan balance which are past due by 90 days or more. Details are set out within note 10.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write-offs are on an individual basis, taking account of the exposure at the date of the write-off. On secured loans, the write-off takes place on the ultimate realisation of collateral value. A reconciliation of the movement of both past due and impaired exposure provisions is provided within note 10.

Collateral securing loans

A sizeable portfolio of the loan book is secured by residential property in Australia. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

NOTES TO THE ACCOUNTS continued

Concentration risk – Individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10%) a large exposure is considered to exist. No additional capital is required to be held against these, however APRA must be informed.

APRA may impose additional capital requirements if it considers the aggregate exposures to all loans over the 10% capital benchmark, to be higher than acceptable.

The aggregate value of large exposure loans are set out in note 9. The Credit Union holds no significant concentrations of exposures to members. Concentrations to counterparties are closely monitored for all exposures over 5% of the capital base.

(ii) Credit risk – Liquid investments

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Credit Union.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL. The credit policy is that investments are only made to institutions that are creditworthy.

Under the liquidity support scheme at least 3.2% of the total assets must be invested in CUSCAL, to allow the scheme to have adequate resources to meet its obligations if needed. The Credit Union is also obliged to hold liquidity investments with CUSCAL to satisfy the requirements of standby facilities provided. CUSCAL has a very high credit rating of AA-.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment counterparty, as well as the level of investment. The Board policy is that all liquid investments must be held with APRA regulated financial institutions with exposure limits to individual counterparties based on external credit ratings. Where a counterparty is unrated, a maximum investment equivalent to the government deposit guarantee is applied.

External credit assessment for institution investments

The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

NOTES TO THE ACCOUNTS continued

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

	2009			2008		
	Carrying Value	Past due Value	Provision	Carrying Value	Past due Value	Provision
	\$	\$	\$	\$	\$	\$
CUSCAL rated AA-	17,250,000	-	-	20,500,000	-	-
Banks rated AA	8,000,000	-	-	-	-	-
Banks rated AA-	3,000,000	-	-	5,750,000	-	-
Banks rated A	2,969,253	-	-	4,000,000	-	-
Banks rated BBB+	1,000,000	-	-	-	-	-
Unrated	1,000,000	-	-	-	-	-
Total	33,219,253	-	-	30,250,000	-	-

OPERATIONS RISK

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to those risks arising from and including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, without inhibiting innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise their impact.

Systems of internal control are enhanced through:

- the segregation of duties where possible between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, to reduce the incidence of errors and inappropriate behaviour;
- implementation of a whistleblowing policy to promote a compliant culture and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses; and
- contingency plans for dealing with the loss of functionality of systems, premises or staff.

NOTES TO THE ACCOUNTS continued

Fraud

Fraud can arise from member card PINS and internet passwords being compromised where not protected adequately by the members. It can also arise from other systems failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud however, in common with all retail banks, fraud is potentially a real cost to the Credit Union.

Predominantly fraud losses within the financial industry have arisen from card skimming, internet password theft and false loan applications.

IT systems

The Credit Union has outsourced the IT systems management to Combined Financial Processing (CFP) an independent data processing centre (IDPC) which is owned by a collection of credit unions.

This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures.

Other network suppliers are engaged on behalf of the Credit Union by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM and BPay etc.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

CAPITAL MANAGEMENT

The capital levels are prescribed by the Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital for the Credit Union is determined in three components:

- Credit risk
- Market risk (banking book)
- Operational risk

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Retained profits
- Realised reserves

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibits some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

NOTES TO THE ACCOUNTS continued

Tier 2 capital generally comprises:

- A general reserve for credit losses;
- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital. The available for sale (AFS) reserve is discounted to 45% of the value net of any capital gains tax and estimated costs of sale.

Capital in the Credit Union is made up as follows:

	2009	2008
	\$	\$
Tier 1		
General reserve	6,847,698	6,550,529
Retained earnings	5,352,517	4,834,828
Capital profit reserve	85,482	75,558
Total	12,285,697	11,460,915
Less: Prescribed deductions	(335,650)	(311,829)
Net Tier 1 Capital	11,950,047	11,149,086
Tier 2		
Reserve for credit losses	485,045	409,407
Less: Prescribed deductions	(189,834)	(189,834)
Net Tier 2 Capital	295,211	219,573
Total Capital	12,245,258	11,368,659

NOTES TO THE ACCOUNTS continued

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

	Risk weighting	Carrying Value	Risk Weighted Value
		\$	\$
Cash	0%	188,838	-
Deposits in highly rated ADI's	20%	30,053,934	6,010,787
Deposits in less rated ADI's	50%	4,003,666	2,001,833
Residential mortgages up to 80% LVR	35%	87,252,183	30,538,264
Residential mortgages over 80% LVR	50%	188,732	94,366
Non-standard residential mortgages	50%-100%	-	-
Investments in equity instruments	400%	31,258	125,032
Other assets	100%-150%	8,825,196	8,837,673
Total		130,543,807	47,607,955

Capital on operational risk

The Credit Union uses the standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams.

The operational risk capital requirement is calculated by mapping the Credit Union's three year average net interest income and net non-interest income to the Credit Union's various business lines.

Based on this approach, the Credit Union's operational risk requirement is \$7,041,309 (2008: \$6,724,226).

It is considered that the standardised approach accurately reflects the Credit Union's operational risk other than for the specific items set out below.

Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities. The outputs are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth or unforeseen circumstances are assessed by the Board.

The optional additional capital charge recognised by the Board equates to \$856,072 (2008: \$588,636).

NOTES TO THE ACCOUNTS continued

The capital ratio as at the end of the financial year over the past 5 years is as follows

2009	2008	2007	2006	2005
21.46%	21.13%	18.11%	17.11%	16.26%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and/or by changes in the mix of assets.

To manage the Credit Union's capital the Board and management review the ratio monthly and monitor major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 13.5%. The Credit Union is required to maintain a minimum capital ratio of 12% at all times.

22. CATEGORIES OF FINANCIAL INSTRUMENTS

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

	Note	2009 \$	2008 \$
Financial Assets – carried at amortised cost			
Cash	5	657,254	2,738,990
Advances from other financial institutions	6	33,219,253	30,250,000
Receivables	7	765,494	1,375,153
Available for sale securities	8	410,925	410,417
Loans and advances	9	95,726,347	89,230,767
Total Loans and Receivables		130,779,273	124,005,327
Financial Liabilities			
Deposits	14	116,184,014	108,452,746
Payables	15	1,981,196	3,454,172
Total Financial Liabilities		118,165,210	111,906,918

NOTES TO THE ACCOUNTS continued

23. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

	2009						
	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 Years \$	After 5 years \$	No maturity \$	Total \$
Financial Assets							
Cash	468,416	-	-	-	-	188,838	657,254
Advances to other FIs	10,586,941	7,192,542	16,142,006	-	-	-	33,921,489
Receivables	-	-	-	-	-	395,290	395,290
Available for sale securities	-	-	-	-	-	410,925	410,925
Loans and advances	1,141,812	2,387,891	6,988,067	30,803,577	138,123,782	-	179,445,129
Total Financial Assets	12,197,169	9,580,433	23,130,073	30,803,577	138,123,782	995,053	214,830,087
Financial Liabilities							
Deposits	92,966,986	11,454,124	12,317,528	-	-	99,086	116,837,724
Payables	-	-	-	-	-	1,644,513	1,644,513
Total On Balance Sheet	92,966,986	11,454,124	12,317,528	-	-	1,743,599	118,482,237
Undrawn loan commitments	8,925,852	-	-	-	-	-	8,925,852
Total Financial Liabilities	101,892,838	11,454,124	12,317,528	-	-	1,743,599	127,408,089

NOTES TO THE ACCOUNTS continued

23. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES (continued)

	2008						Total
	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	No maturity	
	\$	\$	\$	\$	\$	\$	\$
Financial Assets							
Cash	2,524,483	-	-	-	-	214,507	2,738,990
Advances to other FIs	8,748,046	7,405,694	15,489,472	-	-	-	31,643,212
Receivables	-	-	-	-	-	519,419	519,419
Available for sale securities	-	-	-	-	-	410,417	410,417
Loans and advances	1,470,457	2,701,565	8,008,854	36,576,078	127,903,070	-	176,660,024
Total Financial Assets	12,742,986	10,107,259	23,498,326	36,576,078	127,903,070	1,144,343	211,972,062
Financial Liabilities							
Deposits	89,918,528	10,109,827	9,178,182	-	-	105,946	109,312,483
Payable	-	-	-	-	-	3,120,544	3,120,544
Total On Balance Sheet	89,918,528	10,109,827	9,178,182	-	-	3,226,490	112,433,027
Undrawn loan commitments	6,995,928	-	-	-	-	-	6,995,928
Total Financial Liabilities	96,914,456	10,109,827	9,178,182	-	-	3,226,490	119,428,955

NOTES TO THE ACCOUNTS continued

24. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

2009								
	Avg	Floating rate	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
	%	\$	\$	\$	\$	\$	\$	\$
Financial Assets								
Cash	0.36	468,416	-	-	-	-	188,838	657,254
Advances to other FIs	3.69	10,500,000	7,000,000	15,719,253	-	-	-	33,219,253
Receivables	-	-	-	-	-	-	765,494	765,494
Available for sale securities	-	-	-	-	-	-	410,925	410,925
Loans and advances	5.23	95,726,347	-	-	-	-	-	95,726,347
Total Financial Assets		106,694,763	7,000,000	15,719,253	-	-	1,365,257	130,779,273
Financial Liabilities								
Deposits	2.03	92,769,439	11,288,856	12,026,633	-	-	99,086	116,184,014
Payables	-	-	-	-	-	-	1,981,196	1,981,196
Total On Balance Sheet		92,769,439	19,450,389	12,026,633	-	-	2,080,282	118,165,210
Undrawn loan commitments	-	-	-	-	-	-	8,925,852	8,925,852
Total Financial Liabilities		92,769,439	19,450,389	12,026,633	-	-	11,006,134	127,091,062

NOTES TO THE ACCOUNTS continued

24. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES (continued)

2008								
	Avg	Floating rate	1-3 months	3-12 Months	1-5 years	After 5 years	Non interest bearing	Total
	%	\$	\$	\$	\$	\$	\$	\$
Financial Assets								
Cash	3.32	2,524,483	-	-	-	-	214,507	2,738,990
Advances to other FIs	7.64	8,500,000	7,000,000	14,750,000	-	-	-	30,250,000
Receivables	-	-	-	-	-	-	1,375,153	1,375,153
Available for sale securities	-	-	-	-	-	-	410,417	410,417
Loans and advances	8.04	89,230,767	-	-	-	-	-	89,230,767
Total Financial Assets		100,255,250	7,000,000	14,750,000	-	-	2,000,077	124,005,327
Financial Liabilities								
Deposits	4.23	89,731,158	9,890,218	8,725,424	-	-	105,946	108,452,746
Payables	-	-	-	-	-	-	3,454,172	3,454,172
Total On Balance Sheet		89,731,158	9,890,218	8,725,424	-	-	3,560,118	111,906,918
Undrawn loan commitments	-	-	-	-	-	-	6,995,928	6,995,928
Total Financial Liabilities		89,731,158	9,890,218	8,725,424	-	-	10,556,046	118,902,846

NOTES TO THE ACCOUNTS continued

25. FAIR VALUE OF ASSETS AND LIABILITIES

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

	2009			2008		
	Fair Value \$	Carrying Amount \$	Variance \$	Fair Value \$	Carrying Amount \$	Variance \$
Financial Assets						
Cash	657,254	657,254	-	2,738,990	2,738,990	-
Advances to other financial institution's	33,219,748	33,219,253	495	30,250,547	30,250,000	547
Receivables	765,494	765,494	-	1,375,153	1,375,153	-
Available for sale securities	410,925	410,925	-	410,417	410,417	-
Loans and advances	95,726,347	95,726,347	-	89,230,767	89,230,767	-
Total Financial Assets	130,779,768	130,779,273	495	124,005,874	124,005,327	547
Financial Liabilities						
Deposits	116,229,533	116,184,014	45,519	108,452,823	108,452,746	77
Payables	1,981,196	1,981,196	-	3,454,172	3,454,172	-
Total Financial Liabilities	118,210,729	118,165,210	45,519	111,906,995	111,906,918	77

NOTES TO THE ACCOUNTS continued

25. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

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

Advances to other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans and advances is net of both general and specific provisions for doubtful debts. For variable rate loans, (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of fair value. The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Deposits

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the balance sheet. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period maturity.

Short term borrowings

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

NOTES TO THE ACCOUNTS continued

26. FINANCIAL COMMITMENTS

	Note	2009 \$	2008 \$
(a) Outstanding loan commitments			
Loans approved but not advanced		1,907,850	2,722,535
(b) Loan redraw facilities			
The loan redraw facilities available		3,329,705	-
(c) Undrawn loan facilities			
Approved overdraft credit limits		4,830,109	5,743,850
Less overdraft limits drawn		(1,141,812)	(1,470,457)
Total credit commitments		3,688,297	4,273,393
Total financial commitments		8,925,852	6,995,928

These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

Expenditure commitments

(a) Capital expenditure commitments			
Contract to purchase software from Ultradata		123,804	23,687
(b) Operating lease commitments			
Lease on property occupied by the Credit Union			
- not later than 1 year		215,626	170,914
- 1 year to less than five years		565,661	214,542
		781,287	385,456

The operating lease relates to the rental of premises. The terms of the leases are for between 4 and 5 years, and options to renew are usually obtained for a further 4 years. There are no restrictions imposed on the Credit Union so as to limit the ability to undertake further leases.

NOTES TO THE ACCOUNTS continued

26. FINANCIAL COMMITMENTS (continued)

	Note	2009 \$	2008 \$
(c) Finance lease commitments			
Rental payable for leased office equipment			
- not later than 1 year		12,557	12,557
- 1 year to less than five years		29,963	42,520
		42,520	55,077
(d) Computer bureau expense commitments			
The costs committed under contracts with CFP			
- not later than 1 year		18,150	11,495
- 1 year to less than five years		33,275	-
		51,425	11,495
(e) Computer software commitments			
The costs committed under contracts with Ultradata			
- not later than 1 year		62,923	142,689
- 1 year to less than five years		-	59,454
		62,923	202,143

27. STANDBY BORROWING FACILITIES

The Credit Union has a borrowing facility with Credit Union Services Corporation (Australia) Limited (CUSCAL) of:

	Limit	2009 Borrowings	Net available
Loan facility	1,000,000	-	1,000,000
Overdraft facility	5,000,000	-	5,000,000
Total standby borrowing facilities	6,000,000	-	6,000,000
		2008	
	Limit	Borrowings	Net available
Loan facility	1,000,000	-	1,000,000
Overdraft facility	5,000,000	-	5,000,000
Total standby borrowing facilities	6,000,000	-	6,000,000

CUSCAL holds an equitable mortgage charge over all the assets of the Credit Union as security against loan and overdraft amounts drawn under the facility arrangements.

NOTES TO THE ACCOUNTS continued

28. SUPERANNUATION COMMITMENTS

The Credit Union contributes to various superannuation funds on behalf of its employees. The funds exist to provide varying benefits for employees and their dependants on retirement, resignation, disability or death. The Credit Union and employee members make contributions as specified in the rules of the respective funds. Of the contributions made by the Credit Union, 9% of employees' wages and salaries are legally enforceable in Australia.

29. CONTINGENT LIABILITIES

Liquidity Support Scheme

The Credit Union is a member of the Credit Union Financial Support Scheme (CUFSS) a company limited by guarantee, established to provide financial support to member credit unions in the event of a liquidity or capital problem. As a member, the Credit Union is committed to maintaining 3.2% of the total assets as deposits with CUSCAL.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Credit Union would be 3.2% of the Credit Union's assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating Credit Union's irrevocable commitment under the ISC. At balance date there were no loans issued under this arrangement.

30. SUBSEQUENT EVENTS

The directors are of the opinion that in the interval between the end of the financial year and the date of this report, no other circumstances have arisen to affect significantly the operations of the Credit Union, the results of those operations or the state of affairs of the Credit Union.

These financial reports have been prepared based on conditions existing at balance date.

NOTES TO THE ACCOUNTS continued

31. DIRECTOR AND KEY MANAGEMENT PERSONNEL

(a) Remuneration of Key Management Persons

Key Management Persons (KMP) are those persons having authority and responsibility for planning, directing and controlling activities of the Credit Union, directly or indirectly, including any director of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

KMP comprise of directors, chief executive officer and the senior managers who are responsible for the day to day financial and operational management of the Credit Union.

The aggregate compensation for KMP during the year comprising amounts paid, payable or provided for, was as follows:

	2009 \$	2008 \$
Short term employee benefits	549,806	486,437
Post employee benefits	50,618	77,412
Other long term benefits	27,480	19,937
Termination benefits	-	176,585
	<u>627,904</u>	<u>760,371</u>

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries, directors fees, paid annual leave, bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

All remuneration to directors was approved by members at the previous Annual General Meeting of the Credit Union.

(b) Loans to KMP

(i) The aggregate value of loans to KMP as at balance date:

Mortgage loans	3,018,969	3,832,524
Personal loans	22,100	18,765
Overdrafts	3,634	448
	<u>3,044,703</u>	<u>3,851,737</u>

NOTES TO THE ACCOUNTS continued

	2009	2008
	\$	\$
(ii) The aggregate value of overdraft facility limits to KMP as at balance date:		
	69,000	76,000
Less amounts drawn down included in (i)	3,634	448
Net balance available	<u>65,366</u>	<u>75,552</u>
(iii) Interest received from KMP as at balance date:		
Mortgage loans	183,000	221,874
Personal loans	690	2,276
Overdrafts	762	433
	<u>184,452</u>	<u>224,583</u>

The Credit Union's policy for lending to KMP is that all loans are approved on the same terms and conditions that applied to members for each class of loan.

There are no loans that are impaired in relation to the loan balances of KMP.

There are also no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans that are impaired in relation to the loan balances with close family members of KMP.

32. AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditors of the Credit Union for:

Audit of financial statements	35,000	48,700
Other taxation services	4,200	7,150
Audit of AFS license	3,000	5,080
Audit of APRA regulatory returns	5,000	8,200
Internal audit	42,000	-
Other Auditors – Internal audit	-	21,971
	<u>89,200</u>	<u>91,901</u>

NOTES TO THE ACCOUNTS continued

33. ECONOMIC DEPENDENCY

The Credit Union has an economic dependency on the following organisations:

(a) Credit Union Services Corporation (Australia) Limited (CUSCAL)

This entity provides the Credit Union with services in the form of settlement with bankers for members' cheques, access to the direct entry system, ATM, EFTPOS and Visa transactions, and the production of Redicards and Visa cards for use by members. In addition, CUSCAL provides standby line facilities to the Credit Union and access to the emergency liquidity support facility.

(b) First Data International (FDI)

This company operates the switching computer used to link Redicards and Visa cards operated through rediATMs, other approved EFT suppliers and Visa acquirers and merchants to the Credit Union's EDP systems.

(c) Combined Financial Processing Pty Ltd

This company operates the computer facility on behalf of the Credit Union in conjunction with other credit unions. The Credit Union is a shareholder of the company and contracts with it to supply the day to day computer needs of the Credit Union.

(d) Ultradata Pty Ltd

This company supplies the banking software for the Credit Union.

34. SEGMENT INFORMATION

The Credit Union operates solely within one industry segment being the credit union movement providing financial services to members in Australia.