



RTA **staff credit union**
your road to financial success

2009 ANNUAL FINANCIAL REPORT

Registered Office:

**Level 2 KMS Building
8-24 Kippax Street
SURRY HILLS NSW 2010**

**ABN : 78 087 650 600
AFSL : 240718**

Notice of 45th Annual General Meeting

The 45th Annual General Meeting of R.T.A. Staff Credit Union Limited (ABN 78 087 650 600 – AFSL 240718) will be held in the Bradfield Room at the North Sydney Harbourview Hotel, 17 Blue Street, North Sydney, on Friday 27th November 2009, commencing at 6.00pm.

Members of the Board of Directors

Noel Hancock	Chairman and Audit Committee Member
Vince Taranto	Deputy Chairman
Anthony Dann	Audit Committee Chairman
Glen Morgan	Director
Meredyth-Ann Williams	Director
Stuart Hill	Director
Jacqui McDonald	Director

Administration

John Kavalieros	Chief Executive Officer & Company Secretary
Kathy Loutas	Finance Manager
Sharon Farrar	Operations Manager
Helen Portelli	Business Development Officer
Jenna Ridgway	Senior Loans Officer
Diane Tripp	Loans Officer
Hayley Eggleton	Branch Administrator
Cindy Lai	Branch Officer

External Auditors

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
Level 19, 2 Market St Sydney NSW

Internal Auditors

Glenn Pannam
DBP Consulting Pty Ltd

Solicitors

Daniels Bengtsson Lawyers
Level 4, 171 Clarence Street, Sydney.

Duncan Cotterill Lawyers
Level 13, 179 Elizabeth Street, Sydney

Bankers

Cuscal Limited Centralised Banking scheme – National Australia Bank.

R.T.A. Staff Credit Union Limited

Year ended 30 June 2009

Abbreviations

APRA	Australian Prudential Regulation Authority Federal Government regulatory body responsible for the prudential supervision of banks, life insurers, general insurers, superannuation funds, building societies, Credit Unions and friendly societies. APRA is fully funded by the industries that it supervises.
ASIC	Australian Securities and Investment Commission Federal Government regulatory body that regulates financial services and national regulator of all Australian companies. Regulations include: advising, selling and disclosure of financial products and services, protection of markets and consumers from manipulation, deception and unfair practices, and promotion of honesty and fairness in securities and futures markets and in company affairs.
CUFSS	Credit Union Financial Support Scheme An industry based liquidity support system with the objective of protecting the interests of Credit Union members as depositors and to promote financial sector stability in relation to Credit Unions.
Cuscal	Cuscal Limited This organisation is registered under the Corporations Act, and is subject to the direct supervision by APRA. This organisation promotes Credit Unions and provides assistance with banking, electronic funds transfer and other services. Refer Note 28 for further information.

Note: Any further reference to the "company" is reference to R.T.A. Staff Credit Union Limited (the Credit Union) and vice versa. R.T.A. Staff Credit Union Limited (ABN 78 087 650 600) is a public company limited by shares, under the Corporations Act 2001.

Table of Contents

	Note No.	Page No.
Key Statistics		4
Chairman's Report		5
Directors' Report		7
Independent Auditor's Report		10
Directors' Declaration		11
Income Statement		12
Statement of Changes in Members' Equity		12
Balance Sheet		13
Statement of Cash Flows		14
Notes to the Accounts		
Statement of Accounting Policies	1	15
Income Statement	2	22
Income Tax Expense	3	24
Cash	4	25
Receivables from Financial Institutions	5	25
Receivables	6	25
Loans to Members	7	25
Provision on Impaired Loans	8	27
Available for Sale Investments	9	30
Property, Plant and Equipment	10	31
Taxation Assets	11	32
Intangible Assets	12	32
Deposits from Members	13	33
Creditors Accruals and Settlement Accounts	14	33
Taxation Liabilities	15	34
Provisions	16	34
Capital Reserve Account	17	34
General Reserve for Credit Losses	18	35
Financial Risk Management Objectives and Policies	19	35
Categories of Financial Instruments	20	47
Maturity Profile of Financial Liabilities	21	48
Interest Rate Change Profile of Financial Assets and Liabilities	22	49
Fair Value of Financial Assets and Liabilities	23	50
Financial Commitments	24	51
Standby Borrowing Facilities	25	53
Contingent Liabilities	26	53
Disclosures on Directors and Other Key Management Personnel	27	54
Economic Dependency	28	56
Segmental Reporting	29	57
Superannuation Liabilities	30	57
Notes to Cash Flow Statement	31	57
Corporate Information	32	58

KEY STATISTICS OF THE CREDIT UNION

	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09
Members (No.)	4727	4832	3822*	3925	4016
Deposits \$	30,893,970	33,455,548	35,038,046	35,858,030	39,996,903
Average Member Deposits \$	6,536	6,924	9,158	9,136	9,959
Loans \$	31,146,064	32,649,038	34,568,381	36,583,109	34,920,525
Average Loan balances \$	6,589	6,757	9,045	9,321	8,695
Loans funded in the year \$M	10.5	9.4	10.6	10.4	8.7
Bad debts written off against profit \$	-	-	-	-	-
Capital Adequacy ratio %	31.00%	24.35%	26.93%	30.14%	29.09%
Total Reserves \$	6,536,277	7,200,728	7,596,234	7,865,973	7,895,882
Total Assets \$	37,823,523	41,066,834	43,257,570	44,730,341	48,530,985
Reserves to Assets %	17.28%	17.53%	17.56%	17.59%	16.27%
Return/Average Assets %	1.03%	0.94%	0.94%	0.63%	0.06%
Staff / Member ratio	1:591	1:966	1:546	1:436	1:502
Staff / Assets ratio	1:\$4.72M	1:\$8.21M*	1:\$6.18m	1:\$4.97m	1:\$6.07M

PRODUCTS

Loan	Deposit and Access	
FastRoad Home loan	At Call Savings	
1 Year Fixed Home loan	Fixed Term Deposits	
Other Housing loans or Investment loans	Bpay	
Red Hot Car Loan	Bank@Post	
Other Car loans	Visa Debit Card	
Personal Loans	Payroll Deposits and Direct Credits	
Personal Overdrafts	Direct Debits	
Other Services		
NetTeller – Internet banking	Financial Planning Services and Stockbroking	
Telephone banking	Travellers Cheques and Cash Passport	
SMS Banking	ATM and EFTPOS access	
Cash Dispensing Machines		

*based on 5 FTE staff 30/6/06 **dormant account purge in 2007

CHAIRMAN'S REPORT

I am pleased, on behalf of the Board of Directors of the R.T.A. Staff Credit Union, to present our 45th Annual Report for the financial year ended 30 June 2009.

The Year In Review

The 2008-2009 financial year was again a very difficult one for the financial services industry with the Global Financial Crisis having a significant impact on the operations of the RTA Staff Credit Union. The regulatory authorities required the Credit Union to increase its liquidity at a time when interest rates were high and the Credit Union complied. Shortly thereafter the Reserve Bank began a series of interest rate cuts in response to a downturn in the Australian Economy. These two actions have had a dramatic negative effect on the performance of the Credit Union this year.

However, I am pleased to report that even with the greatest economic reversal since the Great Depression, the Credit Union has been able to achieve a small profit for the year. It is considered that as economic conditions continue to improve, the Credit Union will return to a more normal operating environment and more normal performance.

During the year the Credit Union undertook probably the largest project it has faced in the last twenty years with the replacement of its computer platform. I can report that this major project was completed on time and with little or no disruption to members. I would like to take this opportunity to congratulate all of the staff and temporary staff who were employed on this project for their dedication, effort and the excellent outcome. The new system has led to more efficient processing and will allow the Credit Union to provide Members with the current suite and new products well into the future.

Although the year has been difficult for your Credit Union it could have been much worse if the Board and Management did not run the Credit Union conservatively and prudently. We do not get involved with risky or exotic instruments which have caused a number of large financial entities to fail in numerous countries throughout the world. The Credit Union has continued to use the simple business model that we have followed for many years. We borrow from our Members and lend those funds to other Members.

This year saw the appointment to the Board of Jacqui McDonald and I would like to welcome her to the Board.

Highlights 2008-2009

- Loan Funding of \$8.7 million, compared with \$10.4 million in the previous year.
- Members equity (reserves) increased by \$29,909 (2008 - \$269,739).
- Membership growth of 2.27% over the year.
- Bad and Doubtful Debts remained very low and well below industry standards.

Operating profit for the year before tax was \$39,163 (2008 - \$394,135). The after tax profit of \$29,909 (2008 - \$269,739) represents a return of 0.06% on average assets (2008 - 0.63%). The profit this year has been lower than previous year due to the Credit Union's conversion to a new banking platform and the RBA's rate cuts over the past year. During the year under review the RBA aggressively eased monetary policy by cutting interest rates from 7.25 per cent in September '08 to 3 per cent in April '09. This 4.25 per cent reduction was delivered in an unprecedented six rate cuts over seven months. Our need to adjust deposit and loan rates saw us suffer a severe margin squeeze as the difference in the speed of re-pricing between loans and deposits was out of balance.

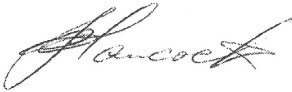
I thank staff and management of your Credit Union for their effort in providing excellent service to our Members throughout 2008-2009.

The Year Ahead

The year ahead will focus on restoring profit and pricing will play a key role. Although the economy is on the cusp of a recovery, on-going loan specials are required to stimulate demand. Your Credit Union will continue to expand its presence in RTA locations with cash dispensing machines and continued business development promotions.

On behalf of the Board of Directors, I commend this report to you. I thank the Directors for their ongoing commitment and thank you, the Members of the Credit Union, for your loyalty and patronage.

We look forward to your ongoing support.

A handwritten signature in dark ink, appearing to read 'Noel J.T. Hancock', with a stylized flourish at the end.

Noel J.T. Hancock
Chairman

DIRECTORS' REPORT

Your Directors present their report on the Credit Union for the financial year ended 30 June 2009.

The Credit Union is a company registered under the Corporations Act 2001.

INFORMATION ON DIRECTORS

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

Name	Position	Qualifications	Experience	Responsibilities
Noel J. T. Hancock	Chairman	BBus, CPA, FAMI	13 Years	Chairman, Audit Committee Member, Conversion Committee Member
Robert G. Morgan	Director	Cert L&E Srv, Cert TEPC, FAMI	20 Years	Product Innovation Committee Member
Vincent E. Taranto	Deputy Chairman	BSc, DipTCP, MAMI	11 Years	Deputy Chairman, Product Innovation Committee Member
Meredyth-Ann Williams	Director	DipTeach, B.A (Psych), Hons (Psych), MAMI	4 Years	Audit Committee Member
Anthony J. Dann	Director	BEc, MAcc, ASA, MAMI, MAGPI	3 Years	Audit Committee Chairman
Stuart J.D. Hill	Director	BTP(Hons), M Env Mgt, Dip Law, MAMI	1 Year	Conversion Committee Member, Product Innovation Committee Member
Jacqui McDonald	Director	MAMI	1 Year	

The name of the Company Secretary in office at the end of the year is :-

Name	Qualifications	Experience
John Kavalieros	DipFS, AIM, FAMI	13 years

The Credit Union's *Associate Directorship* programme allows prospective directors to gain experience and understanding of board membership prior to possible future nomination as full directors of the board. The names of *Associate Directors* during or since the end of the year is:

Name	Qualifications	Experience
Ann King	Dip BA (UK), MAMI	1 year

The details of the meetings attended by Directors of the Board are as follows:

Director	Board		Audit Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Noel J.T. Hancock	12	12	5	5
Robert G. Morgan	12	10		
Vincent E. Taranto	12	10		
Meredyth-Ann Williams	12	6	5	3
Anthony J. Dann	12	11	5	5
Stuart J.D. Hill	12	10		
Jacqui McDonald	12	10	5	1

DIRECTORS' BENEFITS

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 27 of the financial report.

INDEMNIFYING OFFICER OR AUDITOR

Insurance premiums have been paid to insure each of the Directors and officers of the Credit Union, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Credit Union. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

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

FINANCIAL PERFORMANCE DISCLOSURES

PRINCIPAL ACTIVITIES

The principal activities of the Credit Union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

OPERATING RESULTS

The net profit of the Credit Union for the year after providing for income tax and extraordinary items was \$29,909 (2008 - \$269,739).

DIVIDENDS

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

REVIEW OF OPERATIONS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of the affairs of the Credit Union during the year.

EVENTS OCCURRING AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND RESULTS


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

- (i) The operations of the Credit Union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Credit Union

in the financial years subsequent to this financial year.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Independence declaration



Noel J.T. Hancock
Chairman

Signed and dated this 28th day of October 2009

DECLARATION OF INDEPENDENCE BY MAX PERRY TO THE DIRECTORS OF RTA STAFF CREDIT UNION LIMITED

As lead auditor of RTA Staff Credit Union Limited for the year ended 30 June 2009, I declare that 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.



Max Perry
Director, BDO Kendalls Audit Assurance (NSW-Vic) Pty Ltd.
Signed and dated this 26th day of October 2009.

INDEPENDENT AUDITOR'S REPORT

To the members of RTA Staff Credit Union Limited

Report on the Financial Report

We have audited the accompanying financial report of RTA Staff Credit Union Limited (the credit union), which comprises the balance sheet, income statement, statement of changes in equity and cash flow statement for the year ended 30 June 2009, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The Directors of the credit union are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control 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, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of RTA Staff 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

- a. the financial report of RTA Staff Credit Union Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 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*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



BDO Kendalls Audit Assurance (NSW-Vic) Pty Ltd
Sydney, 29th October 2009

Max Perry
Director

DIRECTORS' DECLARATION

The Directors of RTA Staff Credit Union Limited declare that:-

The financial statements comprising Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, accompanying notes and notes related thereto, are in accordance with the Corporations Act 2001, and :-

- (a) comply with Accounting Standards; and
- (b) give a true and fair view of the financial position of the credit union as at 30 June 2009 and performance for the year ended on that date.

In the directors' opinion 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.

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



Noel J.T. Hancock
Chairman

Dated this 28th day of October 2009.

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009**

	Note	2009 \$	2008 \$
Interest revenue	2.a	3,435,927	3,497,607
Interest expense	2.c	1,694,506	1,412,620
Net interest income		<u>1,741,421</u>	<u>2,084,987</u>
Fee commission and other income	2.b	188,412	201,044
		<u>1,929,833</u>	<u>2,286,031</u>
Less			
Non interest expenses			
Impairment losses on loans receivable from members	2.d	(10,461)	4,062
Fee and commission expenses		54,166	54,425
General administration			
- Employees compensation and benefits		812,323	769,252
- Depreciation and amortisation	2.e	103,149	75,642
- Information technology		382,921	386,959
- Office occupancy		91,553	86,503
- Other administration		165,869	193,464
Other operating expenses		<u>291,150</u>	<u>321,589</u>
Total non interest expenses		<u>1,890,670</u>	<u>1,891,896</u>
Profit before income tax		39,163	394,135
Income tax expense	3	<u>9,254</u>	<u>124,396</u>
Profit after income tax		<u>29,909</u>	<u>269,739</u>

**STATEMENT OF CHANGES IN MEMBER EQUITY
FOR THE YEAR ENDED 30 JUNE 2009**

	Capital Reserve	Retained Earnings	Reserve for Credit Losses	Total
Total at 1 July 2007	22,870	7,112,297	461,067	7,596,234
Net Profit for the Period	-	269,739	-	269,739
Transfers to Reserves	1,130	(1,130)	-	-
Total as at 30 June 2008	<u>24,000</u>	<u>7,380,906</u>	<u>461,067</u>	<u>7,865,973</u>
Net Profit for the Period	-	29,909	-	29,909
Transfers to Reserves	1,240	(1,240)	-	-
Total as at 30 June 2009	<u>25,240</u>	<u>7,409,575</u>	<u>461,067</u>	<u>7,895,882</u>

BALANCE SHEET
FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 \$	2008 \$
ASSETS			
Cash	4	3,255,507	1,634,604
Receivables from financial institutions	5	9,399,540	5,889,429
Receivables	6	155,272	172,882
Loans to members	7 & 8	34,920,525	36,583,109
Available for sale investments	9	166,277	166,277
Property, plant and equipment	10	178,509	154,853
Taxation assets	11	222,906	98,917
Intangible assets	12	232,449	30,270
TOTAL ASSETS		48,530,985	44,730,341
LIABILITIES			
Deposits from members	13	39,996,903	35,858,030
Creditor accruals and settlement accounts	14	586,071	938,839
Taxation liabilities	15	-	-
Provisions	16	52,129	67,499
TOTAL LIABILITIES		40,635,103	36,864,368
NET ASSETS		7,895,882	7,865,973
MEMBERS' EQUITY			
Capital reserve account	17	25,240	24,000
Reserves	18	461,067	461,067
Retained earnings		7,409,575	7,380,906
TOTAL MEMBERS' EQUITY		7,895,882	7,865,973

Table of other notes to accounts

19	Risk management objectives and policies
20	Categories of financial instruments
21	Maturity profile of financial assets and liabilities
22	Interest rate change profile of financial assets and liabilities
23	Net fair value of financial assets and liabilities
24	Financial commitments
25	Standby borrowing facilities
26	Contingent liabilities
27	Disclosures on directors and other key management personnel
28	Economic dependency
29	Segmental reporting
30	Superannuation liabilities
31	Notes to statement of cash flows
32	Corporate information

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009**

	Note	2009 \$	2008 \$
OPERATING ACTIVITIES			
<u>Revenue Inflows</u>			
Interest Received		3,453,260	3,505,799
Fees and Commissions		137,712	158,949
Dividends Received		41,089	20,785
Other Income		8,251	17,946
<u>Less: Revenue Outflows</u>			
Interest Paid		(1,672,798)	(1,400,678)
Suppliers and Employees		(1,844,632)	(1,796,197)
Income Taxes Paid		(133,243)	(108,300)
Net Cash From Revenue Activities	31.b	(10,361)	398,304
Inflows from Other Operating Activities			
Increase in Member Deposits (Net movement)		3,793,653	1,150,973
Net decrease in member loans		1,676,705	-
Net decrease in receivables from other FIIs		-	1,110,571
		<u>5,470,358</u>	<u>2,261,544</u>
Outflows from Other Operating Activities			
Decrease in Member Deposits (Net movement)		-	-
Increase in member loans		-	(2,002,170)
Increase in Receivables from other FIIs		(3,510,111)	-
		<u>(3,510,111)</u>	<u>(2,002,170)</u>
Net Cash from all Operating Activities		<u>1,949,886</u>	<u>657,678</u>
INVESTING ACTIVITIES			
<u>Inflows</u>			
Proceeds of investment redemption		-	-
Proceeds on sale of property, plant and equipment		-	39,868
<u>Less: Outflows</u>			
Purchases of fixed assets		(97,327)	(141,590)
Purchase of Intangible Assets		(231,656)	(16,545)
Net Cash From Investing Activities		<u>(328,983)</u>	<u>(118,267)</u>
FINANCING ACTIVITIES			
Net Cash From Financing Activities		<u>-</u>	<u>-</u>
Total Net Cash Increase/(Decrease)		1,620,903	539,411
Cash at the beginning of the year		1,634,604	1,095,193
Cash at end of year	31.a	<u>3,255,507</u>	<u>1,634,604</u>

1. STATEMENT OF ACCOUNTING POLICIES

This financial report is prepared for RTA STAFF Credit Union Limited as a single credit union, for the year ended the 30th June 2009. The report was authorised for issue on 28 October 2009 in accordance with a resolution of the board of directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards board Urgent Issues Group Interpretations and the Corporations Act 2001. Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures the financial statements and notes comply with the International Financial Reporting Standards (IFRS).

a. Basis of Measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets with the exception of real property and Available for Sale Investments which are stated at fair value. The accounting policies are consistent with the prior year unless otherwise stated.

b. Loans to Members

(i) Basis of recognition

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the credit union at balance date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the board of directors.

(ii) Interest earned

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

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

Non accrual loan interest – While still legally recoverable, interest is not brought to account as income where the credit union is informed that the member has deceased, or, where a loan is impaired.

1. STATEMENT OF ACCOUNTING POLICIES Continued

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

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

(v) Fees on loans

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

(vi) Net gains and losses

Net gains and losses on loans to members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

c. Loan Impairment

(i) Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8. Note 19 details the credit risk management approach for loans.

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

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

ii) Reserve for credit losses

In addition to the above specific provision, the board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- The level of security taken as collateral; and
- The concentration of loans taken by employment type.

iii) Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

d. Bad debts written off (direct reduction in loan balance)

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

e. Property, plant and equipment

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

- Leasehold improvements – over the life of each asset.
- Plant and equipment - 3 to 7 years.
- Assets less than \$300 are not capitalised.

f. Receivables from other financial institutions

Term deposits with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the balance sheet.

g. Equity investments and other securities

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

Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

All investments are in Australian currency.

h. Member Deposits

(i) Basis for measurement

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

(ii) Interest payable

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

i. Borrowings

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

j. Provision for Employee Benefits

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Credit Union, based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by the credit union to an employee's superannuation fund and are charged to the income statement as incurred.

k. Leasehold on Premises

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

i. Income Tax

The income tax expense shown in the income statement is based on the profit before income tax adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements.

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

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

m. Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the credit union are classified as intangible assets.

Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

n. Goods and Services Tax

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.

o. Impairment of Assets

At each reporting date the credit union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

p. Accounting Estimates and Judgements

Management have made critical accounting estimates when applying the credit union's accounting policies with respect to the impairment provisions for loans - refer note 8.

q. New or Emerging Standards

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The company'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 3 (reissued March 2009) Business Combinations	<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><i>Note: Whilst SPFRs do not necessarily include consolidation accounting (AASB 127 is not considered a measurement standard by ASIC), they need to make mention of this standard if they undertake business combinations that do not take the form of purchasing a subsidiary. This is because measurement of assets and liabilities acquired as a business rather than as a separate entity will be impacted by AASB 3 revisions.</i></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>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 future impact negatively on the results of the entity. For example,</p> <ul style="list-style-type: none"> • Mutual organisations such as credit unions 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 a 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 consequential 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.

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

AASB 101 (Revised Sep 2007) 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 standard 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.
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.

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

	2009 \$	2008 \$
2. INCOME STATEMENT		
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	93,180	81,987
Receivables from financial institutions	441,707	490,424
Loans to members	2,901,040	2,925,196
TOTAL INTEREST REVENUE	3,435,927	3,497,607
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	32,679	43,685
Other fee income	60,092	67,165
Insurance commissions	13,618	15,546
Other commissions	32,683	31,193
TOTAL FEE AND COMMISSION REVENUE	139,072	157,589
 Dividends received on available for sale assets	 41,089	 20,785
Bad debts recovered	1,556	2,127
Gain on disposal of assets		
- Property, plant and equipment	-	4,724
Miscellaneous revenue	6,695	15,819
TOTAL FEE COMMISSION AND OTHER INCOME	188,412	201,044

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

	2009 \$	2008 \$
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Deposits from other financial institutions	24,027	-
Deposits from members	1,562,629	1,411,803
Other	107	817
Long term borrowings	107,743	-
TOTAL INTEREST EXPENSE	1,694,506	1,412,620
d. Impairment losses		
Available for sale assets		
Loans and advances		
Increase in provision for impairment	(10,461)	4,062
Bad debts written off directly against profit	-	-
TOTAL IMPAIRMENT LOSSES	(10,461)	4,062
e. Other prescribed disclosures		
General administration - employees costs include:		
- net movement in provisions for employee annual leave	(10)	(6,179)
- net movement in provisions for employee long service leave	(15,370)	2,024
General administration - depreciation expense include:		
- Plant and equipment	70,462	73,958
- Leasehold improvements	3,210	1,684
- Amortisation of software	29,477	-
	103,149	75,642
General administration – office occupancy costs include:		
Property operating lease payments	91,553	86,503
Other operating expenses include:		
Auditor's remuneration (excluding GST)		
- Audit fees	35,190	32,860
- Other Services – taxation	3,100	3,100
- Other Services – compliance	2,000	2,000
- Other Services – other	5,500	5,500
	45,790	43,460

	2009 \$	2008 \$
3. INCOME TAX EXPENSE		
a. The income tax expense comprises amounts set aside as:-		
Current tax expense - current year profits (3b)	2,244	115,618
Adjustments for previous years	574	1,539
Total current income tax expense	<u>2,818</u>	<u>117,157</u>
Deferred tax expense		
Write-down and/or reversal of previous write-down of a deferred tax asset	6,436	7,239
Total income tax expense in income statement	<u>9,254</u>	<u>124,396</u>
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	<u>39,163</u>	<u>394,135</u>
Prima facie tax payable on profit before income tax at 30%	11,749	118,241
Add tax effect of expenses not deductible		
- Other non-deductible expenses	212	3,613
- franking credit uplift	5,283	2,672
Subtotal	<u>17,244</u>	<u>124,526</u>
Less		
- Franking rebate	-	8,908
- Effect of s23(g) transitional rate provisions	15,000	-
Income tax expense attributable to current year profit	<u>2,244</u>	<u>115,618</u>

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

	2009 \$	2008 \$
4. CASH		
Cash on hand	68,731	71,969
Deposits at call	3,186,776	1,562,635
	<u>3,255,507</u>	<u>1,634,604</u>
5. RECEIVABLES FROM FINANCIAL INSTITUTIONS		
Deposits with industry bodies - Cuscal (refer note 28)	9,399,540	5,889,429
	<u>9,399,540</u>	<u>5,889,429</u>
6. RECEIVABLES		
Interest receivable on deposits with other financial institutions	49,358	70,351
Prepayments	49,343	56,517
Sundry debtors and settlement accounts	50,820	41,631
GST Receivable	5,751	4,383
	<u>155,272</u>	<u>172,882</u>
7. LOANS TO MEMBERS		
a. Amount due comprises:		
Overdrafts and revolving credit	311,384	456,593
Term loans	34,636,814	36,169,191
Subtotal	<u>34,948,198</u>	<u>36,625,784</u>
Less:		
Unamortised loan origination fees	(13,837)	(17,497)
Subtotal	<u>34,934,361</u>	<u>36,608,287</u>
Less:		
Provision for impaired loans (Note 8)	(13,836)	(25,178)
	<u>34,920,525</u>	<u>36,583,109</u>
b. Credit quality - Security held against loans		
Secured by mortgage over business assets	-	-
Secured by mortgage over real estate	30,066,905	30,456,314
Partly secured by goods mortgage	3,435,448	4,482,813
Wholly unsecured	1,445,845	1,686,657
	<u>34,948,198</u>	<u>36,625,784</u>

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

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

	2009 \$	2008 \$
Security held as mortgage against real estate is on the basis of		
- loan to valuation ratio of less than 80%	26,670,491	26,214,776
- loan to valuation ratio of more than 80% but mortgage insured	2,808,874	2,540,725
- loan to valuation ratio of more than 80% and not mortgage insured	587,540	1,700,813
Total	30,066,905	30,456,314

Where the loan value is less than 80% there is at least 20% margin to cover the costs of any sale, or potential value reduction.

c. Concentration of loans

- (i) Loans to Individual or related groups of members which exceed 10% of total members' equity

- -

Total

- -

- (ii) A significant proportion of Member loans at balance date were funded to individuals employed by the Roads and Traffic Authority of New South Wales.

- (iii) Geographical concentrations:

New South Wales	33,707,906	35,661,837
Victoria	511,404	462,135
Queensland	325,489	318,025
South Australia	21,322	-
Western Australia	87,970	32,241
ACT	60,026	127,434
Other	234,081	24,112
	34,948,198	36,625,784

- (iv) Loans to natural persons:

Residential loans and facilities	25,864,896	25,495,410
Personal loans and facilities	9,083,302	11,130,374
Business loans and facilities	-	-
	34,948,198	36,625,784

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

	2009	2008
	\$	\$
8. PROVISION ON IMPAIRED LOANS		
a. Total provision comprises		
Collective provisions	10,218	19,381
Individual specific provisions	3,618	5,797
Total Provision	13,836	25,178
b. Movement in the provision for impairment		
Balance at the beginning of year	25,178	31,000
Add (deduct):		
Transfers from (to) income statement	(10,461)	4,062
Bad debts written off provision	(881)	(9,884)
Balance at end of year	13,836	25,178
Details of credit risk management is set out in Note 19.		
c. Impaired loans written off		
Amounts written off against the provision for impaired loans	881	9,884
Amounts written off directly to expense	-	-
Total bad debts	881	9,884
Bad debts recovered in the period	1,556	2,126
Total bad debts recovered	1,556	2,126

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report**d. Analysis of loans that are impaired or potentially impaired by class**

In the Note below -

- Carrying Value is the amount of the balance sheet
- Impaired loans value is the 'on balance sheet' loan balances which are past due by 90 days or more
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2009			2008		
	Carrying value	Value of Impaired Loans	Provision for impairment	Carrying value	Value of Impaired Loans	Provision for impairment
	\$	\$	\$	\$	\$	\$
Loans to members:						
- Mortgages	30,066,905	-	-	30,456,314	-	-
- Personal	4,730,470	13,824	13,824	5,712,877	27,647	22,050
- Overdrafts	150,823	12	12	456,593	3,128	3,128
Total to natural persons	34,948,198	13,836	13,836	36,625,784	30,775	25,178
Corporate borrowers	-	-	-	-	-	-
Total	34,948,198	13,836	13,836	36,625,784	30,775	25,178

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.

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

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

	2009		2008	
	Carrying Value	Provision	Carrying Value	Provision
	\$	\$	\$	\$
Non impaired up to 30 days	34,876,476	-	36,580,150	-
30 to 90 days in arrears	57,886	-	14,859	-
90 to 180 days in arrears	4,125	4,125	9,331	3,734
180 to 270 days in arrears	2,840	2,840	9,850	9,850
270 to 365 days in arrears	-	-	-	-
Over 365 days in arrears	6,859	6,859	8,466	8,466
Over limit facilities over 14 days	12	12	3,128	3,128
Total	34,948,198	13,836	36,625,784	25,178

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 due to the variety of assets and condition.

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

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

	1- 3 Months	3-6 Months	6-12 Months	> 1 Year	Total
2009					
Mortgage secured	-	-	-	-	-
Personal loans	57,897	-	-	-	57,897
Overdrafts	284	-	-	-	284
Total	58,181	-	-	-	58,181

	1- 3 Months	3-6 Months	6-12 Months	> 1 Year	Total
2008					
Mortgage secured	-	-	-	-	-
Personal loans	14,859	-	-	-	14,859
Overdrafts	-	-	-	-	-
Total	14,859	-	-	-	14,859

g. 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.

Period of impairment	% of
Up to 90 days	0
90 days and less than 182 days	40
182 days and less than 273 days	60
273 days and less than 365 days	80
Over 365 days	100

	2009 \$	2008 \$
9. AVAILABLE FOR SALE INVESTMENTS		
Shares in unlisted companies – at cost		
- Cuscal Limited	166,277	166,277
	<u>166,277</u>	<u>166,277</u>

Cuscal Limited

The shareholding in Cuscal Limited is reported at cost as its fair value could not be measured reliably. CUSCAL was created to supply services to member Credit Unions. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 28. The shares are only tradeable in a restricted market.

The financial reports of Cuscal Limited record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal Limited, any fair value determination on these shares is likely to be greater than their cost value, but due to restrictions on the ability to transfer shares, a market value is not able to be determined readily.

The Credit Union is not intending to dispose of these shares.

	2009 \$	2008 \$
10. PROPERTY, PLANT AND EQUIPMENT		
a. Plant and equipment - at cost	564,562	498,945
Less: provision for depreciation	(392,668)	(353,917)
	<u>171,894</u>	<u>145,028</u>
 Capitalised leasehold improvements at cost	 288,918	 288,918
Less: provision for amortisation	(282,303)	(279,093)
	<u>6,615</u>	<u>9,825</u>
 Total Plant and Equipment	 <u>178,509</u>	 <u>154,853</u>

b. Movement in the assets balances during the year were :

	2009			2008		
	<i>Plant & equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>	<i>Plant & equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$
Opening balance	145,028	9,825	154,853	116,884	1,572	118,456
Purchases	97,328	-	97,328	131,651	9,937	141,588
<u>Less:</u>						
Assets disposed	-	-	-	(29,549)	-	(29,549)
Depreciation charge	(70,462)	(3,210)	(73,672)	(73,958)	(1,684)	(75,642)
Balance at the end of the year	171,894	6,615	178,509	145,028	9,825	154,853

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

	2009 \$	2008 \$
11. TAXATION ASSETS		
Tax Refund Due	135,251	2,583
Deferred Tax Assets	87,655	96,334
	<u>222,906</u>	<u>98,917</u>
Deferred tax assets comprise:		
Accrued expenses not deductible until incurred	10,566	9,941
Provisions for impairment on loans	4,151	7,553
Provisions for employee benefits	36,595	41,209
Depreciation on fixed assets	32,192	32,382
Effective Interest Rate	4,151	5,249
	<u>87,655</u>	<u>96,334</u>
12. INTANGIBLE ASSETS		
Computer software	261,926	30,270
Less provision for amortisation	(29,477)	-
Total Intangible Assets	<u>232,449</u>	<u>30,270</u>
Movement in the assets balances during the year were :		
Opening balance	30,270	13,725
Purchases	231,656	16,545
<u>Less:</u>		
Assets disposed		-
Depreciation charge	(29,477)	-
Balance at the end of the year	<u>232,449</u>	<u>30,270</u>

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

	Note	2009 \$	2008 \$
13. DEPOSITS FROM MEMBERS			
Member Deposits			
- At call		16,113,535	16,039,977
- Term		23,843,918	19,779,393
Member withdrawable shares		39,450	38,660
		<u>39,996,903</u>	<u>35,858,030</u>

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Concentration of member deposits

(i)	Significant individual member deposits which in aggregate represent more than 10 % of the total liabilities:	-	-
(ii)	A significant proportion of member deposits at balance date were received from individuals employed in the Roads and Traffic Authority of New South Wales.	-	-
(iii)	Geographical concentrations		
New South Wales		39,067,926	34,907,140
Victoria		211,806	34,538
Queensland		418,261	270,160
South Australia		13,053	13,007
Western Australia		68,075	72,954
ACT		90,500	49,581
Other		127,282	510,650
Total per balance sheet		<u>39,996,903</u>	<u>35,858,030</u>

14. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

Annual leave	69,852	69,863
Creditors and accruals	60,474	97,547
Interest payable on deposits	337,237	315,529
Accrual for GST payable	1,361	1,360
Sundry Creditors	117,147	454,540
	<u>586,071</u>	<u>938,839</u>

	2009 \$	2008 \$
15. TAXATION LIABILITIES		
Current income tax liability comprises:		
Balance (refund) – previous year	(2,583)	(12,795)
Less paid (received)	(2,009)	(11,256)
(Over) / under statement in prior year	574	1,539
Amount written off to tax expense	574	(1,539)
Liability for income tax in current year	-	116,974
Less Instalments paid in current year	(135,251)	(119,557)
Balance – current year (Refund Due)	(135,251)	(2,583)
16. PROVISIONS		
Long service leave	52,129	67,499
	52,129	67,499
17. CAPITAL RESERVE ACCOUNT		
Balance at the beginning of the year	24,000	22,870
Transfer from retained earnings on share redemptions	1,240	1,130
Balance at the end of year	25,240	24,000

Share Redemption

The accounts represent the amount of redeemable 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.

	2009 \$	2008 \$
18. GENERAL RESERVE FOR CREDIT LOSSES		
General reserve for credit losses	461,067	461,067
Other reserve for credit losses	-	-
	<u>461,067</u>	<u>461,067</u>

General reserve for credit losses

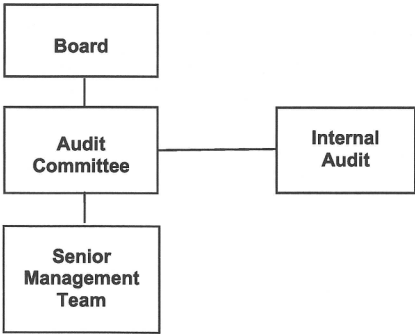
This reserve records amount previously set aside as a General provision and is maintained to comply with the Prudential Standards set down by APRA

Balance at beginning of year	461,067	461,067
Add: increase (decrease) transferred from retained earnings	-	-
Balance at end of year	<u>461,067</u>	<u>461,067</u>

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND 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 committee which is integral to the management of risk. The following diagram gives an overview of the structure.



The diagram shows the risk management structure. The main elements of risk governance are as follows:

Board: This is the primary governing body. It approves the level of risk to which the credit union is exposed and the framework for reporting and mitigating those risks. The board carries out monitoring through monthly review of operational reports, to ensure risk levels are within the parameters outlined by the board. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

Audit Committee: Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The audit committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the board for their consideration.

Senior Management: This group of senior management and staff meets weekly and has responsibility for managing and reporting the credit union's lending and funding position. Information obtained at these meetings is used to ensure sufficient liquidity is available to satisfy the needs of future loan fundings.

Internal Audit: Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

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

- Interest rate risk
- Liquidity Management
- Credit risk management
- Operations risk management including data risk management.

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

A. MARKET RISK

The objective of the credit union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the credit union's financial condition or results. The credit union is not exposed to currency risk, and other significant price risk. The credit union does not trade in the financial instruments it holds on its books. The credit union is exposed only to interest rate risk arising from changes in market interest rates.

Day to day management of market risk is the responsibility of senior management, with monthly and quarterly reporting going to the board via the audit committee.

(i) INTEREST RATE RISK

Interest rate risk is the risk of variability of the fair value or 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.

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 and liabilities.

The interest rate risk on the banking book is measured daily, reported to senior management weekly, and to the board via the Audit Committee monthly.

In the banking book the most common risk the credit union faces arises from fixed rate assets and liabilities. This exposes the credit union to the risk of sensitivity should interest rates change.

The level of interest rate matching on the banking book is set out in Note 22. The table sets out the period that each asset and liability will reprice as at the balance date.

Method of managing risk

The credit union manages its interest rate risk through the use of interest rate sensitivity analysis, 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 measured Gap in each 3 month range to be maintained is 1% - 2% of the net assets. 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.

Based on the calculations as at 30 June 2009 (30 June 2008), the increase in net profit for a 1% (2008: 1%) increase in interest rates would be \$87,038 (2008: \$30,554).

The method used in determining the sensitivity is 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 to the loan products and term deposits;
- 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;
- savings deposits would reprice in less than 30 days ;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- variable loans would reprice between 31 and 90 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- 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.

There has been no change to the credit union's exposure to market risk or the way the credit union manages and measures market risk in the reporting period.

B. 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.

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 daily.

The credit union has a longstanding arrangement with the industry liquidity support credit union Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the credit union should that 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 apply 13% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below 16% management and board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific note 21. The ratio of liquid funds over the past year is set out below:

	2009	2008
Liquid funds to total adjusted liabilities		
As at 30 June	26.38%	17.44%
Average for the year	22.55%	18.79%
Minimum during the year	15.00%	14.83%
Liquid funds to total member deposits		
As at 30 June	31.67%	21.01%

C. 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	Commitments	Max exposure	Carrying value	Commitments	Max exposure
	\$	\$	\$	\$	\$	\$
Mortgage	30,066,905	3,318,370	33,385,275	30,456,314	3,341,881	33,798,195
Personal	4,730,470	2,307,096	7,037,566	5,712,877	814,193	6,527,070
Overdrafts	150,823	90,174	240,997	456,593	1,786,760	2,243,353
Total to natural persons	34,948,198	5,715,640	40,663,838	36,625,784	5,942,834	42,568,618
Corporate borrowers	-	-	-	-	-	-
Total	34,948,198	5,715,640	40,663,838	36,625,784	5,942,834	42,568,618

Carrying value is equal to value on balance sheet. Maximum exposure is equal to the value on the balance sheet plus undrawn facilities (including loans approved not yet advanced; redraw facilities; line of credit facilities and overdraft facilities). The details are shown in note 24.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas other than by state within Australia as the exposure classes are not considered material. Concentrations are described in note 7.c.

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

The credit union has established policies over the:

- Assessment and approval of loans and facilities, covering acceptable risk, assessment procedures and appropriate security;
- Limits of acceptable exposures to individual borrowers, personal loans and commercial lending;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies;

A regular review of compliance is conducted as part of the internal audit scope.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the credit union that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of rights, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Weekly reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants can be engaged to conduct recovery action. Exposures to losses arise predominantly in 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 a 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 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. Specific loans and portfolios of assets are provided against depending on a number of factors including changes in a counterparty's industry, regional economic factors, as well as identified structural weaknesses or deterioration in cash flows.

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

The provisions for impaired and past due exposures relate to the loans to members.

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.

Details are set out in Note 8.

Bad debts

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

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

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

Collateral securing loans

A majority of the loan book is secured on residential property in Australia, primarily in New South Wales. Therefore, the credit union is exposed to risks in the reduction the Loan to Valuation Ratio (LVR) should the property market be subject to a significant decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

The board policy is to maintain a range of 70% - 85% of the loan portfolio in well secured residential mortgages which carry an 80% LVR or less. Note 7.b describes the nature and extent of the security held against the loans held as at the balance date.

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 per cent) a large exposure is considered to exist. No capital is required to be held against these but the APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure 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 7. The credit union holds no significant concentrations of exposures to individual members.

Concentration risk – industry

The credit union has a concentration in retail lending to members who comprise employees and family of the staff of the Roads and Traffic Authority of New South Wales. This concentration is considered acceptable on the basis that the credit union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 7.

(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 credit worthy. The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body. All investments are reported to the board on a monthly basis.

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 board policy is to maintain at least 90% of liquid investments in Cuscal Limited, a company set up to support the member credit unions and which has an AA- rating.

The policies of the board limit the investments outside Cuscal to 10% of total liquid investments.

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.

The exposure values associated with each investment are as follows:

	2009	2008
Investments with	Carrying value	Carrying value
Cuscal – rated AA-	9,399,540	5,889,429
Total	9,399,540	5,889,429

D. OPERATIONAL 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 a number of sources including legal compliance; business continuity; data infrastructure; outsourced service failures; fraud; and employee error.

The credit union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimize the impact. Systems of internal control are enhanced through

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behavior;
- implementation of a whistleblowing culture to promote 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;
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

Fraud

Fraud can arise from member card PIN's, and internet and phone banking passwords being compromised where not protected adequately by the member. It can also arise from other system 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. Fraud losses in the credit union industry have arisen from card skimming, internet password theft, and false loan applications.

IT systems

The worst case scenario would be the failure of the credit union's core banking and IT network suppliers, to meet customer obligations and service requirements. The credit union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC). This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or system failure. 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 & Visa cards, and Bpay etc.

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

E. CAPITAL MANAGEMENT

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

- Credit risk
- Market risk (trading book)
- Operational risk.

The market risk capital component is not required as the credit union is not engaged in a trading book for financial instruments.

Capital resources**Tier 1 Capital**

The vast majority of Tier 1 capital comprises

- Capital Reserve (member shares)
- Retained profits
- Realised reserves.

Tier 2 Capital

Tier 2 capital comprises

- A General Reserve for Credit Losses

Capital in the credit union is made up as follows:

	2009	2008
Tier 1		
Capital reserve	25,240	24,000
Retained earnings	7,409,575	7,380,906
	<u>7,434,815</u>	<u>7,404,906</u>
Less prescribed deductions	(403,242)	(179,472)
Net tier 1 capital	<u>7,031,573</u>	<u>7,225,434</u>
 Tier 2		
Reserve for credit losses	<u>312,021</u>	<u>275,192</u>
Less prescribed deductions	(83,138)	(83,138)
Net tier 2 capital	<u>228,883</u>	<u>192,054</u>
 Total Capital	<u>7,260,456</u>	<u>7,417,488</u>

Under prudential standards, the Credit Union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

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.

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

June 2009

Carrying
ValueRisk
Weighted
Value**Credit Risk***On Balance Sheet Assets:*

Cash	0%	68,731	-
Deposits in highly rated ADI's	20%	12,635,674	2,527,135
Deposits in less highly rated ADI's	50% - 150%	-	-
Standard Loans secured against eligible residential mortgages up to 80% LVR	35% - 75%	26,670,538	10,160,694
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 100%	3,396,414	1,564,686
Investments in equity instruments	150%	-	-
Other assets	100%	5,221,429	5,221,429
Total		47,992,786	19,473,944

<i>Off Balance Sheet Assets</i>	-	2,752,205
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Total Credit Weighted Risk	-	22,226,149
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<u>Operational Risk</u>	-	2,735,511
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Total Risk Weighted Value	-	24,961,660
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The risk weighted assets processes were modified by APRA as from the 1 January 2008 as part of the Basel 2 Prudential framework enhancements

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

2009	2008	2007	2006	2005
29.09%	30.14%	26.93%	24.57%	29.75%

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

To manage the credit unions capital the credit union reviews the ratio monthly and monitors 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 18%. Further an annual capital budget projection of the capital levels is maintained to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from the 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The credit union uses APRA's 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 the standardised model, the Credit Union's operational risk requirement is as follows:

Operational risk capital requirement \$218,841 (30th June 2009).

20. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

	Note	2009 \$	2008 \$
Financial assets - carried at amortised cost			
Cash	4	3,255,507	1,634,604
Receivables from financial institutions -	5	9,399,540	5,889,429
Receivables	6	104,313	111,982
Loans to members	7 & 8	34,920,525	36,583,109
Total loans and receivables		<u>47,679,885</u>	<u>44,219,124</u>
Available for sale investments - carried at cost	9	166,277	166,277
TOTAL FINANCIAL ASSETS		<u>47,846,162</u>	<u>44,385,401</u>
 Financial liabilities			
Deposits from members	13	39,996,903	35,858,030
Creditors	14	514,858	867,616
Total carried at amortised cost		<u>40,511,761</u>	<u>36,725,646</u>
TOTAL FINANCIAL LIABILITIES		<u>40,511,761</u>	<u>36,725,646</u>

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

21. MATURITY PROFILE OF FINANCIAL 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 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 \$,000	1-3 months \$,000	3-12 months \$,000	1-5 years \$,000	After 5 years \$,000	No Maturity \$,000	Total \$,000
LIABILITIES							
Creditors	178	-	-	-	-	-	178
Deposits from members:							
- At call	16,153	-	-	-	-	-	16,153
- Term	4,573	6,359	11,131	2,609	-	-	24,672
Total Financial Liabilities	20,904	6,359	11,131	2,609			41,003
2008	Within 1 month \$,000	1-3 months \$,000	3-12 months \$,000	1-5 years \$,000	After 5 years \$,000	No Maturity \$,000	Total \$,000
LIABILITIES							
Creditors	552	-	-	-	-	-	552
Deposits from members:							
- At call	16,079	-	-	-	-	-	16,079
- Term	2,773	5,608	11,135	1,159	-	-	20,675
Total Financial Liabilities	19,404	5,608	11,135	1,159	-	-	37,306

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report**22. 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	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS							
Cash	3,187	-	-	-	-	69	3,256
Receivables	-	-	-	-	-	104	104
Advances to other financial Institutions	1,982	3,959	3,459	-	-	-	9,400
Loans and advances	28,883	1,470	4,568	-	-	-	34,921
Other Investments	-	-	-	-	-	166	166
On Balance sheet	34,052	5,429	8,027	-	-	339	47,847
Undrawn commitments Note 24	5,716	-	-	-	-	-	5,716
Total Financial Assets	39,768	5,429	8,027	-	-	339	53,563
LIABILITIES							
Creditors	-	-	-	-	-	515	515
Deposits from members:							
- At Call	16,114	-	-	-	-	39	16,153
- Term	4,454	6,233	10,782	2,375	-	-	23,844
Total Financial Liabilities	20,568	6,233	10,782	2,375	-	554	40,512
2008	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non Interest Bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS							
Cash	1,563	-	-	-	-	72	1,635
Receivables	-	-	-	-	-	168	168
Advances to other financial Institutions	2,448	3,441	-	-	-	-	5,889
Loans and advances	24,121	11,099	1,406	-	-	-	36,626
Other Investments	-	-	-	-	-	166	166
On Balance sheet	28,132	14,540	1,406	-	-	406	44,484
Undrawn commitments Note	5,943	-	-	-	-	-	5,943
Total Financial Assets	34,075	14,540	1,406	-	-	406	50,427
LIABILITIES							
Creditors	-	-	-	-	-	868	868
Deposits from members:							
- At Call	16,040	-	-	-	-	39	16,079
- Term	2,692	5,436	10,604	1,047	-	-	19,779
Total Financial Liabilities	18,732	5,436	10,604	1,047	-	907	36,726

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of **expected future cash flows** under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are held regularly traded by the credit union, and there is no active market to assess the value of the financial assets and liabilities.

The values reported have not been adjusted for the changes in credit ratings of the assets.

The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term

	Fair Value	2009 Carrying Value	Variance	Fair Value	2008 Carrying Value	Varian ce
2009	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
<u>FINANCIAL ASSETS</u>						
Cash	3,256	3,256	-	1,635	1,635	-
Receivables (1)	104	104	-	168	168	-
Advances to other financial institutions	9,400	9,400	-	5,890	5,889	1
Loans and advances	34,929	34,921	8	36,540	36,583	(43)
Other Investments	166	166	-	166	166	-
Total Financial Assets	47,855	47,847	8	44,399	44,441	(42)
<u>FINANCIAL LIABILITIES</u>						
Creditors (1)	515	515	-	868	868	-
Deposits from members:						
- At Call	16,153	16,153	-	16,079	16,079	-
- Term	24,042	23,844	198	18,852	19,779	(927)
Total Financial Liabilities	40,710	40,512	198	35,799	36,726	(927)

(1) For these assets and liabilities the carrying value approximates fair value.

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

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

Liquid assets and receivables from other financial institutions

The carrying 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.

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

Loans and advances

The carrying value of loans and advances is net of unearned income and 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 for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The 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 from members

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

	2009 \$	2008 \$
24. FINANCIAL COMMITMENTS		
a. Outstanding loan commitments		
The loans approved but not funded	716,836	466,308
b. Loan redraw facilities		
The loan redraw facilities available	4,781,237	4,697,638
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	545,650	1,237,925
Less: Amount advanced	328,083	459,037
Net undrawn value	217,567	778,888
 These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	5,715,640	5,942,834

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

Expenditure commitments	2009	2008
	\$	\$

d. Computer expenditure commitments

The committed costs for computer expenditure by the credit union is:

Not later than one year	138,889	23,410
Later than 1 year but not 2 years	97,089	29,873
Later than 2 years but not 5 years	283,505	68,655
Later than 5 years	32,363	16,946
	<u>551,846</u>	<u>138,884</u>

e. Future Lease and Rental Commitments

Operating lease payments under existing lease arrangements for building accommodation, payable over the following periods.

Not later than one year	96,805	22,103
Later than one year but not later than five years	24,493	-
Over five years		
	<u>121,298</u>	<u>22,103</u>

The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 1 to 5 years and options for renewal are usually obtained for a further 5 years. At time of printing a new lease agreement was being negotiated for the Credit Union's head office in Surry Hills NSW.

There are no restrictions imposed on the Credit Union so as to limit the ability to undertake further leases, borrow funds or issue dividends (although these are subject to restrictions in the Constitution).

f. Computer Bureau Charges

Not later than one year	35,796	31,920
Later than 1 year but not 2 years	17,898	30,444
Later than 2 years but not 5 years	-	15,222
Later than 5 years	-	-
	<u>53,694</u>	<u>77,586</u>

25. STANDBY BORROWING FACILITIES

The Credit Union has a borrowing facility with Cuscal limited of:

2009

	Gross	Current Borrowing	Net Available
	\$	\$	\$
Loan facility	700,000	-	700,000
Overdraft facility	900,000	-	900,000
TOTAL STANDBY BORROWING FACILITIES	1,600,000	-	1,600,000

2008

	Gross	Current Borrowing	Net Available
	\$	\$	\$
Loan Facility	700,000	-	700,000
Overdraft Facility	900,000	-	900,000
TOTAL STANDBY BORROWING FACILITIES	1,600,000	-	1,600,000

Withdrawal of the loan facility is subject to the availability of funds at Cuscal.

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

26. CONTINGENT LIABILITIES

Liquidity support scheme

The Credit Union is a member of the Credit Union Financial Support Scheme Limited (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 Limited.

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 total 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 the balance date there were no loans issued under this arrangement.

27. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

a. Remuneration of key management persons [KMP]

Key management persons are those persons having authority and responsibility for planning, directing and controlling the activities of the credit union, directly or indirectly, including any director (whether executive or otherwise) of that credit union. *Control* is the power to govern the financial and operating policies of a credit union so as to obtain benefits from its activities.

Key management persons (KMP) have been taken to comprise the directors and the 4 members (2008 - 4 members) of the executive management responsible for the day to day financial and operational management of the credit union at various times of the year.

The aggregate Compensation of **key management persons** during the year comprising amounts paid or payable or provided for was as follows:

	2009		2008	
	Directors	Other KMP	Directors	Other KMP
	\$	\$	\$	\$
(a) short-term employee benefits;	-	403,239	-	355,792
(b) post-employment benefits - superannuation contributions	-	33,261	-	32,734
(c) other long-term benefits – net increases in long service leave provision	-	(18,069)	-	7,298
(d) termination benefits;	-	-	-	-
(e) share-based payment.	-	-	-	-
Total	-	418,431	-	395,824

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

R.T.A. STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2009 Annual Financial Report

	2009 \$	2008 \$
b. Loans to Directors and other Key Management Persons		
(i) The aggregate value of loans to directors and other key management persons as at balance date amounted to	565,727	587,963
(ii) The total value of revolving credit facilities to directors and other key management persons, as at balance date amounted to	-	-
Less amounts drawn down and included in (i)	-	-
Net balance available	-	-
(iii) During the year the aggregate value of loans disbursed to directors and other key management persons amounted to:		
Revolving credit facilities	-	-
Personal loans	-	-
Term Loans	20,700	234,881
	20,700	234,881
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to directors and other key management persons amounted to:	-	-
(v) Interest and other revenue earned on Loans and revolving credit facilities to KMP	41,439	42,336

The Credit Union's policy for lending to directors and management is that all loans are approved and deposits accepted on the same terms and conditions which are available to members for each class of loan or deposit. There are no loans which are impaired in relation to the loan balances with directors or other KMPs.

Other transactions between related parties include deposits from directors, and other KMP are –

	2009 \$	2008 \$
Total value Term and Savings Deposits from KMP	531,587	312,598
Total Interest paid on deposits to KMP	15,087	37,149

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

c. Transactions with Other Related Parties

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

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

There are no benefits paid or payable to the close family members of the key management persons.

There are no service contracts to which key management persons or their close family members are an interested party.

28. ECONOMIC DEPENDENCY

The credit union has an economic dependency on the following suppliers of services.

a. Cuscal Limited

Cuscal is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. Cuscal;

- (i) provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;
- (ii) provides treasury and money market facilities to the credit union. The credit union has invested all of its liquid assets with Cuscal to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

b. First Data International Limited (FDI)

The Credit Union operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM suppliers to the Credit Union's EDP Systems.

c. Ultradata Australia Pty Limited

Provides and maintains the application software utilised by the credit union.

The credit union converted to the Ultracs core banking system this financial year.

d. The System Works (TSW) Pty Limited

This company operates the computer facility on behalf of the credit union in conjunction with other credit unions. The credit union has a management contract with the company to supply computer support staff and services to meet the day to day needs of the credit union and compliance with the relevant Prudential Standards.

29. SEGMENTAL REPORTING

The credit union operates exclusively in the retail financial services industry within Australia.

30. SUPERANNUATION LIABILITIES

The credit union contributes to the CUE Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee.

The credit union has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

31. NOTES TO CASH FLOW STATEMENT

a. Reconciliation of Cash

	2009 \$	2008 \$
Cash on Hand	68,731	71,969
Deposits at Call	3,186,776	1,562,635
	<u>3,255,507</u>	<u>1,634,604</u>

b. Reconciliation of Cash from Operating Activities to Operating Profit

Profit after Income Tax	29,909	269,739
Add:		
Increases in Amortised fees on loans	(3,660)	(6,736)
Increase in Provisions for Loans	(10,461)	(5,822)
<u>Depreciation</u>	73,672	70,049
Gain on sale of fixed assets	-	(4,724)
<u>Amortisation of Intangible assets</u>	29,477	-
Increases in Liabilities		
Creditors and Accruals	(37,075)	25,190
Interest Payable	21,708	11,942
Staff Entitlements	(15,381)	(4,155)
<u>Income Tax</u>	-	10,212
Deferred Tax Liability	-	-
Accrued taxes - GST payable	(1360)	1,360
Increases in Assets		
Interest Receivable - Deposits FI's	20,993	14,928
Prepayments	7,174	12,522
<u>Deferred Tax Asset</u>	(123,989)	5,884
GST Receivable	(1,368)	(2,085)
Net Cash From Operating Activities	<u>(10,361)</u>	<u>398,304</u>

32. CORPORATE INFORMATION

The Credit Union is a company limited by shares, and is registered under the Corporations Act 2001

The address of the registered office is

Level 2 KMS Building
8-24 Kippax Street
SURRY HILLS NSW 2010
Level 2 KMS Building
8-24 Kippax Street
SURRY HILLS NSW 2010

The address the principal place of business is

The nature of the operations, and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Credit Union.



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your road to financial success

www.rtascu.com.au