



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

# **2008 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 44<sup>th</sup> Annual General Meeting**

The 44<sup>th</sup> Annual General Meeting of R.T.A. Staff Credit Union Limited (ABN 78 087 650 600 – AFSL 240718) will be held in the John Macarthur Room at the Crowne Plaza Hotel, 30 Phillip Street Parramatta, on Friday 28<sup>th</sup> November 2008, 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

### **Administration**

John Kavalieros	Chief Executive Officer & Company Secretary
Sharon Farrar	Operations Manager
Kathy Loutas	Finance Manager
Ashley Johnson	Finance and Administration Manager
Helen Portelli	Business Development Officer
Jenna Ridgway	Senior Loans Officer
Diane Tripp	Loans Officer
Cindy Lai	Branch Officer
Maggie Florian	Branch Officer

### **External Auditors**

BDO Kendalls Chartered Accountants  
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.

### **Bankers**

Cuscal Limited Centralised Banking scheme – National Australia Bank.



## **R.T.A. Staff Credit Union Limited**

**Year ended 30 June 2008**

### **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.

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## KEY STATISTICS OF THE CREDIT UNION

	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
<b>Members ( No.)</b>	4633	4727	4832	3822**	3925
<b>Deposits \$</b>	31,925,879	30,893,970	33,455,548	35,000,708	35,820,035
<b>Average Member Deposits \$</b>	6,891	6,536	6,924	9,158	9,126
<b>Loans \$</b>	28,663,629	31,146,064	32,649,038	34,568,381	36,583,109
<b>Average Loan balances \$</b>	6,187	6,589	6,757	9,045	9,321
<b>Loans funded in the year \$M</b>	9.1	10.5	9.4	10.6	10.4
<b>Bad debts written off against profit \$</b>	-	-	-	-	-
<b>Capital Adequacy ratio %</b>	29.90%	31.00%	24.35%	26.93%	30.14%
<b>Total Reserves \$</b>	6,141,607	6,536,277	7,200,728	7,596,234	7,865,973
<b>Total Assets \$</b>	38,532,462	37,823,523	41,066,834	43,257,570	44,727,758
<b>Reserves to Assets %</b>	15.94%	17.28%	17.53%	17.56%	17.59%
<b>Return/Average Assets %</b>	0.95%	1.03%	0.94%	0.94%	0.63%
<b>Staff / Member ratio</b>	1:579	1:591	1:966	1:546	1:436
<b>Staff / Assets ratio</b>	1:\$4.82M	1:\$4.72M	1:\$8.21M*	1:\$6.18m	1:\$4.97m

## 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
<b>Other Services</b>	
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

## CHAIRMANS REPORT

I am pleased, on behalf of the Board of Directors of the R.T.A. Staff Credit Union, to present our 44<sup>th</sup> Annual Report for the financial year ended 30 June 2008.

### The Year In Review

The 2007-2008 financial year was quite a tumultuous one for the financial services industry, as you would be well aware. There was upward pressure on interest rates, funding costs increased, while loan demand remained strong.

Your Credit Union stood up to those challenges well, and is nicely placed to continue to perform well into the future. During the year the Credit Union rolled out a new delivery channel to its RTA based members, in the form of cash dispensing machines. These machines allow members at select RTA locations to withdraw cash from their RTA Staff Credit Union savings account, without having to leave the office. And all completely free of fees. The RTA headquarters was chosen as the pilot RTA site, and more locations will follow in the coming year, including the new RTA headquarters in North Sydney. After many years of use, the computer platform used by the Credit Union is being replaced in 2008. The project has been a huge undertaking in terms of resourcing, both in financial cost and human effort. The new system will lead to more efficient processing and will enable the Credit Union to provide the products and services that Members require long into the future.

The focus on compliance was again an important area of work for the staff and management, and the board are well pleased with the Credit Union's results in this area. Your Credit Union is run conservatively and prudently, and that means Member funds are well secured. Your Credit Union does not get involved with risky or exotic financial instruments, for example the kinds that have caused the financial stresses in the USA and elsewhere in recent times. In fact, your Credit Union has quite a simple business model – we borrow primarily from our members, and then we lend those same borrowings to other members. This cyclical model does not expose the Credit Union to undue risk, and enables the Credit Union to provide competitive services to the Members it serves.

This year saw the resignation from the board of Max De Boos as a director of the Credit Union. Max has volunteered his time and effort to serve the Members over many years, and I would like to thank him for his dedication to your Credit Union.

### Highlights 2007-2008

- Loan funding of over \$10.4 million, compared with \$10.6 million in the previous year, resulting in loans growth of 5.83% (2007 – 6.05%)
- Members equity (reserves) increased by \$269,739 (2007 - \$395,506)
- Membership growth of 2.62% over the year
- Bad and Doubtful Debts remained very low and well below industry standards

Operating profit for the year before tax was \$394,135 (2007 - \$545,680). The after tax profit of \$269,739 (2007 - \$395,506) represents a return of 0.63% on average assets (2007 – 0.94%). The profit this year has been lower than previous year due to the staff resourcing required to prepare the Credit Union for its new banking software platform, an internal staff restructure, and as a result of higher funding costs. Despite those additional expenses, the return of 0.63% after tax is still a good result compared to our industry cohorts. I thank staff and management of your Credit Union for their effort in providing excellent service to our Members throughout 2007-2008.

## **The Year Ahead**

The year ahead will see the Credit Union hit the ground running on its new computer platform, expand its presence in RTA locations with cash dispensing machines and through face-to-face contact, and meet the challenge of additional regulation of the financial services sector. You can be certain that your Credit Union will continue to provide the outstanding level of service that makes mutual financial services something better than the banks.

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

I look forward to your continuing support.

A handwritten signature in black ink, appearing to read "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 2008.

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:

<b>Name</b>	<b>Position</b>	<b>Qualifications</b>	<b>Experience</b>	<b>Responsibilities</b>
Noel J. T. Hancock	Chairman	BBus, CPA, FAMI	12 Years	Chairman, Audit Committee Member, Conversion Committee Member
Robert G. Morgan	Director	Cert L&E Srv, Cert TEPC, FAMI	19 Years	
Vincent E. Taranto	Deputy Chairman	BSc, DipTCP, MAMI	10 Years	Deputy Chairman
Max W. De Boos	Director	DipAE, MBA, MAMI	7 Years	Audit Committee Member (to Dec 07)
Meredyth-Ann Williams	Director	DipTeach, B.A (Psych), Hons (Psych), MAMI	3 Years	Audit Committee Member
Anthony J. Dann	Director	BEc, MAcc, ASA, MAMI	2 Years	Audit Committee Chairman, Conversion Committee Member
Stuart J.D. Hill	Director	BTP(Hons), M Env Mgt, Dip Law, MAMI	< 1 Year	Conversion Committee Member

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

<b>Name</b>	<b>Qualifications</b>	<b>Experience</b>
John Kavalieros	DipFS, AIM, FAMI	12 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 are:

<b>Name</b>	<b>Qualifications</b>	<b>Experience</b>
Jacqui McDonald	MAMI	< 1 year
Ann King	Dip BA (UK), MAMI	< 1 year

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

<b>Director</b>	<b>Board</b>		<b>Audit Committee</b>	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Noel J.T. Hancock	12	12	10	10
Robert G. Morgan	12	8		
Vincent E. Taranto	12	11		
Max W. De Boos	6	5	4	4
Meredyth-Ann Williams	12	10	5	4
Anthony J. Dann	12	12	10	10
Stuart J.D. Hill	9	7		

## **R.T.A. STAFF CREDIT UNION LIMITED**

A.B.N. 78 087 650 600

### **2008 Annual Financial Report**

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#### **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 \$269,739 (2007 - \$395,506).

##### **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.

**R.T.A. STAFF CREDIT UNION LIMITED**

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**2008 Annual Financial Report**

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**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:



Noel J.T. Hancock  
Chairman

Signed and dated this 29th day of October 2008

**DECLARATION OF INDEPENDENCE BY NEVILLE SINCLAIR TO THE DIRECTORS OF RTA STAFF CREDIT UNION LIMITED**

As lead auditor of RTA Staff Credit Union Limited for the year ended 30 June 2008, 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.



Neville Sinclair  
Partner, BDO Kendalls

Signed and dated this 27th day of October 2008



## **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 2008, 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.

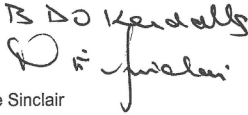
#### *Independence*

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 2008 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.

Handwritten signature of Neville Sinclair in black ink, appearing to read 'BDO Kendalls' and 'N. Sinclair'.

Neville Sinclair  
Partner  
BDO Kendalls  
Sydney, 30th October 2008

**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 2008 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 29th day of October 2008.

**R.T.A. STAFF CREDIT UNION LIMITED**

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**2008 Annual Financial Report****INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2008**

	<b>Note</b>	<b>2008 \$</b>	<b>2007 \$</b>
Interest revenue	2.a	3,497,607	3,186,397
Interest expense	2.c	1,412,620	1,258,484
<b>Net interest income</b>		<u>2,084,987</u>	<u>1,927,913</u>
Fee commission and other income	2.b	201,044	220,729
		<u>2,286,031</u>	<u>2,148,642</u>
Less			
<b>Non interest expenses</b>			
Impairment losses on loans receivable from members	2.d	4,062	(13,790)
Fee and commission expenses		54,425	52,281
General administration			
- Employees compensation and benefits		769,252	632,649
- Depreciation and amortisation	2.e	75,642	64,991
- Information technology		386,959	293,941
- Office occupancy		86,503	79,026
- Other administration		193,464	162,017
Other operating expenses		<u>321,589</u>	<u>331,847</u>
Total non interest expenses		<u>1,891,896</u>	<u>1,602,962</u>
<b>Profit before income tax</b>		394,135	545,680
Income tax expense	3	<u>124,396</u>	<u>150,174</u>
<b>Profit after income tax</b>		<u>269,739</u>	<u>395,506</u>

**STATEMENT OF CHANGES IN MEMBER EQUITY  
FOR THE YEAR ENDED 30 JUNE 2008**

	<b>Capital Reserve</b>	<b>Retained Earnings</b>	<b>Reserve for Credit Losses</b>	<b>Total</b>
Total at 1 July 2006	9,900	6,729,761	461,067	7,200,728
Net Profit for the Period	-	395,506	-	395,506
Transfers to Reserves	12,970	(12,970)	-	-
Total as at 30 June 2007	<u>22,870</u>	<u>7,112,297</u>	<u>461,067</u>	<u>7,596,234</u>
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>

**R.T.A. STAFF CREDIT UNION LIMITED**

A.B.N. 78 087 650 600

**2008 Annual Financial Report****BALANCE SHEET****FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 \$	2007 \$
<b>ASSETS</b>			
Cash	4	1,634,604	1,095,193
Receivables from financial institutions	5	5,889,429	7,000,000
Receivables	6	172,882	193,320
Loans to members	7 & 8	36,583,109	34,568,381
Available for sale investments	9	166,277	166,277
Property, plant and equipment	10	154,853	118,456
Taxation assets	11	96,334	102,218
Intangible assets	12	30,270	13,725
<b>TOTAL ASSETS</b>		<b>44,727,758</b>	<b>43,257,570</b>
<b>LIABILITIES</b>			
Deposits from members	13	35,858,030	35,038,046
Creditor accruals and settlement accounts	14	938,839	570,610
Taxation liabilities	15	(2,583)	(12,795)
Provisions	16	67,499	65,475
<b>TOTAL LIABILITIES</b>		<b>36,861,785</b>	<b>35,661,336</b>
<b>NET ASSETS</b>		<b>7,865,973</b>	<b>7,596,234</b>
<b>MEMBERS' EQUITY</b>			
Capital reserve account	17	24,000	22,870
Reserves	18	461,067	461,067
Retained earnings		7,380,906	7,112,297
<b>TOTAL MEMBERS' EQUITY</b>		<b>7,865,973</b>	<b>7,596,234</b>

**R.T.A. STAFF CREDIT UNION LIMITED**

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2008 Annual Financial Report

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 \$	2007 \$
<b>OPERATING ACTIVITIES</b>			
<b><u>Revenue Inflows</u></b>			
Interest Received		3,505,799	3,152,832
Fees and Commissions		158,949	155,173
Dividends Received		20,785	20,785
Other Income		17,946	56,997
<b><u>Less: Revenue Outflows</u></b>			
Interest Paid		(1,400,678)	(1,097,298)
Suppliers and Employees		(1,796,197)	(1,524,489)
Income Taxes Paid		(108,300)	(145,939)
<b>Net Cash From Revenue Activities</b>	31.b	<u>398,304</u>	<u>618,061</u>
<b>Inflows from Other Operating Activities</b>			
Increase in Member Deposits (Net movement)		1,150,973	1,582,527
Net decrease in receivables from other FIs		1,110,571	-
		<u>2,261,544</u>	<u>1,582,527</u>
<b>Outflows from Other Operating Activities</b>			
Decrease in Member Deposits (Net movement)			
Increase in member loans		(2,002,170)	(1,974,576)
Increase in Receivables from other FIs		-	(500,000)
		<u>(2,002,170)</u>	<u>(2,474,576)</u>
<b>Net Cash from all Operating Activities</b>		<u>657,678</u>	<u>(273,987)</u>
<b>INVESTING ACTIVITIES</b>			
<b><u>Inflows</u></b>			
Proceeds of investment redemption			10
Proceeds on sale of property, plant and equipment		39,868	16,364
<b><u>Less: Outflows</u></b>			
Purchases of fixed assets		(141,590)	(82,345)
Purchase of Intangible Assets		(16,545)	(13,725)
<b>Net Cash From Investing Activities</b>		<u>(118,267)</u>	<u>(79,696)</u>
<b>FINANCING ACTIVITIES</b>			
<b>Net Cash From Financing Activities</b>		<u>-</u>	<u>-</u>
Total Net Cash Increase/(Decrease)		539,411	(353,683)
Cash at the beginning of the year		1,095,193	1,448,876
Cash at end of year	31.a	<u>1,634,604</u>	<u>1,095,193</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 30<sup>th</sup> June 2008. The report was authorised for issue 29<sup>th</sup> October 2008 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.

**l. 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. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

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 2008 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 123 (revised Jun 2007)  Borrowing Costs	To the extent that borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, the option of recognising borrowing costs immediately as an expense has been removed. Consequently all borrowing costs for qualifying assets will have to be capitalised.	Periods commencing on or after 1 January 2009	<b><i>The transitional provisions of this standard only require capitalisation of borrowing costs on qualifying assets where commencement date for capitalisation is on or after 1 January 2009. As such, there will be no impact on prior period financial statements when this standard is adopted.</i></b>
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.

**r. Changes to the Annual Report Classification**

Balance sheet changes in classifications	<p>The Annual leave entitlements and the GST payable and GST receivable have been reflected as Creditors and Accruals, and Receivables this year.</p> <p>In past years they were included as Provisions, Tax Liabilities and Tax Assets respectively.</p> <p>The comparatives were amended to be consistent with the current year classifications.</p>	This is merely a reclassification on the balance sheet and does not alter the measurement of these assets and liabilities.
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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>2. INCOME STATEMENT</b>		
<b>a. Analysis of interest revenue</b>		
<b>Interest revenue on assets carried at amortised cost</b>		
Cash – deposits at call	81,987	70,151
Receivables from financial institutions	490,424	383,526
Loans to members	2,925,196	2,732,720
<b>TOTAL INTEREST REVENUE</b>	<b>3,497,607</b>	<b>3,186,397</b>
<b>b. Fee, commission and other income</b>		
<b>Fee and commission revenue</b>		
Fee income on loans – other than loan origination fees	43,685	4,835
Other fee income	67,165	63,963
Insurance commissions	15,546	23,467
Other commissions	31,193	34,318
<b>TOTAL FEE AND COMMISSION REVENUE</b>	<b>157,589</b>	<b>126,583</b>
 Dividends received on available for sale assets	 20,785	 20,785
Bad debts recovered	2,127	21,241
Gain on disposal of assets		
- Property, plant and equipment	4,724	16,364
Miscellaneous revenue	15,819	35,756
<b>TOTAL FEE COMMISSION AND OTHER INCOME</b>	<b>201,044</b>	<b>220,729</b>

	2008 \$	2007 \$
<b>c. Interest expenses</b>		
<b>Interest expense on liabilities carried at amortised cost</b>		
Deposits from members	1,411,803	1,257,553
Other	817	931
<b>TOTAL INTEREST EXPENSE</b>	<b>1,412,620</b>	<b>1,258,484</b>
<b>d. Impairment losses</b>		
<b>Available for sale assets</b>		
<b>Loans and advances</b>		
Increase in provision for impairment	4,062	(13,790)
Bad debts written off directly against profit	-	-
<b>TOTAL IMPAIRMENT LOSSES</b>	<b>4,062</b>	<b>(13,790)</b>
<b>e. Other prescribed disclosures</b>		
General administration - employees costs include:		
- net movement in provisions for employee annual leave	(6,179)	27,019
- net movement in provisions for employee long service leave	2,024	8,118
General administration - depreciation expense include:		
- plant and equipment	73,958	64,265
- leasehold improvements	1,684	726
	<b>75,642</b>	<b>64,991</b>
<b>General administration – office occupancy costs include:</b>		
Property operating lease payments	<b>86,503</b>	<b>79,026</b>
Other operating expenses include:		
Auditor's remuneration (excluding GST)		
- Audit fees	32,860	40,061
- Other Services – taxation	3,100	3,000
- Other Services – compliance	2,000	2,000
- Other Services – other	5,500	3,250
	<b>43,460</b>	<b>48,311</b>

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>3. INCOME TAX EXPENSE</b>		
a. The income tax expense comprises amounts set aside as:-		
Current tax expense - current year profits (3b)	115,618	150,174
Adjustments for previous years	1,539	-
<b>Total current income tax expense</b>	<b>117,157</b>	<b>150,174</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences		
Changes in tax rates		
Benefit of tax losses previously unrecognised	7,239	-
Write-down and/or reversal of previous write-down of a deferred tax asset		
<b>Total income tax expense in income statement</b>	<b>124,396</b>	<b>150,174</b>
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	394,135	545,680
Prima facie tax payable on profit before income tax at 30%	118,241	163,703
Add tax effect of expenses not deductible		
- Other non-deductible expenses	3,613	1,020
- franking credit uplift	2,672	6,236
<b>Subtotal</b>	<b>124,526</b>	<b>170,959</b>
Less		
- Franking rebate	8,908	20,785
Income tax expense attributable to current year profit	<b>115,618</b>	<b>150,174</b>

	2008 \$	2007 \$
<b>4. CASH</b>		
Cash on hand	71,969	71,507
Deposits at call	1,562,635	1,023,686
	<u>1,634,604</u>	<u>1,095,193</u>
<b>5. RECEIVABLES FROM FINANCIAL INSTITUTIONS</b>		
Deposits with industry bodies - Cuscal (refer note 28)	5,889,429	7,000,000
	<u>5,889,429</u>	<u>7,000,000</u>
<b>6. RECEIVABLES</b>		
Interest receivable on deposits with other financial institutions	70,351	85,279
Prepayments	56,517	69,039
Sundry debtors and settlement accounts	41,631	36,705
GST Receivable	4,383	2,297
	<u>172,882</u>	<u>193,320</u>
<b>7. LOANS TO MEMBERS</b>		
<b>a. Amount due comprises:</b>		
Overdrafts and revolving credit	456,593	560,644
Term loans	36,169,191	34,062,970
<b>Subtotal</b>	<u>36,625,784</u>	<u>34,623,614</u>
Less:		
Unamortised loan origination fees	(17,497)	(24,233)
<b>Subtotal</b>	<u>36,608,287</u>	<u>34,599,381</u>
Less:		
Provision for impaired loans (Note 8)	(25,178)	(31,000)
	<u>36,583,109</u>	<u>34,568,381</u>
<b>b. Credit quality - Security held against loans</b>		
Secured by mortgage over business assets	-	-
Secured by mortgage over real estate	30,456,314	27,436,682
Partly secured by goods mortgage	4,482,813	5,386,119
Wholly unsecured	1,686,657	1,800,813
	<u>36,625,784</u>	<u>34,623,614</u>



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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:

	2008 \$	2007 \$
Security held as mortgage against real estate is on the basis of		
- loan to valuation ratio of less than 80%	26,214,776	23,615,677
- loan to valuation ratio of more than 80% but mortgage insured	2,540,725	2,288,821
- loan to valuation ratio of more than 80% and not mortgage insured	1,700,813	1,532,184
Total	<u>30,456,314</u>	<u>27,436,682</u>

Where the loan value is less than 80% there is a 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 reserves in aggregate

	-	-
Total	<u>-</u>	<u>-</u>

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

- (iii) Geographical concentrations:

NSW	35,661,837	33,555,007
Victoria	462,135	453,497
Queensland	318,025	396,232
South Australia	-	10,224
Western Australia	32,241	38,103
ACT	127,434	157,643
Other Territories	24,112	12,908
	<u>36,625,784</u>	<u>34,623,614</u>

- (iv) Loans to natural persons:

Residential loans and facilities	25,495,410	22,133,158
Personal loans and facilities	11,130,374	12,490,456
Business loans and facilities	-	-
	<u>36,625,784</u>	<u>34,623,614</u>

	2008 \$	2007 \$
<b>8. PROVISION ON IMPAIRED LOANS</b>		
<b>a. Total provision comprises</b>		
Collective provisions	19,381	12,501
Individual specific provisions	5,797	18,499
<b>Total Provision</b>	<b>25,178</b>	<b>31,000</b>
<b>b. Movement in the provision for impairment</b>		
Balance at the beginning of year	31,000	56,413
Add (deduct):		
Transfers from (to) income statement	4,062	(13,790)
Bad debts written off provision	(9,884)	(11,623)
<b>Balance at end of year</b>	<b>25,178</b>	<b>31,000</b>
Details of credit risk management is set out in Note 19.		
<b>c. Impaired loans written off</b>		
Amounts written off against the provision for impaired loans	9,884	11,623
Amounts written off directly to expense	-	-
<b>Total bad debts</b>	<b>9,884</b>	<b>11,623</b>
<b>Bad debts recovered in the period</b>	<b>2,126</b>	<b>21,241</b>
<b>Total bad debts recovered</b>	<b>2,126</b>	<b>21,241</b>

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**2008 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

	2008			2007		
	Carrying value	Value of Impaired Loans	Provision for impairment	Carrying value	Value of Impaired Loans	Provision for impairment
	\$	\$	\$	\$	\$	\$
Loans to members:						
- Mortgages	25,495,410	-	-	22,133,158	-	-
- Personal	11,009,994	27,647	22,050	12,369,208	20,862	27,583
- Overdrafts	120,380	3,128	3,128	121,248	3,417	3,417
<b>Total to natural persons</b>	<b>36,625,784</b>	<b>30,775</b>	<b>25,178</b>	<b>34,623,614</b>	<b>24,279</b>	<b>31,000</b>
Corporate borrowers	-	-	-	-	-	-
<b>Total</b>	<b>36,625,784</b>	<b>30,775</b>	<b>25,178</b>	<b>34,623,614</b>	<b>24,279</b>	<b>31,000</b>

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**

	2008		2007	
	Carrying Value	Provision	Carrying Value	Provision
	\$	\$	\$	\$
Non impaired up to 30 days	36,580,150	-	34,554,919	-
30 to 90 days in arrears	14,859	-	44,416	6,721
90 to 180 days in arrears	9,331	3,734	8,855	8,855
180 to 270 days in arrears	9,850	9,850	12,007	12,007
270 to 365 days in arrears	-	-	-	-
Over 365 days in arrears	8,466	8,466	-	-
Over limit facilities over 14 days	3,128	3,128	3,417	3,417
<b>Total</b>	<b>36,625,784</b>	<b>25,178</b>	<b>34,623,614</b>	<b>31,000</b>

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
<b>2008</b>					
Mortgage secured	-	-	-	-	-
Personal loans	14,859	-	-	-	14,859
Overdrafts	-	-	-	-	-
<b>Total</b>	<b>14,859</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,859</b>

	1- 3 Months	3-6 Months	6-12 Months	> 1 Year	Total
<b>2007</b>					
Mortgage secured	-	-	-	-	-
Personal loans	11,877	-	-	-	11,877
Overdrafts	-	-	-	-	-
<b>Total</b>	<b>11,877</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,877</b>

**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 to 181 days	40
181 days to 270 days	60
270 days to 265 days	80
Over 365 days	100

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	2008 \$	2007 \$
<b>9. AVAILABLE FOR SALE INVESTMENTS</b>		
<b>Shares in unlisted companies – at cost</b>		
- Cuscal Limited	166,277	166,277
	<u>166,277</u>	<u>166,277</u>

**Cuscal Limited**

The shareholding in Cuscal Limited is measured at cost as its fair value could not be measured reliably. This company 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.

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	2008 \$	2007 \$
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>		
<b>a. Plant and equipment - at cost</b>	498,945	424,027
Less: provision for depreciation	(353,917)	(307,143)
	<u>145,028</u>	<u>116,884</u>
 <b>Capitalised leasehold improvements at cost</b>	 288,918	 278,981
Less: provision for amortisation	(279,093)	(277,409)
	<u>9,825</u>	<u>1,572</u>
 <b>Total Plant and Equipment</b>	 <u>154,853</u>	 <u>118,456</u>

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

	2008			2007		
	<i>Plant &amp; equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>	<i>Plant &amp; equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$
Opening balance	116,884	1,572	118,456	98,805	2,298	101,103
Purchases	131,651	9,937	141,588	82,344	-	82,344
<u>Less:</u>						
Assets disposed	(29,549)	-	(29,549)	-	-	-
Depreciation charge	(73,958)	(1,684)	(75,642)	(64,265)	(726)	(64,991)
<b>Balance at the end of the year</b>	<b>145,028</b>	<b>9,825</b>	<b>154,853</b>	<b>116,884</b>	<b>1,572</b>	<b>118,456</b>

	2008 \$	2007 \$
<b>11. TAXATION ASSETS</b>		
Deferred Tax Assets	96,334	102,218
Deferred tax assets comprise:		
Accrued expenses not deductible until incurred	9,941	9,029
Provisions for impairment on loans	7,553	9,300
Provisions for employee benefits	41,209	42,455
Provisions for other liabilities		-
Depreciation on fixed assets	32,382	34,163
Effective Interest Rate	5,249	7,271
	96,334	102,218
<b>12. INTANGIBLE ASSETS</b>		
Computer software	30,270	13,725
Less provision for amortisation	-	-
<b>Total Intangible Assets</b>	30,270	13,725
<b>Movement in the assets balances during the year were :</b>		
Opening balance	13,725	-
Purchases	16,545	13,725
<u>Less:</u>		
Assets disposed	-	-
Depreciation charge	-	-
<b>Balance at the end of the year</b>	30,270	13,725

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	2008 \$	2007 \$
<b>13. DEPOSITS FROM MEMBERS</b>		
Member Deposits		
- At call	16,039,977	13,947,733
- Term	19,779,393	21,052,663
Member withdrawable shares	38,660	37,650
	<u>35,858,030</u>	<u>35,038,046</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		
NSW	34,907,140	33,899,785
Victoria	34,538	20,835
Queensland	270,160	654,991
South Australia	13,007	10,486
Western Australia	72,954	38,856
ACT	49,581	41,657
Other Territories	510,650	371,436
Total per balance sheet	<u>35,858,030</u>	<u>35,038,046</u>

**14. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS**

Annual leave	69,863	76,042
Creditors and accruals	97,547	72,359
Interest payable on deposits	315,529	303,587
Accrual for GST payable	1,360	-
Sundry Creditors	454,540	118,622
	<u>938,839</u>	<u>570,610</u>



	2008 \$	2007 \$
<b>15. TAXATION LIABILITIES</b>		
Current income tax liability	(2,583)	(12,795)
	<u>(2,583)</u>	<u>(12,795)</u>
<b>Current income tax liability comprises:</b>		
Balance (refund) – previous year	(12,795)	(20,201)
Less paid (received)	<u>(11,256)</u>	<u>(20,201)</u>
Amount written off to tax expense	<u>(1,539)</u>	<u>-</u>
Liability for income tax in current year	116,974	153,345
Less Instalments paid in current year	<u>(119,557)</u>	<u>(166,140)</u>
Balance – current year	<u>(2,583)</u>	<u>(12,795)</u>
<b>16. PROVISIONS</b>		
Long service leave	67,499	65,475
	<u>67,499</u>	<u>65,475</u>
<b>17. CAPITAL RESERVE ACCOUNT</b>		
Balance at the beginning of the year	22,870	9,900
Transfer from retained earnings on share redemptions	<u>1,130</u>	<u>12,970</u>
Balance at the end of year	<u>24,000</u>	<u>22,870</u>

**Share Redemption**

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

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	2008 \$	2007 \$
<b>18. GENERAL RESERVE FOR CREDIT LOSSES</b>		
General reserve for credit losses	461,067	461,067
Other reserve for credit losses	-	-
	<u>461,067</u>	<u>461,067</u>

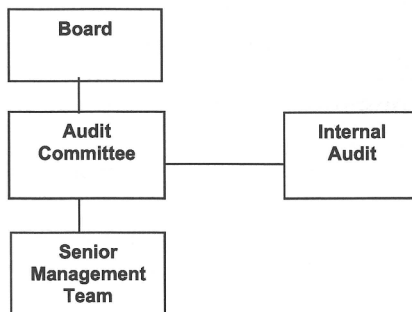
**General reserve for credit losses**

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 main elements of risk governance are as follows:

**Board:** This is the primary governing body. It approves the level of risk which the credit union is exposed to and the framework for reporting and mitigating those risks. 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 the significant risks and controls 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 :-

- Corporate Governance
- Fit and Proper
- Interest rate risk
- Liquidity Management
- Credit risk management
- Operations risk management including data risk management
- Capital Management
- Business Continuity Management
- Outsourcing

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.

## **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

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 quarterly 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 2008 (30 June 2007), the increase in net profit for a 1% (2007: 1%) increase in interest rates would be \$30,554 (2007: \$105,679).

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the credit union for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over to the loan products and term deposits;
- 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 when requested.

The credit union manages liquidity risk by:

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- 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:

	2008	2007
<b>Liquid funds to total adjusted liabilities</b>		
As at 30 June	17.44%	18.56%
Average for the year	18.79%	17.45%
Minimum during the year	14.83%	14.45%
<b>Liquid funds to total member deposits</b>		
As at 30 June	21.01%	23.13%

**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.

**CREDIT RISK – LOANS**

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

	2008			2007		
	Carrying value	Commitments	Max exposure	Carrying value	Commitments	Max exposure
	\$	\$	\$	\$	\$	\$
Mortgage	25,495,410	3,341,881	28,837,291	22,133,158	5,186,238	27,319,396
Personal	11,009,994	814,193	11,824,187	12,369,208	776,498	13,145,706
Overdrafts	120,380	1,786,760	1,907,140	121,248	1,409,016	1,530,264
Total to natural persons	36,625,784	5,942,834	42,568,618	34,623,614	7,371,752	41,995,366
Corporate borrowers	-	-	-		-	-
Total	36,625,784	5,942,834	42,568,618	34,623,614	7,371,752	41,995,366

Carrying value is equal to value on balance sheet. Maximum exposure is equal to the value on the balance

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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 principal 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.

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 sizeable portfolio 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 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 – industrial and geographical**

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. Geographical concentration exists within New South Wales. This concentration is considered acceptable on the basis that members are located throughout the state, which mitigates against the risk of a regional slowdown.

**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:

	2008	2007
Investments with	Carrying value	Carrying value
Cuscal – rated AA-	5,889,429	7,000,000
Total	5,889,429	7,000,000

**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 sufficiently robust 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 outages. The plan includes reciprocal assistance agreements with two other Credit Unions to support each other with processing facilities in the event of physical disasters such as building fire, to enable continuation of service to members. 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 earnings
- Realised reserves.

The preference shares issued are approved by APRA and qualify as Tier 1 capital.

**Tier 2 Capital**

Tier 2 capital comprises a General Reserve for Credit Losses

Capital in the credit union is made up as follows:

	2008	2007
<b>Tier 1</b>		
Share capital		
Capital reserve	24,000	22,870
General reserve		
Retained earnings	7,380,906	7,112,297
	7,404,906	7,135,167
Less prescribed deductions	(179,472)	(185,356)
Net tier 1 capital	7,225,434	6,949,811
 <b>Tier 2</b>		
Subordinated debt		
Reserve for credit losses	275,192	334,195
	(83,138)	(83,138)
Less prescribed deductions		
Net tier 2 capital	192,054	251,057
 Total Capital	7,417,488	7,200,868

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.

		Value	Weighted Value
<b><u>Credit Risk</u></b>			
<i>On Balance Sheet Assets:</i>			
Cash	0%	71,969	-
Deposits in highly rated ADI's	20%	7,522,415	1,504,483
Deposits in less highly rated ADI's	50% - 150%	-	-
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	25,274,656	8,846,129
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 100%	5,147,014	3,028,873
Investments in equity instruments	150%	-	-
Other assets	100%	6,549,411	6,549,411
Total		44,565,465	19,928,896
<i>Off Balance Sheet Assets</i>			
		-	2,086,481
Total Credit Weighted Risk		-	22,015,377
<b><u>Operational Risk</u></b>			
		-	2,588,160
Total Risk Weighted Value		-	24,603,537

*The risk weighted assets processes were modified by APRA as from the 1 January 2008 as part of the Basel 2 Prudential framework enhancements. Comparative data has not been available on the revised methods – the risk weighted assets for 2007 and prior reflect the previous methodology.*

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

2008	2007	2006	2005	2004
30.14%	26.93%	24.57%	29.75%	29.77%

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 union's 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 \$207,053 (30<sup>th</sup> June 2008)

## 20. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

	Note	2008 \$	2007 \$
<b>Financial assets</b> - carried at amortised cost			
Cash	4	1,634,604	1,095,193
Receivables from financial institutions -	5	5,889,429	7,000,000
Receivables		70,351	85,279
Prepayments		56,517	69,039
Settlement accounts		41,631	36,705
Loans to members	7 & 8	36,583,109	34,568,381
<b>Total loans and receivables</b>		<u>44,275,641</u>	<u>42,854,597</u>
Available for sale investments - carried at cost		166,277	166,277
Available for sale investments - carried at fair value		-	-
<b>Total available for sale investments</b>		<u>166,277</u>	<u>166,277</u>
<b>TOTAL FINANCIAL ASSETS</b>		<u>44,441,918</u>	<u>43,020,874</u>
<b>Financial liabilities</b>			
Creditors		413,076	375,946
Settlement accounts		454,540	118,622
Deposits from members	13	35,858,030	35,038,046
<b>Total carried at amortised cost</b>		<u>36,725,646</u>	<u>35,532,614</u>
<b>TOTAL FINANCIAL LIABILITIES</b>		<u>36,725,646</u>	<u>35,532,614</u>

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**2008 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.

	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
2008							
<b>LIABILITIES</b>							
Creditors	552	-	-	-	-	-	552
Deposits from members:							
- At call	16,079	-	-	-	-	-	16,079
- Term	2,773	5,608	11,135	1,159	-	-	20,675
<b>Total Financial Liabilities</b>	19,404	5,608	11,135	1,159	-	-	37,306

	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
2007							
<b>LIABILITIES</b>							
Creditors	191	-	-	-	-	-	191
Deposits from members:							
- At call	13,985	-	-	-	-	-	13,985
- Term	8	10,704	9,715	1,466	-	-	21,893
<b>Total Financial Liabilities</b>	14,184	10,704	9,715	1,466	-	-	36,069

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**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.

	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing \$'000	Total
2008							
<b>ASSETS</b>	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash	1,635	-	-	-	-	-	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	28,204	14,540	1,406	-	-	334	44,484
Undrawn commitments Note 24	5,943	-	-	-	-	-	5,943
<b>Total Financial Assets</b>	34,147	14,540	1,406	-	-	334	50,427
<b>LIABILITIES</b>							
Creditors	-	-	-	-	-	868	868
Deposits from members:							
- At Call	16,040	-	-	-	-	39	16,079
- Term	2,692	5,436	10,604	1,047	-	-	19,779
On Balance sheet	18,732	5,436	10,604	1,047	-	907	36,726
<b>Total financial liabilities</b>	18,732	5,436	10,604	1,047	-	907	36,726
2007							
<b>ASSETS</b>	\$'000	\$'000	\$'000	\$'000	\$'000	Non Interest Bearing \$'000	\$'000
Cash	1,095	-	-	-	-	-	1,095
Receivables	-	-	-	-	-	191	191
Advances to other financial Institutions	-	5,000	2,000	-	-	-	7,000
Loans and advances	25,967	2,631	6,026	-	-	-	34,624
Other Investments	-	-	-	-	-	166	166
On Balance sheet	27,062	7,631	8,026	-	-	357	43,076
Undrawn commitments Note 24	7,372	-	-	-	-	-	7,372
<b>Total Financial Assets</b>	34,434	7,631	8,026	-	-	357	50,448
<b>LIABILITIES</b>							
Creditors	-	-	-	-	-	495	495
Deposits from members:							
- At Call	13,948	-	-	-	-	38	13,986
- Term	2,861	7,793	9,217	1,181	-	-	21,052
On Balance sheet	16,809	7,793	9,217	1,181	-	533	35,533
Undrawn commitments	-	-	-	-	-	-	-
<b>Total Financial Liabilities</b>	16,809	7,793	9,217	1,181	-	533	35,533

### 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	2008 Carrying Value	Variance	Fair Value	2007 Carrying Value	Variance
<b>2008</b>	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
<b>FINANCIAL ASSETS</b>						
Cash	1,635	1,635	-	1,095	1,095	-
Receivables (1)	168	168	-	191	191	-
Advances to other financial institutions	5,890	5,889	1	7,000	7,000	-
Loans and advances	36,540	36,583	(43)	34,568	34,568	-
Other Investments	166	166	-	166	166	-
<b>Total Financial Assets</b>	<b>44,399</b>	<b>44,441</b>	<b>(42)</b>	<b>43,020</b>	<b>43,020</b>	<b>-</b>
<b>FINANCIAL LIABILITIES</b>						
Creditors (1)	868	868	-	495	495	-
Deposits from members:						
- At Call	16,079	16,079	-	13,986	13,986	-
- Term	18,852	19,779	(927)	21,099	21,052	47
<b>Total Financial Liabilities</b>	<b>35,799</b>	<b>36,726</b>	<b>(927)</b>	<b>35,580</b>	<b>35,533</b>	<b>47</b>

(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.

**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.

	2008 \$	2007 \$
<b>24. FINANCIAL COMMITMENTS</b>		
<b>a. Outstanding loan commitments</b>		
The loans approved but not funded	466,308	2,038,803
<b>b. Loan redraw facilities</b>		
The loan redraw facilities available	4,697,638	4,372,412
<b>c. Undrawn loan facilities</b>		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	1,237,925	1,278,825
Less: Amount advanced	459,037	318,288
Net undrawn value	778,888	960,537
 These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
<b>Total financial commitments</b>	<u>5,942,834</u>	<u>7,371,752</u>



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**2008 Annual Financial Report****Expenditure commitments****2008**  
**\$****2007**  
**\$****d. Computer capital commitments**

As referred to in Note 28.c the credit union will be converting to the Ultracs core banking system in 2008

The costs committed under contracts relating to the core banking system conversion are as follows:

Not later than one year	23,410	12,152
Later than 1 year but not 2 years	29,873	12,468
Later than 2 years but not 5 years	68,655	-
Later than 5 years	16,946	-
	<u>138,884</u>	<u>24,620</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	22,103	86,878
Later than one year but not later than five years	-	21,981
Over five years		-
	<u>22,103</u>	<u>108,859</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	31,920	10,800
Later than 1 year but not 2 years	30,444	5,400
Later than 2 years but not 5 years	15,222	-
Later than 5 years	-	-
	<u>77,586</u>	<u>16,200</u>

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**25. STANDBY BORROWING FACILITIES**

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

**2008**

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

**2007**

	<b>Gross</b>	<b>Current Borrowing</b>	<b>Net Available</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loan Facility	500,000	-	500,000
Overdraft Facility	700,000	-	700,000
<b>TOTAL STANDBY BORROWING FACILITIES</b>	<b>1,200,000</b>	<b>-</b>	<b>1,200,000</b>

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 (2007 – 2 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:

	2008		2007	
	Directors	Other KMP	Directors	Other KMP
	\$	\$	\$	\$
(a) short-term employee benefits;	-	355,792	-	223,234
(b) post-employment benefits - superannuation contributions	-	32,734	-	24,877
(c) other long-term benefits – net increases in long service leave provision	-	7,298	-	8,119
(d) termination benefits;	-	-	-	-
(e) share-based payment.	-	-	-	-
<b>Total</b>	-	395,824	-	256,230

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, paid maternity leave, value of fringe benefits received**, but excludes out of pocket expense reimbursements.

All remuneration to directors was approved by the members at the previous Annual General Meeting of the credit union (2007 - \$0).

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	2008 \$	2007 \$
<b>b. Loans to Directors and other Key Management Persons</b>		
(i) The aggregate value of loans to directors and other key management persons as at balance date amounted to	587,963	487,639
(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	234,881	-
	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	42,336	38,911

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 –

	2008 \$	2007 \$
Total value Term and Savings Deposits from KMP	312,598	155,512
Total Interest paid on deposits to KMP	37,149	2,872

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;
- (iii) provides treasury and money market facilities to the credit union. The credit union has invested all of its liquid assets with the credit union 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 will be converting to the Ultracs core banking system in 2008.

**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

	2008 \$	2007 \$
Cash on Hand	71,969	71,507
Deposits at Call	1,562,635	1,023,686
	<u>1,634,604</u>	<u>1,095,193</u>

### b. Reconciliation of Cash from Operating Activities to Operating Profit

Profit after Income Tax	269,739	395,506
Add:		
Increases in Amortised fees on loans	(6,736)	(590)
Increase in Provisions for Loans	(5,822)	(25,413)
Depreciation	70,049	64,991
Gain on sale of fixed assets	(4,724)	(16,364)
Amortisation of Intangible assets		
<b>Increases in Liabilities</b>		
Creditors and Accruals	25,190	13,153
Interest Payable	11,942	161,186
Staff Entitlements	(4,155)	35,137
Income Tax	10,212	7,406
Deferred Tax Liability	-	-
Accrued taxes - GST payable	1,360	-
<b>Increases in Assets</b>		
Interest Receivable - Deposits FI's	14,928	(4,385)
Prepayments	12,522	(7,794)
Deferred Tax Asset	5,884	(3,171)
GST Receivable	(2,085)	(1,601)
Net Cash From Operating Activities	<u>398,304</u>	<u>618,061</u>

## **32. CORPORATE INFORMATION**

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

Registered office:

Level 2 KMS Building  
8-24 Kippax St  
SURREY HILLS NSW 2010

Principal place of business:

Level 2 KMS Building  
8-24 Kippax St  
SURREY HILLS NSW 2010

The nature of the operations and the principal activities of the Credit Union is to provide financial and banking services for its Members.

## **33. ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES**

### **Board**

The Credit Union Board has responsibility for the overall management and strategic direction of the Credit Union. All Board members are independent of management and are elected by Members on a rotation of every 3 years.

Each Director must be eligible to act under the constitution as a Member of the Credit Union and Corporations Act 2001 criteria. The Directors will need to also satisfy the Fit and Proper criteria set down by APRA.

The Board has established policies to govern conduct of the Board meetings, Director conflicts of interest and training so as to maintain Director awareness of emerging issues and to satisfy all governance requirements.

Directors of the Credit Union receive no remuneration from the Credit Union. Remuneration of Directors is set by the Members at the Annual General Meeting.

### **Audit Committee**

The Audit Committee assists the Board in relevant matters of financial prudence. Consisting of three Directors, this committee also includes CEO, internal/external auditor and senior management participation.

Oversight of the financial reporting and risk management framework includes:

- Monitoring audit reports received from Internal and external auditors, and management's responses thereto;
- Liaising with the auditors (internal and external) on the scope of their work, and experience in conducting an effective audit
- Ensuring the external auditors remain independent in the areas of work conducted
- Monitoring matters of operational risk management and APRA reporting obligations
- Monitoring the Credit Union's compliance with applicable laws

### **Management Salaries**

All management are remunerated by salary packages only. There are no bonus or equity benefits available to management.

### **Compliance Officer**

The Credit Union has a Compliance Officer who is responsible for maintaining the awareness of staff for all changes in compliance legislation and responding to staff inquiries on compliance matters. The officer also monitors the FSR License obligations and responds to all Member complaints and disputes should they arise.

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#### **External Audit**

Audit is performed by BDO Kendalls as part of the BDO International group - a major international accounting body. The firm of Kendalls has been auditing Credit Unions for 32 years and audits over 36 Credit Unions in NSW. The firm utilises sophisticated Computer Assisted Audit Software to supplement the compliance testing.

#### **Internal Audit**

An internal audit function has been established using the services of a suitably qualified consultant to deal with the areas of internal control compliance and regulatory compliance only.

These matters are also examined by the external auditors. The work performed by the external auditors is examined by the audit committee to ensure that it is consistent with the current external audit reporting role and does not impair their independence.

This role is also supplemented by other external compliance reviews performed by security audits on the Data Processing centres for adequacy of the back up, disaster recovery and Internet security systems.

#### **Outsourcing**

The Credit Union has a contract in place with *DBP Consulting*, for the provision of internal audit services to the Credit Union. The contract runs until 30 June 2008.

The Credit Union has a contract in place with *The System Works*, for the provision of I.T. bureau services to the Credit Union. The contract runs until 31 December 2008.

The Credit Union has a contract in place with *Cuscal*, for the provision of wholesale and aggregated transactional banking services. The contract runs until 31<sup>st</sup> December 2012.

Material outsourced contracts are governed by the Credit Union's outsourcing policy, which requires the Credit Union to adequately assess the ability of a potential service provider to perform an outsourced function, and also requires the Credit Union to regularly assess a provider's performance and report the findings to the Board and APRA.

#### **Regulation**

The Credit Union is regulated by

- Australian Prudential Regulation Authority (APRA) for the Prudential risk management of the Credit Union.
- ASIC for adherence to Corporations Act, Accounting Standards disclosures in the financial report and Financial Services Reform (FSR) requirements. The FSR legislation requires the Credit Union to disclose details of products and services; maintains training for all staff who deal with Members, and provides an effective and independent complaints handling process.
- Department of Fair Trading, for compliance with the requirements of the Consumer Credit Code.

Under the FSR licensing arrangements, all staff who deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Both ASIC and APRA conduct periodic inspections, and the auditors report to both bodies annually on compliance with respective requirements. Additionally the external auditors report to both ASIC on FSR compliance and APRA on Prudential policy compliance.



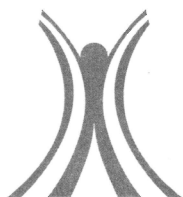
### **Occupational Health and Safety**

The nature of the finance industry is such that the risk of injury to staff and the public can be less apparent than in other high risk industries. Nevertheless our two most valuable assets are our staff and our Members, and steps are taken to maintain appropriate security and safety.

OH & S policies have been established for the protection of both Members and staff and are reviewed annually for relevance and effectiveness.

Staff are trained in robbery procedures and our premises are designed to deter such acts.

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs of the public and staff. Independent security consultants report annually on any areas of improvement which may be considered. If a security incident was to occur, all staff have access to appropriate counsellors where required. Secure cash handling policies are in place, and injury from lifting heavy weights and RSI are managed by proper techniques to minimise risk.



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your road to financial success

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