



## Contact Us

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Focusing on the most important part of  
our business.

**You.**



Focusing on the most important part of our business. **You.**



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# Chairman's Letter 2009

On behalf of the Board of Directors I would like to present the 38th Annual Report of Intech Credit Union Limited for the year ended 30 June 2009.

As this is the first year that I have had to report an after tax loss to you, I believe I need to explain to you how it came about, and the strategies we are putting in place to secure our future.

However, first the good news.

Intech remains in a strong financial position;

- Assets increased by \$19 million, 11% to \$166 million
- Member Deposits grew by \$17million, 16% to \$125 million.
- Member Loans grew by \$2.5 million, 2% to \$127 million
- Our Capital Adequacy remains very solid at 22.48%

However, as the entire financial sector around the globe last year was tested in the extreme, our interest margin reduced from 3.62% to 3.18%. With our average loan portfolio of \$150 million, this amounted to a decrease of \$550,000 in the interest margin. This was the major contributor to our final result, a net loss after tax of \$61k.

To say that this has been a challenging year would be an understatement. Never in our history have we seen the Reserve Bank's official cash rate move by such a large amount in such a short period of time. Prior to September 2008, the official cash rate had been increasing slowly and between September and February 2009, it dropped 4% from 7.25% to 3.25% with a further 0.25% reduction in April.

The impact of these rate changes on your credit union has been significant. Prior to September 08 the credit union had very high loan demand and was having difficulty attracting deposits as the other banks tried to shore up their capital. The result was we had to pay high interest for Fixed Term Deposits, which were locked into terms for up to 12 months. When the official cash rate started its rapid drop, we reduced the interest on our mortgage loans to remain competitive, thereby exposing ourselves to a loss in our interest rate margin. However members benefited, as indeed they should.

To protect our members from these rapid changes in interest rates, in the 2008/9 fiscal year, we did not raise our mortgage rates in the first half in line with the cash rate — unlike the banks. And when the rate fell in the second half of the year, we lowered ours — again not quite in line with the official rate, but well below the banks. Obviously, this hit our profit though it maintained our commitment to members' needs in keeping with our vision and promise.

Although changes were made to the fee structure during the year, we maintained our low fee structure, compared to other financial institutions. This year we were able to save our members \$486k in transaction fees through our Member Bonus Allowance. The total cost to Intech from other financial institutions for transaction fees was \$655k while we only charged our members a total of \$169k. This is another example of the benefits of being a member.

As you are probably aware, being a mutual the Credit Union is unable to return profits back to members like a listed bank through shares and dividends. Hence profits are returned to members through the Member Bonus Allowance. Had the true cost been charged to members, the result would have been a \$416k profit before tax.

## Where to from here (Budget 2009-2010):

I am pleased to be able to report that nearly all of the Fixed Term Deposits that were earning high interest have matured. The interest rate margin is now returning to normal levels.

Our budget for 2009-2010 has been prepared as the first step in achieving the objectives of our strategic plan 2009 – 2012.

- Increase Total Assets by 7% to \$175million
- Increase Loan Portfolio by 8% to \$137million
- Increase Member Deposits by 8% to \$134million
- After Tax Profit \$474k

In addition, we have negotiated deals so that Intech now has one of the largest ATM cash withdrawal networks in the country. Intech members can withdraw cash at the Credit Union's own ATMs, the Rediteller network, NAB ATMs and the Cashcard network, with access to 8000 ATMs throughout Australia. This is in response to our members' home, work and business mobility which spread transactions across the country.

## Strategic Plan 2009-2012

In the Plan we identified a number of key areas to focus on for the next three years in line with our vision.

### Intech's Vision Statement:

Every member of our credit union  
is treated as an individual.

We will anticipate their needs and  
provide them with products and  
services to help them to achieve  
their financial goals.

### Intech's Promise to our Members:

We promise you that:

- In all our dealings with you, we will take the time to understand and anticipate your individual needs.
- We will proactively promote the products and services that will best meet your needs and be of benefit to you.
- We will treat you with respect and communicate with you intelligently and honestly.
- Management are developing strategies to achieve the following goals:

1. Develop a high performance culture
2. Develop Market Positioning
3. Grow the business
4. Reduce Operating Expenses

## Our Staff

Once again our staff performed under intense pressure; firstly providing a level of service to our members to meet the requirements of our Vision, and secondly to meet the challenges of an ever-changing financial services landscape.

To the 30th June this year we had a number of staff achieving milestones:

- Linda Dean 15 Years
- Edna Searles 10 years
- Pieta Laker 10 years

It is a testament to our Human Resource practices that out of a total staff of 35, 13 have more than 10 years service.

On behalf of the Board I thank them all for their hard work.

The Board would also like to thank the management team comprising of Leigh Glaser (CEO), Kellie Tait (COO), Julian Facer (CFO) and Maria Krohn (Loans Manager) for their contribution and hard work through a very difficult period.

## Board

All Directors and Associate Directors once again gave generously of their energy and time, serving not only on the Board but also on the Audit, Risk, Governance and Board Renewal, and the Tactical Growth Committees. Their professionalism has made a major contribution to Intech. We continue to focus on the key areas of strategic planning, corporate governance and policy making, and are committed to providing our members with a trusted alternative for their financial needs.

It gives me great pleasure to record here my appreciation of the fine team spirit and co-operation that exists between the Board and Management of Intech Credit Union.

Whilst the profit result is not what we envisaged at the beginning of the year, or even at the end of December, the way in which the Board and Management have worked together to find solutions was heartening and speaks well for the future.

Board, Management and Staff look forward to serving our members in the years to come.



Jim Jefferis  
Chairman

# 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 must also satisfy the Fit and Proper criteria set down by the Australian Prudential Regulatory Authority (APRA).

The Board has established policies to govern the 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.

## Board Remuneration

The Board receives remuneration from the Credit Union in the form of allowances agreed each year at the Annual General Meeting and specified out of pocket expenses. There are no other benefits received from the Credit Union by the Directors.

## Board Committees

An Audit Committee, Risk Committee, Governance Committee and Tactical Growth Committee have been formed to assist the Board in relevant matters of financial prudence and corporate governance. The Directors form the majority of these committee members with Senior Management as participating members.

### Audit Committee

The Audit Committee is established to oversee the financial reporting and audit process. Its role 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;
- Recommending approval of financial budgets;
- Ensuring the external auditors remain independent in the areas of work conducted;
- Monitoring the matters of operational risk management and APRA reporting obligations; and
- Monitoring the compliance with applicable laws;
- Monitoring the performance KPI's against budget;
- Monitoring any Whistleblower Protection Policy Issues through the Whistleblower Protection Officer.

### Risk Committee

The Risk Committee is established to assist the Board of Directors in the discharge of its responsibilities for:

- Formulating the risk strategy of the Credit Union;
- Determining the policies that ensure the strategy is adhered to, and;
- Monitoring adherence to those policies.

### Governance Committee

The Governance Committee oversees the compliance and assists the Board in continually improving its governance practises. Its role includes:

- Monitor corporate governance and raise issues for improvement;
- Corporate strategy recommendations;
- Determining the CEO Remuneration and key performance criteria;
- Development of governance policies regarding Board processes, succession plans, disclosure of information;
- Manage the Board and Director assessment programs; and
- Monitoring policy compliance with the relevant statutory authorities.

The Governance Committee also acts as the Board Renewal Committee responsible for:

- Establishing and monitoring the Board and Director evaluation to ensure all directors have the skills necessary to make an effective contribution to the Board.
- Ensure the Board has a majority of independent Directors at all times;
- Specify how the Credit Union will recruit new directors with appropriate skills, knowledge and experience to enhance the Board composition;
- Develop a process and interview any nominees for Board positions including Directors that are retiring and seeking a further 3 year term;
- Recommend to the Board appropriateness of candidates for Board endorsement.

### Tactical Growth Committee

The Tactical Growth Committee monitors the Credit Union's performance against the strategic plan and budget. Its role includes:

- Ensure that if targets are not being achieved corrective action is put in place to bring performance in line with budget, Board expectations and market opportunity;
- Create an environment by which collective knowledge and experience of the Board may be accessible to the Credit Union management as appropriate.

## Policies

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

Key Risk Management Policies include:

- Capital Adequacy Management
- Liquidity Management
- Credit Risk Management
- Operations Risk Management
- Business Continuity Management

## Risk and Compliance Manager

The Credit Union has a Risk and Compliance Manager who is responsible for maintaining the awareness of staff for all changes in compliance legislation and responding to staff enquiries on compliance matters. The Risk and Compliance Manager also monitors the FSR Licence obligations and responds to all member complaints and disputes should they arise.

## External Audit

Audit is performed by BDO Kendalls Audit Assurance (NSW-VIC) Pty Ltd as part of the BDO international group, a major international accounting body. The firm of Kendalls has been auditing credit unions for over 30 years. The firm utilises sophisticated Computer Assisted Audit Software to supplement the compliance testing.

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.

## Internal Audit

An internal audit function has been outsourced to Step Ahead Business Solutions, an Internal Audit Consultant to deal with the areas of internal control compliance and regulatory compliance only. These matters are also examined by the external auditors.

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.

## Regulation

The Credit Union is regulated by:

- Australian Prudential Regulation Authority (APRA) for the Prudential Risk Management of the Credit Union.
- Australian Securities & Investment Commission (ASIC) for adherence to Corporations Act, Accounting Standards and disclosure in the financial report, and Financial Services Reform (FSR) requirements. The FSR legislation requires the Credit Union to disclose details of products and services; maintain training for all staff who deal with Members, and provide an effective and independent complaints handling process.

Under the FSR licensing arrangements all staff that 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 both quarterly and annually on compliance with respective requirements. The external auditors also report to both ASIC on the FSR compliance and APRA on the 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 are less apparent than in other high risk industries. Nevertheless our two most valuable assets are our staff and our Members and steps need to be taken to maintain their security and safety when circumstances warrant.

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 offices are designed to detract from such acts by:

- Little or no cash being held in accessible areas
- Cameras and counter screens at allow detection of persons

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.

All staff have access to trauma counsellors where required following an incident which may impair their feeling of safety in the work place.

# Director's Report

Your Directors present their report on the Credit Union for the financial year ended 30 June 2009. The Credit Union is a company registered under the Corporations Act 2001.

## Information on Directors

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

Mr. R Chaplin (Associate), Mr. R Dean, Mr. A Esteban, Ms. T Gillen (Associate), Mr. S Jain (Associate), Mr. J Jefferis, Mr. D Mackay, Ms. D MacLean, Ms. A Risku, Mr. G. Smith.

## Directors Meetings Attendance

Director	Meetings Held	Meetings Attended	Period of Appointment
Chaplin R*	13	12	Associate Director
Dean R	13	11	22/11/07 to present
Esteban A	13	11	27/11/08 to present
Gillen T**	13	12	Associate Director
Jain S***	9	9	Associate Director to Mar 09
Jefferis J	13	12	23/11/06 to present
Mackay D	13	13	27/11/08 to present
MacLean D	13	12	22/11/07 to present
Risku A-L	13	12	27/11/08 to present
Smith G	13	12	23/11/06 to present

\* Mr Chaplin (Associate Director) acted as Alternate on 2 occasions.

\*\* Ms Gillen (Associate Director) acted as Alternate on 2 occasions

\*\*\* Mr Jain (Associate Director) acted as Alternate on 3 occasions

## Company Secretary as at 30 June 2009

Name	Qualifications	Experience
Leigh Glaser	Diploma of Finance, FACUI	CEO Intech Credit Union 2006 to present Executive Manager – Intech Credit union 2005-2006 General Manager – Telstra Credit union 1994-2005

## Audit Committee Attendance

Director	Meetings Held	Meetings Attended
Chaplin R	15	13
Dean R	12	8
Risku A-L	15	14
Mackay D	15	15

## Risk Committee Attendance

Director	Meetings Held	Meetings Attended
Jain S	4	4
Risku A-L	3	3
Esteban A	10	9
Jefferis J	3	2
MacLean D	10	9

## Governance Committee Attendance

Director	Meetings Held	Meetings Attended
Dean R	10	9
Jefferis J	10	10
Risku A-L	7	6
MacLean D	3	2

## Tactical Growth Committee Attendance

Director	Meetings Held	Meetings Attended
Jefferis J	6	5
Esteban A	11	11
Smith G	11	10
Jain S	5	4
Gillen T	10	10

## 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 30 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.

# Director's Report

## 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 loss of the Credit Union for the year after providing for income tax was (\$60,897), (Profit of \$421,615 in 2008).

### Dividends

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

### Review of operations

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

### Significant changes in state of affairs

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

### Events occurring after balance date:

No matters or circumstances have arisen since the end of the financial year which 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 other matter, circumstance or likely development in the operations has arisen since the end of the financial year that 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.

## Information On Current Directors

### Director: Jim Jefferis – Chair

Qualifications: BSc Hons, Pure Mathematics, University of Manchester  
Post Graduate Certificate of Education, University of Wales  
Fellow, Australasian Mutuals Institute (FAMI)

Experience: A member of Intech since 1986 and a Board member since 2000. Chairman since January 2004. Chair of Governance Committee and member of the Risk Committee.

Served 30 years with IBM comprising 10 years to senior SE level in London and 20 years in Sydney as an IBM Brand and Client Relationship Manager, mainly in banking and finance.

### Director: Anna-Leena Risku – Vice Chair

Qualifications: Bachelor of Arts (Mathematical Statistics and Psychology)  
Master of Business Administration  
Master of Accounting  
Fellow, Australian Institute of Company Directors (FAICD),  
Certified Practising Accountant (CPA)  
Member, Australasian Mutuals Institute (MAMI),  
Member, The Finance and Treasury Association (FTA)

Experience: A member of Intech since 1984 and a Board member since 2002. Chair of Audit Committee and Vice-Chair since 2003. Also serving on the Risk Committee and past member of Governance and Board Renewal Committee.

25 years experience in IBM, mainly in Finance and Planning. Roles include Corporate Planner, Finance Manager of cost pools, brand revenue and profitability, and large-scale outsourcing contracts. Chief Financial Officer – IBM Business Consulting Services ANZ 2002-2005. Chief Financial Officer – IBM Global Financing A/ NZ, 2005 – 2007. Associate Partner, Financial Services Sector, IBM Global Business Services 2007-2009. Currently Financial Controller – Strategic Outsourcing, IBM Asia Pacific

### Director: Rodney Chaplin – Associate Director

Qualifications: Bachelor of Engineering (Hons) (2005), Macquarie University Member of Australasian Mutual Institute (MAMI)

Experience: Intech member since 2008  
Associate Director 24 June 2008. Member Audit Committee.  
IBM Australia since January 2006– currently key account client executive (communications sector)

### Director: Robert Dean

Qualifications: Bachelor of Business Charles Sturt University  
Fellow Australian Institute of Company Directors (FAICD)  
Fellow Australasian Mutual Institute (FAMI)

Experience: Member Telstra Credit Union since 1971.  
Director Telstra Credit Union since 1976  
Chair Telstra Credit Union 2000 - 2005.  
Appointed to Intech CU Board on merger April 2005.

Member of Governance and Board Renewal Committee and the Audit Committee.

31 years experience with Telstra Corporation. The last 14 years working in company secretariat and corporate governance.

## Director: Alf Esteban – Director

Qualifications: Bachelor of Science, Graduate Diploma in Commercial Bank Management, Master of Business Administration  
Fellow Finance and Securities Institute, Graduate Australian Institute of Company Directors, (GAICD)  
Member Australasian Mutuals Institute (MAMI),  
Member Australian Compliance Institute, Associate Global Association of Risk Professionals, Certified Compliance Professional

Experience: Member Intech Credit Union since 1986  
Director 1993 to 1995, Vice Chair 1995, Member Audit Committee 1995. Rejoined Board as Associate Director 2005. Elected as Director, 2005. Member Audit Committee July 2007 – November 2007, Member Growth Strategy Committee November 2007 to June 2008. Chair of the Tactical Growth Committee November 2008 to June 2009. Member Risk Committee  
Director and Company Secretary RIA Financial Services Australia, Director Associated Foreign Exchange Australia (resigned December 2008)  
Head of Consulting and Client Services – Asia Pacific Governance, Risk and Compliance Division SAI Global, Managing Principal StratEdge Consulting. Previously General Manager OM Technology Asia Pacific, and 21 years at IBM (Australia, UK, Singapore), primarily focused on banking and financial markets clients.

## Director: David Mackay

Qualifications: Bachelor of Science BSc  
LLB University of NSW (1990) Practiced as Solicitor in NSW 1991-1994. Member Australasian Mutuals Institute (MAMI)

Experience: Member of Intech since 2004 and appointed as a Director in March 2005. Member Audit Committee.  
12 years experience in IT/ Telco with both customer and vendor companies including Hostworks, SUN, IBM, Solution, Optus and Hutchison within Australia as well as CitiBank, PeoplesBank and the Federal Reserve Bank in the USA (Boston)

## Director: Diane MacLean – Director

Qualifications: Bachelor of Arts, Bachelor of Laws, University of Sydney. Admitted to practice as a Solicitor in NSW and the High Court

Associate Fellow Australasian Mutuals Institute (AFAMI)

Experience: Member of Telstra Credit Union since 1984  
Member of Telstra CU Board since 1995.  
Appointed to the Intech Board on merger, April 2005. Chair of Risk Committee, Member of Governance and Board Renewal Committee.  
General Counsel, Business & Strategic Marketing with Telstra Corporation

## Director: Graeme Smith – Director

Qualifications: Graduate Member Australian Institute of Company Directors, (GAICD)  
Graduate of Surveying Studies-  
University of South Australia,  
Executive Program Harvard Business School.  
Fellow Australasian Mutuals Institute (FAMI)

Experience: Member of Intech since 1980 and Board Member since 2002. Served as Chair of Growth Strategy Committee. Served on Audit Committee, Governance Committee and Strategic Development Committee. Member of Tactical Growth Committee. Board activity includes, Intech, Cirrus Communications and previously IBM Credit Company.

Current position, IBM Alliance Executive Asia Pacific. Previous management experience with IBM in Australia and USA. Other General Manager positions held in Telstra and CSC Australia.

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:



Jim Jefferis  
Chairman

Signed and dated this 6 October 2009

## DECLARATION OF INDEPENDENCE BY WAYNE BASFORD TO THE DIRECTORS OF INTECH CREDIT UNION LIMITED

As lead auditor of Intech Credit Union Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, that 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.



Signed Wayne Basford, Director  
BDO Kendalls Audit Assurance (NSW-VIC) Pty Ltd

Dated 30 September 2009

## Report on the Financial Report

We have audited the accompanying financial report of Intech Credit Union Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration.

### Directors' Responsibility for the Financial Report

The Directors of the 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

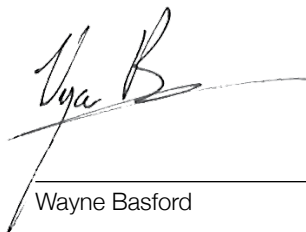
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the Directors of Intech Credit Union Limited, would be in the same terms if provided to the Directors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

### Auditor's Opinion

In our opinion

- a. the financial report of Intech Credit Union Limited is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

BDO Kendalls Audit Assurance (NSW-VIC) Pty Ltd



Wayne Basford

Sydney, 7 October 2009  
Director

### Directors' declaration

The Directors of Intech Credit Union Limited declare that:-

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

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

In the Directors' opinion there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

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



Jim Jefferis  
Chairman

Signed and dated this 6 October 2009

# Income Statement

For The Year Ended 30 June 2009

	Note	2009 \$	2008 \$
Interest revenue	2.a	11,741,183	11,342,115
Interest expense	2.c	6,761,718	5,961,110
<b>Net interest income</b>		<u>4,979,465</u>	<u>5,381,005</u>
Fee commission and other revenue	2.b	1,046,241	912,286
Less		<u>6,025,706</u>	<u>6,293,291</u>
<b>Non interest expenses</b>			
Impairment losses on loans receivable from members	2.d	188,482	168,811
Fee and commission expenses		576,149	607,751
General administration			
- Employees compensation and benefits		2,732,513	2,407,062
- Depreciation and amortisation	2.e	400,980	315,115
- Information technology		595,894	466,256
- Office occupancy		390,396	395,835
- Other administration		451,277	474,023
Total General Administration		<u>4,571,060</u>	<u>4,058,291</u>
Other Operating Expenses		864,184	878,829
Total non interest expenses		<u>6,199,875</u>	<u>5,713,682</u>
<b>Profit / (Loss) before income tax</b>		(174,169)	579,609
<b>Income tax expense</b>	3.a	<b>(113,272)</b>	<b>157,992</b>
<b>Profit / (Loss) after income tax</b>		<u><b>(60,897)</b></u>	<u><b>421,617</b></u>

# Statement of Changes in Member Equity

For The Year Ended 30 June 2009

	Capital Reserve	General Reserve	Asset Revaluation Reserve	Reserve For Credit Losses	Retained Earnings	Total
	\$	\$	\$	\$	\$	\$
Total at 1 July 2007	51,662	941,918	55,117	450,000	16,367,953	17,866,650
<b>Profit for the year</b>					421,617	421,617
Recycled on sale of shares			(55,117)			(55,117)
<b>Transfers to (from) reserves</b>						-
Transfer to reserve for credit losses in year						-
Transfer to capital account on redemption of shares	3,800				(3,800)	-
<b>Total at 30 June 2008</b>	<u>55,462</u>	<u>941,918</u>	<u>-</u>	<u>450,000</u>	<u>16,785,770</u>	<u>18,233,150</u>
Loss for the year					(60,897)	(60,897)
Recycled on sale of shares						-
<b>Transfers to (from) reserves</b>						-
Transfer from reserve for credit losses in year				(250,000)	250,000	-
Transfer to capital account on redemption of shares	6,580				(6,580)	-
<b>Total as at 30 June 2009</b>	<u>62,042</u>	<u>941,918</u>	<u>-</u>	<u>200,000</u>	<u>16,968,293</u>	<u>18,172,253</u>

# Balance Sheet

As at 30 June 2009

	Note	2009 \$	2008 \$
<b>Assets</b>			
Cash	4	517,312	1,209,221
Receivables from financial institutions	5	33,500,000	17,700,000
Receivables	6	2,654,225	1,198,389
Prepayments		98,646	55,549
Loans to members	7 & 8	126,841,127	124,745,341
Available for sale investments	9	465,869	465,857
Property, plant and equipment	10	889,563	691,561
Taxation assets	11	419,889	295,931
Intangible assets	12	513,212	505,410
<b>Total Assets</b>		<b>165,899,843</b>	<b>146,867,259</b>
<b>Liabilities</b>			
Short term borrowings	13	1,623,621	3,000,000
Deposits from other financial institutions	14	18,025,000	14,850,000
Deposits from members	15	124,922,062	107,614,430
Creditor accruals and settlement accounts	16	2,727,315	2,839,361
Taxation liabilities	17	-	-
Provisions	18	429,592	330,318
Deferred tax liabilities	19	-	-
<b>Total liabilities</b>		<b>147,727,590</b>	<b>128,634,109</b>
<b>Net Assets</b>		<b>18,172,253</b>	<b>18,233,150</b>
<b>Members' equity</b>			
Capital reserve account	20	62,042	55,462
Asset revaluation reserve	21	-	-
General reserve		941,918	941,918
General reserve for credit losses		200,000	450,000
Retained earnings		16,968,293	16,785,770
<b>Total members' equity</b>		<b>18,172,253</b>	<b>18,233,150</b>

## Table of other notes to accounts

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# Cash Flow Statement

For The Year Ended 30 June 2009

	Note	2009 \$	2008 \$
<b>OPERATING ACTIVITIES</b>			
<b>Revenue inflows</b>			
Interest received		11,255,709	11,487,088
Fees and commissions		796,255	763,983
Dividends		164,184	68,924
Other revenue		64,404	66,460
<b>Revenue outflows</b>			
Interest paid		(6,896,444)	(5,805,314)
Suppliers and employees		(5,860,289)	(5,237,844)
Income taxes paid		(10,686)	(46,304)
Net cash from revenue activities	35.c	(486,867)	1,296,993
<b>Inflows from other operating activities</b>			
Decrease (increase) receivables from other financial institution (net movement)		(15,800,000)	5,500,000
Decrease (increase) in member loans (net movement)		(2,262,130)	(5,676,849)
Increase (decrease) in member deposits (net movement)		18,656,492	(6,109,208)
<b>Net cash from operating activities</b>		<b>107,495</b>	<b>(4,989,064)</b>

# Cash Flow Statement

For The Year Ended 30 June 2009 (continued)

	Note	2009 \$	2008 \$
<b>INVESTING ACTIVITIES</b>			
<b>Inflows</b>			
Proceeds on sale of investments in shares		-	86,097
Proceeds on sale of property, plant and equipment		31,170	12,078
Net cash received on transfer of engagements			
<b>Less: Outflows</b>			
Purchase of investments in shares		(12)	-
Purchase of property plant and equipment		(430,900)	(218,610)
Purchase of intangible assets		(198,283)	(152,673)
<b>Net cash from investing activities</b>		<b><u>(598,025)</u></b>	<b><u>(273,108)</u></b>
<b>FINANCING ACTIVITIES</b>			
<b>Inflows (Outflows)</b>			
Increase in deposits from other Financial institutions (net movement)		(1,825,000)	3,448,000
<b>Net cash from financing activities</b>		<b><u>(1,825,000)</u></b>	<b><u>3,448,000</u></b>
Total net cash increase / (decrease)		(2,315,530)	(1,814,172)
Cash at beginning of year		1,209,221	3,023,393
<b>Cash and cash equivalents at end of year</b>	35.a	<b><u>(1,106,309)</u></b>	<b><u>1,209,221</u></b>

# Notes to the Accounts

## 1. Statement of accounting policies

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

### a. Basis of Measurement

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

### b. Loan 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 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.

Credit cards - the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the 15th day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

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.

#### (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 22 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

Land and buildings are measured at cost (fair value) less accumulated depreciation. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the income statement. Revaluation decreases are debited to the income statement unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

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; some changes were made during 2009. Estimated useful lives as at the balance date are as follows:

- Buildings - 40 years.
- Leasehold improvements - 7 years.
- Plant and equipment - 4 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 listed on the stock exchanges are revalued to fair value based on the market bid price at the close of business on balance sheet date. The gains and losses in fair value are reflected in equity through the asset revaluation reserve.

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 Interest Expense.

#### 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.

# Notes to the Accounts

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.

A provision is recognised for the estimated make good costs on the operating leases where applicable, based on the net present value of the future expenditure at the conclusion of the lease term discounted at 5%.

Increases in the provision in future years due to the unwinding of the interest charge, is recognised as part of the interest expense.

## 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 an 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 7 years.

The estimate useful life of the core banking software was re-evaluated during the year. The estimated useful life was revised from 5 years to 7 years. This resulted in lower amortisation charges for the year of approximately \$13,000.

## 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. Business Combinations

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued, the value of the equity instruments is their market value as at the date of exchange unless, in rare circumstances it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

## p. 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.

## q. 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.

## r. New or emerging standards

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

### **AASB reference:**

AASB 101

(Revised Sep 2007)

Presentation of Financial Statements

### **Nature of Change:**

Amendments to presentation and naming of the financial statements.

### **Application date:**

Annual reporting periods commencing on or after  
1 January 2009

### **Impact on Initial Application:**

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.

# Notes to the Accounts

Note	2009	2008
	\$	\$

## 2. Income Statement

### a. ANALYSIS OF INTEREST REVENUE

#### Interest revenue on assets carried at amortised cost

Cash - deposits at call	163,706	222,753
Receivables from financial institutions	1,990,962	1,628,087
Loans to member	9,586,515	9,491,275
<b>Total interest revenue</b>	<b>11,741,183</b>	<b>11,342,115</b>

### b. FEE, COMMISSION AND OTHER REVENUE

#### Fee and commissions revenue

Fee income on loans - other than loan origination fees	52,850	41,570
Fee income from member deposits	621,490	600,910
Insurance commissions	41,502	22,576
Other commissions	20,974	25,749
<b>Total fee and commission revenue</b>	<b>736,816</b>	<b>690,805</b>

#### Other revenue

#### Available for sale assets

Gain on sale of available for sale investments		
- previously revalued in equity	-	86,097
	-	86,097
Dividends received on available for sale assets	164,184	68,924
Bad debts recovered	64,404	64,939
Gain on disposal of assets		
- Property, plant and equipment	8,771	1,521
Miscellaneous Revenue	72,066	-
<b>Total fee commission and other revenue</b>	<b>1,046,241</b>	<b>912,286</b>

	Note	2009 \$	2008 \$
<b>2. Income Statement (continued)</b>			
<b>c. INTEREST EXPENSE</b>			
<b>Interest expense on liabilities carried at amortised cost</b>			
Deposits from financial institutions		267,904	482,587
Deposits from members		6,493,814	5,466,188
Other interest		-	12,335
<b>Total interest expense</b>		<b><u>6,761,718</u></b>	<b><u>5,961,110</u></b>
<b>d. IMPAIRMENT LOSSES AVAILABLE FOR SALE ASSETS</b>			
<b>Loans and advances</b>			
Increase in provision for impairment		6,292	(9,337)
Bad debts written off directly against profit		156,963	161,729
Losses associated with other facilities		25,227	16,419
<b>TOTAL IMPAIRMENT LOSSES</b>		<b><u>188,482</u></b>	<b><u>168,811</u></b>
<b>e. OTHER PRESCRIBED DISCLOSURES</b>			
General administration - employees costs include:			
- net movement in provisions for employee annual leave		23,350	7,512
- net movement in provisions for employee long service leave		99,969	35,251
General administration - depreciation expense include:			
- plant and equipment		95,201	115,517
- IT Systems		61,793	58,397
- leasehold improvements (incl. lease make good prov.)		53,505	23,166
- amortisation of software		190,481	118,035
		<u>400,980</u>	<u>315,115</u>
<b>General administration – office occupancy costs include:</b>			
Property operating lease payments			
- minimum lease payments		305,141	288,289
Other operating expenses include:			
Auditor's remuneration (excluding GST)			
- Audit fees		59,000	45,800
- Other Services – taxation		3,000	3,000
- Other Services – compliance		2,000	2,200
- Other Services – other		-	-
		<u>64,000</u>	<u>51,000</u>
Loss on disposal of assets			
- property, plant, equipment		-	1,521

# Notes to the Accounts

Note	2009 \$	2008 \$
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## 3. Income Tax Expense

### a. The income tax expense comprises amounts set aside as:

Current tax expense / (benefit)	(131,086)	159,475
- current year profits / (losses) (3b)		
Adjustments for previous years	17,814	(3,302)
Loans to member		
<b>Total current income tax expense / (benefit)</b>	<u>(113,272)</u>	<u>156,173</u>
<b>Deferred tax expense</b>		
Benefit of tax losses previously unrecognised	-	1,819
<b>Total income tax expense / (benefit) in income statement</b>	<u><b>(113,272)</b></u>	<u><b>157,992</b></u>

### b. The prima facia tax payable on profit / (loss) is reconciled to the income tax expense in the accounts as follows:

Profit / (loss)	<u>(174,169)</u>	<u>579,609</u>
Prima facia tax payable on profit / (loss) before income tax at 30%	(52,251)	173,883
Add tax effect of expenses not deductible		
- Other non-deductible expenses	719	3,061
Adjustment to Deferred Tax Assets	5,810	-
<b>Less</b>		
Transitional rate provisions	15,000	-
Imputation credits	70,364	17,469
Income tax expense / (benefit) attributable to current year profit / (loss)	<u>(131,086)</u>	<u>159,475</u>

## 4. Cash

Cash on hand	517,312	531,678
Deposits at call	-	677,543
	<u>517,312</u>	<u>1,209,221</u>

## 5. Receivables from financial institutions

Deposits with industry bodies - Cuscal (refer Note 31)	3,000,000	10,000,000
Deposits with banks and other ADI's	30,500,000	7,700,000
	<u><b>33,500,000</b></u>	<u><b>17,700,000</b></u>

	Note	2009 \$	2008 \$
<b>6. Receivables</b>			
Interest receivable on deposits with other financial institutions		669,508	241,388
Sundry debtors and settlement accounts		1,984,717	919,778
GST receivable		-	37,223
		<u>2,654,225</u>	<u>1,198,389</u>

## 7. Loans to Members

### a. Amount due comprises:

Overdrafts and revolving credit		20,151,982	21,715,036
Term loans		<u>106,972,144</u>	<u>103,329,151</u>
<b>Subtotal</b>		127,124,126	125,044,187

Less:

Unamortised loan origination fees		56,199	78,338
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<b>Subtotal</b>		<u>127,067,927</u>	<u>124,965,849</u>
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Less:

Provision for impaired loans (Note 8)		<u>226,800</u>	<u>220,508</u>
		<u>126,841,127</u>	<u>124,745,341</u>

### b. Credit quality - Security held against loans

Secured by mortgage over real estate		111,064,533	106,902,419
Partly secured by goods mortgage		4,570,619	6,273,671
Wholly unsecured		<u>11,488,974</u>	<u>11,868,097</u>
		<u>127,124,126</u>	<u>125,044,187</u>

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:

Security held as mortgage against real estate is on the basis of:

- loan to valuation ratio of less than 80%		105,019,249	97,628,550
- loan to ratio of more than 80% but mortgage insured		226,817	1,543,885
- loan to valuation ratio of more than 80% and not mortgage insured		5,818,467	7,729,984
<b>Total</b>		<u>111,064,533</u>	<u>106,902,419</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.

# Notes to the Accounts

Note                      2009                      2008  
\$                                      \$

## 7. Loans To Members (continued)

### c. Concentration of loans

The values discussed below include on balance sheet values and off balance sheet undrawn facilities as described in Note 27.

(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate

<b>Total</b>	-	-
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(ii) Loans to members are concentrated to individuals employed and previously employed in the Information Communications and Technology Industries

(iii) Geographical concentrations in Australia

2009	Housing \$	Personal \$	Total \$
NSW	83,587,325	10,438,535	94,025,860
Victoria	15,725,620	2,816,068	18,541,688
Queensland	6,070,742	779,571	6,850,313
South Australia	898,094	163,445	1,061,539
Western Australia	2,603,641	302,254	2,905,895
Tasmania	1,727	76,330	78,057
Northern Territory	33,592	56,898	90,490
ACT	3,047,176	523,108	3,570,284
Other	-	-	-
<b>Total per Balance Sheet</b>	<b>111,967,917</b>	<b>15,156,209</b>	<b>127,124,126</b>

2008	Housing \$	Personal \$	Total \$
NSW	77,853,993	11,868,533	89,722,526
Victoria	15,178,668	2,736,004	17,914,672
Queensland	6,528,390	1,005,456	7,533,846
South Australia	740,033	153,715	893,748
Western Australia	1,518,985	554,238	2,073,223
Tasmania	41,213	72,433	113,646
Northern Territory	420,574	49,234	469,808
ACT	4,183,417	315,561	4,498,978
Other	1,750,069	73,671	1,823,740
<b>Total per Balance Sheet</b>	<b>108,215,342</b>	<b>16,828,845</b>	<b>125,044,187</b>

	Note	2009 \$	2008 \$
<b>Loans to natural persons</b>			
Mortgage loans and facilities		106,972,144	107,299,887
Personal loans and facilities		20,151,982	17,744,300
Business loans and facilities		-	-
		<u>127,124,126</u>	<u>125,044,187</u>
<b>Loans to corporations</b>			
		<u>-</u>	<u>-</u>

## 8. Provisions On Impaired Loans

### a. Total provision comprises

Collective provisions		226,800	220,508
Individual specific provisions		-	-
<b>Total Provision</b>		<u><b>226,800</b></u>	<u><b>220,508</b></u>

### b. Movement in the provision for impairment

Balance at the beginning of year		220,508	229,845
Add (deduct):			
Transfers from (to) income statement		6,292	(9,337)
Bad debts written off provision		-	-
<b>Balance at end of year</b>		<u><b>226,800</b></u>	<u><b>220,508</b></u>

Details of Credit Risk Management are set out in Note 22

### c. Impaired loans written off

Amounts written off against the provision for impaired loans		-	-
Amounts written off directly to expense		156,963	161,729
Total bad debts		<u>156,963</u>	<u>161,729</u>
Bad debts recovered in the period		<u>64,404</u>	<u>64,939</u>

# Notes to the Accounts

## 8. Provisions On Impaired Loans (continued)

### d. Analysis of loans that are impaired or potentially impaired by class

In the Note below -

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

	2009 Carrying value \$	2009 Value of Impaired Loans \$	2009 Provision for impairment \$	2008 Carrying value \$	2008 Value of Impaired Loans \$	2008 Provision for impairment \$
Loans to members						
Mortgages	106,972,144	3,455,249	-	107,299,887	959,128	14,179
Personal	14,859,881	922,331	89,303	12,435,425	126,831	63,931
Credit Cards	2,393,475	74,032	99,784	1,979,662	19,059	6,795
Overdrafts	2,898,626	437,897	37,713	3,329,213	61,645	135,603
<b>Total to natural persons</b>	<b>127,124,126</b>	<b>4,889,509</b>	<b>226,800</b>	<b>125,044,187</b>	<b>1,166,663</b>	<b>220,508</b>
Corporate borrowers	-	-	-	-	-	-
<b>Total</b>	<b>127,124,126</b>	<b>4,889,509</b>	<b>226,800</b>	<b>125,044,187</b>	<b>1,166,663</b>	<b>220,508</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

	2009 Carrying value \$	2009 Provision \$	2008 Carrying value \$	2008 Provision \$
Non impaired up to 30 days	125,331,401	-	124,318,530	-
30 to 90 days in arrears	838,208	-	292,539	-
90 to 180 days in arrears	683,371	41,811	110,510	44,204
180 to 270 days in arrears	29,672	17,803	43,075	25,845
270 to 365 days in arrears	19,969	15,975	23,140	18,512
Over 365 days in arrears	13,714	13,714	6,921	6,921
Overlimit facilities over 14 days	207,791	137,497	249,472	125,026
<b>Total</b>	<b>127,124,126</b>	<b>226,800</b>	<b>125,044,187</b>	<b>220,508</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 conditions.

# Notes to the Accounts

	Note	2009 \$	2008 \$
<b>f. Assets acquired via enforcement of security</b>			
- Real estate		-	-
- Other		-	-
		<u>-</u>	<u>-</u>

There are no assets acquired by the Credit Union. The policy is to sell the assets via auction at the earliest opportunity after measures to assist the members to repay the debts have been exhausted.

## g. Loans with repayments past due but not regarded as impaired

There are loans with a value of \$1,461,065 (2008 \$ 2,115,610) past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

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

Loans members

	1-3 Months	3-6 Months	6-12 Months	> 1 Year	Total
<b>2009</b>					
Mortgage secured	461,152	802,485	-	197,428	1,461,065
Personal loans	22,619	59,659	-	-	82,278
Credit cards	34,450	-	-	-	34,450
Overdrafts	36,689	-	-	-	36,689
<b>Total</b>	<b>554,910</b>	<b>862,144</b>	<b>-</b>	<b>197,428</b>	<b>1,614,482</b>
<b>2008</b>					
Mortgage secured	1,180,115	-	935,495	-	2,115,610
Other loans	172,473	-	-	-	172,473
Personal loans	39,560	-	-	-	39,560
Credit cards	52,289	-	-	-	52,289
Overdrafts					
<b>Total</b>	<b>1,444,437</b>	<b>-</b>	<b>935,495</b>	<b>-</b>	<b>2,379,932</b>

# Notes to the Accounts

Note	2009	2008
	\$	\$

## 8. Provisions On Impaired Loans (continued)

### h. Loans renegotiated

Some loans that were previously past due or impaired, have been renegotiated by the Credit Union and are no longer regarded as impaired. Details of these loans are:

Value of renegotiated loans renegotiated during the year and not now regarded as impaired

Book value of the renegotiated loans at balance date

Book value of these loans which are well secured

Book value of these loans which are not well secured

Well secured loans are secured by registered mortgage over real estate

	-	-
	-	-
	-	-

### i. 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 balance
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

Note	2009	2008
	\$	\$

## 9. Available For Sale Investments

### Shares in unlisted companies - at cost

- Cuscal Limited

465,869	465,857
---------	---------

Total value of investments

<b>465,869</b>	<b>465,857</b>
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### a. Cuscal Limited

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions, building societies and friendly societies, and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 31. The shares are not able to be traded and are not redeemable.

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

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

	Note	2009 \$	2008 \$
<b>10. Property, Plant And Equipment</b>			
<b>a. Fixed assets</b>			
<b>Plant and equipment - at cost</b>		1,410,837	1,524,089
Provision for depreciation		<u>(960,147)</u>	<u>(1,013,133)</u>
		<u>450,690</u>	<u>510,956</u>
<b>Capitalised leasehold improvements at cost</b>		557,672	246,078
Provision for amortisation		<u>(118,799)</u>	<u>(65,473)</u>
		<u>438,873</u>	<u>180,605</u>
<b>Total property, plant and equipment</b>		<u><b>889,563</b></u>	<u><b>691,561</b></u>

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

	2009			2008		
	Plant & Equipment \$	Leasehold Improvements \$	Total \$	Plant & Equipment \$	Leasehold Improvements \$	Total \$
Opening balance	510,956	180,605	691,561	583,260	97,328	680,588
Purchases	119,128	311,773	430,901	112,167	106,443	218,610
Less						
Assets disposed	22,400	-	22,400	10,557	-	10,557
Depreciation charge	<u>156,994</u>	<u>53,505</u>	<u>210,499</u>	<u>173,914</u>	<u>23,166</u>	<u>197,080</u>
<b>Balance at the end of the year</b>	<u><b>450,690</b></u>	<u><b>438,873</b></u>	<u><b>889,563</b></u>	<u><b>510,956</b></u>	<u><b>180,605</b></u>	<u><b>691,561</b></u>

	Note	2009 \$	2008 \$
<b>11. Taxation</b>			
Income tax instalments refundable		30,495	25,153
Deferred Tax Asset		<u>389,394</u>	<u>270,778</u>
<b>Tax Assets</b>		<u><b>419,889</b></u>	<u><b>295,931</b></u>

Deferred tax assets comprise:

Accrued expenses not deductible until incurred	34,158	16,745
Provisions for impairment on loans	68,040	66,152
Provisions for employee benefits	157,531	135,507
Depreciation on fixed assets	42,441	28,873
Deferred fees (less transaction costs) on loan origination	16,860	23,501
Deferred franking rebate	<u>70,364</u>	<u>-</u>
	<u>389,394</u>	<u>270,778</u>

# Notes to the Accounts

	Note	2009 \$	2008 \$
<b>12. Intangible Assets</b>			
Computer software		884,264	700,243
Provision for amortisation		(371,052)	(194,833)
		<u>513,212</u>	<u>505,410</u>

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

Opening balance		505,410	470,771
Purchases		198,283	152,673
Less			
Assets disposed		-	-
Depreciation charge		190,481	118,034
<b>Balance at the end of the year</b>		<u><b>513,212</b></u>	<u><b>505,410</b></u>

## 13. Borrowings

Overdraft		1,623,621	-
Loan from Questor		-	3,000,000
<b>Balance at the end of the year</b>		<u><b>1,623,621</b></u>	<u><b>3,000,000</b></u>

## 14. Deposits From Other Financial Institutes

Deposits from other Credit Unions		18,025,000	14,850,000
		<u>18,025,000</u>	<u>14,850,000</u>

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

## 15. Deposits From Members

### Member Deposits

	Note	2009 \$	2008 \$
- at call		66,434,926	55,730,172
- term		58,397,446	51,786,758
Member withdrawable shares		89,690	97,500
<b>Total Deposits &amp; Shares</b>		<b><u>124,922,062</u></b>	<b><u>107,614,430</u></b>

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) Member deposits that are concentrated to individuals employed in the Information Technology and Telecommunication Industries.		
(iii) Geographical concentrations in Australia & Overseas		
NSW	97,580,618	81,761,686
Victoria	13,326,956	11,704,281
Queensland	3,401,017	2,514,771
South Australia	749,455	534,888
Western Australia	1,185,921	1,226,216
Tasmania	452,602	404,202
Northern Territory	146,468	134,069
ACT	464,224	1,087,516
Other	7,614,801	8,246,801
Total per balance sheet	<b><u>124,922,062</u></b>	<b><u>107,614,430</u></b>

## 16. Creditor Accruals and Settlement Accounts

Creditors and accruals	192,772	640,794
Settlement accounts	1,195,634	748,283
Interest payable on deposits	1,194,514	1,329,239
Accrual for GST payable	-	-
Annual leave	144,395	121,045
Total Amounts Payable	<b><u>2,727,315</u></b>	<b><u>2,839,361</u></b>

# Notes to the Accounts

	Note	2009 \$	2008 \$
Current income tax liability		-	-
<b>Tax Taxation Liabilities</b>		<u>-</u>	<u>-</u>
<b>Current income tax liability comprises:</b>			
Balance – previous year		(25,153)	(107,909)
Less paid (received)		(7,339)	(111,211)
Over / under statement in prior year -		(17,814)	3,302
Carried forward		-	-
Liability for income tax in current year		-	132,362
Less Instalments paid in current year		<u>(30,495)</u>	<u>(157,515)</u>
Balance – current year Instalments to be repaid		<u>(30,495)</u>	<u>(25,153)</u>

The amount receivable is shown in the taxation assets – See Note 11

## 18. Provisions

Long service leave		380,708	280,739
Provisions – VISA fraud		<u>48,884</u>	<u>49,579</u>
<b>Total Provision</b>		<u><b>429,592</b></u>	<u><b>330,318</b></u>
<b>Provision movements comprises:</b>			
<b>VISA Fraud</b>			
Balance – previous year		49,579	49,905
Less paid		-	-
Liability increase in current year		-	-
Less amount written off		695	326
Transfer to profit and loss		-	-
<b>Balance – current year</b>		<u><b>48,884</b></u>	<u><b>49,579</b></u>

## 19. Deferred Tax Liabilities

Deferred tax liabilities		<u>-</u>	<u>-</u>
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## 20. Capital Reserves Account

	Note	2009 \$	2008 \$
<b>Balance at the beginning of the year</b>		55,462	51,662
Transfer from retained earnings on share redemptions		<u>6,580</u>	<u>3,800</u>
<b>Balance at the end of year</b>		<u><b>62,042</b></u>	<u><b>55,462</b></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.

## 21. Asset Revaluation

Available for sale revaluation reserve - investments	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

### Movement in Reserves

Available for sale revaluation reserve – equity	-	-
The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value	-	-
Balance at the beginning of the year	-	55,117
Less reversal on sale of shares	-	(55,117)
<b>Balance at the end of year</b>	<u>-</u>	<u>-</u>

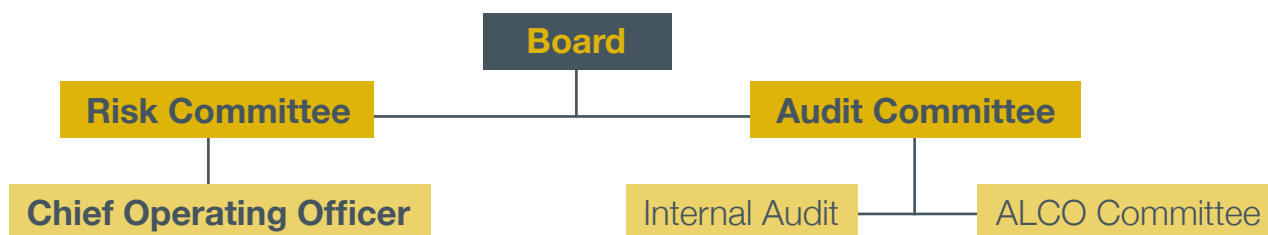
The Asset Revaluation Reserve related to the Veda Advantage Shares. The shares were sold in the 2008 financial year with the result that the liability was reversed. The gain on sale is reflected in the Income statement.

## 22. 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 Risk Committee and Audit Committee which are integral to the management of risk. The following diagram gives an overview of the structure.



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

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

**Risk Committee:** This is a key body in the control of risk. It has representatives from the Board as well as the Group's Chief Risk Officers. The Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Risk Committee through monthly review of operational reports and control assignments are reviewed by the Risk Committee monthly to confirm whether risks are within the parameters outlined by the Board.

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

The Risk Committee monitors compliance with the framework laid out in the policy on a quarterly basis and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

**Audit Committee:** Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The audit committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the risk committee for their consideration. On a monthly basis the Audit Committee monitors management reports of financial results, metrics and ratios. In addition the committee also monitors loan arrears and delinquency monthly.

**Asset & Liability Committee (ALCO) – Credit Risk:** This committee of senior management meets at least monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The ALCO also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determine controls that need to be in place regarding the authorisation of new loans.

The ALCO Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All large credit exposure facilities above policy limits are approved by the ALCO or the Board. All exposures are checked daily against approved limits, independently of each business unit, and are reported to the ALCO Committee.

All loans are managed at least weekly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or overlimit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the statuses of these loans are reported to the Credit Risk Committee and the Risk Committee monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated credit control team, which reports to the ALCO, implements the Credit Union's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the balance sheet date.

**ALCO - Market Risk:** This committee meets at least monthly and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP. The ALCO meetings scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by the Risk Committee.

**Chief Operating Officer:** This person has responsibility for both liaising with the operational function to ensure timely production of information for the risk committees and ensuring that instructions passed down from the Board via the Risk Committees are implemented.

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

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

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

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

## A. Market risk and hedging policy

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

The management of market risk is the responsibility of the ALCO Committee, which reports directly to the Board.

### (I) interest rate risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within its Treasury operations. This Credit Union does not have a treasury operation and does not trade in financial instruments.

## Interest rate risk in the banking book

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

The interest rate risk on the banking book is measured daily, reported to the ALCO at least monthly, 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 mismatch on the banking book is set out in Note 25 below. **The table set out at Note 25 displays the period that each asset and liability will reprice as at the balance date.** This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

## Method of managing risk

The Credit Union manages its interest rate risk by the use of 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 is measured monthly to identify large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Union's exposure to interest rate risk is set out in Note 25 which details the contractual interest change profile.

# Notes to the Accounts

An independent review of the interest rate risk profile is conducted by Protecht Advisory Pty Ltd, an independent risk management consultancy. The Board monitors these risks through the reports from Protecht Advisory Pty Ltd and other management reports.

The Credit Union performs a sensitivity analysis to measure market risk exposures.

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

- the interest rate change would be applied equally over 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 not reprice in the event of a rate change;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate at the within 28 days;
- personal loans would reprice after a 3 month delay;
- all loans would be repaid in accordance with the current average repayment rate ( or contractual repayment terms);
- the value and mix of on 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.

The interest rate sensitivity is not representative of the risk inherent in the financial instruments during the financial year due to the changes in asset mix of fixed rate loans and longer term deposits / investments.

## 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 the credit union 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:

- 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 scheme, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should 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 12% 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 this level the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 28 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific Note 24. The ratio of liquid funds over the past year is set out below:

APRA	2009	2008
<b>To total adjusted liabilities</b>	151,968,784	133,364,370
Liquidity Ratio as at 30 June	22.04%	14.13%
Average for the year	21.62%	16.68%
Minimum during the year	20.04%	14.13%

Liquidity ratios are based on quarterly liquidity ratios supplied as part of the Quarterly Statutory APRA Reporting, throughout the year.

## 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, investment assets and derivative contracts (where applicable).

### (l) credit risk – loans

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

Loans to	2009			2008		
	Carrying value	Off balance sheet	Max exposure	Carrying value	Off balance sheet	Max exposure
	\$	\$	\$	\$	\$	\$
Mortgage	106,972,144	11,765,214	118,737,358	107,299,887	10,020,536	117,320,423
Personal	14,859,881	-	14,859,881	12,435,425	-	12,435,425
Overdrafts & credit cards	5,292,101	24,743,821	30,035,922	5,308,875	24,962,385	30,271,260
<b>Total to natural persons</b>	<b>127,124,126</b>	<b>36,509,035</b>	<b>163,633,161</b>	<b>125,044,187</b>	<b>34,982,921</b>	<b>160,027,108</b>
Corporate borrowers	-	-	-	-	-	-
<b>Total</b>	<b>127,124,126</b>	<b>36,509,035</b>	<b>163,633,161</b>	<b>125,044,187</b>	<b>34,982,921</b>	<b>160,027,108</b>

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (Loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in Note 27.

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

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

The Credit Union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies;

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

### Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, 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.

Daily 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 are engaged to conduct recovery action once the loans are over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

# Notes to the Accounts

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.

In addition to specific provisions against individually significant financial assets, the Credit Union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

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

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in country risk, changes in a specific counterparty's industry, and technological developments, 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 as set out in Note 8.

## Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. 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.

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. Therefore, the Credit Union is exposed to risks in the reduction the Loan to Value (LVR) cover 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 at least 90% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 7b 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 members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 % of the capital base.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of at least 80 % and bi-annual reviews of compliance with this policy are conducted.

## Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of customers dispersed in areas of employment.

The Credit Union has a concentration in the retail lending for members who comprise employees and family in the Information Technology Industry. 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.

- (i) 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. Directors have established policies that a maximum of 50% of capital can be invested with any one financial institution at a time.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one Credit Union. Also the relative size of the Credit Union as compared to the industry is relatively low such that the risk of loss is reduced. Under the liquidity support scheme at least 3.2% of the total assets must be invested in approved ADIs with appropriate authorisations to effect the terms and conditions of the scheme.

All other investment must be with financial institutions with a rating in excess of BBB.

## 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 credit quality step are as follows:

Investments with	2009			2008		
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
	\$	\$	\$	\$	\$	\$
Cuscal – rated AA-	3,000,000	-	-	10,000,000	-	-
Banks – rated AA and above	8,000,000	-	-	3,500,000	-	-
Banks – rated below AA	22,500,000	-	-	4,200,000	-	-
Unrated institutions – Credit Unions	-	-	-	-	-	-
<b>Total</b>	<b>33,500,000</b>	<b>-</b>	<b>-</b>	<b>17,700,000</b>	<b>-</b>	<b>-</b>

## 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 services failures; fraud; and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, 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 behaviour;
- implementation of the whistleblowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff ;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses;
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

## Fraud

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

# Notes to the Accounts

## 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) which is owned by a collection of Credit Unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf on the Credit Union by the industry body Cuscal to service the settlements with other financial institutions for Direct Entry, ATM & Visa cards, and BPay etc.

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

## 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 )
- Operations risk.

The market risk 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

- Preference share capital
- Retained profits
- Realised reserves.

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

### Tier 2 Capital

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

Tier 2 capital generally comprises:

- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital.
- A General Reserve for Credit Losses.

The Credit Union's available for sale (AFS) reserve, and an asset revaluation reserve on the land and buildings are discounted to 45% of the value net of any capital gains tax and estimated costs of sale.

## Capital in the Credit Union is made up as follows:

	2009	2008
Tier 1	\$	\$
Capital reserve	62,042	55,462
General reserve	941,918	941,918
Retained earnings	<u>16,968,293</u>	<u>16,785,770</u>
Less prescribed deductions	<u>(776,860)</u>	<u>(509,019)</u>
Net tier 1 capital	17,195,393	17,274,131

## Tier 2

Subordinated debt	-	-
Reserve for credit losses	200,000	450,000
Asset revaluation reserves on property (discounted to 45% )	-	-
Asset revaluation reserves on equity (discounted to 45% )	-	-
	200,000	450,000
Less prescribed deductions	(200,000)	(232,929)
Net tier 2 capital	-	217,071
Total Capital	17,195,393	17,491,202
Risk Weighted Assets	76,493,736	72,769,326
Capital %	22.48%	24.04%

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 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 reflects the previous methodology.*

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

2009	2008	2007	2006	2005
22.48%	24.04%	20.63%	24.70%	23.25%

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 13%. Further a 5 year capital budget projection of the capital levels is maintained annually 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 the Standardised Approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the Credit Union's three year average net interest income and net non-interest income to the Credit Union's various business lines.

Based on this approach, the Credit Union's operational risk requirement is as follows:

Operational Risk Capital    \$ 8,286,166

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

### Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Credit Union is reassessed.

# Notes to the Accounts

## 23. Categories Of Financial Instruments

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

Although most Financial assets and liabilities agree to the balance sheet, some Balance Sheet items are not classed as a financial asset and therefore do not form part of this note.

	Note	2009 \$	2008 \$
<b>Financial assets</b> - carried at amortised cost			
Cash	4	517,312	1,209,221
Receivables from financial institutions - Receivables	5	33,500,000 2,638,320	17,700,000 241,388
Loans to members	7 & 8	126,841,127	124,745,341
<b>Total loans and receivables</b>		<b><u>163,496,759</u></b>	<b><u>143,895,950</u></b>
Available for sale investments - carried at cost	9	465,869	465,857
Available for sale investments - carried at fair value		-	-
Total available for sale investments		<u>465,869</u>	<u>465,857</u>
<b>Total financial assets</b>		<b><u>163,962,628</u></b>	<b><u>144,361,807</u></b>
<b>Financial liabilities</b>			
Short term borrowings	13	1,623,621	3,000,000
Deposits from other institutions	14	18,025,000	14,850,000
Deposits from members	15	124,922,062	107,614,430
Creditors		<u>2,579,643</u>	<u>1,970,033</u>
Total carried at amortised cost		<u>147,150,326</u>	<u>127,434,463</u>
<b>Total financial liabilities</b>		<b><u>147,150,326</u></b>	<b><u>127,434,463</u></b>

## 24. Maturity Profile Of Financial Assets And Liabilities

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

2009	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Liabilities</b>							
Borrowings	1,623,621	-	-	-	-	-	1,623,621
Deposits from other financial institutions	3,018,888	4,336,132	11,393,423	-	-	-	18,748,443
Creditors	-	-	-	-	-	1,385,129	1,385,129
Deposits from members – at call	67,865,473	-	-	-	-	89,690	67,955,163
Deposits from members – term	10,000,093	17,130,608	28,473,988	5,418,003	-	-	61,022,692
<b>Total Financial Liabilities</b>	<b>82,508,075</b>	<b>21,466,740</b>	<b>39,867,411</b>	<b>5,418,003</b>	<b>-</b>	<b>1,474,819</b>	<b>150,735,048</b>
2008	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Liabilities</b>							
Borrowings	22,457	-	3,132,211	-	-	-	3,154,668
Deposits from other financial institutions	-	6,213,769	9,512,937	-	-	-	15,726,706
Creditors	-	-	-	-	-	640,794	640,794
Deposits from members – at call	55,734,607	-	-	-	-	97,500	55,832,107
Deposits from members – term	8,912,181	16,491,207	25,843,962	3,331,663	-	-	54,579,013
<b>Total Financial Liabilities</b>	<b>64,669,245</b>	<b>22,704,976</b>	<b>38,489,110</b>	<b>3,331,663</b>	<b>-</b>	<b>738,294</b>	<b>129,933,288</b>

# Notes to the Accounts

## 25. Interest Rate Change Profile Of Financial Assets And Liabilities

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

2009	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	After 5 years \$	No Maturity \$	Total \$
<b>Assets</b>							
Cash	-	-	-	-	-	517,312	517,312
Receivables	-	-	-	-	-	2,638,320	2,638,320
Advances to other financial Institutions	3,500,000	6,000,000	13,000,000	11,000,000	-	-	33,500,000
Loans & advances -	122,986,251	-	-	3,854,876	-	-	126,841,127
<b>Total Financial Assets</b>	<b>126,486,251</b>	<b>6,000,000</b>	<b>13,000,000</b>	<b>14,854,876</b>	<b>-</b>	<b>3,155,632</b>	<b>163,496,759</b>
<b>Liabilities</b>							
Borrowings	1,623,621	-	-	-	-	-	1,623,621
Deposits from other financial institutions	3,000,000	2,000,000	13,025,000	-	-	-	18,025,000
Creditors	-	-	-	-	-	2,579,643	2,579,643
Deposits from members	76,198,729	16,619,856	27,256,118	4,757,669	-	89,690	124,922,062
<b>On Balance sheet</b>	<b>80,822,350</b>	<b>18,619,856</b>	<b>40,281,118</b>	<b>4,757,669</b>	<b>-</b>	<b>2,669,333</b>	<b>147,150,326</b>
Undrawn commitments	36,509,035	-	-	-	-	-	36,509,035
<b>Total Financial Liabilities</b>	<b>117,331,385</b>	<b>18,619,856</b>	<b>40,281,118</b>	<b>4,757,669</b>	<b>-</b>	<b>2,669,333</b>	<b>183,659,361</b>
<b>2008</b>							
	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	After 5 years \$	No Maturity \$	Total \$
<b>Assets</b>							
Cash	677,543	-	-	-	-	531,678	1,209,221
Receivables	-	-	-	-	-	241,388	241,388
Advances to other financial Institutions	4,000,000	7,200,000	6,500,000	-	-	-	17,700,000
Loans and advances	122,338,446	-	-	2,406,895	-	-	124,745,341
<b>Total Financial Assets</b>	<b>127,015,989</b>	<b>7,200,000</b>	<b>6,500,000</b>	<b>2,406,895</b>	<b>-</b>	<b>773,066</b>	<b>143,895,950</b>
<b>Liabilities</b>							
Borrowings	-	-	3,000,000	-	-	-	3,000,000
Deposits from other financial institutions	-	6,030,000	8,820,000	-	-	-	14,850,000
Creditors	-	-	-	-	-	1,970,033	1,970,033
Deposits from members	62,038,750	16,483,299	26,491,267	2,503,614	-	97,500	107,614,430
<b>On Balance sheet</b>	<b>62,038,750</b>	<b>22,513,299</b>	<b>38,311,267</b>	<b>2,503,614</b>	<b>-</b>	<b>2,067,533</b>	<b>127,434,463</b>
Undrawn commitments	34,982,921	-	-	-	-	-	34,982,921
<b>Total Financial Liabilities</b>	<b>97,021,671</b>	<b>22,513,299</b>	<b>38,311,267</b>	<b>2,503,614</b>	<b>-</b>	<b>2,067,533</b>	<b>162,417,384</b>

## 26. 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 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 held are 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 the original term.

	2009			2008		
	Fair value	Carrying value	Variance	Fair value	Carrying value	Variance
	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>						
Cash	517,312	517,312	-	1,209,221	1,209,221	-
Receivables from other financial institutions	33,945,009	33,500,000	445,009	17,707,736	17,700,000	7,736
Receivables	2,638,320	2,638,320	-	241,388	241,388	-
Loans and advances	126,919,716	126,841,127	78,589	124,736,977	124,745,341	(8,364)
<b>Total Financial Assets</b>	<b>164,020,357</b>	<b>163,496,759</b>	<b>523,598</b>	<b>143,895,322</b>	<b>143,895,950</b>	<b>(628)</b>
<b>Financial liabilities</b>						
Borrowings	1,623,621	1,623,621	-	2,994,363	3,000,000	(5,637)
Deposits from other financial institutions	17,953,596	18,025,000	(71,404)	14,793,840	14,850,000	(56,160)
Creditors	2,579,643	2,579,643	-	1,970,033	1,970,033	-
Deposits from members	125,433,344	124,922,062	511,282	107,648,062	107,614,430	33,632
<b>Total Financial Liabilities</b>	<b>147,590,204</b>	<b>147,150,326</b>	<b>439,878</b>	<b>127,406,298</b>	<b>127,434,463</b>	<b>(28,165)</b>

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.

# Notes to the Accounts

The rates applied to give effect to the discount of cash flows were valued according to the terms of the loans as at balance date. 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.

The rates applied to give effect to the discount of cash flows were valued according to the terms of the deposits as at balance date.

## 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.

The rates applied to give effect to the discount of cash flows were valued according to the terms of the borrowings as at balance date.

	Note	2009 \$	2008 \$
<b>27. Financial Commitments</b>			
<b>a. Outstanding loan commitments</b>		-	-
The loans approved but not funded		<u>330,000</u>	<u>500,275</u>
<b>b. Loan redraw facilities</b>			
The loan redraw facilities available			
Balance – previous year		<u>11,435,214</u>	<u>9,520,261</u>
<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		44,907,782	46,682,798
Less: Amount advanced		<u>20,163,961</u>	<u>21,720,413</u>
Net undrawn value		<u>24,743,821</u>	<u>24,962,385</u>
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.			
<b>Total Financial Commitments</b>		<u>36,509,035</u>	<u>34,982,921</u>
<b>d. Computer capital commitments</b>			
As referred to in Note 31c the Credit Union converted to the Phoenix core banking systems in May 2007.			
The costs committed under contracts with Data Action are as follows:			
Not later than one year		157,794	136,000
Later than 1 year but not 2 years		157,794	136,000
Later than 2 years but not 5 years		315,588	408,000
Later than 5 years		-	-
		<u>631,176</u>	<u>680,000</u>

	Note	2009 \$	2008 \$
<b>e. Lease expense commitments for operating leases on property occupied by the Credit Union</b>			
Not later than one year		270,093	297,124
Later than one year but not later than five years		329,112	595,968
Over five years		-	-
		<b>599,205</b>	<b>893,092</b>

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 2 to 5 years and options for renewal are usually obtained for a further 3 years.

There are no restrictions imposed on the Credit Union so as to limit the ability to undertake further leases, borrow funds or issue dividends

## 28. Stanby Borrowing Facilities

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

2009	Gross \$	Current Borrowing \$	Net Available \$
Loan facility	-	-	-
Overdraft facility	2,500,000	1,623,621	876,379
<b>Total Standby Borrowing Facilities</b>	<b>2,500,000</b>	<b>1,623,621</b>	<b>876,379</b>
<b>2008</b>	<b>Gross \$</b>	<b>Current Borrowing \$</b>	<b>Net Available \$</b>
Loan facility	-	-	-
Overdraft facility	2,500,000	-	2,500,000
<b>Total Standby Borrowing Facilities</b>	<b>2,500,000</b>	<b>-</b>	<b>2,500,000</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.

## 29 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.

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.

# Notes to the Accounts

## 30. 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)** comprises of the Directors and the 3 members of the executive management responsible for the day to day financial and operational management of the Credit Union.

The aggregate Compensation of Key Management Persons during the year comprising amounts paid or payable or provided for was as follows:

	<b>2009</b>	<b>2008</b>
	<b>Total</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
(a) short-term employee benefits;	392,498	341,724
(b) post-employment benefits - superannuation contributions	72,141	117,781
(c) other long-term benefits – net increases in long service leave provision	35,552	8,108
(d) termination benefits;	-	-
(e) share-based payment.	-	-
<b>Total</b>	<b><u>500,191</u></b>	<b><u>467,613</u></b>

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

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

### b. Loans to Directors and other key management persons

(i) The aggregate value of loans to Directors and other Key Management Persons as at balance date amounted to	<u>1,577,720</u>	<u>3,055,718</u>
(ii) The total value of revolving credit facilities to Directors and other Key Management Persons, as at balance date amounted to	1,012,000	2,339,748
Less amounts drawn down and included in (i)	<u>688,729</u>	<u>690,391</u>
Net balance available	<u>323,271</u>	<u>1,649,357</u>
(iii) During the year the aggregate value of loans disbursed to Directors and other Key Management Persons amounted to:		
Revolving credit facilities	722,620	909,670
Personal loans	-	-
Term Loans	<u>-</u>	<u>492,696</u>
	<u>722,620</u>	<u>1,402,366</u>
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to Directors and other Key Management Persons amounted to:	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
(v) Interest and other revenue earned on Loans and revolving credit facilities to KMP	<u>112,838</u>	<u>121,390</u>

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 applied to members for each class of loan or deposit with the exception of loans to KMP who are not Directors.

There are no loans which are impaired in relation to the loan balances with Directors or other KMPs.

KMP who are not Directors receive a concessional rate of interest on their loans and facilities. These benefits where subject to fringe benefits tax are included in the remuneration in Note 30a above.

There are no benefits or concessional terms and conditions applicable to close family members of the key management persons (KMP). There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMP.

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

	2009	2008
	\$	\$
Total value term and savings deposits from KMP	747,048	305,731
Total Interest paid on deposits to KMP	35,921	9,693

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 KMP's.

There are no service contracts to which KMP's or their close family members are an interested party.

## 31. 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 (ADI) registered under the Corporations Act 2001 and the Banking Act. This ADI:

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

### b. First Data International Limited (FDI)

This 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. Data Action Limited

Provides and maintains the application software utilised by the Credit Union. The Credit Union converted to the Phoenix core banking systems in May 2007.

# Notes to the Accounts

## 32. Segmental Reporting

The Credit Union operates exclusively in the retail financial services industry within Australia.

## 33. 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.

## 34. Securitisation

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union also manages the loans portfolio on behalf of the trust. The Credit Union bears no risk exposure in respect of these loans. The Credit Union receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

In addition the Credit Union is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year the Credit Union assigned \$0 in loans to Integris. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to the Credit Union. The Credit Union receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

The amount of securitised loans under management as at 30 June 2009 is \$1,317,477 (2008: \$2,600,107).

## 35. Notes To Cash Flow Statement

	2009	2008
	Total	Total
	\$	\$
<b>a. Reconciliation of cash</b>		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	517,312	531,678
Deposits at call	-	677,543
Bank overdraft	(1,623,621)	-
<b>Total Cash</b>	<b><u>(1,106,309)</u></b>	<b><u>1,209,221</u></b>
<b>b. Cash unavailable for use</b>		
Cash which is excluded from the above amount of cash since it is not readily available for use by reason of it securing overnight settlement obligations.	-	-

## 35. Notes To Cash Flow Statement

	2009	2008
	Total	Total
	\$	\$
<b>c. Reconciliation of cash from operations to accounting profit</b>		
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax		
Profit after income tax	(60,897)	421,617
Add (Deduct) :		
Increase in Deferred fees on loans	(22,139)	(31,481)
Increase in Provision for impairment	6,292	9,337
Bad debts written off	182,191	178,148
Depreciation expense	210,499	197,080
Amortisation of intangibles	190,481	118,034
Gain on sale of equity assets	-	(86,097)
Gain on sale of assets	(8,771)	(1,521)
Increase in provisions for staff leave	123,319	35,251
Increase in provision for income tax	(5,342)	82,756
Increase in other provisions	(695)	(326)
Increase in accrued expenses	(403,956)	79,219
Increase in interest payable	(134,725)	155,796
Increase in accrued taxes – GST	(12,628)	73,178
Increase in accrued taxes	-	(150,168)
Loss (Gain) on sale of assets	-	2,249
Decreases in prepayments	(43,097)	8,981
Decreases in sundry receivables	-	-
Decreases in deferred tax assets	(118,616)	28,932
Decreases in deferred tax liability	-	(23,621)
Decrease in GST receivable	74,553	23,175
Decrease in interest receivable	(463,336)	176,454
Decrease in provision for shares	-	-
<b>Net cash from revenue activities</b>	<b>(486,867)</b>	<b>1,296,993</b>
Add (Deduct) non revenue operations	(15,800,000)	
Decrease (increase) receivables from other financial institution (net movement)	-	5,500,000
Decrease (increase) in member loans (net movement)	(2,262,130)	(5,676,849)
Increase (decrease) in member deposits (net movement)	18,656,492	(6,109,208)
<b>Net cash from operating activities</b>	<b>107,495</b>	<b>(4,989,064)</b>

## 36. Corporate Information

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

The address of the registered office is 599 Pacific Highway, St Leonards NSW 2065.

The address of the principal place of business is 599 Pacific Highway, St Leonards NSW 2065.

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

