

I. Income Tax

The income tax expense shown in the income statement is based on the profit before income tax adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. 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 5 years

n. Goods and Services Tax

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

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

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

o. Impairment of Assets

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

p. Accounting Estimates and Judgements

Management have made judgements when applying the credit union's accounting policies with respect to

- i. De-Recognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer note 7
- ii. The classification of preference shares as equity instruments – refer note 21

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

q. New or emerging standards

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2008 reporting periods. The company's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Nature of Change	Application date:	Impact on Initial Application
AASB 101 (Revised Sep 2008) Presentation of Financial Statements	Amendments to presentation and naming of the financial statements.	Annual reporting periods commencing on or after 1 January 2009	As this is a disclosure 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.

2. INCOME STATEMENT

a. Analysis of interest revenue

	Note	2009 \$	2008 \$
Interest revenue on assets carried at amortised cost			
Cash – deposits at call		190	285
Receivables from financial institutions		1,438	973
Loans to members		5,392	6,072
Impaired loans to members (only if AG 93 of AASB 139 applies)		-	-
Loans to capital investors		-	-
Total receivables		6,830	7,045
Other		-	-
TOTAL INTEREST REVENUE		7,020	7,330

	Note	2009 \$	2008 \$
b. Fee, commission and other income			
Fee and commission revenue			
Fee income on loans – other than loan origination fees		-	-
Fee Income from member deposits		560	553
Other fee income		-	-
Insurance commissions		109	147
Other commissions		94	71
TOTAL FEE AND COMMISSION REVENUE		763	771
 Other income			
Available for sale assets			
Gain on sale of available for sale investments			
– previously revalued in equity		-	(2)
– not previously revalued in equity		-	-
		-	(2)
Dividends received on available for sale assets		40	30
Bad debts recovered		14	8
Income from property (rental income)		-	-
Gain on disposal of assets			
- Property, plant and equipment		-	3
- Intangibles		-	-
Miscellaneous revenue		21	6
TOTAL FEE COMMISSION AND OTHER INCOME		838	816
 c. Interest expenses			
Interest expense on liabilities carried at amortised cost			
Short term borrowings			
Deposits from financial institutions			
Deposits from members		2,399	2,515
Long term borrowings			
Other			
TOTAL INTEREST EXPENSE		2,399	2,515
 d. Impairment losses			
Available for sale assets			
Loans and advances			
(Increase) Decrease in provision for impairment		(147)	(8)
Bad debts written off directly against profit		186	138
Transfer from (to) Reserve for Credit Losses		33	69
TOTAL IMPAIRMENT LOSSES		72	199

e	Individually significant items of expenditure (detail)	Note	2009	2008
			\$	\$
	The following items of expense are shown as part of overall Administration expenses and considered to be significant to the understanding of the financial performance:-		-	-
	There were no other significant item of expenditure			
f.	Other prescribed disclosures			
	Net gain/loss on available for sale investments			
	- Previously recognised in equity		-	(2)
	- Not previously recognised in equity		-	-
			<u>-</u>	<u>(2)</u>
	Net gain/ loss on loans and receivables on derecognition (on partial transfer of business or securitisation of loans)		-	-
			<u>-</u>	<u>-</u>
	General administration - employees costs include:			
	- net movement in provisions for employee annual leave		(3)	46
	- net movement in provisions for employee long service leave		16	8
			<u>13</u>	<u>54</u>
	General administration - depreciation expense include:			
	- buildings		11	11
	- plant and equipment		184	193
			<u>195</u>	<u>204</u>
	General administration – office occupancy costs include:			
	property operating lease payments			
	- minimum lease payments		21	21
	Lease make good expenses – interest on liability		<u>21</u>	<u>21</u>
	Other operating expenses include:			
	Auditor's remuneration (excluding GST)			
	- Audit fees		62	72
	Defined contribution superannuation expenses		<u>-</u>	<u>-</u>
	Loss on disposal of assets			
	- property, plant, equipment		<u>-</u>	<u>-</u>
	- investments		<u>-</u>	<u>-</u>

3. INCOME TAX EXPENSE

	Note	2009 \$	2008 \$
a. The income tax expense comprises amounts set aside as:-			
Provision for income tax – current year		425	547
Under (over) provision prior years		(3)	-
Increase / (Decrease) in the Deferred Tax Liability Account		(30)	(12)
Decrease / (Increase) in Deferred Tax Asset account		(1)	(16)
Income Tax expense attributable to operating profit		391	519
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:			
Profit		1,294	1,755
Prima facie tax payable on profit before income tax at 30%		388	527
Add tax effect of expenses not deductible			
- Other non-deductible expenses		1	1
- Gross Up Dividends		5	4
Subtotal		394	532
Less			
- Investment Allowance		(4)	-
- Franking rebate		(17)	(13)
- Adjustment Prior Years – Capital Losses		(3)	
- Adjustment Prior Years – Reserve Credit losses		46	
- Adjustment Prior Years – Building Depreciation		(25)	
Income tax expense attributable to current year profit		391	519
4. CASH			
Cash on hand		1,263	990
Deposits at call		3,331	4,857
		4,594	5,847
5. RECEIVABLES FROM FINANCIAL INSTITUTIONS			
Deposits with industry bodies - Cuscal (refer note 31)		2,500	5,859
Deposits with other societies / Non Bank ADI's		6,000	2,500
Deposits with banks		15,000	8,000
		23,500	16,359

6. RECEIVABLES

	Note	2009 \$	2008 \$
Interest receivable on deposits with other financial institutions			
Sundry debtors and settlement accounts		357	325
		<u>357</u>	<u>325</u>

7. LOANS TO MEMBERS

a. Amount due comprises:

Overdrafts and revolving credit		631	-
Term loans		67,761	61,564
Subtotal		68,392	61,564

Less:

Unamortised loan origination fees		-	-
Unearned Income		-	-
Subtotal		-	-

Less:

Provision for impaired loans (Note 8)		349	201
		<u>68,043</u>	<u>61,363</u>

b. Credit quality - Security held against loans

Secured by mortgage over business assets		-	-
Secured by mortgage over real estate		49,038	41,783
Partly secured by goods mortgage		2,987	2,895
Wholly unsecured		16,367	16,886
		<u>68,392</u>	<u>61,564</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%	45,754	37,146
- loan to valuation ratio of more than 80% but mortgage insured	1,356	541
- loan to valuation ratio of more than 80% and not mortgage insured	1,928	4,096
	<u>49,038</u>	<u>41,783</u>

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

c. Concentration of loans

	Note	2009 \$	2008 \$
The values discussed below include on balance sheet values and off balance sheet undrawn facilities as described in Note 30.			
(i) Loans to Individual or related groups of members which exceed 10% of Capital Total		-	-
(ii) Loans to members are concentrated to individuals employed in the following industries TOTAL (no concentration)		-	-
(iii) Geographical concentrations			
Australia		68,392	61,564
Overseas		-	-

2009	Housing	Personal	Business	Total
NSW	44,233	23,748	411	68,392
Other States	-	-	-	-
Total per balance sheet	44,233	23,748	411	68,392

2008	Housing	Personal	Business	Total
NSW	36,324	25,240	-	61,564
Other States	-	-	-	-
Total per balance sheet	36,324	25,240	-	61,564

	Note	2009 \$	2008 \$
Loans to natural persons			
Residential loans and facilities		44,233	36,177
Personal loans and facilities		23,748	25,240
Business loans and facilities		336	-
		68,317	61,417
Loans to corporations			
		75	147
		68,392	61,564

d. Securitised loans

The values of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in AASB 139. The credit union acts as the agent for the securitisation entity to arrange and fund loans made directly by the securitisation entity. These loans do not qualify for recognition in the books of the credit union and are not recognised in the books of the credit union at any time.

The value of the securitised loans under management comprising both those assigned and those funded as agents, is set out in note 37.

Provision On Impaired Loans

8. PROVISION ON IMPAIRED LOANS

	Note	2009 \$	2008 \$
a. Total provision comprises			
Collective provisions		349	201
Individual specific provisions		-	-
Total Provision		349	201
b. Movement in the provision for impairment			
Balance at the beginning of year		201	194
Add (deduct):			
Transfers from (to) income statement		186	138
Transfers from / to Reserve for Credit Losses		32	69
Bad debts written off provision		(70)	(200)
Balance at end of year		349	201

Details of credit risk management is set out in Note 25.

c. Impaired loans written off			
Amounts written off against the provision for impaired loans		70	61
Amounts written off directly to expense		186	138
Total bad debts		256	199
Bad debts recovered in the period		14	8
		244	191
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	2009	2009	2008	2008	2008
	Carrying value	Value of Impaired Loans	Provision for impairment	Carrying value	Value of Impaired Loans	Provision for impairment
	\$	\$	\$	\$	\$	\$
Loans to members						
Mortgages	162	106	18	381	190	-
Personal	626	397	326	408	211	197
Credit cards	-	-	-	-	-	-
Overdrafts	21	2	5	22	4	4
Total to natural persons	809	505	349	811	405	201
Corporate borrowers	-	-	-	-	-	-
Total	809	505	349	811	405	201

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.

Provision On Impaired Loans Con.

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	13	-		
30 to 90 days in arrears	285	-	197	39
90 to 180 days in arrears	120	55	117	47
180 to 270 days in arrears	62	37	36	22
270 to 365 days in arrears	93	75	19	15
Over 365 days in arrears	198	177	39	39
Overlimit facilities over 14 days	8	5	6	4
Total	809	349	414	166

f. Assets acquired via enforcement of security

	Note	2009 \$	2008 \$
- Real estate		-	-
- Other		-	-
		-	-

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.

Provision On Impaired Loans Con.

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

There are loans 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 condition.

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

Loans members

	1- 3 Mnths	3-6 Mnths	6-12 Mnths	> 1 Year	Total
2009					
Mortgage secured	56				56
Personal loans	228	-	-	-	228
Credit cards	-	-	-	-	-
Overdrafts					
Total	284	-	-	-	284

2008					
Mortgage secured	190	73	117	--	381
Other loans					
Personal loans					
Credit cards					
Overdrafts					
Total	190	73	117	--	381

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

Note	2009 \$	2008 \$
	-	-
	-	-
	-	-
	-	-
	-	-

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
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

9. AVAILABLE FOR SALE INVESTMENTS

	Note	2009 \$	2008 \$
Shares in unlisted companies – at cost			
- Cuscal (c)	9 a	220	220
Loan to unlisted companies		-	-
Total value of investments		220	220
Less provisions for impairment		-	-
		-	-
		220	220

a. Disclosures on shares held at cost

Cuscal Limited

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the credit union to receive essential banking services – refer to Note 32. 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.

Property, Plant And Equipment

10. PROPERTY, PLANT AND EQUIPMENT

	Note	2009 \$	2008 \$
a. Fixed assets			
Land - at cost		253	253
Buildings - at cost		417	417
Less: Provision for depreciation		(132)	(122)
		285	295
Total land & buildings		538	548
Plant and equipment - at cost		1,771	1,634
Less: provision for depreciation		(1,372)	(1,186)
		399	448
Capitalised leasehold improvements at cost			
Less: provision for amortisation		-	-
		937	996

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

	2009				2008			
	Property	Plant & equipment	Leasehold improvement	Total	Property	Plant & equipment	Leasehold improvement	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance	548	448	-	996	559	521	-	1,080
Purchases		136		136		189		189
Revaluation increase								
Less								
Assets disposed						(70)		(70)
Depreciation charge	(10)	(185)		(195)	(11)	(192)		(203)
Revaluation decrease								
Impairment loss								
Balance at the end of the year	538	399	-	937	548	448	-	996

Note - Leasehold improvement must include the operating lease make good provisions where applicable.

11. TAXATION ASSETS

	Note	2009 \$	2008 \$
Deferred Tax Assets		252	222
Deferred tax assets comprise:			
Accrued expenses not deductible until incurred		31	20
Provisions for impairment on loans		104	60
Reserve for Credit Losses		-	55
Provisions for employee benefits		89	85
Depreciation on fixed assets		3	2
Depreciation on Buildings		25	
		252	222

12. LOANS TO CAPITAL INVESTORS

Loans to capital investors

Subordinated loans to investors in subordinated debt	20	-	-
Subordinated loans to investors in preference share	21	-	-

These loans are issued as subordinated loans to the respective investors and on the following terms and conditions :

- the loans are unsecured
- interest is payable quarterly (not applicable)
- interest may be withheld if the credit union fails to pay dividends or interest on the respective liabilities
- no repayments are required until the respective liabilities are settled in accordance with the agreements

13. INTANGIBLE ASSETS

Computer software	-	-
VISA Licence / Setup Fees	117	22
Less provision for amortisation	27	-
	90	22

Movement in the assets balances during the year were :

Opening balance	22	-
Purchases	95	22
Less		
Assets disposed	-	-
Depreciation charge / Amortisation Charge	27	-
Impairment loss		-
Balance at the end of the year	90	22

14. SHORT TERM BORROWINGS

	Note	2009 \$	2008 \$
Loans		-	-
Overdraft		-	-
		-	-
		-	-

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

15. DEPOSITS FROM MEMBERS

Member Deposits			
- at call		43,490	34,916
- term		40,719	37,344
Member withdrawable shares		136	132
		84,345	72,392

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 at balance date were received from individuals employed principally in one industry	-	-
(iii)	Geographical concentrations		
	Australia	84,345	72,392
	Overseas	-	-
	NSW	84,345	72,392
	Other States	-	-
	Total per balance sheet	84,345	72,391

16. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

Creditors and accruals	211	163
Interest payable on borrowings	-	-
Interest payable on deposits	331	425
Accrual for GST payable	-	-
Accrual for other tax liabilities	-	-
Sundry creditors	396	515
	938	1,103

17. TAXATION LIABILITIES

	Note	2009 \$	2008 \$
Current income tax liability		131	160

Current income tax liability comprises:

Balance – previous year		160	170
Less paid		(157)	(170)
Over / under statement in prior year		(3)	-
Liability for income tax in current year		391	519
Less Instalments paid in current year		(294)	(387)
Movement Deferred Tax Asset / Deferred Tax Liability		31	28
Adjustment Prior Year		3	
Balance – current year		131	160

18. PROVISIONS

Annual Leave		147	151
Long service leave		148	132
Provisions – other		16	16
		311	299

19. DEFERRED TAX LIABILITIES

Deferred tax liabilities		1	1
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Deferred income tax liability comprises :

Tax due on available for sale investments held in equity		1	1
Depreciation / Amortisation charges < than for taxation		-	
Tax on revalued property held in equity		1	1

20. LONG TERM BORROWINGS

SUBORDINATED DEBT

Balance at the beginning of the year		-	-
Increase due to debt issued			
Balance at the end of year		-	-

21. PREFERENCE SHARES

Balance at the beginning of the year		-	-
Increase due to shares issued			
Less Costs of capital raising			
Balance at the end of year		-	-

22. CAPITAL RESERVE ACCOUNT

	Note	2009 \$	2008 \$
Balance at the beginning of the year		-	300
Transfer to retained earnings		-	(300)
		<hr/>	<hr/>
Balance at the end of year		<hr/> <hr/>	<hr/> <hr/>

23. ASSET REVALUATION RESERVE

Asset revaluation reserve – land & buildings		-	-
Available for sale revaluation reserve – investments		-	-
		<hr/>	<hr/>

Asset revaluation reserve – land & buildings

The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value

Balance at the beginning of the year
Add: increase on revaluation of land & buildings
Less: deferred tax liability

Balance at the end of year

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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
Add: increase on revaluation of available for sale assets
Less: deferred tax liability
Transfer to Retained earning due to sale

Balance at the end of year

-	82
-	(82)
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24. GENERAL RESERVE FOR CREDIT LOSSES

General reserve for credit losses	152	185
Other reserve for credit losses		
	<hr/>	<hr/>
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General reserve for credit losses

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

Balance at beginning of year

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185	174

Add: increase (decrease) transferred from retained earnings
Balance at end of year

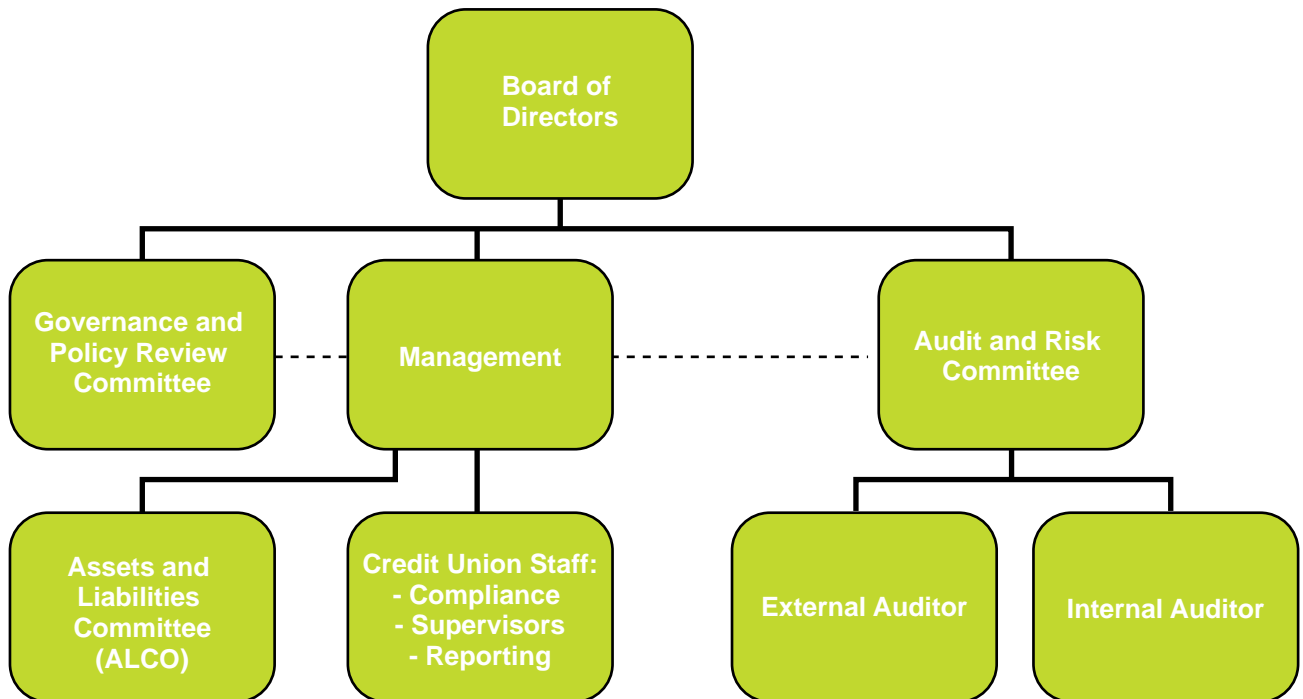
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(33)	11
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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 from there to the audit committee which are integral to the management of risk. The following diagram gives an overview of the intended structure following the 2009 AGM in November.



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.

Audit & Risk Committee:

This is a key body in the control of risk and has representatives from the Board of Directors and Executive. This committee reviews risks and the controls that are used to mitigate them. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Audit and Risk Committee through quarterly review of operational reports.

Risk controls are reviewed quarterly to confirm whether risks are within the parameters endorsed by the Board. The Audit and Risk Committee seeks to ensure that the significant risks and controls are assessed cognisant with the endorsed internal audit plan. The Audit and Risk Committee receives internal audit reports on assessment and compliance with risk controls. They report to the Board quarterly measuring actual risks against prescribed limits.

The Audit and 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 allow business continuity in the event of serious disruptions to business operations due to unforeseen circumstances.

Asset & Liability Committee (ALCO) – Credit Risk :

This committee of senior management meets 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 put 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 board. All exposures are checked monthly against approved limits, independently of each business unit, and are reported to the ALCO Committee.

All loans are managed 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 status of these loans is reported to the Credit Risk Committee monthly and the Risk Committee quarterly.

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.

Asset & Liability Committee (ALCO) - Market Risk:

This committee meets 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 weekly scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by the Risk Committee.

Compliance & Risk 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 some interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. However due to only offering variable rate loans and using member deposits as a natural hedge, SWSCU's interest rate risk is very modest.

The interest rate risk on the banking book is measured formally & externally every 6 months. Monthly reports on interest rate margin are reviewed and reported to the ALCO and the Board via the Audit & Risk 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 28 below. **The table set out at note 28 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 value at risk models VaR, the detail and assumptions used are set out below.

Value at Risk (VaR)

The credit union's exposure to market risk is measured and monitored using the VaR methodology of estimating potential losses. VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out in the table below, has been calculated using historical simulations, using movements in market rates and prices, a 99.5 per cent confidence level and taking into account historical correlations between different markets and rates.

This function is outsourced to Cuscal who prepare a detailed risk exposure summary every six months. The VaR on the non-trading book was as follows:

	2009	2008
Value at Risk / 10 day value at risk	\$30,201	\$10,028

The credit union is therefore confident within a 99.5 per cent confidence level that, given the risks as at 30 June 2009, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the VaR model used.

Although the use of VaR models calculates the interest rate sensitivity on the banking book, this is not reflected in the Pillar 1 capital requirement.

The credit union's exposure to banking book interest rate risk is not expected to change materially in the next year so existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

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 treasury 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 Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the credit union should this 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 31 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 27. The ratio of liquid funds over the past year is set out below:

APRA minimum 9 %	2009	2008
To total adjusted liabilities		
As at 30 June	32.16 %	29.51 %
Average for the year	34.29 %	26.54 %
Lowest during the year	29.52%	21.20 %
To total member deposits		
As at 30 June	33.30 %	30.73 %