

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).

(i) CREDIT RISK – LOANS

The analysis of the credit union's loans by class, is as follows:

Loans to	2009	2009	2009	2008	2008	2008
	Carrying value	Off balance sheet (LANA)	Max exposure	Carrying value	Off balance sheet (LANA)	Max exposure
	\$	\$	\$	\$	\$	\$
Mortgage	44,233	1,072	45,305	36,325	1,005	37,330
Personal	23,320	193	23,513	25,240	-	25,240
Credit cards	190	540	730	-	-	-
Overdrafts	440	797	1,237	234	892	1126
Commercial	209	-	209			
Total	68,392	2,602	70,994	61,799	1,897	62,696
To Natural Persons	68,317	2,602	70,919			
Corporate borrowers	75	-	75			
Total	68,392	2,602	70,994	61,799	1,897	63,696

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 30 and a summary is in note 7.c

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 7.c.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and 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 and 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 is 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.

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 counterparty risk, changes in a 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.

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

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. 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 the majority of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 7.b describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – individuals

Concentration risk is a measurement of the credit union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the credit union's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but the APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The 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 per cent 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 per cent 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 different areas of employment.

(ii) CREDIT RISK – LIQUID INVESTMENTS

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to institutions that are credit worthy. 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 Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed. The board policy is to maintain at least 3.2 % of the investments in Cuscal Limited, a company set up to support the member credit unions and which has an A1+ / AA- rating.

All other investment must be with financial institutions with a rating in excess of BBB. The policies of the board limit the investments outside Cuscal to 50 % of capital base per counterparty.

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. For deposits up to 1 million dollars the Government Guarantee applies. The credit union has invested in a number of unrated Building Societies and other credit unions however all investments with unrated counterparties do not exceed 1 million dollars.

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

	2009	2009	2009	2008	2008	2008
Investments with	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
Cuscal - rated AA-	2,500	-	-	10,936	-	-
Banks - rated AA and above	12,000	-	-	6,000	-	-
Banks -rated below AA	3,000	-	-	4,500	-	-
Unrated institutions - credit unions / building societies (Gov Guarantee)	6,000	-	-	-	-	-
Total	23,500	-	-	21,436	-	-

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 behavior;
- 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.

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 B pay 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)
- Operational 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 : - Retained profits

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 subordinated loan remitted from the credit union's ultimate parent. The principal amount has been amortised on a straight line basis over the last 5 years to maturity of the loan in accordance with the requirements of APRA Prudential standard APS 111.
- A general reserve for Credit Losses.

Capital in the credit union is made up as follows:

	2009	2008
Tier 1		
Share capital	-	-
Capital reserve	-	-
General reserve	-	-
retained earnings	12,149	11,246
	-	-
Less prescribed deductions	-	-
Net tier 1 capital	12,149	11,246
Tier 2		
Subordinated debt	-	-
Reserve for credit losses	152	185
Asset revaluation reserves on property	-	-
Asset revaluation reserves on equity	-	-
	-	-
Less prescribed deductions	-	-
Net tier 2 capital	152	185
Total Capital	12,301	11,431

The credit union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

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

		2009	Carrying Value	Risk Weighted Value
Cash	0%		1,263	-
Deposits in highly rated ADI's	20%		26,831	5,366
Deposits in less highly rated ADI's	50% - 150%		-	-
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%		42,326	14,814
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 75%		3,284	2,304
Investments in equity instruments	150%		-	-
Other assets	100%		24,823	24,823
Total			98,527	47,307
2008				
Cash	0%		990	-
Deposits in highly rated ADI's	20%		19,716	3,943
Deposits in less highly rated ADI's	50% - 150%		1,500	750
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%		34,050	11,917
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 75%		1,330	727
Investments in equity instruments	150%		-	-
Other assets	100%		28,098	28,098
Total			85,684	45,435

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 2008 and prior reflect the previous methodology.

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

2009	2008	2007	2006	2005
22.16 %	21.42 %	21.10 %	20.28 %	18.05 %

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

To manage the credit unions capital the credit union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the board and the regulator if the capital ratio falls below 18 %. Further 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 2009 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:

Risk Weighted Asset Equivalent amount for Operational Risk Regulatory Capital \$ 5,862,924

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.

In relation to the operational risks, the major measurements for additional capital are:

Credit Concentration / Correlation Risk

The Credit Union's business activities are concentrated geographically in the South West Slopes and Central West region of New South Wales. The loan portfolio however is heavily concentrated in Young.

The Board considers that this poses a credit correlation risk and determines that it would be prudent for the Credit Union to hold additional capital on account of its credit correlation risk of 1 %

Contagion / Reputation Risk

This concerns the credit union's vulnerability to financial or reputation damage either as part of a group or, in relation to reputation risk, on a stand-alone basis. The Board determines that it would be prudent to hold an additional 1.00 % of capital on account of contagion and reputation risk

Compliance / Regulatory Risk

There is a risk that the credit union's business may be disrupted as a result of non-compliance with regulatory requirements. This risk is mitigated and controlled by a number of factors. The Board determines that it would be prudent to hold an additional 0.50 % capital on account of compliance risk.

Categories Of Financial Instruments

Other Capital Factors

In order to provide for any unknown risks or unmitigated risks the Board determines that it would be prudent to hold an additional capital buffer of 1.5 %

The total optional capital charge recognised by the Board equates to 4 % resulting in a credit union minimum capital of 12.00 % (Prudential minimum 8.00 % + 4.00 %). Actual Capital adequacy exceeds these minimums greatly. As at 30/6/09 : 22.16 %

26. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

	Note	2009 \$	2008 \$
Financial assets - carried at amortised cost			
Cash	4	4,594	5,847
Receivables			-
Receivables from financial institutions -	5	23,500	16,359
Loans to members	7 & 8	68,043	61,363
Loans to capital investors	12	-	-
Total loans and receivables		96,137	83,569
Available for sale investments - carried at cost		-	-
Available for sale investments - carried at fair value		-	-
Total available for sale investments		-	-
TOTAL FINANCIAL ASSETS			
Financial liabilities			
Short term borrowings	14	-	-
Creditors		938	1,124
Deposits from other institutions			-
Deposits from members	15	84,345	72,392
Long term borrowings	20	-	-
Preference shares	21	-	-
Total carried at amortised cost		85,283	73,516
Fair value through profit and loss		-	-
Derivatives		-	-
TOTAL FINANCIAL LIABILITIES		85,283	73,516

27. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

2009	Within 1 months \$	1-3 months \$	3-12 months \$	1-5 years \$	After 5 years \$	No Maturity \$	Total \$
ASSETS							
Cash	4,594	-	-	-	-	-	4,594
Receivables	-	-	-	-	-	-	-
Advances to other financial institutions	-	-	-	-	-	-	-
Loans & Advances – mortgage	44,233	-	-	-	-	-	44,233
Loans & Advances – personal	23,510	-	-	-	-	-	23,510
Loans & Advances – Other	649	-	-	-	-	-	649
Investments	6,500	6,500	10,500	-	-	-	23,500
On Balance Sheet	79,486	6,500	10,500	-	-	-	96,486
Undrawn Commitments Note 30	3,068	-	-	-	-	-	3,068
Total financial Assets	82,554	6,500	10,500	-	-	-	99,554
LIABILITIES							
Borrowings	-	-	-	-	-	-	-
Creditors	937	-	-	-	-	-	937
Deposits from other financial institutions	-	-	-	-	-	-	-
Deposits from members – at call	43,490	-	-	-	-	-	43,490
Deposits from members – term	11,469	21,156	8,094	-	-	-	40,719
Subordinated debt	-	-	-	-	-	-	-
On Balance sheet	55,896	21,156	8,094	-	-	-	85,146
Undrawn commitments Note 30	-	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-	-
Total financial Liabilities	55,896	21,156	8,094	-	-	-	85,146

2008	Within 1 months \$	1-3 months \$	3-12 months \$	1-5 years \$	After 5 years \$	No Maturity \$	Total \$
ASSETS							
Cash	5,847	-	-	-	-	-	5,847
Receivables	-	-	-	-	-	-	-
Advances to other financial institutions	-	-	-	-	-	-	-
Loans & Advances – mortgage	36,325	-	-	-	-	-	36,325
Loans & Advances – personal	25,038	-	-	-	-	-	25,038
Loans & Advances – Other	-	-	-	-	-	-	-
Investments	2,000	5,000	9,359	-	-	-	16,359
On Balance Sheet	69,210	5,000	9,359	-	-	-	83,569
Undrawn Commitments Note 30	1,897	-	-	-	-	-	1,897
Total financial Assets	71,107	5,000	9,359	-	-	-	85,466
LIABILITIES							
Creditors	1,124	-	-	-	-	-	1,124
Deposits from other financial institutions	-	-	-	-	-	-	-
Deposits from members – at call	35,049	-	-	-	-	-	35,049
Deposits from members – term	10,284	22,328	4,731	-	-	-	37,343
Subordinated debt	-	-	-	-	-	-	-
On Balance sheet	46,457	22,328	4,731	-	-	-	73,516
Undrawn commitments	-	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-	-
Total financial Liabilities	46,457	22,328	4,731	-	-	-	73,516

Interest Rate Change Profile

28. 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	Ave %	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
		\$	\$	\$	\$	\$	\$	\$
ASSETS								
Cash	3.56	4,594	-	-	-	-	-	4,594
Receivables								
Advances to other financial Institutions		-	-	-	-	-	-	
Loans & advances - mortgage	6.20	44,233	-	-	-	-	-	44,233
Loans & advances - personal	11.70	23,510	-	-	-	-	-	23,510
Loans & advances – other	8.38	649	-	-	-	-	-	649
Investments	8.48	6,500	6,500	10,500	-	-	-	23,500
On Balance sheet		79,486	6,500	10,500	-	-	-	96,486
Undrawn commitments Note 30		3,068	-	-	-	-	-	3,068
Interest rate swaps								
Total financial assets		82,554	6,500	10,500	-	-	-	99,554
LIABILITIES								
Borrowings		-	-	-	-	-	-	-
Creditors		937	-	-	-	-	-	937
Deposits from other financial institutions		-	-	-	-	-	-	-
Deposits from members	3.06	54,959	21,156	8,094	-	-	-	84,209
Subordinated debt								
On Balance sheet								
Undrawn commitments Note 30		-	-	-	-	-	-	-
Interest rate swaps								
Total financial liabilities		55,896	21,156	8,094	-	-	-	85,146

2008	Ave %	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
		\$	\$	\$	\$	\$	\$	\$
ASSETS								
Cash	4.69	5,847	-	-	-	-	-	5,847
Advances to other financial Institutions		-	-	-	-	-	-	-
Loans & advances - mortgage	7.83	2,000	5,000	9,359	-	-	-	16,359
Loans & advances - personal	8.48	36,325	-	-	-	-	-	36,325
Loans & advances – other	11.46	25,038	-	-	-	-	-	25,038
On Balance sheet		69,210	5,000	9,359	-	-	-	83,569
Undrawn commitments Note 30		1,897	-	-	-	-	-	1,897
Interest rate swaps		-	-	-	-	-	-	-
Total financial assets		71,107	5,000	9,359	-	-	-	85,466
LIABILITIES								
Borrowings		-	-	-	-	-	-	-
Creditors		1,124	-	-	-	-	-	1,124
Deposits from other financial institutions		-	-	-	-	-	-	-
Deposits from members 3.59 Subordinated debt		45,333	22,328	4,731	-	-	-	72,392
On Balance sheet		46,457	22,328	4,731	-	-	-	73,516
Undrawn commitments Note 30		-	-	-	-	-	-	-
Interest rate swaps		-	-	-	-	-	-	-
Total financial liabilities		46,457	22,328	4,731	-	-	-	73,516

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets 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.

	Fair Value \$	Carrying Value \$	Variance \$	Fair Value Value \$	Carrying Value \$	Variance \$
Financial Assets						
Cash	4,594	4,594	-	5,847	5,847	-
Receivables	-	-	-	-	-	-
Advances to other financial institutions	-	-	-	-	-	-
Loans - mortgage	44,233	44,233	-	36,325	36,325	-
Loans - personal	23,510	23,510	-	25,038	25,038	-
Loans – other	649	649	-	-	-	-
Investments	23,500	23,500	-	16,359	16,359	-
Total financial assets	96,486	96,486	-	83,569	83,569	-

	Fair Value \$	Carrying Value \$	Variance \$	Fair Value \$	Carrying Value \$	Variance \$
Financial Liabilities						
Borrowings						
Creditors						
Deposits from other financial institutions						
Deposits from members – Call	43,490	43,490		34,916	34,916	-
Deposits from members – Term	40,719	40,719		37,343	37,343	-
Creditors (1)	938	938		1,124	1,124	-
Subordinated debt						
Total financial liabilities	85,147	85,147		73,383	73,383	

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

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

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

Liquid assets and receivables from other financial institutions

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

Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of fair value. The Credit Unions does not provide fixed rate lending.

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. The Credit does not provide fixed rate deposits exceeding 12 months.

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 credit union does not have any short term borrowings.

Financial Commitments

	2009 \$	2008 \$
30. FINANCIAL COMMITMENTS		
a. Outstanding loan commitments The loans approved but not funded	1,263	1,005
b. Loan redraw facilities The loan redraw facilities available	-	-
c. Undrawn loan facilities Loan facilities available to members for overdrafts and line of credit loans are as follows: Total value of facilities approved Less: Amount advanced Net undrawn value	1,949 144 <u>1,805</u>	892 <u>892</u>
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	<u>3,068</u>	<u>1,897</u>

Expenditure commitments

d. Future capital commitments The credit union has entered into a contract to purchase (computer equipment and software) for which the amount is to be paid over the following periods:- Within 1 year 1 to 2 years 2 to 5 years Over 5 years	- - - - <u>-</u>	- - - - <u>-</u>
e. Computer capital commitments Not later than one year Later than 1 year but not 2 years Later than 2 years but not 5 years Later than 5 years	- - - - <u>-</u>	- - - - <u>-</u>
f. Lease expense commitments for operating leases on property occupied by the credit union Not later than one year Later than one year but not later than five years Over five years	22 - - <u>22</u>	22 - - <u>22</u>

The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 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

Standby Borrowing Facilities

	2009 \$	2008 \$
g. Other expense commitments		
Not later than one year	-	-
Later than 1 year but not 2 years	-	-
Later than 2 years but not 5 years	-	-
Later than 5 years	-	-
	<hr/>	<hr/>
	<hr/>	<hr/>

31. STANDBY 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	-	-	-
TOTAL STANDBY BORROWING FACILITIES	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>

2008

	Gross \$	Current Borrowing \$	Net Available \$
Loan Facility	-	-	-
Overdraft Facility	-	-	-
TOTAL STANDBY BORROWING FACILITIES	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>

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.

32. CONTINGENT LIABILITIES

Liquidity support scheme

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

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

Guarantees

There are no contingent guarantees.

33. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

a. Remuneration of key management persons [KMP]

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

Key management persons (KMP) have been taken to comprise the directors and the 4 members 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:

	2009 KMP	2008 Total
	\$	\$
(a) short-term employee benefits;	443	393
(b) post-employment benefits - superannuation contributions	83	79
(c) other long-term benefits – net increases in long service leave provision	8	11
(d) termination benefits;	-	-
(e) share-based payment.	-	-
Total	534	483

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.

	2009 \$	2008 \$
c. 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	733	616
(ii) The total value of revolving credit facilities to directors and other key management persons, as at balance date amounted to	26	26
Less amounts drawn down and included in (i)	25	19
Net balance available	1	7
(iii) During the year the aggregate value of loans disbursed to directors and other key management persons amounted to:		
Revolving credit facilities	-	-
Personal loans	-	-
Term Loans	160	-
	160	-
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to directors and other key management persons amounted to:	-	-
	-	-

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.

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

There are no benefits or concessional terms and conditions applicable to the 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	122	179

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.

d. Transactions with Other Related Parties

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

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

There are no benefits paid or payable to the close family members of the key management persons. There are no service contracts to which key management persons or their close family members are an interested party.

34. ECONOMIC DEPENDENCY

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

a. Cuscal Limited

Cuscal is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. This credit union:

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

b. First Data International Limited (FDI)

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. Lynx / Indue

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

35. SEGMENTAL REPORTING

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

36. 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.

37. 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 \$ in loans to Integris. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to the 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 \$1,192,316 (2008: \$2,209,979).

Notes To Cash Flow Statement

38. NOTES TO CASH FLOW STATEMENT

	2009	2008
	\$	\$
a. Reconciliation of cash		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	1,264	990
Deposits at call	26,831	21,216
Bank overdraft	-	-
Total cash	28,095	22,206
b. Cash unavailable for use		
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.	-	-
c. Reconciliation of cash from operations to accounting profit		
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax	6,120	7,460
Profit after income tax	903	1,236
Add (Deduct) :		
Depreciation expense	222	204
Loss / (Gain) on sale of assets	-	(1)
Increase (Decrease) in provision for impairment	115	(61)
Increase (Decrease) in provisions for staff leave	13	54
Increase (Decrease) in provision for income tax	(29)	(10)
Increase (Decrease) in other liabilities	(214)	455
Increase (Decrease) in accrued expenses / Creditors	48	25
Increase in interest payable	-	-
Increase (Decrease) in Deferred Tax Liability	(1)	(16)
(Increase) Decrease in accrued income	(29)	(109)
Decrease (Increase) in prepayments	(2)	(4)
Decreases in sundry receivables	(2)	
Decrease (Increase) in deferred tax assets	(30)	(12)
Net cash from revenue activities	994	1,761
Add (Deduct) non revenue operations		
(Increase) Decrease in loans balances	(6,828)	814
Increase (Decrease) in deposit balances	11,954	4,885
Net cash from operating activities	6,120	7,460

39. 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
The address the principal place of business is

89 Boorowa Street , Young NSW 2594
89 Boorowa Street , Young NSW 2594

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.