



08-09

Annual Report

Straightforward, reliable banking

 Macquarie Credit Union

straightforward, reliable banking

ABN 85 087 650 253 | AFSL 241132 | BSB 802 126

Year in Review

Your Credit Union – Safe and Secure

There was a lot of media coverage over the past year about the threats facing Australian lenders due to the Global Financial Crisis (GFC). Many of these reports divided the Australian market into two categories – ‘banks’ and ‘non-bank lenders’. Your Credit Union is not included in this category of ‘non-bank lenders’.

While we are not a bank, we are, just like banks, an Authorised Deposit-taking Institution or ADI and we are subject to the same regulatory standards. The ‘non-bank lenders’ referred to in the media are non-ADI lenders and not subject to the same regulatory standards. They are typically organisations that only provide loans and cannot accept deposits.

Unlike these non-ADI lenders we do not fund the bulk of our loans from overseas. We fund our loans through our member deposits and Australian investments and we are committed to keeping money in the local community. These are some of the reasons why the Credit Union industry and your Credit Union in particular have remained relatively unscathed in the wake of the GFC.

In addition to this, unlike banks, we exist to service the needs of you, our members. Our profits belong to you and are returned through lower fees and charges, better interest rates and increased services.

Because of our prudent operational strategies, responsible lending policies and commitment to you, our members, you can be assured that we will remain strong and viable now and well into the future.

Straightforward, reliable banking

Since the very beginning we have been committed to providing you, our members, with straightforward good-value products and exceptional personal service. In essence – straightforward, reliable banking.

In support of this commitment we decided to take it one step further and make ‘straightforward, reliable banking’ our promise to you. In October 2008, we launched our new brand positioning, straightforward, reliable banking and started along a path to incorporating this promise into everything we do.

Mutual Banking Code of Practice

In July this year we joined with 126 other credit unions and building societies in Australia to launch the Mutual Banking Code of practice. The code basically spells out our responsibilities to you, our members, and what you can expect from us. The term ‘mutual’ refers to organisations like us that are owned by their customers (or members, as we like to call you). The code is a pretty lengthy document but it can be summed up by 10 key promises.

1. We will be fair and ethical in our dealings with you
2. We will focus on our members
3. We will give you clear information about our products and services
4. We will be responsible lenders
5. We will deliver high customer service and standards
6. We will deal fairly with any complaints
7. We will recognise member rights as owners
8. We will comply with our legal and industry obligations
9. We will recognise our impact on the wider community
10. We will support and promote this Code of Practice.



Since then we have:

- Refreshed our member communications – including renaming our newsletter ‘Member Matters’ thanks to member Jenni Gordon’s suggestion.
- Introduced new ways of communicating with you – earlier this year we launched a blog where we post information on financial issues, tips on how to get more out of your money and keep you up-to-date with Credit Union news.
- Begun a complete review of our product suite – this review will include the possible introduction of new products and some enhancements to existing products.

Thank you for your feedback

Thank you to all our members who took time out to participate in our member survey this year. It's extremely helpful to get feedback from you, our members, whether it is good or bad. Your feedback is how we learn and how we measure our success. Below are just a couple of comments from this year's survey.

"Macquarie Credit Union has delivered excellent service, wide range of products, low interest rates and helpful advice for many years. Most of all for seniors, confidence in dealing with all aspects of their finances, stress free and ease of use in Internet and Phone banking with excellent friendly customer service."

"I have had only positive experiences with Macquarie Credit Union and tell everyone that I know that they have always helped me out when I needed it. I will continue to use the Credit Union even though I no longer live in Dubbo as they are easy to deal with and make me feel welcome and comfortable."

"People don't want to be a number. They want to know that they can get what they want and need from their financial institution without fuss, bother or unpersonalised service, and at a minimal cost. Costs low, service excellent, and up to date with what people want and need. This is what keeps you ahead of the big banks. Nothing is too hard for your staff, and this is what people like. Someone who will help them and not whinge or moan or try to get more money out of them. Your staff are genuine and it shows."

Award-winning Products

CANNEX 5 STAR RATINGS

Earlier this year our personal loans were awarded Cannex 5 Star Ratings and in 2008 both our online savings account and our new car loan were awarded Cannex 5 Star Ratings.

Cannex 5 Star Ratings are only awarded to products offering superior value to customers. Our personal loans were compared to 526 other products from 88 different lenders.

CANNEX RISING STAR AWARD

Earlier this year we introduced a new product, our Power Home Loan (introductory home loan) and it was awarded a Cannex Rising Star award.

MONEY MAGAZINE'S BEST OF THE BEST AWARDS

In 2008 our Visa Credit Card won silver in Money Magazine's Best of the Best Awards for the Cheapest Balance Transfer Credit Card (minimum repayments).



Rediteller becomes rediATM

In March 2009 new 'direct-charging' legislation came into effect, meaning that all credit union, building society and bank customers were charged at the time of transaction for using another institutions ATM.

In response to this new legislation the credit union Rediteller network underwent a facelift and became the new rediATM network. The new rediATMs are much easier to find thanks to their bright red appearance and are now in even more places. To make it easier for our members to transact direct-charge free we added a new rediATM to our network at Centro Dubbo earlier this year.



Results of the Past Year

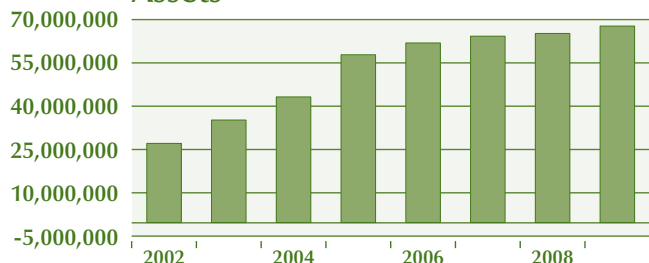
It is a privilege to report to members as the General Manager of Macquarie Credit Union. Your Credit Union has had another successful year in providing financial services to members. Our strong financial position will allow us to reinvest into the Credit Union to add to its strength and security and provide continuing value to members.

As has become a feature of our annual report our 'plain English' accounts appear adjacent. This statement is only intended to provide a snapshot of the Credit Union's financial performance. It is not a formal part of the annual accounts. Full details of the Credit Union's financial results are contained in the following pages.

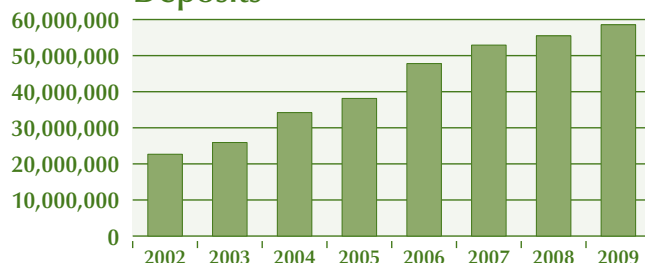


Matthew Bow
General Manager

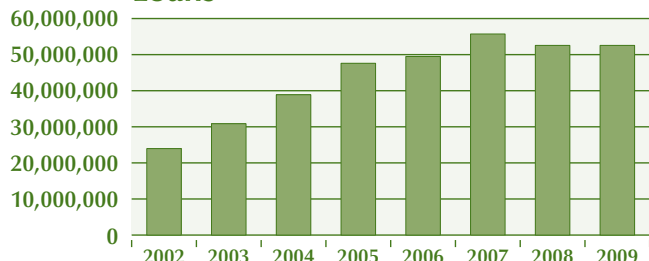
Assets



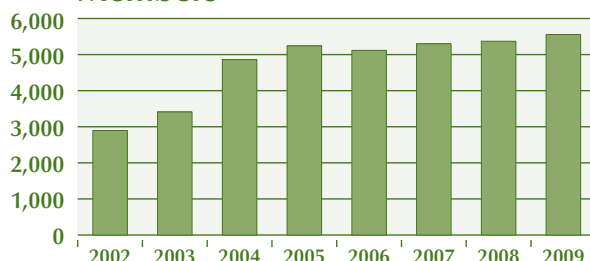
Deposits



Loans



Members



Balance Sheet

ASSETS				LIABILITIES			
What the Credit Union Owns				What the Credit Union Owes			
	2009	2008	2007		2009	2008	2007
	\$,000	\$,000	\$,000		\$,000	\$,000	\$,000
Member Loans	53,310	52,471	55,632	Member Deposits	53,311	50,251	48,157
Cash & Investments	15,429	11,841	7,471	Payables & Other Liabilities	7,500	6,648	7,445
Plant & Equipment	63	131	209	Provisions	107	115	115
Other	713	741	820	Other	0	6	79
				Members Reserves/ Equity	8,597	8,164	7,721
Total Assets	69,515	65,184	64,132	Total Liabilities	69,515	65,184	64,132

Profit and Loss Account

WHAT WE EARNED			
	2009	2008	2007
	\$,000	\$,000	\$,000
Interest – member loans	4,276	4,787	4,379
Interest – investments	744	789	591
Transfer from provisions	0	0	0
Other income – commissions, fees etc	475	373	375
Total Income	5,495	5,949	5,345

WHAT WE SPENT			
	2009	2008	2007
	\$,000	\$,000	\$,000
Interest – member deposits	2,242	2,544	2,100
Interest – borrowings	331	398	375
Member service costs (ATMs, Cheques, EFTPOS etc)	419	452	339
Computer costs (data processing etc)	238	254	202
Staff costs	860	874	836
General expenses	806	775	800
Total Operating Costs	4,896	5,297	4,652
Operating Profit Before Tax	599	652	693
Income Tax Expense	165	191	194
Net Profit After Tax	434	461	499

Community news

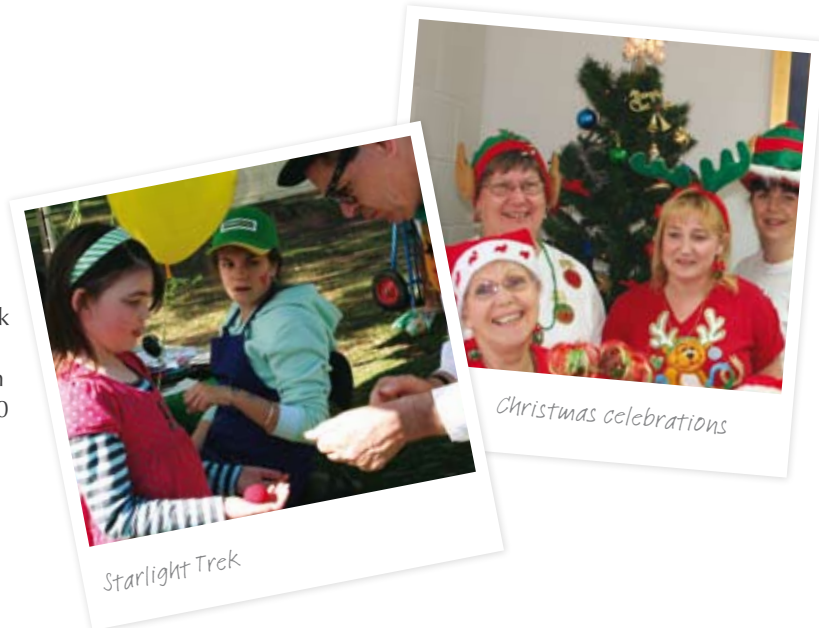
The team at Macquarie Credit Union regularly take part in community events and charitable causes including Meals on wheels, Movember, Starlight Trek, Red Nose Day, Jeans for Genes, Daffodil Day, Australia's Biggest Morning Tea, and the City to Surf.

Meals on Wheels

The staff at Macquarie have been participating in the program since January 2007. Currently we have 100% staff commitment, and once every four weeks, two staff members volunteer their own time to deliver meals to the disabled & elderly.

Starlight Trek

Macquarie Credit Union has been supporting the Starlight Trek for 4 years now, sponsoring a car, and donating giveaways for the drivers to hand out on their trek. This great cause has been running for 13 years and in that time has raised over \$750,000 for the Starlight Foundation.



Starlight Trek

Christmas celebrations



Fun at the Zoo – Annual Members Dinner

Our 2008 Annual Dinner, held on Friday 7 November at the Savannah Room at the Taronga Western Plains Zoo, was a great deal of fun. Members and staff alike kicked up their heels and had a fabulous time.

Thank you to all those members who came along. We look forward to seeing you again this year.



Dinner guests



Dinner guests

Movember at Macquarie

General Manager, Matt Bow, and staff members John and Ben grew mo's for the month of November to raise awareness and funds for men's health issues. During Movember (the month formally known as November) these men brought the Mo back to Dubbo.

The Movember event raised awareness and funds for men's health issues including prostate cancer and depression.

Since its inception as a formal charity in 2004, Movember has raised over \$30 million globally, significantly raised awareness of men's health issues in the community and is continuously working to change the attitude men have about their health.

Matt, John and Ben raised a total of \$1,136.75. Thank you to all who made donations, it was much appreciated.



Maree at the Health Field Day

Country Energy Health Field Days

Earlier this year Country Energy held a series of Health Field Days for their employees. These days were a great way for Country Energy Employees to learn different ways to improve their health and well-being and participate in a range of activities including fitness tests, blood donations and stress and mental health tests.

We attended several of these great events offering financial fitness tests to members and non-members alike. We had a great time travelling around the country side, meeting new members, putting faces to the names of our existing members and demonstrating the benefits of being a Macquarie Credit Union member.

Chairman's report

Once again it is my pleasure to report to you, our members and owners, on another busy, exciting and rewarding year.

It has been a year in which your credit union has once again managed to improve the products and services available to all members, despite probably the most difficult conditions experienced by financial institutions for many years.

We have come through the past 12 months not only with our credit union continuing to grow larger and stronger, but also in a position to offer even better value to our members than most other financial institutions in the country. This achievement speaks volumes for both the dedication of the staff and management and also the support of all of our members scattered throughout the state.

Outside Influences

INTEREST RATES

Official interest rates dropped by a total of 4.25% over a period of just seven months from September 2008 to April 2009. This magnitude of reduction in such a short period was unprecedented.

Whilst providing welcome relief for mortgagees, it also provided headaches for most financial institutions in juggling their lending and deposit rates so often in such a short time. It was an environment that no one had been through before, and severely tested the management skills of all financial institutions. Many found the task very daunting.

I am very proud to say that was not the case with your credit union, and all our members can take great comfort in the fact that not only did we weather the storm, but have come through it in a stronger and more competitive position than ever. This has been due in no small measure to the knowledge, skills and dedication of the management and staff, who have shown a maturity well above many of their peers.

FEDERAL GOVERNMENT DEPOSIT GUARANTEE

The Federal Government introduced a guarantee deposit scheme for all deposit taking institutions on 28th November 2008. This was a measure undertaken to calm the nerves of many investors that were reeling from the dramatic failures of several major overseas banks.

There is no doubt that it produced a "flight to safety", and many people moved at least some of their deposits from what was perceived as "risky" investments to the more traditional banking type institutions.

I would like to think that all of our members see our credit union as safe all the time, no matter what the prevailing circumstances. We have consistently, over a period of more than forty years, built up a reputation as a safe, reliable and conservatively managed credit union. We have continued to build wealth and provide superior products and services for our members over that time, and are recognised as a leader in this respect throughout the industry.

ATM DIRECT CHARGING

The Federal Government legislated to introduce ATM direct charging which came into effect on 3rd March 2009. The effect of this legislation was to introduce a fee for those people who use an ATM not owned by the financial institution that issued their card.

To overcome the disadvantage individual credit unions suffered as a result of this move, all credit unions in Australia banded together to create the RediATM network. This allows any credit union member in Australia to use any RediATM anywhere in Australia for no cost.

To further improve credit union member access to ATMs, your credit union negotiated with Centro Shopping Centre in Macquarie Street Dubbo to install another RediATM directly outside the food court. This RediATM commenced operations on 16th July 2009 and has already proved to be extremely popular.

An added boost to access for credit union members is the just announced agreement with the National Australia Bank for that bank to join the RediATM network with all their ATMs Australia wide. It is expected that this partnership will be up and running towards the end of 2009, and will provide credit union members with direct charge free transactions to one of the largest ATM networks in the country, over 3,100 of them.

Survey Results

We conducted an extensive survey of our members from March to May 2008 to try to gauge where we might be able to improve the products and services to our members.

We are very thankful to the huge number of responses we received, and the many suggestions that were forthcoming. As a result, we have decided to make several changes to our products and introduce new products and services. Some are already in place, others will be introduced over the coming year. News of these changes will be advised to members via all our communication channels, including our web site, newsletters, statements, flyers and posters.

We constantly strive to provide services that our members want and need, and are really grateful for the positive feedback from surveys like this one that allows us to do just that.

Canstar Awards

We were very pleased to learn of our credit union being awarded three product awards in December 2008 by the respected Canstar (formally Cannex) company. The awards were for our new car loan, our used car loan and our unsecured personal loan.

Then in June we learned that we had won three more Five Star awards for our New Car Loan less than 12 months old; our Car Loan less than five years old and our Secured Personal Loan.

Whilst we know all our products provide great value for money to our members, it is always pleasing to receive industry recognition in this way.

It is just another reason for all our members to have a good look at what is on offer at Macquarie Credit Union before going anywhere else.

Country Energy Health Field Days

Country Energy conducted 15 health field days throughout the state in the first half of 2009. Your credit union was invited to be a part of those field days, and we gladly participated.

We attended 13 of them and were overwhelmed by the response from not only current members, but also prospective members. Many Country Energy employees from all over the state were introduced to the benefits of membership of their credit union, and many current members took the opportunity to avail themselves of the many products and services that they were previously unaware of.

We thank the management of Country Energy for their co-operation in this initiative, and feel sure that all their employees will benefit for many years to come as a result.

Personnel Appointments

In a further boost to our management team, Scott Vanstone was appointed as Operations Manager in June 2009. Scott has many years experience in the finance industry in general, and credit unions in particular. He brings a wealth of knowledge and management experience with him, particularly in the loans area.

We welcome Scott to our credit union, and I feel quite sure that his presence will prove most beneficial to all our members in the years to come.

The Board also boosted its capacity and broadened its collective knowledge with the appointment of John Moss as a Director in February 2009.

John was previously Chairman of Post-Tel Credit Union, then a director of Macquarie Credit Union for almost four years after the amalgamation of the two. He has more recently been a senior manager with Orana Credit Union, but after their merger with New England Credit Union, John decided to pursue other interests. We are very pleased to welcome John back to our Board, and know that he will add further to the wealth of experience and knowledge already contained within the Board.

Acknowledgements

I would like to thank our management and staff for their continued dedication to providing the very best of service to every one of our members.

The past year has been interesting to say the least, but they have been able to look after the needs of the members in the same efficient and friendly manner as always.

My fellow directors have also shown that they are up to the task by grappling with the quite unusual business conditions thrown up during the year, and coming up with the right answers to keep our great credit union at the top of the industry.

Members can be sure that regardless of government guarantees or the like, our credit union will always be a safe, secure and profitable place to do business with.

Once again a big thank you to all our representatives at the many places throughout the state where our members work. Your help in spreading the word is instrumental in bringing financial independence to our members.

Also many thanks to our employer groups and their staff for the great help in providing your employees (our members) with the very best in financial services, which in turn makes them better employees.

In closing I would like to wish each and every one of you a truly great year ahead, and hope that you all achieve everything you wish for.



Chris Shepherd
Chairman

Financial Report for the year ended 30 June 2009

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Directors' Report

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

DIRECTORS

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

TE Bacon

J Moss

(appointed 24 February 2009)

A Gillham

PM Nolan

J Millar

DAJ Rootes

RK Mills

CJ Shepherd

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Matthew Bow – Mr Bow has worked for Macquarie Credit Union Limited for the past four years and was appointed the General Manager of the Credit Union on 19 November 2007. He was appointed company secretary on 19 November 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Credit Union during the year were the provision of financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the constitution. There were no significant changes in the nature of the Credit Union's activities during the year.

OPERATING RESULTS

The amount of profit of the Credit Union for the financial year after providing for income tax was \$433,658 (2008: \$461,174).

DIVIDENDS RECOMMENDED

The Credit Union's constitution does allow the payment of a dividend, but the Directors of the Credit Union have elected not to pay a dividend for the year ended 30 June 2009.

REVIEW OF OPERATIONS

The Credit Union recorded a profit of \$433,658 compared to \$461,174 in the 2008 year. The Directors are very pleased with the result given the tightening of the credit markets and global financial crisis.

Interest revenue decreased by \$556,910 (10%) to \$5,020,142 due to the weaker economy. Interest expense decreased by \$369,919 (12.6%) to \$2,572,713.

Employee benefit expenses decreased by \$14,199 (1.6%) to \$860,523, occupancy expenses decreased by \$15,159 (16.4%) to \$77,466, depreciation and amortisation expense decreased by \$36,831 (18.6%) to \$160,877 and other expenses increased by \$10,835 (1%) to \$1,146,471.

ENVIRONMENTAL ISSUES

The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or State.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

AFTER BALANCE DATE EVENTS

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

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

During the next financial year the Directors do not expect any significant changes in the operations or services of the Credit Union which will affect the results of the Credit Union.

Further information as to future developments, prospects and business strategies of the Credit Union have not been included in this report as the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the interests of the Credit Union.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments) by reason of a contract made by the Credit Union or a related corporation with a Director or with a firm of which he or she is a member, or with an entity in which he or she has a substantial financial interest.

INDEMNIFYING OFFICERS AND AUDITOR

The Credit Union has a Directors' and Officers' liability insurance policy covering all Directors. The premium paid in respect of this policy in force at the date of this report was \$338.

No indemnities have been given or agreed to be given or insurance premiums paid or agreed to be paid, during or since the end of the financial year, for the auditor of the Credit Union.

INFORMATION ON DIRECTORS

The Directors in office at the date of this report are:

Mr C J Shepherd	Chairman
Experience	Appointed Chairman 23/10/86 Board Member since 19/04/71
Interest in Shares	One ordinary share in the Credit Union
Mr T E Bacon	Director
Experience	Board Member since 1/11/03
Interest in Shares	One ordinary share in the Credit Union
Ms A Gillham	Director
Experience	Board Member since 19/12/05
Interest in Shares	One ordinary share in the Credit Union
Mr J Millar	Director
Experience	Board Member since 25/07/05
Interest in Shares	One ordinary share in the Credit Union

Mr D A J Rootes	Director
Experience	Board Member since 30/08/06
Interest in Shares	One ordinary share in the Credit Union

Mr P M Nolan	Director
Experience	Board Member since 1/11/03
Interest in Shares	One ordinary share in the Credit Union

Mr R K Mills	Director
Experience	Board Member since 22/05/06
Interest in Shares	One ordinary share in the Credit Union

Mr J Moss	Director
Experience	Board Member since 24/2/09
Interest in Shares	One ordinary share in the Credit Union

GENERAL BOARD ATTENDANCE

During the financial year the following meetings of Directors were held. Attendances were:

	Board Meetings Eligible to Attend	Board Meetings Attended	Audit and Risk Committee Meetings Eligible to Attend	Audit and Risk Committee Meetings Attended
TE Bacon	12	8	5	5
A Gillham	12	12	5	5
J Millar	12	11	5	5
RK Mills	12	9	-	-
J Moss	5	5	-	-
PM Nolan	12	12	5	5
DAJ Rootes	12	11	-	-
CJ Shepherd	12	12	-	-

PROCEEDINGS ON BEHALF OF CREDIT UNION

No person has applied for leave of Court to bring proceedings on behalf of the Credit Union or intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings.

The Credit Union was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2009 has been received and can be found on page 15 of the financial section of this report.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the

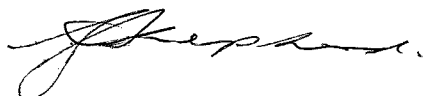
Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the audit; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethics Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2009:

	\$
Taxation services	1,070
Preparation of financial statements	4,495
	\$5,565

Signed in accordance with a resolution of the Board of Directors at Dubbo on 1 September 2009 for and on behalf of the Directors by:

A handwritten signature in cursive script, appearing to read 'Shepherd'.

Chris Shepherd

A handwritten signature in cursive script, appearing to read 'Paul Nolan'.

Paul Nolan

Auditor's Declaration

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF MACQUARIE CREDIT UNION LIMITED

I declare that to the best of my knowledge and belief, during the year ended 30 June 2009 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit;
and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

MORSE GROUP

J M SHANKS
PARTNER

2 River Street
Dubbo
Dated: 25 August 2009

Directors' Declaration

The Directors of Macquarie Credit Union Limited declare that:

1. The financial report and notes set out on pages 17 to 56 are in accordance with the Corporations Act 2001; and
 - i. comply with Accounting Standards and the Corporations Regulations 2001; and
 - ii. give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the Credit Union.
2. 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 and is signed at Dubbo on 1 September 2009 for and on behalf of the Directors by:



Chris Shepherd



Paul Nolan

Financial Statements

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$	2008 \$
Interest revenue	3	5,020,142	5,577,052
Interest expense	4	(2,572,713)	(2,942,632)
Net interest revenue		2,447,429	2,634,420
Other revenue	3	474,682	372,827
Impairment losses on loans and advances	4	(78,098)	(54,488)
Employee benefits expense	4	(860,523)	(874,722)
Occupancy expense	4	(77,466)	(92,625)
Depreciation and amortisation expense	4	(160,877)	(197,708)
Other expenses	4	(1,146,471)	(1,135,636)
Profit before income tax expense		598,676	652,068
Income tax expense	5	(165,018)	(190,894)
Profit for the year		\$433,658	\$461,174

The accompanying notes form part of these financial statements.

BALANCE SHEET AS AT 30 JUNE 2009

	Notes	2009 \$	2008 \$
ASSETS			
Cash and liquid assets	7	15,429,163	11,841,461
Accrued receivables	8	208,820	198,137
Loans and advances	9	53,310,438	52,470,756
Other investments	10	161,828	160,012
Property, plant and equipment	11	62,887	130,521
Intangibles	12	105,156	152,597
Deferred tax assets	13	214,674	225,438
Other assets	14	22,697	4,623
TOTAL ASSETS		69,515,663	65,183,545
LIABILITIES			
Deposits and short term borrowings	15	59,194,313	55,192,902
Payables and other liabilities	16	617,031	705,636
Interest bearing liabilities	17	1,000,000	1,000,000
Tax liabilities	18	–	5,823
Provisions	19	106,808	115,331
TOTAL LIABILITIES		60,918,152	57,019,692
NET ASSETS		\$8,597,511	\$8,163,853
EQUITY			
Reserves	20	740,000	740,000
Retained profits	21	7,857,511	7,423,853
TOTAL EQUITY		\$8,597,511	\$8,163,853

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

	Retained Profits	Asset Revaluation Reserve	Credit Losses Reserve	Total
		\$	\$	\$
Balance at 1 July 2007	6,962,679	18,464	740,000	7,721,143
Profit for the year	461,174	–	–	461,174
Revaluation decrement		(18,464)		(18,464)
At 30 June 2008	7,423,853		740,000	8,163,853
Profit for the year	433,658	–	–	433,658
Revaluation decrement	–	–	–	–
At 30 June 2009	\$7,857,511	–	\$740,000	\$8,597,511

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest on loans		4,275,648	4,787,338
Interest on investments		772,043	705,311
Other non-interest income		475,678	419,999
Interest paid on members' savings		(2,399,171)	(2,430,201)
Interest paid on other finance		(331,134)	(398,308)
Payments to suppliers and employees		(2,081,298)	(2,240,362)
Income tax paid		(160,077)	(222,613)
Members' loan repayments		20,561,657	21,244,580
Members' loans' disbursed		(21,479,437)	(18,137,430)
Net cash provided by (used in) operating activities	28.3	(366,091)	3,728,314
CASH FLOWS FROM INVESTING ACTIVITIES			
Consideration received on disposal of property, plant and equipment		–	26,046
Net movement in investments		(1,816)	(447)
Purchase of property, plant and equipment		(45,802)	(42,487)
Net cash used in investing activities		(47,618)	(16,888)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		–	(1,927,980)
Net movement in member savings		4,001,411	2,587,484
Net cash provided by financing activities		4,001,411	659,504
NET INCREASE/(DECREASE) IN CASH HELD		3,587,702	4,370,930
Cash at beginning of year		11,841,461	7,470,531
CASH AT END OF YEAR	28.2	\$15,429,163	\$11,841,461

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report is for Macquarie Credit Union Limited as an individual entity. Macquarie Credit Union Limited is a financial institution, incorporated and domiciled in Australia.

The financial report of Macquarie Credit Union Limited complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The financial report was authorised for issue on 25 August 2009 in accordance with a resolution of the board of directors.

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial report. The accounting policies have been consistently applied unless otherwise stated.

1.1 Basis of Preparation

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

1.2 Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Credit Union will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

1.3 Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Credit Union commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Office equipment	33.3% - 50.0%
EDP equipment	33.3%
Office furniture and fittings	33.3%
Motor vehicles	22.0%

Assets with a cost less than \$500 are not capitalised.

1.4 Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets, not as part of property, plant and equipment. Computer software is amortised over the expected useful life of the software at 33.3% per year.

1.5 Loans to Members

(i) Basis of Inclusion

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against debts considered doubtful.

(ii) Interest Earned

Term Loans – The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Overdraft – The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of the month.

Non-Accrual Loan Interest – while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member has deceased, or, where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors. Australian Prudential Regulation Authority (APRA) has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility, or 90 days for an overlimit overdraft facility.

(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. The amounts brought to account are included as part of interest revenue.

1.6 Loan Impairment

(i) Specific and Collective Provision

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 APRA Prudential Standards requires 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 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 of Directors 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. The reserve is based on estimation of potential risk in the loan portfolio.

1.7 Bad Debts Written Off

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 provision for doubtful debts 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.

1.8 Equity Investments

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

Investments in shares, which do not have a ready market and are not capable of being reliably valued, are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for impairment.

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.

1.9 Members' Deposits

(i) Basis for Measurement

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

(ii) Interest Payable

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

1.10 Provision for Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured at the present value of the estimated future cash outflows to be

made by the Credit Union in respect of services provided by employees up to the reporting date.

The provision for annual leave was reviewed with entitlements not expected to be used within twelve months being measured at the present value of the estimated future cash outflows.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged as expenses when incurred. The Credit Union has no legal obligation to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

1.11 Cash and Liquid Assets

Cash and liquid assets comprise cash on hand and at call deposits with banks or financial institutions, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

1.12 Impairment of Assets

At each reporting date, the Credit Union assesses whether there is an 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.

1.13 Provisions

Provisions are recognised when the Credit Union has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

1.14 Goods and Services Tax

As a financial institution the Credit Union is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to Goods and Services Tax (GST) collection, and similarly the GST paid on 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, of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, 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 where applicable GST is collected. 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.

Cashflows 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 ATO are classified as operating cash flows.

1.15 Comparative Amounts

When the presentation or classification of items in the financial report is amended, comparative amounts shall be reclassified unless the reclassification is impracticable.

2. INTEREST REVENUE AND INTEREST EXPENSE

The following tables show the average balance for each of the major categories of interest bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are monthly averages, and are representative of the Credit Union's operations during the period.

	Average Balance \$	Interest \$	Average Rate %
Interest revenue - 2009			
Deposits with financial institutions	13,916,667	744,494	5.3%
Loans and advances (other than Commercial loans)	50,292,436	4,076,737	8.1%
Commercial loans	2,136,331	198,911	9.3%
	66,345,434	5,020,142	

Interest revenue - 2008			
Deposits with financial institutions	11,016,667	789,714	7.2%
Loans and advances (other than Commercial loans)	50,123,485	4,545,989	9.1%
Commercial loans	2,622,494	241,349	9.2%
	63,762,646	5,577,052	

Borrowing costs - 2009			
Customer deposits	53,006,715	2,241,579	4.2%
Short-term borrowings	5,412,852	331,134	6.1%
	58,419,567	2,572,713	

Borrowing costs - 2008			
Customer deposits	51,425,914	2,544,323	4.9%
Short-term borrowings	5,223,099	370,840	7.1%
	56,649,013	2,915,163	

	2009 \$	2008 \$
3. REVENUE FROM ORDINARY ACTIVITIES		
Interest revenue	\$5,020,142	\$5,577,052
Non-interest revenue		
Dividends received	68,722	54,823
Fees and commissions		
Fees and charges	189,832	148,671
Commissions	158,805	135,776
Bad debts recovered	31,111	15,247
Gain on disposal of property, plant and equipment	–	4,840
Other revenue	26,212	13,470
Total non-interest revenue	\$474,682	\$372,827
4. PROFIT FROM OPERATIONS		
Profit from operations before income tax expense has been determined after recognising the following expenses:		
Interest expense		
Deposits from members	2,241,579	2,544,324
Short term borrowings	331,134	398,308
	\$2,572,713	\$2,942,632
Impairment losses		
Bad debts written off directly against profit	\$78,098	\$54,488
Depreciation and amortisation		
Office equipment	14,249	16,829
Office furniture	23,343	26,334
Motor vehicles	23,225	23,722
EDP hardware	6,924	32,093
Amortisation of intangible assets	93,136	98,730
	\$160,877	\$197,708

	2009 \$	2008 \$
4. PROFIT FROM OPERATIONS (CONTINUED)		
Occupancy expenses	\$77,466	\$92,625
Employee benefits expense		
Salaries	668,313	693,737
Superannuation contributions	64,948	64,207
Annual leave	(4,503)	2,703
Long service leave	(3,779)	(2,184)
Sick leave	(241)	(2)
Other	135,785	116,261
	\$860,523	\$874,722
Other expenses		
Fees and commissions	267,059	290,641
Loans administration	74,051	107,306
Data processing	237,222	252,554
General administration	568,139	485,135
	\$1,146,471	\$1,135,636
5. INCOME TAX EXPENSE		
The components of income tax expense comprise:		
Provision for income tax	153,212	149,808
(Increase)/decrease in deferred tax assets	11,806	41,086
	\$165,018	\$190,894
The prima facie tax on operating profit before income tax is reconciled to income tax as follows:		
Prima facie tax on operating profit @ 30% (2008 – 30%)	179,603	195,620
Add tax effect of non allowable items	4,120	1,837
Less tax effect of:		
Rebateable fully franked dividends	(18,705)	(6,563)
Income tax expense attributable to operating profit	\$165,018	\$190,894

The applicable weighted average effective tax rate is 28% (2008 - 29%)

2009
\$

2008
\$

6. AUDITOR'S REMUNERATION

Amounts received or due and receivable by the auditors of the Credit Union for:

Audit of the financial statements	26,725	20,784
Audit of the APRA returns	4,851	4,410
Other services	5,565	5,565
	\$37,141	\$30,759

7. CASH AND LIQUID ASSETS

Imprest accounts	249,641	144,823
Deposits at call	679,522	1,196,638
Interest earning deposits	14,500,000	10,500,000
	\$15,429,163	\$11,841,461

8. ACCRUED RECEIVABLES

Members clearing accounts	130,561	67,532
Interest receivable	78,259	130,605
	\$208,820	\$198,137

9. LOANS AND ADVANCES

Overdrafts	566,918	628,863
Visa	622,642	604,574
Term loans	52,180,878	51,297,319
	53,370,438	52,530,756
Provision for impaired loans	(60,000)	(60,000)
	\$53,310,438	\$52,470,756

9.1 Maturity Analysis

Overdrafts	566,918	628,863
Visa	622,642	604,574
Not longer than 3 months	1,148,857	798,117
Longer than 3 months but less than 12 months	3,429,858	3,231,507
Longer than 1 year but less than 5 years	13,415,608	13,092,806
Longer than 5 years	34,186,555	34,174,889
	\$53,370,438	\$52,530,756

	2009 \$	2008 \$
9.2 Security Dissection		
Secured by mortgage over real estate	40,453,100	39,204,464
Partly secured by goods mortgage	8,707,133	9,248,181
Wholly unsecured	4,210,205	4,078,111
	\$53,370,438	\$52,530,756

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown of the quality of the security on a portfolio basis is as follows:

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

Loan to valuation ratio of less than 80% **\$40,453,100** **\$39,204,464**

9.3 Concentration of Risk		
The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:		
i) Geographical Area		
New South Wales	52,224,118	51,435,583
Other States and Territories	1,146,320	1,095,173
	\$53,370,438	\$52,530,756

ii) There are no members who individually have a loan and overdraft facility, which represents in total 10% or more of capital (2008 – Nil).

9.4 Movement in the Provision		
Opening balance	60,000	60,000
Bad debts written off against provision	(78,098)	(54,488)
Loans provided for during the year	78,098	54,488
	\$60,000	\$60,000

9.5 Analysis of Loans that are Impaired or Potential Impaired by Class			
	2009 Carrying Value	2009 Impaired Loans	2009 Provision for Impairment
Loans to members			
Residential	40,453,100	–	–
Personal	11,727,778	108,214	52,707
Overdrafts/Visa	1,189,560	18,592	7,293
Total	\$53,370,438	\$126,806	\$60,000

9.5 Analysis of Loans that are Impaired or Potential Impaired by Class (continued)

	2008 Carrying Value	2008 Impaired Loans	2008 Provision for Impairment
Loans to members			
Residential	39,204,464	296,968	–
Personal	12,092,855	187,169	45,816
Overdrafts/Visa	1,233,437	30,487	14,184
Total	\$52,530,756	\$514,624	\$60,000

It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of asset conditions.

9.6 Analysis of Loans that are Impaired or Potential Impaired Based on Age of Repayments Outstanding

Days in Arrears	2009 Carrying Value	2009 Provision	2008 Carrying Value	2008 Provision
0 -90 days	18,120	–	169,525	–
91 – 182 days	55,030	18,602	225,489	27,779
183 – 273 days	–	–	39,005	23,403
274 – 365 days	4,794	3,835	11,684	9,347
Over 365 days	30,270	30,270	38,434	38,434
Overlimit facilities over 14 days	18,592	7,293	30,487	14,184
	\$126,806	\$60,000	\$514,624	\$113,147

The provision based on the age of repayments outstanding has been taken from the June D2A return, and is based on the formula for impairment provided by APRA. The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

9.7 Assets Acquired Via Enforcement of Security

There were three assets acquired via enforcement of security in 2009 totalling \$38,780 (2008 – \$34,143)

9.8 Loans with Repayments Past Due but not Regarded as Impaired

There are no loans past due by 90 days or more which are not considered to be impaired. (2008 – Nil)

9.9 Loans renegotiated

There were no loans renegotiated during the year. (2008 – Nil)

9.10 Key Assumptions in Determining 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 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.

10. OTHER INVESTMENTS

	2009	2008
	\$	\$
Shares held with Special Service Providers		
Ordinary shares	155,868	155,855
Shares – at cost		
Unlisted	19,860	18,057
	175,728	173,912
Less: Provision for diminution – unlisted shares	(13,900)	(13,900)
	\$161,828	\$160,012

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. The shares are not able to be traded and are not redeemable.

The financial reports of CUSCAL record that the net tangible asset backing of these shares exceeds 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 nature of services supplied a market value if not able to be determined readily.

The Credit Union is not intending, nor is it able to dispose of these shares as the services supplied by the company relate to the day to day activities of the Credit Union.

11. PROPERTY, PLANT AND EQUIPMENT

Office furniture - at cost	138,059	138,059
Less: provision for depreciation	(128,185)	(104,842)
	9,874	33,217
Office equipment - at cost	91,538	97,096
Less: provision for depreciation	(85,945)	(77,361)
	5,593	19,735

	2009 \$	2008 \$
11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)		
Motor vehicles - at cost	105,562	104,470
Less: provision for depreciation	(63,463)	(39,146)
	42,099	65,324
EDP hardware - at cost	177,078	174,671
Less: provision for depreciation	(171,757)	(162,426)
	5,321	12,245
	\$62,887	\$130,521

Movement in carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year.

	Beginning balance \$	Additions \$	Disposals \$	Depreciation expense \$	Carrying amount at end of year \$
Office furniture	33,217	–	–	(23,343)	9,874
Office equipment	19,735	107	–	(14,249)	5,593
Motor vehicles	65,324	–	–	(23,225)	42,099
EDP hardware	12,245	–	–	(6,924)	5,321
Totals	130,521	107	–	(67,741)	62,887

12. INTANGIBLES		
	2009 \$	2008 \$
EDP software	462,990	417,294
Accumulated amortisation	(357,834)	(264,697)
	\$105,156	\$152,597

Movement in carrying amounts for each class of intangibles between the beginning and end of the current financial year.

	Beginning balance \$	Additions \$	Disposals \$	Amortisation expense \$	Carrying amount at end of year \$
EDP software	152,597	45,695	–	(93,136)	105,156

	2009 \$	2008 \$
13. DEFERRED TAX ASSETS		
Deferred tax assets	213,635	225,438
Prepaid income tax	1,039	–
	\$214,674	\$225,438

14. OTHER ASSETS		
Prepayments	\$22,697	\$4,623

15. DEPOSITS AND SHORT TERM BORROWINGS		
Term deposits	30,576,790	32,107,607
Call deposits	28,566,313	23,035,495
Withdrawable shares	51,210	49,800
	\$59,194,313	\$55,192,902

15.1 Maturity Analysis		
On call	27,617,523	23,085,295
Not longer than 3 months	5,883,422	14,480,433
Longer than 3 and not longer than 12 months	25,693,368	17,627,174
	\$59,194,313	\$55,192,902

15.2 Concentration of Deposits		
i) There are no members who individually have deposits, which represent 10% or more of total liabilities (2008: Nil).		
ii) Details of the geographic concentration of the deposits are set out below.		
Geographical Area		
New South Wales	58,010,142	54,335,206
Other States and Territories	1,184,171	857,696
	\$59,194,313	\$55,192,902

16. PAYABLES AND OTHER LIABILITIES		
Payables and accrued expenses	96,832	74,974
Accrued interest payable	453,798	611,390
Members' clearing accounts	66,401	19,272
	\$617,031	\$705,636

	2009 \$	2008 \$
17. INTEREST BEARING LIABILITIES		
Deposits from other ADI	\$1,000,000	\$1,000,000
18. TAX LIABILITIES		
Income tax	–	\$5,823
19. PROVISIONS		
Employee entitlements	\$106,808	\$115,331
20. RESERVES		
Reserve for credit losses	\$740,000	\$740,000
20.1 Reserve for Credit Losses		
This reserve records amounts previously set aside as a General provision on loans and advances and is maintained to comply with the Prudential Standards set down by APRA.		
Balance at the beginning of the year	740,000	740,000
Transfer to / from retained profits	–	–
Balance at end of year	\$740,000	\$740,000
21. RETAINED PROFITS		
Retained profits at the beginning of the financial year	7,423,853	6,962,679
Net profit attributable to members	433,658	461,174
Retained profits at the end of the financial year	\$7,857,511	\$7,423,853

Balance of franking credits held by the Credit Union after adjustments for credits that will arise from the payment of income tax payable as at the end of the financial year is \$1,876,254 (2008 – \$1,723,042). Franking credits represent reserves upon which income tax has been paid.

22. DIRECTORS AND KEY MANAGEMENT DISCLOSURES		
22.1 Names of Directors and other Key Management Personnel		
During the course of the financial year the following were the key management persons of the Credit Union:		
TE Bacon	DAJ Rootes	
A Gillham	CJ Shepherd	
J Millar	M Bow	
R Mills	L Bourne	
J Moss	S Vanstone	
PM Nolan		

2009
\$

2008
\$

22.2 Key Management Personnel Compensation

Key management personnel 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 the Credit Union. Control is the power to govern the financial and operating policies of the Credit Union so as to obtain benefits from its activities.

Key Management Persons (KMP) have been taken to comprise the Directors and the three members of the executive management team during the financial year (2008 – five), 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:

Salary and fee	194,429	295,498
Superannuation contributions	17,498	26,595
	\$211,927	\$322,093

Compensation includes all employee benefits (as defined in AASB 119 *Employee Benefits*). Employee benefits are all forms of consideration paid, payable or provided by the Credit Union, or on behalf of the Credit Union, in exchange for services rendered to the Credit Union.

Compensation includes:

- (i) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- (ii) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- (iii) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
- (iv) termination benefits; and
- (v) share-based payment.

2009

\$

2008

\$

22.3 Loans to Key Management Persons

Loans provided to key management persons are on conditions no more favourable than those extended to members. Security has been obtained for these loans in accordance with the Credit Union's lending policy.

There is no provision for impairment in relation to any loan extended to key management persons. No loan impairment expense in relation to these loans has been recognised during the year.

There are no benefits on concessional terms and conditions applicable to the close family members of the key management persons. There are no loans which are impaired in relation to the loan balances with close family relatives of directors and management.

Aggregate value of loans and overdrafts to Directors and other Key Management Personnel at balance date	\$277,094	\$340,014
Aggregate value of loans disbursed to Directors and Key Management Personnel during the year	\$1,400	\$-
Aggregate value of revolving credit facilities limits granted or increased to Directors and Key Management Personnel during the year	\$-	\$-
Interest earned on loans and revolving credit facilities to Directors and Key Management Personnel during the year	\$20,855	\$36,029

22.4 Savings of Key Management Personnel

Total value of term and savings deposits from Directors and Key Management Personnel at balance date	\$622,714	\$424,806
Total interest paid on deposits to Directors And Key Management Personnel during the year	\$24,828	\$27,358

Directors and key management personnel have received interest on deposits with the Credit Union during the financial year. Interest has been paid on terms and conditions no more favourable to those available on similar transactions to members of the Credit Union.

22.5 Other Transactions with Related Parties

Other transactions between related parties include deposits from Directors and their Directors related entities, which are received on the same terms and conditions as applicable to members.

There were no benefits paid or payable to the close family members of the key management personnel.

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

The Credit Union's policy for receiving deposits from other related parties and, in respect of other related party transactions, is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

2009	2008
\$	\$

23. EXPENDITURE AND CREDIT COMMITMENTS

23.1 Future Capital Commitments

At 30 June 2009 the Credit Union has no future capital commitments (2008: Nil).

23.2 Lease Expenditure Commitments

Operating leases

Within 1 year	39,928	38,765
1 to 2 years	41,126	39,928
2 to 5 years	–	41,126
	\$81,054	\$119,819

23.3 Outstanding Loan Commitments

Loans approved by the Board but not funded as at 30 June 2009 amounted to \$2,143,618 (2008: \$1,875,595).

The withdrawal of these funds is at the discretion of the Board subject to available liquid funds. It is anticipated all of the commitment will be paid within 12 months.

23.4 Unfunded Loan Facilities

Loan facilities to members for overdrafts approved but unfunded at 30 June 2009 amounted to \$4,104,600 (2008: \$2,806,322). Total facilities increased by \$1,290,430 during the year (2008: \$403,910). There are no restrictions to withdrawal of the funds provided normal payments are maintained.

23.5 Other

In the normal course of business the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of the members. The Credit Union applies the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

2009	2008
\$	\$

24. STANDBY BORROWING FACILITIES

The Credit Union has gross borrowing facilities with CUSCAL of:

Loan facility		
Gross	1,600,000	1,600,000
Current borrowing	–	–
Net available	\$1,600,000	\$1,600,000

Loan facility – TWT Fund		
Gross	1,500,000	1,500,000
Current borrowing	–	–
Net available	\$1,500,000	\$1,500,000-

Overdraft facility		
Gross	300,000	300,000
Current borrowing	–	–
Net available	\$300,000	300,000

There are no restrictions as to withdrawal of these funds. The borrowing facilities are secured by a fixed and floating charge over the assets of the Credit Union.

25. CONTINGENT LIABILITIES

Credit Union Financial Support System

The Credit Union is a participant in the Credit Union financial support scheme (CUFSS). The purpose of the CUFSS is to protect the interests of Credit Union members, increase stability in the industry and provide liquidity in excess of current borrowing limits in times of need.

An Industry Support Contract made on the 4 March 1999 between Credit Union Services Corporation (Australia) Limited, (CUSCAL), Credit Union Financial Support System Limited and participating credit unions required the Credit Union to execute an equitable charge in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of the Credit Union and secures any advances which may be made to the Credit Union under the scheme. The balance of the debt at 30 June 2009 was nil (2008: Nil).

There are no other contingent liabilities at balance date or the date of this report.

26. ECONOMIC DEPENDENCY

The Credit Union has an economic dependency on the following suppliers of services:

Credit Union Services Corporation (Australia) Limited - (CUSCAL)

This entity supplies financial banking services to the Credit Union and is an approved Special Service Provider for the provision of financial intermediation services. The Credit Union has invested all of its high quality liquid assets and operating liquid assets with the entity to maximise return on funds and to comply with the Emergency Liquidity Support requirements under the Prudential Standards.

This entity also supplies the Credit Union rights to members' cheques and Visa cards in Australia and provides services in the form of settlement with bankers for members' cheques and Visa card transactions and the production of Visa cards for use by members.

Ultradata Australia Pty Limited

This company provides and maintains the application software utilised by the Credit Union.

Combined Financial Processing Pty Limited (CFP)

This entity provides computing services to the Credit Union.

First Data Resources Limited (FDR)

This company operates the switching computer used to link Redicards and Visa cards operated through Reditellers and other approved EFT suppliers to the Credit Union's EDP systems.

27. SEGMENTAL REPORTING

The Credit Union operates predominantly in the finance industry within New South Wales.

28. CASH FLOW INFORMATION

28.1 Cash flows presented on a net basis

Cash arising from the following activities are presented on a net basis in the Cash Flow Statement:

- i) member deposits to and withdrawals from savings, money market and other deposit accounts;
- ii) sales and purchases of maturing certificates of deposit;

2009
\$

2008
\$

28.2 Reconciliation of cash

For the purposes of the cash flow statement, cash includes cash on hand and at call with other financial institutions. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash on hand and at SSP's	929,163	1,341,461
Interest earning deposits	14,500,000	10,500,000
Cash as per Cash Flow Statement	\$15,429,163	\$11,841,461

28.3 Reconciliation of Net Cash Provided by Operating Activities to Net Profit Activities after Income Tax

Operating profit after tax	433,658	461,174
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Non cash flow items:

Employee leave entitlements	(8,523)	518
Loss/(profit) on disposal of plant and equipment	–	(4,840)
Depreciation and amortisation	160,877	197,708
Bad debts written off	78,098	54,488

Changes in assets and liabilities:

(Increase)/decrease in deferred tax assets	10,764	41,086
(Increase)/decrease in prepayments	(18,074)	8,549
Increase/(decrease) in provision for income tax	(5,823)	(72,805)
Increase/(decrease) in payables	(88,605)	21,216
Decrease/(increase) in accrued receivables	(10,683)	(85,930)

Net cash from revenue activities	551,689	621,164
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Non-revenue operations

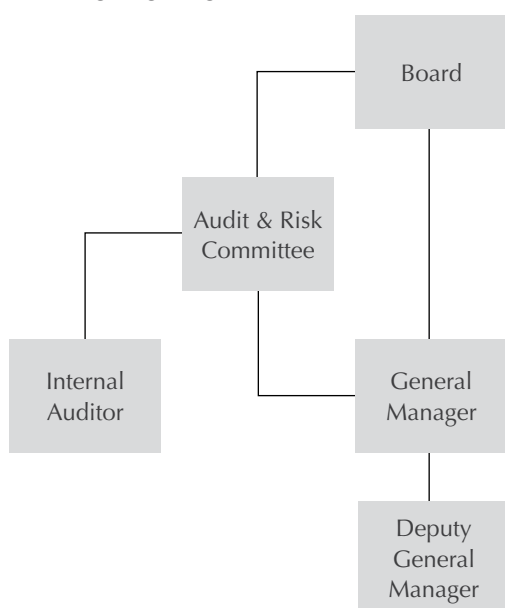
Movement in members loans	(917,780)	3,107,150
	\$(366,091)	\$3,728,314

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

INTRODUCTION

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

The Credit Union's risk management focuses on the major areas of market risk, credit risk, and operational risk. Authority flows from the Board of Directors to the Audit and Risk 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.

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

The Audit and Risk Committee should discharge the following additional responsibilities:

- formulation of the Credit Union's Risk Strategy;
- determining policies to ensure that the Credit Union's Risk Strategy is adhered to; and
- monitoring adherence to those policies.

This requirement is reflected in the Charter of the Audit Committee.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

General Manager: This person has responsibility for both liaising with the operational function to ensure timely production of information for the Audit and Risk Committee and ensuring that instructions passed down from the Board via the Audit and Risk Committee are implemented.

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

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

- Interest rate risk;
- Liquidity management;
- Credit risk management; and
- Operations risk management including data risk management.

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 Audit and Risk Committee, which reports directly to the Board.

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 monthly, and reported to the Board by the General Manager.

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 risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 30 below. The table set out note 30 displays the period that each asset and liability will reprice as at the balance date. The risk is not considered significant to warrant the use of derivatives to mitigate this risk.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits 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 30 which details the contractual interest change profile.

Based on calculations as at 30 June 2009, the net profit impact for a 1% movement in interest rates would be \$78,739.

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 to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by a deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- mortgage loans and personal loans would all reprice to the new interest rate within 28 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

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

Price Risk – Equity Investments

The Credit Union is not exposed to price risk on the value of shares.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

B. LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, eg. 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 service, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should support 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 24 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 30. The ratio of liquid funds over the past year is set out below:

APRA	2009 %	2008 %
To total adjusted liabilities		
As at 30 June	20.74	16.55
Minimum during the year	18.25	12.81
To total member deposits		
As at 30 June	22.89	21.45

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

C. CREDIT RISK

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets.

Credit Risk – Loans

Loans to	2009 Carrying Value \$	2009 Off Balance Sheet \$	2009 Max Exposure \$	2008 Carrying Value \$	2008 Off Balance Sheet \$	2008 Max Exposure \$
Residential	40,453,100	1,978,260	42,431,360	39,204,464	1,799,929	41,004,393
Personal	11,727,778	19,324	11,747,102	12,092,855	56,042	12,148,897
Overdraft/Visa	1,189,560	2,287,132	3,476,692	1,233,437	2,287,112	3,520,549
Total	53,370,438	4,284,716	57,655,154	52,530,756	4,143,083	56,673,839

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; lines of credit facilities; overdraft facilities; credit card limits).

All loans and facilities are within Australia. Concentrations are described in note 9.

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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 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 predominately 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 judgments about a counterparties financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant 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 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 counterparties 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 9.

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 secure 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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 65% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio of less. Note 9 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. 9. [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 electricity industry and all levels of government. 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 concentrations are set out in Note 9.

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. Exposures to other Credit Unions and building societies are limited to \$5,000,000 collectively and \$1,000,000 to any one Credit Union or Building Society. In respect of other counterparties, the Credit Union limits its exposure to any individual or associated group (excluding CUSCAL) to 5% of net liabilities.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

External Credit Assessment for Institution Investments

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

Investments with	2009 Carrying value \$	2009 Past due value \$	2009 Provision \$	2008 Carrying value \$	2008 Past due value \$	2008 Provision \$
Cuscal	13,300,000	–	2,660,000	9,800,000	–	1,960,000
Credit Unions	2,500,000	–	500,000	2,000,000	–	–
Total	15,800,000	–	3,160,000	11,800,000	–	2,360,000

D. OPERATIONAL RISK

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in process, personnel, technology, 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 minimise 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 error and inappropriate behaviour;
- implementation of the whistleblowing policies to promote a complaint cultures 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 been from card skimming and internet password theft.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

IT Systems

The worst case scenario would be the failure of the Credit Union's core banking system 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 of the Credit Union by the industry body Cuscal to service the settlements with other financial institutions for direct entry, ATM and 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 instrument.

Capital Resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Preference share capital;
- Retained profits;
- Realised reserves.

The preference shares issues 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 reserves which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in fair value of those assets in the year. This is included within upper Tier 2 capital.
- A subordinated loan, which is not applicable to the Credit Union.
- A general reserve for credit losses.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

At 30 June 2009, the Credit Union's capital comprises:

June 2009

Tier 1 Capital

Fundamental Tier 1 Capital:	
Retained earnings	7,423,853
Current year earnings net of expected dividends and tax expenses	433,658
Gross Tier 1 Capital	7,857,511
Deductions from Tier 1 Capital	
Deferred tax assets	4,461
Equity in other ADI's (50%)	77,927
	82,388

Net Tier 1 Capital

7,775,123

Tier 2 Capital

Upper Tier 2 Capital	
General reserve for credit losses	469,960
Deductions from Tier 2 Capital	
Equity in other ADI's (50%)	77,927
Net Tier 2 Capital	392,033

Capital Base

8,167,156

At 30 June 2009, the credit union's risk weighted assets are as follows:

Credit Risk Items

Credit Risk Items – Standardised Approach	
On Balance Sheet	33,511,541

Operational Risk

Standardised Approach	4,085,296
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Market Risk

–

Total Risk Weighted Assets

37,596,837

Capital Adequacy Ratio

21.72%

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

To manage the Credit Union's capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. If the capital adequacy ratio declines by more than 0.5% for 3 consecutive quarters or reaches 17%, Management advises the Board. Management's advice will show how growth, profit levels, mix of loan products and the acquisition of other assets has affected the capital adequacy ratio.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from 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 the 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 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 \$4,085,296.

Internal Capital Adequacy Management

The Credit Union manages its internal capital levels for both current and future activities through the Audit and Risk Committee. The output of the Audit and Risk Committee is 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.

30. FINANCIAL INSTRUMENTS

30.1 Terms, Conditions and Accounting Policies

The Credit Union's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and Conditions
(i) Financial assets			
Loans and advances	9	The loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month, and on the 3rd day for overdrafts.	All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
Short-term deposits	7	Short-term deposits are stated at the lower of cost and net realisable value. Interest is recognised in the profit and loss when earned.	Short-term deposits have an average maturity of 30 days and effective interest rates of 4.0% to 5.0%.
Unlisted shares	10	Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are received.	
Listed Shares	10	Listed shares are valued at market value. Dividend income is recognised when the dividends are received.	
Accrued Receivables	8	The carrying value of receivables is at their nominal amounts due.	
ii) Financial liabilities			
Bank overdrafts	15	The bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate.
Payables and other liabilities	16	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Credit Union.	Trade liabilities are normally settled on 30 day terms.
Deposits and short term borrowings	15	Deposits are recorded at the principal amount.	Details of maturity terms are set out in Note 15.

30.2 Net Fair Values

Net 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.

	Total carrying amount in the balance sheet		Aggregate net fair value	
	2009 \$	2008 \$	2009 \$	2008 \$
Financial assets				
Cash and liquid assets	15,429,163	11,841,461	15,429,163	11,841,461
Accrued receivables	208,820	198,137	208,820	198,137
Other investments	161,828	160,012	161,828	160,012
Loans and advances	53,310,438	52,470,756	53,183,632	52,294,600
Total financial assets	69,110,249	64,670,366	68,983,443	64,494,210
Financial liabilities				
Deposits and short term borrowings	59,194,313	55,192,902	59,194,313	55,192,902
Payables and other liabilities	617,031	705,636	617,031	705,636
Interest bearing liabilities	1,000,000	1,000,000	1,000,000	1,000,000
Total financial liabilities	60,811,344	56,898,538	60,811,344	56,898,538

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

Cash and liquid assets

The carrying values of cash and liquid assets approximate their net fair value as they are short term in nature or are receivable on demand.

Accrued receivables

The carrying amounts approximate fair value because they are short term in nature.

Loan and other advances

For variable rate loans (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of net fair value.

30.2 Net Fair Values (continued)

Other Investments

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security.

Other financial liabilities

This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value. For liabilities which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

Receivables

The carrying amounts approximate fair value because they are short term in nature.

Payables and other liabilities

The carrying amounts approximate fair value as they are short term in nature.

Members deposits

This includes interest and unrealised expenses payable for which the carrying amount is considered to be reasonable estimate of net fair value. For liabilities, which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities. The fair value of deposits at call is the amount payable on demand at the reporting date.

30.3 Credit Risk Exposures

The Credit Union's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

30.4 Concentrations of Credit Risk

The Credit Union minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members.

30.5 Interest rate risk

The Credit Union's exposure to interest rate risks which is the risk that a financial instruments value will fluctuate as a result of changes in market rates and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:-

Financial Instruments	Floating interest rate		1 year or less		Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
(i) Financial assets										
Cash and liquid assets	679,522	1,196,638	14,500,000	10,500,000	249,641	144,823	15,429,163	11,841,461	5.3	7.2
Accrued receivables	–	–	–	–	208,820	198,137	208,820	198,137	–	–
Other investments	–	–	–	–	161,828	160,012	161,828	160,012	–	–
Loans and advances	53,310,438	52,470,756	–	–	–	–	53,310,438	52,470,756	8.1	9.1
Total financial assets	53,989,960	53,667,394	14,500,000	10,500,000	620,289	502,972	69,110,249	64,670,366		
(ii) Financial liabilities										
Deposits and short term borrowings	28,566,313	23,035,495	30,576,790	32,107,607	51,210	49,800	59,194,313	55,192,902	4.2	4.9
Payables and other liabilities	–	–	–	–	617,031	705,636	617,031	705,636	–	–
Interest bearing liabilities	–	–	1,000,000	1,000,000	–	–	1,000,000	1,000,000	6.1	7.1
Total financial liabilities	28,566,313	23,035,495	31,576,790	33,107,607	668,241	755,436	60,811,344	56,898,538		

31. CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the Credit Union but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101 and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (applicable for annual reporting periods commencing from 1 January 2009). These standards contain changes to disclosure requirements and do not impact on the measurement or recognition of amounts reported in the Credit Union's financial statements.
- AASB 2008-5: Amendments to Australian Accounting Standards Arising from the Annual Improvements Project (applicable for annual reporting periods commencing 1 January 2009). The amendments in this standard are expected to impact on disclosure requirements only, with no anticipated changes to measurement or recognition of amounts reported in the financial statements.
- AASB 2009-2: Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments (applicable for annual reporting periods commencing from 1 January 2009). These amendments arise from the issuance of Improving Disclosures about Financial Instruments (Amendments to IFRS 7) by the International Accounting Standards Board in March 2009. The amendments require enhanced disclosures about fair value measurements and liquidity risk.
- AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (applicable for annual reporting periods commencing from 1 January 2010). The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes. These amendments are not expected to have a material effect on the amounts presented in the financial statements.
- AASB 2009-6: Amendments to Australian Accounting Standards (applicable for annual reporting periods commencing from 1 January 2009) and AASB 2009-7: Amendments to Australian Accounting Standards (applicable for annual reporting periods commencing from 1 July 2009). These standards make editorial amendments to most Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.

The Credit Union does not anticipate early adoption of any of the above reporting requirements and does not expect them to have any material effect on the Association's financial statements.

32. COMPANY DETAILS

The registered office of the Credit Union is:-

Macquarie Credit Union Limited
23 Hawthorn Street
Dubbo NSW 2830

(End of Audited Financial Statements)

Independent Audit Report to the Members of Macquarie Credit Union Limited

Report on the Financial Report

We have audited the accompanying financial report of Macquarie 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 and other explanatory notes and the directors' declaration of the Credit Union at the year's end or from time to time during the financial year.

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 (AIFRS) ensures that the financial report, comprising the financial statements and notes, complies with AIFRS.

Audit 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 judgment, 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 Credit Union'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 Credit Union'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, provided to the directors of Macquarie Credit Union Limited on 18 August 2009 would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

- (a) the financial report of Macquarie Credit Union is in accordance with the Corporations Act 2001, including:
 - i) giving a true and fair view of the Credit Union's financial position as at 30 June 2009 and of their 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.

MORSE GROUP

J M SHANKS
PARTNER

2 River Street
Dubbo
Dated: 1 September 2009

Credit Union Representatives

Auscott Warren	A. McMillan
Bathurst Country Energy	A. Walker
Bogan Shire Council	M. Wynne
Bourke Country Energy	C. Brown
Bulahdelah Country Energy	M. Cook
Central Darling Shire	V. Pearson
Cobar Country Energy	R. De Jong
Cobar District Hospital	B. Izzard, K. Howell
Cobar DIPNR	R. Goonrey
Coolah Shire Council	V. Kearnes
Coonabarabran Country Energy	To Be Advised
Coonabarabran Shire Council	C. Kennedy
Coonabarabran Hospital	D. Healey
Coonamble Country Energy	D. Boreham
Coonamble Hospital	L. Kenny
Coonamble Shire Council	S. Horan, V. Fulmer
Dubbo Base Hospital	P. Woodward
Dubbo City Council	V. Dawson
Dubbo Country Energy	R. Allan, J. Morrison
Dubbo C/E FSC	R. Howell
Dunedoo Country Energy	L. Clark, S. Curtis
Dunedoo MPHS	J. Curtis
Gilgandra District Hospital	K. McWhirter
Gilgandra Country Energy	R. Coxsedg, R. Gavin
Gilgandra Shire Council	J. Henry
Gulgong Country Energy	R. Lockyear, J. Lockyear
Gulgong Hospital	H. Unwin
Kempsey Country Energy	Kim Ellis

Lourdes Hospital	To Be Advised
Molong Country Energy	To Be Advised
Mudgee Country Energy	G. Holland
Mudgee District Hospital	J. Adams
Mudgee Shire Council	G. Woods
Nambucca Heads Country Energy	D. Maloney
Narromine Base Hospital	L. McLelland
Narromine Shire Council	C. Shennan, V. Roberts
Narromine Country Energy	B. Williams
Nyngan Country Energy	D. Callaghan
Nyngan District Hospital	J. Hawley
Nyngan Shire Council	C. Ellison
Orange Country Energy	A. Goodacre
Port Macquarie Country Energy	C. Adams
Queanbeyan Country Energy	H. Jansen
Taree Country Energy	T. Wells
Trangie MPHS	To Be Advised
Warren Country Energy	M. Oriel
Warren State Water	M. Patterson
Warren MPHS	J. George, D. George, L. Clark
Warren Shire Council	J. Murray
Wellington Country Energy	J. Preston, G. McQuillan
Wellington Hospital	To Be Advised
Wellington Shire Council	A. Cullen

Staff

Matthew Bow
Leanne Bourne
Scott Vanstone
Anne Pascoe
Lesley Dunn
Anne Howey
Cheriee Edwards
Michele Grimmett
Fiona Parle
Maree Wilson
Jill Graham
Ben Fischer
Lisa Northill
Kylie Andrews
Kellee Norman

General Manager
Deputy General Manager
Operations Manager
Loans Officer
Loans Officer
Loans Officer
Loans Administration
Collections Officer
Business Development Officer
(Central Western Region)
Business Development Officer
(Mid North Coast Region)
Member Service Officer
Member Services Officer
Member Services Officer
Member Services Officer
Member Services Officer

Directors

TE BACON
J MOSS
A GILLHAM

PM NOLAN
J MILLAR
DAJ ROOTES

RK MILLS
CJ SHEPHERD

Registered Office

23 Hawthorn Street,
PO Box 1618, Dubbo NSW 2830

Telephone: 1300 885 480

Facsimile: (02) 6882 6909

Telephone Banking: 1300 885 480

Email: info@macquariecu.com.au

Web: macquariecu.com.au

Auditors

MORSE GROUP
2 River Street, Dubbo NSW 2830

Solicitor

Nelson, Keane & Hemingway
Church Street, Dubbo NSW 2830

Banker

Cuscal Ltd.
National Australia Bank, Sydney