Australian Defence
Credit Union

we understand you!

49th ANNUAL REPORT 2008

We understand the D

Mission

The Australian Defence Credit Union is dedicated to taking care of members' financial needs.

Values

Trustworthy, friendly, understanding, professional and passionate

Positioning Statement

We understand you

Contents

Defence way of life

The Australian Defence Credit Union Culture

We Understand Our Members' Needs

Australian Defence Credit Union has provided financial services to the Australian Defence community since 1959. We understand their special needs; and our sole purpose is to improve their financial wellbeing.

As a Home Loan Provider to the Defence Home Ownership Assistance Scheme, we are able to provide a vital role in assisting personnel to purchase their own home.

We offer members a life-long financial relationship which they may continue long after they leave the Defence force.

The DHOAS scheme helps Defence personnel to purchase their own home.

Our Staff

We recognise that our staff are our greatest asset in the way we do business and how we can best serve our members. We are committed to providing a work environment and culture that allows them to achieve their goals.

We also support the Defence community by offering employment opportunities to spouses of Defence personnel.

Financial Education

Australian Defence Credit Union has a strong commitment to providing financial education for our members. We encourage members to take control of their finances by establishing sound money management skills as the basis for a secure financial future.

Throughout the year we have provided financial education presentations to many Defence personnel across Australia on topics such as Budgeting, Pre-deployment planning, Buying a Car and Understanding Credit.

We also offer a range of financial education material which can also be accessed online.

Supporting The Defence Community

At Australian Defence, we believe in 'putting something back' into the community we serve. That's why our sponsorship funds are committed solely to supporting groups, events and sporting clubs within the Defence community.

This support extends not only to current Defence personnel, but also to former serving Defence members in such as RSLs and Legacy.

ADCU provides sponsorship support to RSLs.

Saving For The Future

Recipients of the ADCU–sponsored 2008 Cadet of the Year award.

During the year we upgraded our children's savings clubs to recognise the special needs of our junior savers. This included providing a number of fee-free ATM and EFTPOS transactions and a more competitive on-call savings interest rate. The savings clubs are enhanced by savings incentives, newsletters and club activities.

Through our special Cadet Plus savings and education package, we encourage young cadets to become financially capable with a wealth of useful information, budgeting tools and tips.

2008 Directors' Report

Directors have pleasure in submitting to members of the Australian Defence Credit Union Limited (the Credit Union) the financial accounts and a report on activities for the year ended 30 June 2008.

The Credit Union is a company registered under the Corporations Act 2001.

The names of Directors in office at **the end of the financial year** are:

John WOOD
John Robert BROOKS
Michael Morrison PIKE
COL Jane Maree SPALDING
CDRE Clinton William THOMAS, CSC, RAN
Warren Raymond THOMAS
Robert John WILLIS

Particulars of Directors are included in a separate summary and the schedule forms part of the Directors' Report.

The names of the Company Secretaries in office at the end of the financial year are Ian Neville Doyle FPNA, FFINSIA and Fiorella Spagnolo BCom, CPA.

Directors (L to R): John Wood (Chairman), Robert Willis, Jane Spalding, Michael Pike, John Brooks, Warren Thomas and Clinton Thomas.

Meetings Attended

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

	Board		Audit		Executive		Risk Committee		Renewal Committee	
Name	Meetings Attended	No. of Meetings	Meetings Attended	No. of Meetings	Meetings Attended	No. of Meetings	Meetings Attended	No. of Meetings	Meetings Attended	No. of Meetings
J Wood	10	11	N/A	N/A	11	12	N/A	N/A	4	4
M M Pike	11	11	7	7	N/A	N/A	N/A	N/A	N/A	N/A
J M Spalding	10	11	6	7	N/A	N/A	N/A	N/A	N/A	N/A
J R Brooks	10	11	7	7	N/A	N/A	N/A	N/A	N/A	N/A
C W Thomas	11	11	N/A	N/A	N/A	N/A	8	8	N/A	N/A
W R Thomas	10	11	N/A	N/A	11	12	7	8	N/A	N/A
R J Willis	10	11	N/A	N/A	N/A	N/A	7	8	4	4

Directors' Benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member, or an entity in which a Director has a substantial financial interest, other than that disclosed in Note (28) of the Financial Report.

Board Changes

There were no Board changes during the financial period ending 30 June 2008.

Note: Robert John Willis retired from the Board on 28 August 2008. Mr. Willis served on the Board for sixteen years, including 5 years as Chairman. Bob's dedication and insight, along with his strong commitment to member service, will be greatly missed.

Graham Weber was appointed to fill the casual vacancy created. His appointment took effect on 29 August 2008.

Indemnifying Officer Or Auditor

Insurance premiums have been paid to insure each of the Directors and officers of the Credit Union, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Credit Union. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the Credit Union.

Principal Activities

The principal activities of the Credit Union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

Financial Performance Disclosures

a) Operating Results

The net profit of the Credit Union for the year after providing for income tax was $1,497,534 [2007 $1,531,378].

b) Dividends

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

Review Of Operations

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

The result for the year was impacted by the Credit Union's tender and subsequent selection as a Home Loan Provider to the Defence Home Ownership Assistance Scheme (DHOAS). Some of these costs have been absorbed in the financial year. This was a major undertaking, requiring the submission of a detailed tender document, significant changes to loans processing and recruitment of additional skilled loans staff, as well as a major marketing campaign to meet the requirements of the DHOAS scheme and ADCU strategic intent.

Despite absorbing these unanticipated costs, the Credit Union finished the year with a very high level of financial strength and stability. Reserves of $47.173M, supported by strong capital adequacy and liquidity ratios, underpin this strong financial position.

Significant Changes In State Of Affairs

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

Events Occurring After Balance Date

As a result of being selected as a Home Loan provider to the Defence Home Ownership Assistance Scheme (DHOAS) the Credit Union has the opportunity to increase membership numbers through the growth of our Home Loan portfolio and related products.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Credit Union in subsequent financial years.

Likely Developments And Results

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect: -

(i) The operations of the Credit Union;

(ii) The results of those operations; or

(iii) The state of affairs of the Credit Union

in the financial years subsequent to this financial year.

A Regulatory Snapshot

In addition to overseeing the day to day goals of the Credit Union, the Board remains abreast of a range of regulatory issues that could have a material effect on the Credit Union. Some key issues are as follows:

(a) Anti Money Laundering and Counter-Terrorism Financing (AML/CTF)

This Act regulates financial transactions to detect and prevent money laundering and terrorist financing. For credit unions and building societies this new AML/CTF regime involves an expansion of customer identification, monitoring and reporting requirements. Phase 1 of the AML/CTF Act, which required identification and verification processes, was implemented in December 2007. Phase 2 involves transaction monitoring and reporting requirements to be implemented by December 2008. The Credit Union is on track to meet this legislative requirement.

(b) Basel II

In Australia, all approved deposit taking institutions (ADI's) regardless of size, structure and operations were required to implement the Basel II Capital Accord from January 2008. This Accord requires ADI's to hold capital against credit risk, market risk, operational risk and interest rate risk. This process was successfully completed.

(c) First Home Saver Account

Australian Defence Credit Union strongly supports the introduction of the Federal Government's First Home Saver Account to assist consumers in buying their first home, and have committed to the introduction of this account once legislation is finalised.

Corporate Governance Disclosures

(a) Board

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

Each Director must be eligible to act under the Constitution as a member of the Credit Union and under Corporations Act 2001 criteria. The Directors need to satisfy the Fit and Proper criteria set down by APRA. The current Board satisfies the requisite criteria.

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

(b) Board Remuneration and Reimbursement

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

(c) Audit Committee

An Audit Committee exists to assist the Board in relevant matters of financial prudence. Three Directors and the Internal Auditor form the Committee. Its role includes:

- Monitoring audit reports received from internal and external auditors, and Management's responses thereto.

- Liaising with the auditors (internal and external) on the scope of their work, and experience in conducting an effective audit.
- Ensuring the external auditors remain independent in the areas of work conducted.
- Monitoring the matters of operational risk management and APRA reporting obligations.
- Monitoring compliance with applicable laws.

(d) Executive Committee

The Committee is made up of two Directors with the Chief Executive Officer in attendance. The key responsibilities of the Committee include:

- Setting the agenda for Board Meetings.
- Co-ordinating the operations of the Board including planning.
- Co-ordinating general meetings.
- Chief Executive Officer performance and salary review.

(e) Risk Committee

The Risk Committee is made up of three Directors with one Executive Manager representative to act as Committee Secretary. The key responsibilities of the Committee include:

- ensure that Directors and Management have a current understanding of the principal risks which threaten the Credit Union's goals, and of the effectiveness of the existing controls for each such risk, and
- to develop additional potential controls for the Credit Union's more critical risks through a process of action planning.

(f) Renewal Committee

The Credit Union is committed to the objective of having its Board, both as individuals and collectively, operating in accordance with best practice. The Committee is made up of two Directors with one Executive Manager representative to act as Committee Secretary. The Committee provides advice and assistance to the Board on how the Board intends to renew itself in order to ensure it remains open to new ideas and independent thinking, while retaining adequate expertise and experience.

(g) External Audit

External Audit is performed by BDO Kendalls as part of the BDO International Group, a major international accounting body. BDO Kendalls has been auditing credit unions for 30 years. The firm utilises sophisticated Computer Assisted Audit software to supplement the compliance testing.

(h) Regulation

The Credit Union is regulated by:

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of the Credit Union.
- Australian Securities Investments Commission (ASIC) for adherence to Corporations Act, Accounting Standards disclosures in the financial report and Financial Services Reform (FSR) requirements.
- Australian Transaction Reports and Analysis Centre (AUSTRAC).

ASIC, APRA and AUSTRAC conduct periodic inspections and the auditors report to these regulators annually on the Credit Union's compliance with regulatory requirements.

We understand the needs of Defence personnel

(i) Occupational Health & Safety (OH & S)

The nature of the finance industry is such that the risk of injury to staff and the public is less apparent than in other industries. Nevertheless our two most valuable assets are our staff and our members and appropriate measures are in place to maintain their security and safety.

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

(j) Strategic Planning

The Board and Management meet at least twice annually to consider the strategic position of the Credit Union. The planning process develops a Strategic Plan, which provides direction for all activities of the Credit Union, in particular the Annual Business Plan and Budget.

Summary

Because the Board of Directors which governs the Credit Union is elected from our membership, you can be assured that a focus on "Putting Members First" will always apply. We thank you for letting us work for you. With your positive support, we will continue our commitment to work with the management and staff to ensure the Credit Union remains the highly successful financial institution that it is. We will continue to meet our compliance obligations and adapt to commercial and regulatory changes as they arise.

Australian Defence Credit Union Team – Thank You

Again our people have delivered an excellent result. Despite legislative change and changing market trends, they have continued to meet their challenges in a very professional manner. Our members continue to benefit from their untiring efforts, and the Board on behalf of the members, sincerely thanks them. They, along with the Defence communities in which they live and work, have always been, and will always be, our highest priority.

Future Directions

Our focus for the year ahead is to become even more responsive to our members' needs, to fully explore the opportunities offered by our appointment as a Home Loan Provider to the Defence Home Ownership Assistance Scheme, to use technological solutions to develop and implement improved product and service solutions on all levels, and offer improved communications and convenience.

While we always look for better ways to serve our members, we must also remain mindful of the environment in which we operate. We are committed to remain a flexible organisation that quickly responds to changes brought on through new technology and new financial products as well as responding adequately and appropriately to the regulations by which we are governed.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors.

Auditors' Independence

The auditors have provided the declaration of independence to the Board as prescribed by the Corporations Act 2001 as set out on page 11.

J Wood Chairman

W R Thomas Deputy Chairman

Signed and dated this 23rd day of September 2008

Declaration Of Independence By Wayne Basford To The Directors Of Australian Defence Credit Union Limited

As lead auditor of Australian Defence Credit Union Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of;

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit, and

(ii) any applicable code of professional conduct in relation to the audit.

Wayne Basford, Partner
BDO Kendalls

Dated 22 September 2008.

2008 Chief Executive's Report

Ian Doyle, CEO

Australian Defence Credit Union has delivered another year of strong performance with a growing focus on meeting the changing needs of our members in creative and competitive ways. Whilst we have delivered a solid financial result in a market which has seen significant change as a result of volatility in the global economy and increased competition, we have continued to invest soundly and strategically to ensure sustainable growth in our business and earnings for the medium-to-long term.

This result was achieved through a combination of well balanced strategies, a highly competitive and relevant product range, hard work by our staff, our commitment to providing financial services throughout the lives of our members and a robust economic environment. All underpinned by the trust that our members continue to show in us.

In providing this we are fortunate to be able to draw upon nearly 50 years of experience in providing consumer banking products to men and women of the Navy, Army and Air Force as well as the wider Defence community.

Rather than growth for growth's sake, we continue to strive to provide our members with competitive products and services that meet the unique needs of their lifestyle. We understand the special needs of Defence personnel, particularly those in remote locations on operations or deployment.

Over the years we have attracted and retained members with our competitive rates on a diverse range of savings, loans and insurance products and superior member service. In order to maintain this momentum, we also need to ensure that we continue to invest to build a better and relevant organization to meet the evolving needs of our members.

Some important steps that we have taken in support of the above over the past twelve months include:

Defence Home Ownership Assistance Scheme (DHOAS)

As part of a strategy to grow our business and earnings through the continued support of Defence personnel, Australian Defence Credit Union submitted a tender to the ADF in January 2008 for the right to be one of the three approved Home Loan Providers (HLPs) in the Scheme.

A dedicated team of staff worked to a very tight time line to deliver a comprehensive and professional tender document which resulted in the announcement in May 2008, that Australian Defence Credit Union had been selected as one of the successful HLPs for the Scheme that would launch 1st July 2008. We have invested heavily in developing new products and services to meet the needs of the Scheme and undertaken system developments to support these changes and improve productivity.

Australian Defence Credit Union is extremely proud to have won this tender and very excited about the opportunity this provides the Credit Union to responsibly grow our membership and support Defence personnel and their families. This represents a significant phase in the life of the Credit Union and one which fits soundly into the operational and strategic direction of Australian Defence Credit Union.

Relationship Reward Rebate

The Relationship Reward Rebate scheme was introduced on 1 April 2006 to reward members who use the Australian Defence Credit Union as their main financial institution and has been maintained to support our growth strategy.

The Rebate was introduced to overcome situations where members who have used Australian Defence Credit Union as their main financial institution had in effect subsidised those members who used the Credit Union to make a large number of transactions but maintained little savings and/or loan balances.

The Relationship Reward Rebate continues to offer a very significant advantage to our members; as a general principle none of the major banks offer offsets for personal loans, credit cards or deposit balances.

We use average balances to calculate the value of the members' "financial relationship" with the Credit Union. All savings, term deposit loans and credit card balances are taken into account to determine an average monthly balance from which a very generous fee rebate is determined.

More and more members are using the Credit Union as their main financial institution, utilising an increased number of products and benefits and enjoying a substantial loyalty reward. We expect this growth to escalate with the introduction of DHOAS and we will continue to review the benefits to ensure we offer a market competitive reward to loyal members.

Prudential Standards

As an Authorised Deposit Taking Institution (ADI), Australian Defence Credit Union operates under strict regulations and monitoring imposed by the Australian Securities & Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA). Australian Defence Credit Union strictly adheres to these prudential requirements and standards.

We also operate under and comply with the following:

- Credit Union Code of Practice which addresses transparency with and fair treatment of our members.
- Trade Practices Act 1974, ensures safeguards for consumer rights, together with fair and ethical trading.
- Uniform Consumer Credit Code (UCCC) is legislation that regulates credit provided to personal borrowers.
- Financial Services Reform Act 2001 which regulates the provision of financial services and conduct in relation to financial products.
- Anti-Money Laundering and Counter-Terrorism Financing Act 2006 which is aimed at preventing and detecting money laundering and terrorism financing and imposes requirements relating to customer identification, due diligence and maintenance of an AML/CTF Program.

High priority is given to compliance and corporate governance within the Credit Union and compliance with our policies and procedures is continually under review by our internal and external audit process.

Financial Education

An overriding goal of this Credit Union is to assist members to grow their personal wealth and financial stability. Throughout the year we have provided financial education presentations to many Defence personnel across Australia. Education topics have included Budgeting, Pre-deployment planning, Buying a Motor Vehicle, Understanding Credit and many others. A career in the ADF offers an opportunity to save for the future, provided goals are put in place early. We continue to assist our members to capitalise on this opportunity.

Supporting Our Community

Australian Defence Credit Union is a very proud financial supporter of a wide range of sporting and charitable causes across the ADF. This has always been an important part of our tradition since our establishment in 1959 and we will continue to grow our commitment in this area.

Our focus on "Putting Members First" will always apply

Our People

At Australian Defence Credit Union we recognise that our staff are our greatest asset in the way we do business and how we can best serve our members. Thus we are committed to providing a work environment and culture that allows them to thrive by recognising their individual talents and skills, fostering a team spirit supported by a strong commitment to training.

Competition in the financial sector is expected to be intense in the year ahead and we will keep a close watch as always, on our expenses and operational efficiency, as well looking to develop products and services that specifically meet the needs of our members and set us apart in an evolving market.

Ian Doyle
Chief Executive Officer
27th September 2008

Executive Team (L to R):
Ian Doyle, Chief Executive Officer; Bob McGregor, Head of Credit; Helen Godden, Head of HR & Premises; David Van Beek, Manager - Information Technology; Sue Izatt, Head of Marketing/ Member Service; Mike Lanzing, Head of Business Development; Fiorella Spagnolo, Head of Finance/ Operational Risk.

Information On Directors

John Wood

Chairman of Board and Board Executive

Age Sixty

Qualifications

- Fellow of the Australasian Mutuals Institute
- Fellow of the Australian Institute of Company Directors
- Fellow Australian College of Defence and Strategic Studies

Experience

- Credit Union Director for 11 years and Chairman from 2001
- 36 years experience in Royal Navy and Royal Australian Navy
- Currently Consulting to Defence Industry
- Active Reservist

Interest in Shares

1 redeemable preference share in the Credit Union

John Robert Brooks

Director

Age Fifty Four

Qualifications

- Bachelor of Arts
- Graduate of the Royal Air Force Staff College
- Fellow of the Australian College of Defence and Strategic Studies
- Member of the Australasian Mutuals Institute
- Member of the Australian Institute of Company Directors
- Graduate Diploma in Strategic Studies.

Experiences

- Credit Union Director for 8 years
- 28 years with the Royal Australian Air Force (Logistics Branch)
- Currently owner, Brooks Newsagency, Orange, NSW

Interest in Shares

1 redeemable preference share in the Credit Union

Michael Morrison Pike

Director

Age Fifty Seven

Qualifications

- Graduate RAN Staff College
- Graduate of Joint Services Staff College
- Fellow of the Australian Institute of Management
- Fellow Corporate Directors' Association
- Associate Fellow of the Australasian Mutuals Institute
- Member of the Australian Institute of Company Directors
- Graduate Diploma in Management
- Graduate Diploma in Strategic Studies
- Master of Management Economics (UNSW)
- Diploma CD

Experience

- Credit Union Director for 15 years
- 28 years service with Royal Australian Navy (Supply Branch)
- Active Reservist
- Currently Consultant to Defence and Defence Industries (DEFCONSULT)

Interest in Shares

1 redeemable preference share in the Credit Union

COL Jane Maree Spalding

Director

Age Forty Six

Qualifications

- Bachelor of Social Science
- Master of Arts
- Master of Defence Studies
- Graduate of the Royal Military College of Science (United Kingdom)
- Graduate of the Australian Army Command and Staff College
- Graduateship of the City and Guilds of London Institute
- Member of the Australasian Mutuals Institute
- Member of the Australian Institute of Management

Experience

- Credit Union Director for one year
- 25 years in the Australian Regular Army
- Currently Director Joint Preparedness Management
- Military Strategic Commitments

Interest in Shares

1 redeemable preference share in the Credit Union

CDRE Clinton William Thomas, CSC, RAN

Director and Chairman of Risk Committee

Age Forty Nine

Qualifications

- Graduate RAN Staff College
- Member of the Australasian Mutuals Institute
- Member of the Risk Management Institute of Australasia
- Graduate Member of the Australian Institute of Company Directors
- Diploma Applied Science (UNSW)
- Diploma CD
- Graduate Diploma in Resource Management
- Master of Management (Operations and Logistics) MGSM

Experience

- Credit Union Director for 8 years
- 32 years in the Royal Australian Navy
- Currently Director General Supply Chain – Joint Logistics Group

Interest in Shares

1 redeemable preference share in the Credit Union

We have a strong commitment to educating our members about finance

Warren Raymond Thomas

Director and Deputy Chairman

Age Sixty

Qualifications

- Accountancy Certificate
- Associate Fellow of the Australasian Mutuals Institute
- Graduate Member of the Australian Institute of Company Directors

Experience

- Credit Union Director for 12 years
- Member of the Executive and Risk Committees
- Past Chairman of Audit Committee (6 years)
- 37 years in Defence, including Army service in Vietnam and 20 years in financial management in various Navy and Army Commands
- President Cronulla RSL sub-branch
- Board member Cronulla RSL Memorial Club

Interest in Shares

1 redeemable preference share in the Credit Union

Robert John Willis

Director, Chair of Renewal Committee and Member of Risk Committee

Age Fifty Seven

Qualifications

- Associate Fellow of the Australasian Mutuals Institute
- Fellow of the Australian Institute of Company Directors (Diploma)
- Bachelor of Surveying (UNSW)
- Master of Management Economics (UNSW)
- Fellow of the Australian College of Defence and Strategic Studies.

Experience

- Credit Union Director for 16 years
- Chairman 1996 – 2001
- Deputy Chairman 1992 – 1996
- 33 years in Royal Australian Navy – retired as a Commodore in January 2000
- 8 years experience in the Defence Industry sector
- Director, Foundation Daw Park
- Currently actively retired

Interest in Shares

1 redeemable preference share in the Credit Union

Independent Auditor's Report

To the members of Australian Defence Credit Union Limited

We have audited the accompanying financial report of Australian Defence Credit Union Limited (Credit Union), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration.

Directors' Responsibility For The Financial Report

The Directors of the Credit Union are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's Opinion

In our opinion:

The financial report of Australian Defence Credit Union Limited is in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and

b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

BDO Kendalls
Sydney, 24 September 2008

Wayne Basford
Partner

Directors' Declaration

The Directors' of Australian Defence Credit Union Limited declare that:-

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

(a) comply with Accounting Standards; and

(b) give a true and fair view of the financial position of the Credit Union as at 30 June 2008 and performance for the year ended on that date.

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

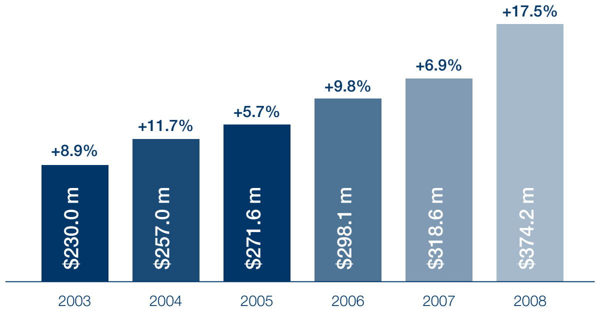
This declaration is made in accordance with a resolution of the Board of Directors.

J. Wood
Chairman

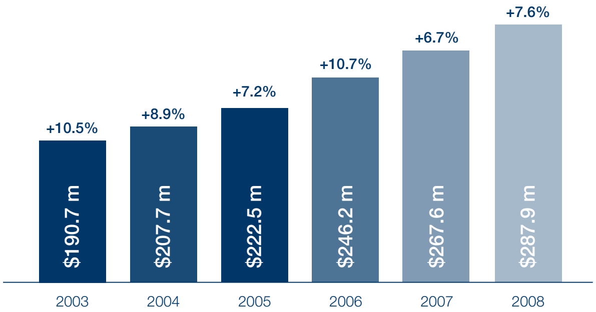
Dated this 23rd day of September 2008

Dedicated to meeting the financial needs of the Defence community for nearly 50 years

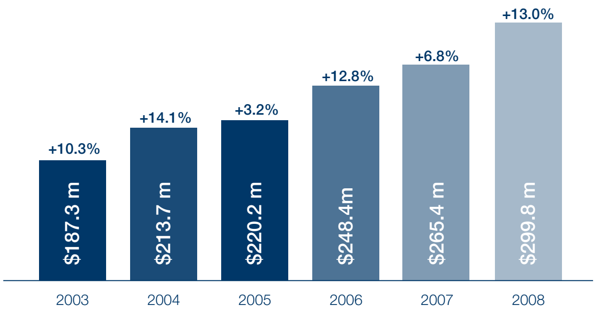
Key Performance Measures



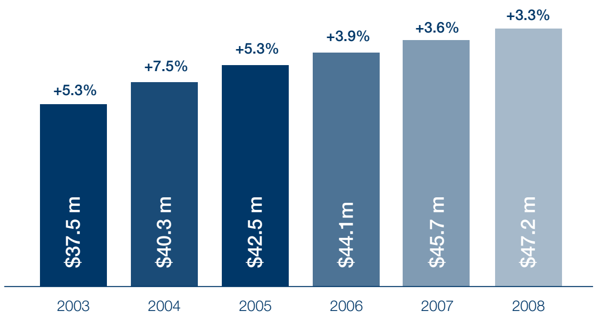
ASSETS



NET LOANS



DEPOSITS



MEMBERS EQUITY

Income Statement For The Year Ended 30 June 2008

	Note	2008 $	2007 $
Interest Revenue	2.a	31,045,328	27,478,033
Interest Expense	2.c	14,160,435	11,147,983
Net interest income		16,884,893	16,330,050
Fee commission and other income	2.b	7,078,805	6,630,303
		23,963,698	22,960,353
Less			
Non interest expenses			
Impairment losses on available for sale assets		—	—
Impairment losses on loans receivable from members	2.d	1,502,458	1,514,565
Fee and commission expenses		2,932,017	2,951,713
General administration			
Employees compensation and benefits		9,343,969	8,443,260
Depreciation and amortisation	2.e	791,526	872,324
Information technology		2,027,031	2,082,397
Office occupancy		743,762	724,228
Other administration		2,425,928	2,244,117
Other operating expenses		2,112,495	1,979,048
Total non interest expenses		21,879,186	20,811,652
Profit before income tax		2,084,512	2,148,701
Income tax expense	3	586,978	617,323
Profit after income tax		**1,497,534**	**1,531,378**

Statement Of Changes In Member Equity For The Year Ended 30 June 2008

	Capital Reserve $	Reserve for Credit Losses $	Retained Earnings $	Total $
Total at 1 July 2006	49,864	1,060,545	43,033,193	44,143,602
Profit for the year	–	–	1,531,378	1,531,378
Total income and expense for year	49,864	1,060,545	44,564,571	45,674,980
Transfers to (from) reserves				
Transfer to capital account on redemption of shares	22,680	–	(22,680)	–
Total at 30 June 2007	**72,544**	**1,060,545**	**44,541,891**	**45,674,980**
Profit for the year	–	–	1,497,534	1,497,534
Transfers to (from) reserves				
Transfer to reserve for credit losses in year	–	–	–	–
Transfer to capital account on redemption of shares	6,566	–	(6,566)	–
Total as at 30 June 2008	**79,110**	**1,060,545**	**46,032,859**	**47,172,514**

Balance Sheet As At 30 June 2008

	Note	2008 $	2007 $
ASSETS			
Cash	4	10,609,931	13,272,953
Receivables from financial institutions	5	69,500,000	31,000,000
Receivables	6	2,478,677	2,497,197
Loans to members	7 & 8	287,887,166	267,595,747
Available for sale investments	9	906,998	906,998
Property, plant and equipment	10	1,156,313	1,610,063
Taxation assets	11	747,965	776,964
Intangible assets	12	955,659	957,532
TOTAL ASSETS		**374,242,709**	**318,617,454**
LIABILITIES			
Short term borrowings	13	19,738,914	–
Deposits from members	14	299,830,406	265,400,258
Creditor accruals and settlement accounts	15	7,102,987	7,202,852
Taxation liabilities	16	(603)	(160,834)
Provisions	17	398,491	500,198
TOTAL LIABILITIES		327,070,195	272,942,474
NET ASSETS		**47,172,514**	**45,674,980**
MEMBERS' EQUITY			
Capital reserve account	18	79,110	72,544
General reserve for credit losses	19	1,060,545	1,060,545
Retained earnings		46,032,859	44,541,891
TOTAL MEMBERS' EQUITY		**47,172,514**	**45,674,980**

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Cash Flow Statement For The Year Ended 30 June 2008

	Note	2008 $	2007 $
OPERATING ACTIVITIES			
Revenue inflows			
Interest received		30,670,038	27,437,620
Fees and commissions		6,542,835	6,015,407
Dividends		113,373	113,373
Other income		673,609	485,242
Revenue outflows			
Interest paid		(13,794,800)	(11,234,395)
Suppliers and employees		(19,807,220)	(18,565,839)
Income taxes paid		(397,748)	(891,037)
Net cash from revenue activities		4,000,087	3,360,371
Inflows from other operating activities			
Increase in member loans (net movement)		(21,798,591)	(22,913,997)
Increase in member deposits and shares (net movement)		34,480,554	18,510,885
Increase in deposits to other financial institutions (net)		(38,500,000)	(2,000,000)
Net cash from operating activities		**(21,817,950)**	**(3,042,741)**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of investments in shares		–	–
Proceeds on sale of property, plant and equipment		50,477	19,344
Net cash received on transfer of engagements		–	–
Less: Outflows			
Purchase of investments in shares		–	–
Purchase of property plant and equipment		(307,692)	(585,282)
Purchase of intangible assets		(326,771)	–
Net cash from investing activities		**(583,986)**	**(565,938)**
FINANCING ACTIVITIES			
Inflows (outflows)			
Increase in borrowings (net movement)		16,000,000	–
Net cash from financing activities		**16,000,000**	–
Total net cash increase/(decrease)		(6,401,936)	(3,608,679)
Cash at beginning of year		13,272,953	16,881,632
Cash at end of year	33.a	**6,871,017**	**13,272,953**

Statement Of Accounting Policies

1. Statement Of Accounting Policies

This financial report is prepared for Australian Defence Credit Union Limited as a single credit union, for the year ended the 30th June 2008. The report was authorised for issue on 23 September 2008 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures the financial statements and notes comply with the International Financial Reporting Standards (IFRS).

a. Basis of Measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets [except for real property and available for sale investments which are stated at fair value]. The accounting policies are consistent with the prior year unless otherwise stated.

b. Loan to Members

(i) Basis of recognition

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

(ii) Interest earned

Term loans – interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Overdraft – interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

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

Non accrual loan interest – while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member has deceased, or, where a loan is impaired.

(iii) Loan origination fees and discounts

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue.

(iv) Transaction costs

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue.

(v) Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

(vi) Net gains and losses

Net gains and losses on loans to members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

c. Loan Impairment

(i) Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8. Note 20 details the credit risk management approach for loans.

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

(ii) Reserve for credit losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon:

– the level of security taken as collateral; and

– the concentration of loans taken by employment type.

(iii) Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

d. Bad Debts Written Off (Direct Reduction in Loan Balance)

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the income statement.

e. Property, Plant and Equipment

Property, plant and equipment are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Credit Union. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the balance date are as follows:

- Leasehold improvements - 10 years.
- Plant and equipment - 3 to 7 years.
- Assets less than $300 are not capitalised.

f. Receivables from Other Financial Institutions

Term deposits with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the balance sheet.

g. Equity Investments and Other Securities

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

Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

All investments are in Australian currency.

h. Member Deposits

(i) Basis for measurement

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

(ii) Interest payable

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

i. Borrowings

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

j. Provision for Employee Benefits

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Credit Union based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the income statement as incurred.

k. Leasehold on Premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

l. Income Tax

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

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Credit Union will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit an income tax benefit to be obtained.

m. Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets.

Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

n. Goods and Services Tax

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

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

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

o. Impairment of Assets

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

p. Accounting Estimates and Judgements

Management have made judgements when applying the Credit Union's accounting policies with respect to:

i. De-recognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer note 7.

ii. The classification of preference shares as equity instruments – refer note 21.

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

q. New or Emerging Standards

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2007 reporting periods. The company's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Nature of Change	Application date	Impact on Initial Application
AASB 101 (Revised Sep 2007) Presentation of Financial Statements	Amendments to presentation and naming of the financial statements.	Annual reporting periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.

2. Income Statement

	2008 $	2007 $
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	404,337	433,605
Receivables from financial institutions	3,028,994	1,858,500
Loans to members	27,611,997	25,185,928
Total receivables	30,640,991	27,044,428
TOTAL INTEREST REVENUE	**31,045,328**	**27,478,033**
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	1,445,008	1,257,204
Fee Income from member deposits	–	–
Other fee income	3,756,444	3,438,729
Insurance commissions	800,025	673,256
Other commissions	561,667	657,485
TOTAL FEE AND COMMISSION REVENUE	**6,563,144**	**6,026,674**
Other income		
Dividends received on available for sale assets	113,373	113,373
Bad debts recovered	399,710	418,813
Gain on disposal of assets		
– Property, plant and equipment	372	5,014
– Intangibles	–	–
Miscellaneous revenue	2,206	66,429
TOTAL FEE COMMISSION AND OTHER INCOME	**7,078,805**	**6,630,303**

	2008 $	2007 $
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Short term borrowings	577,727	38,400
Deposits from financial institutions	–	30,116
Deposits from members	13,582,708	11,079,467
TOTAL INTEREST EXPENSE	**14,160,435**	**11,147,983**
d. Impairment losses		
Loans and advances		
Increase in provision for impairment	6,241	(54,857)
Bad debts written off directly against profit	1,496,217	1,569,422
TOTAL IMPAIRMENT LOSSES	**1,502,458**	**1,514,565**
e. Other prescribed disclosures		
General administration – depreciation expense include:		
– plant and equipment	539,174	598,705
– leasehold improvements	159,563	149,070
– amortisation of software	92,789	124,549
	791,526	**872,324**
f. General administration – office occupancy costs include:		
Property operating lease payments		
– minimum lease payments	743,762	724,228
g. Other operating expenses include:		
Auditor's remuneration (excluding GST)		
– Audit fees	115,900	111,900
– Other Services – taxation	4,500	4,000
– Other Services – compliance	4,000	7,000
– Other Services – other	5,000	–
	129,400	**122,900**
Loss on disposal of assets		
– property, plant, equipment	9,389	1,192
	9,389	**1,192**

3. Income Tax Expense

	2008 $	2007 $
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	**2,084,512**	**2,148,701**
Prima facie tax payable on profit before income tax at 30%	625,354	644,611
Add tax effect of expenses not deductible	14,114	5,835
– Other non-deductible expenses	–	–
Less		
– Franking rebate	34,012	34,012
– Over provision in prior year	18,478	(889)
TOTAL INCOME TAX EXPENSE IN INCOME STATEMENT	**586,978**	**617,323**

4. Cash

	2008 $	2007 $
Cash on hand	1,609,931	1,428,380
Deposits at call	9,000,000	11,844,573
	10,609,931	13,272,953

5. Receivables From Financial Institutions

	2008 $	2007 $
Deposits with industry bodies - Cuscal (refer note 29)	38,500,000	18,000,000
Deposits with other societies	–	4,000,000
Deposits with banks	31,000,000	9,000,000
	69,500,000	**31,000,000**

6. Receivables

	2008 $	2007 $
Interest receivable on deposits with other financial institutions	976,730	596,726
Prepayments	30,798	85,065
GST Receivable	87,199	358,892
Sundry debtors and settlement accounts	1,383,950	1,456,514
	2,478,677	**2,497,197**

7. Loans To Members

	2008 $	2007 $
a. Amount due comprises:		
Overdrafts and revolving credit	19,616,761	18,241,417
Term loans	269,225,512	250,298,482
Subtotal	**288,842,273**	**268,539,899**
Less:		
Unamortised loan origination fees	240,793	236,079
Unearned Income	–	–
Subtotal	**288,601,480**	**268,303,820**
Less:		
Provision for impaired loans (Note 8)	714,314	708,073
	287,887,166	**267,595,747**

b. Credit quality – Security held against loans

	2008 $	2007 $
Secured by mortgage over real estate	143,166,405	121,025,562
Partly secured by goods mortgage	98,162,977	81,048,427
Wholly unsecured	47,512,891	66,465,910
	288,842,273	**268,539,899**

It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

	2008 $	2007 $
Security held as mortgage against real estate is on the basis of		
– loan to valuation ratio of less than 80%	100,395,303	84,869,057
– loan to valuation ratio of more than 80% but mortgage insured	30,703,117	25,954,847
– loan to valuation ratio of more than 80% and not mortgage insured	12,067,985	10,201,658
Total	**143,166,405**	**121,025,562**

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

	2008 $	2007 $

c. Concentration of loans

The values discussed below include on balance sheet values and off balance sheet undrawn facilities as described in Note 25.

	2008 $	2007 $
(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate	–	–
Total	–	–

(ii) Loans to members are concentrated to individuals employed in the Australian Defence industry.

(iii) Geographical concentrations

Australia

Overseas

2008	**Housing**	**Personal**	**Business**	**Total**
NSW	60,066,537	23,849,697	626,601	84,542,835
Victoria	14,480,583	17,556,699	36,312	32,073,594
Queensland	26,017,850	42,946,697	54,519	69,019,066
South Australia	1,387,486	4,156,229	–	5,543,715
Western Australia	22,542,146	22,795,900	34,938	45,372,984
Tasmania	584,999	1,622,914	–	2,207,913
Northern Territory	2,995,214	13,746,171	–	16,741,385
ACT	13,801,558	15,218,777	8,243	29,028,578
Other	1,094,688	3,215,533	1,982	4,312,203
Total per balance sheet	**142,971,061**	**145,108,617**	**762,595**	**288,842,273**

2007	**Housing**	**Personal**	**Business**	**Total**
NSW	33,473,220	45,715,387	907,900	80,096,507
Victoria	14,979,831	14,630,496	–	29,610,327
Queensland	29,475,853	33,843,082	–	63,318,935
South Australia	1,083,173	3,592,678	–	4,675,851
Western Australia	24,832,933	16,656,207	–	41,489,140
Tasmania	260,744	903,690	–	1,164,434
Northern Territory	3,599,631	12,189,984	–	15,789,615
ACT	17,661,970	10,218,606	–	27,880,576
Other	1,736,726	2,777,788	–	4,514,514
Total per balance sheet	**127,104,081**	**140,527,918**	**907,900**	**268,539,899**

	2008 $	2007 $
Loans to natural persons		
Residential loans and facilities	142,971,063	127,104,081
Personal loans and facilities	145,108,616	140,527,918
Business loans and facilities	762,594	907,900
	288,842,273	**268,539,899**
Loans to corporations	–	–

8. Provision On Impaired Loans

	2008 $	2007 $
a. Total provision comprises		
Collective provisions	714,314	708,073
Individual specific provisions	–	–
Total Provision	**714,314**	**708,073**
b. Movement in the provision for impairment		
Balance at the beginning of year	708,073	762,931
Add (deduct):		
Transfers from (to) income statement	6,241	(54,858)
Bad debts written off provision	–	–
Balance at end of year	**714,314**	**708,073**
Details of credit risk management is set out in Note 20.		
c. Impaired loans written off		
Amounts written off against the provision for impaired loans	–	–
Amounts written off directly to expense	1,496,217	1,569,422
Total bad debts	**1,496,217**	**1,569,422**
Bad debts recovered in the period	399,710	418,813
	1,096,507	**1,150,609**

d. Analysis of Loans that are Impaired or Potentially Impaired by Class

In the Note below -

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

	2008	2008	2008	2007	2007	2007
	Carrying value $	**Value of Impaired Loans $**	**Provision for Impairment $**	**Carrying value $**	**Value of Impaired Loans $**	**Provision for Impairment $**
Loans to members						
Mortgages	143,166,405	–	–	121,025,562	–	–
Personal	98,162,977	781,466	368,647	81,048,427	749,664	378,103
Credit cards and Overdrafts	47,512,891	559,091	345,667	66,465,910	493,414	329,970
Total to natural persons	**288,842,273**	**1,340,557**	**714,314**	**268,539,899**	**1,243,078**	**708,073**
Corporate borrowers	–	–	–	–	–	–
Total	**288,842,273**	**1,340,557**	**714,314**	**268,539,899**	**1,243,078**	**708,073**

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.

It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

e. Analysis of Loans that are Impaired or Potentially Impaired Based on Age of Repayments Outstanding

	2008	2008	2007	2007
	Carrying value $	**Provision $**	**Carrying value $**	**Provision $**
Non impaired up to 30 days	285,925,694	–	265,715,778	–
30 to 90 days in arrears	1,576,022	–	1,581,043	–
90 to 180 days in arrears	512,647	205,059	441,635	176,655
180 to 270 days in arrears	257,335	154,401	224,874	134,924
270 to 365 days in arrears	11,484	9,187	83,155	66,524
Over 365 days in arrears	–	–	–	–
Overlimit facilities over 14 days	559,091	345,667	493,414	329,970
Total	**288,842,273**	**714,314**	**268,539,899**	**708,073**

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

f. Loans with Repayments Past Due but not Regarded as Impaired

There are loans with a value of $206,598 past due which not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

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

Loans members

	1 – 3 Mnths	3 – 6 Mnths	6 – 12 Mnths	> 1 Year	Total
2008					
Mortgage secured	206,598	–	–	–	206,598
Personal loans	1,576,022	–	–	–	1,576,022
Credit cards and Overdrafts	200,583	–	–	–	200,583
Total	**1,983,203**	**–**	**–**	**–**	**1,983,203**
2007					
Mortgage secured					
Personal loans	1,581,043	–	–	–	1,581,043
Credit cards and Overdrafts	183,681	–	–	–	183,681
Total	**1,764,724**	**–**	**–**	**–**	**1,764,724**

g. Loans Renegotiated

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

	2008 $	2007 $
Value of loans renegotiated during the year and not now regarded as impaired		
Book value of the renegotiated loans at balance date	**315,791**	**131,501**
Book value of these loans which are well secured	–	–
Book value of these loans which are not well secured	**315,791**	**131,501**
Well secured loans are secured by registered mortgage over real estate		

h. Key Assumptions in Determining the Provision for Impairment

In the course of the preparation of the annual report the Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

Period of impairment	% of balance
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 365 days	80
Over 365 days	100

9. Available For Sale Investments

	2008 $	2007 $
Shares in unlisted companies – at cost		
– Cuscal Limited (c)	906,998	906,998
Total value of investments	**906,998**	**906,998**

a. Disclosures on Shares Held at Cost

Cuscal Limited

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 29. The shares are not able to be traded and are not redeemable.

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

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

10. Property, Plant And Equipment

a. Fixed Assets

	2008 $	2007 $
Plant and equipment - at cost	4,911,048	4,762,308
Less: provision for depreciation	4,153,065	3,680,445
	757,983	1,081,863
Capitalised leasehold improvements at cost	1,606,337	1,576,645
Less: provision for amortisation	1,208,007	1,048,445
	398,330	528,200
	1,156,313	**1,610,063**

b. Movement in the Assets Balances During the Year Were:

	2008			2007		
	Plant & equipment $	**Leasehold improvements $**	**Total $**	**Plant & equipment $**	**Leasehold improvements $**	**Total $**
Opening balance	1,081,863	528,200	1,610,063	1,414,742	375,966	1,790,708
Purchases	278,000	29,693	307,693	283,915	300,227	584,142
Revaluation increase	–	–	–	–	–	–
Less						
Assets disposed	62,691	–	62,691	28,335		28,335
Depreciation charge	539,189	159,563	698,752	588,459	147,993	736,452
Revaluation decrease	–	–	–	–	–	–
Impairment loss	**–**	**–**	**–**	**–**	**–**	**–**
Balance at the end of the year	**757,983**	**398,330**	**1,156,313**	**1,081,863**	**528,200**	**1,610,063**

11. Taxation Assets

	2008 $	2007 $
Deferred Tax Assets	**747,965**	**776,964**
Deferred tax assets comprise:		
Accrued expenses not deductible until incurred	35,522	18,542
Provisions for impairment on loans	214,294	212,422
Provisions for employee benefits	269,294	280,048
Provisions for other liabilities	–	–
Depreciation on fixed assets and intangible assets	156,617	195,128
Deferred fees (less transaction costs) on loan origination	72,238	70,824
	747,965	**776,964**

12. Intangible Assets

	2008 $	2007 $
Computer software	2,469,241	2,139,277
Less provision for amortisation	1,513,582	1,181,745
	955,659	**957,532**
Movement in the assets balances during the year were:		
Opening balance	957,532	645,458
Purchases	329,965	536,984
Less		
Assets disposed	–	–
Depreciation charge	331,838	224,910
Impairment loss	–	–
Balance at the end of the year	**955,659**	**957,532**

13. Short Term Borrowings

	2008 $	2007 $
Loans	16,000,000	–
Overdraft	3,738,914	–
	19,738,914	**–**

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

14. Deposit From Members

	2008 $	2007 $
Member Deposits		
- at call	168,721,826	158,211,953
- term	131,018,566	107,102,025
Member withdrawable shares	90,014	86,280
	299,830,406	**265,400,258**

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

	2008 $	2007 $
Concentration of member deposits		
(i) Significant individual member deposits which in aggregate represent more than 10 % of the total liabilities:	–	–
(ii) Member deposits at balance date were received from individuals employed principally in the Australian Defence industry		
(iii) Geographical concentrations		
Australia		
Overseas		
NSW	142,701,791	137,611,952
Victoria	43,415,033	25,360,277
Queensland	38,967,252	34,571,244
South Australia	4,282,718	5,054,315
Western Australia	23,605,432	23,257,954
Tasmania	1,191,395	1,078,827
Northern Territory	9,783,257	10,810,658
ACT	31,289,995	23,121,672
Other	4,503,519	4,447,079
Total per balance sheet	**299,740,392**	**265,313,978**

15. Creditor Accruals And Settlement Accounts

	2008 $	2007 $
Annual leave	483,407	433,295
Creditors and accruals	942,443	1,176,894
Interest payable on borrowings	–	–
Interest payable on deposits	3,047,413	2,681,778
Accrual for GST payable	32,629	52,938
Accrual for other tax liabilities	–	–
Sundry creditors	2,597,095	2,857,947
	7,102,987	**7,202,852**

16. Taxation Liabilities

	2008 $	2007 $
Current income tax liability	**(603)**	**(160,834)**
Current income tax liability comprises:		
Liability for income tax in current year	582,806	553,153
Less Installments paid in current year	583,409	713,987
Balance – current year	**(603)**	**(160,834)**

17. Provisions

	2008 $	2007 $
Long service leave	398,491	500,198
Provisions – other	–	–
Total Provisions	398,491	500,198

18. Capital Reserve Account

	2008 $	2007 $
Balance at the beginning of the year	72,544	49,864
Transfer from retained earnings on share redemptions	6,566	22,680
Increase due to shares issued to members of AAA credit union where the value exceeds $10.	–	–
Balance at the end of year	**79,110**	**72,544**

a. Share Redemption

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

19. General Reserve For Credit Losses

	2008 $	2007 $
General reserve for credit losses	1,060,545	1,060,545
Other reserve for credit losses	–	–
	1,060,545	**1,060,545**

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

Balance at beginning of year	1,060,545	1,060,545
Add: increase (decrease) transferred from retained earnings	–	–
Balance at end of year	**1,060,545**	**1,060,545**

20. Financial Risk Management Objectives And Policies

Introduction

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

The Credit Union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Risk committee and from there to the Audit committee which are integral to the management of risk. The main elements of risk governance are as follows:

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

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

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

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

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

Asset & Liability Committee (ALCO): This committee of senior management meets at least monthly and has responsibility for managing and reporting credit, liquidity, market and capital risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board.

Head of Finance/Operational Risk and Head of Credit: These positions have responsibility for ensuring timely production of information for the Risk Committee and ensuring that instructions passed down from the Board via the Risk Committee are implemented.

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

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

- Asset/Liability Risk Management
- Liquidity Management
- Credit Risk Management
- Operations Risk Management including Data Risk Management.

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

a. Market Risk

The objective of the Credit Union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is not exposed to currency risk, and other significant price risk. The Credit Union does not trade in the financial instruments it holds on its books. The Credit Union is exposed only to interest rate risk arising from changes in market interest rates.

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

(i) Interest rate risk

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

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

Interest rate risk in the banking book

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

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to the risk of sensitivity should interest rates change.

This risk is not considered sufficiently significant to warrant the use of derivatives to mitigate it.

Method of managing risk

The Credit Union manages it interest rate risk by the use of a value at risk VaR model. An independent review of the interest rate risk profile is conducted on a quarterly basis by Protech Pty Ltd , an independent risk management consultancy company. The Board monitors interest rate risk through the management reporting process.

Value at Risk (VaR)

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

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

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

b. Liquidity Risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

The Credit Union has a longstanding arrangement with the industry liquidity support scheme Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should this be necessary.

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 26 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 Note 22.

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 loss. Credit risk arises principally from the Credit Union's loan book and investment assets.

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; and
- Review of compliance with the above policies.

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

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan 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 exposure to loss arise predominantly with personal loans and facilities not secured by registered mortgage over real estate.

If evidence of impairment exists, the estimated recoverable amount of the asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the income statement . In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

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

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

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including changes in a counterparty's industry and identified structural weaknesses or deterioration in cash flows.

The provisions for impaired and past due exposures relate to the loans to members.

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.

Details are as set out in Note 8.

Bad debts
Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

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

Collateral securing loans
A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed 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. Note 7.b describes the nature and extent of the security held against the loans held as at the balance date.

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

The aggregate value of large exposure loans are set out in note 7. The Credit Union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of no more than 80 per cent and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – industry
The Credit Union has a concentration in the retail lending for members who comprise employees and family in the Defence industry. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 7.

(i) Credit Risk – Liquid Investments
Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This occurs when a debtor fails 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 with Cuscal. The credit policy is that investments are only made to institutions that are credit worthy.

The risk of losses from liquid investments undertaken is reduced by the nature and quality of the independent rating of financial institutions used and the limits to concentration and size of individual investments.

Under the liquidity support scheme operated by CUFSS at least 3.2% of total assets must be invested in Cuscal to allow the scheme to have adequate resources to meet its obligations if needed. The Board policy is to maintain at least 60% of investments in Cuscal Limited, a company set up to support the member credit unions and which has an AA- rating.

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

External Credit Assessment for Institution Investments
The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112.

d. Operational Risk

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to those risks arising from a number of sources including legal compliance; business continuity; data infrastructure; outsourced services failures; fraud; and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of polices and systems to monitor the likelihood of the events and minimize the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behavior;
- implementation of the whistleblowing policy to promote a compliant culture and awareness of the duty to report exceptions by staff ;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses;
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

Fraud

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

IT systems

The worst case scenario would be the failure of the Credit Union's core banking and IT network suppliers, to meet customer obligations and service requirements. The Credit Union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of credit unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf on the Credit Union by the industry body Cuscal to service the settlements with other financial institutions for direct entry, ATM & Visa cards, and B pay etc.

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

e. Capital Management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk.
- Market risk (trading Book).
- Operations risk.

The market risk component is not required as the Credit Union is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

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

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

Tier 2 Capital

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

Tier 2 capital generally comprises:

- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital.
- A subordinated loan remitted from the Credit Union's ultimate parent. The principal amount has been amortised on a straight line basis over the last 5 years to maturity of the loan in accordance with the requirements of APRA Prudential standard APS 111.
- A general reserve for Credit Losses.

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

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

To manage the Credit Unions capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 14%. Further a 3 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from the 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Credit Union uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the Credit Union's three year average net interest income and net non-interest income to the Credit Union's various business lines.

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

Internal capital adequacy management

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

21. Categories Of Financial Instruments

The following information classifies the financial instruments into measurement classes.

	Note	2008 $	2007 $
Financial assets - carried at amortised cost			
Cash	4	10,609,931	13,272,953
Receivables		2,447,879	2,138,305
Receivables from financial institutions -	5	69,500,000	31,000,000
Loans to members	7 & 8	287,887,166	267,595,747
TOTAL LOANS AND RECEIVABLES		**370,444,976**	**314,007,005**
Available for sale investments - carried at cost	9	906,988	906,988
Available for sale investments - carried at fair value		–	–
Total available for sale investments		906,988	906,988
TOTAL FINANCIAL ASSETS		**371,351,964**	**314,913,993**
Financial liabilities			
Short term borrowings	13	19,738,914	–
Creditors		6,619,580	6,716,619
Deposits from other institutions		22,000,000	–
Deposits from members	14	277,830,406	265,400,258
Total carried at amortised cost		326,188,900	272,116,877
Fair value through profit and loss		–	–
Derivatives		–	–
		–	–
TOTAL FINANCIAL LIABILITIES		**326,188,900**	**272,116,877**

22. Maturity Profile Of Financial Liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal. Financial liabilities are at the undiscounted values (including future interest expected to be paid). Accordingly these values will not agree to the balance sheet.

2008	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	No Maturity $000	Total $000
LIABILITIES							
Borrowings	19,854	–	–	–	–	–	19,854
Creditors	3,572	–	–	–	–	–	3,572
Deposits from other financial institutions	10,140	8,177	4,172	–	–	–	22,489
Deposits from members	184,750	31,214	61,923	6,033	–	–	283,920
Subordinated debt					–	–	
On Balance sheet	**218,316**	**39,391**	**66,095**	**6,033**	**–**	**–**	**329,835**
Total financial Liabilities	**218,316**	**39,391**	**66,095**	**6,033**	**–**	**–**	**329,835**

2007	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	No Maturity $000	Total $000
LIABILITIES							
Borrowings							
Creditors	4,088	–	–	–	–	–	4,088
Deposits from other financial institutions	–	–	–	–	–	–	–
Deposits from members	178,205	26,867	56,405	9,187	–	–	270,664
Subordinated debt							
On Balance sheet	**182,293**	**26,867**	**56,405**	**9,187**	**–**	**–**	**274,752**
Total financial Liabilities	**182,293**	**26,867**	**56,405**	**9,187**	**–**	**–**	**274,752**

23. Interest Rate Change Of Profile Of Financial Assets And Liabilities

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

2008	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	Non interest bearing $000	Total $000
ASSETS							
Cash	9,000	–	–	–	–	1,610	10,610
Receivables	–	–	–	–	–	2,448	2,448
Advances to other financial Institutions	11,000	8,500	35,500	14,500	–	–	69,500
Loans & advances	288,842	–	–	–	–	–	288,842
Investments	–	–	–	–	–	907	907
On Balance sheet	**308,842**	**8,500**	**35,500**	**14,500**		**4,965**	**372,307**
Undrawn commitments	**37,975**	**–**	**–**	**–**	**–**	**–**	**37,975**
Total financial assets	**346,817**	**8,500**	**35,500**	**14,500**	**–**	**4,965**	**410,282**
LIABILITIES							
Borrowings	19,739	–	–	–	–	–	19,739
Creditors	–	–	–	–	–	6,620	6,620
Deposits from other financial institutions	10,000	8,000	4,000	–	–	–	22,000
Deposits from members	184,120	29,792	58,301	5,528	–	90	277,831
On Balance sheet	**213,859**	**37,792**	**62,301**	**5,528**		**6,710**	**326,189**
Undrawn commitments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total financial Liabilities	**213,859**	**37,792**	**62,301**	**5,528**	**–**	**6,710**	**326,189**

2007	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	Non interest bearing $000	Total $000
ASSETS							
Cash	11,845	–	–	–	–	1,428	13,273
Receivables	–	–	–	–	–	2,053	2,053
Advances to other financial Institutions	11,000	8,000	12,000	–	–	–	31,000
Loans & advances	268,540	–	–	–	–	–	268,540
Investments	–	–	–	–	–	907	907
On Balance sheet	**291,385**	**8,000**	**12,000**	**–**	**–**	**4,388**	**315,773**
Undrawn commitments	**23,036**	**–**	**–**	**–**	**–**	**–**	**23,036**
Total financial assets	**314,421**	**8,000**	**12,000**	**–**	**–**	**4,388**	**338,809**

LIABILITIES							
Borrowings	–	–	–	–	–	–	–
Creditors	–	–	–	–	–	6,717	6,717
Deposits from members	91,632	25,707	59,528	2,254	–	86	179,207
Deposits from other financial institutions	–	–	–	–	–	–	–
Subordinated debt	–	–	–	–	–	–	–
On Balance sheet	**91,632**	**25,707**	**59,528**	**2,254**	**–**	**6,803**	**185,924**
Undrawn commitments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total financial Liabilities	**91,632**	**25,707**	**59,528**	**2,254**	**–**	**6,803**	**185,924**

24. Fair Value Of Financial Assets And Liabilities

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

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

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are held regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities.

The values reported have not been adjusted for the changes in credit ratings of the assets.

The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term.

			2008			2007
	Fair value $	Carrying Value $	Variance $	Fair value $	Carrying Value $	Variance $
FINANCIAL ASSETS						
Cash	10,609,931	10,609,931	–	13,272,953	13,272,953	–
Advances to other financial institutions	69,814,459	69,500,000	314,459	31,032,850	31,000,000	32,850
Receivables (1)	2,447,879	2,447,879	–	2,138,305	2,138,305	–
Loans & Advances	287,887,166	287,887,166	–	267,595,747	267,595,747	–
Investments	906,988	906,988	–	906,997	906,997	–
Total financial assets	371,666,423	371,354,964	314,459	314,946,852	314,914,002	32,850
FINANCIAL LIABILITIES						
Borrowings	19,748,410	19,738,914	9,496	–	–	–
Deposits from other financial institutions	22,029,033	22,000,000	29,033	–	–	–
Deposits from members	277,537,475	277,830,406	(292,931)	265,484,458	265,400,258	84,200
Creditors (1)	6,619,580	6,619,580	–	6,716,619	6,716,619	–
Subordinated debt	–	–	–	–	–	–
Total financial liabilities	325,934,498	326,188,900	(254,402)	272,201,077	272,116,877	84,200

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

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

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

Liquid assets and receivables from other financial institutions

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

Loans and advances

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

For variable rate loans, (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Deposits from members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the Balance Sheet. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period maturity.

Short term borrowings

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

25. Financial Commitments

		2008 $	2007 $
a.	**Outstanding loan commitments**		
	The loans approved but not funded	**8,217,427**	**6,282,868**
b.	**Loan redraw facilities**		
	The loan redraw facilities available	**6,755,815**	**6,401,531**
c.	**Undrawn loan facilities**		
	Loan facilities available to members for overdrafts and line of credit loans are as follows:		
	Total value of facilities approved	39,599,992	28,417,543
	Less: Amount advanced	16,598,250	18,241,417
	Net undrawn value	**23,001,742**	**10,176,126**
	These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
	TOTAL FINANCIAL COMMITMENTS	37,974,984	22,860,525
d.	**Computer capital commitments**		
	The costs committed under contracts with Ultradata are as follows:		
	Not later than one year	249,966	–
	Later than 1 year but not 2 years	171,643	–
	Later than 2 years but not 5 years	–	–
	Later than 5 years	–	–
		421,609	–
e.	**Lease expense commitments for operating leases on property occupied by the Credit Union**		
	Not later than one year	382,700	382,700
	Later than one year but not later than five years	1,530,800	1,530,800
	Over five years	–	382,700
		1,913,500	**2,296,200**

The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 to 5 years and options for renewal are usually obtained for a further 3 years.

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

26. Standby Borrowing Facilities

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

2008	Gross $	Current Borrowing $	Net available $
Loan facility	5,000,000	5,000,000	–
Overdraft facility	5,000,000	3,785,270	1,214,730
TOTAL STANDBY BORROWING FACILITIES	**10,000,000**	**8,785,270**	**1,214,730**

2007	Gross $	Current Borrowing $	Net available $
Loan facility	–	–	–
Overdraft facility	5,000,000	–	5,000,000
TOTAL STANDBY BORROWING FACILITIES	**5,000,000**	**–**	**5,000,000**

Withdrawal of the loan facility is subject to the availability of funds at Cuscal.

Cuscal holds an equitable mortgage charge over all of the assets of the Credit Union as security against loan and overdraft amounts drawn under the facility arrangements.

27. Contingent Liabilities

Liquidity Support Scheme

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

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

Guarantees

The Credit Union has provided a guarantee to Cuscal for drawings made by members to enable Cuscal to settle the funds transferred by way of direct debit with other financial institutions. The guarantee is cancellable by either the Credit Union or Cuscal. The Credit Union has arrangements with the member to maintain sufficient funds in their account to settle the payments as and when required.

28. Disclosures On Directors And Other Key Management Personnel

a. Remuneration of Key Management Persons [KMP]

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

Key management persons (KMP) have been taken to comprise the Directors and members of the executive management responsible for the day to day financial and operational management of the Credit Union.

The aggregate Compensation of **key management persons** during the year comprising amounts paid or payable or provided for was as follows:

Note the AASB 124 standard does not specifically require the separation of the Directors and executive remuneration.

A single table may be shown for KMP combined.

	2008 Directors & other KMP	2007 Directors & other KMP
(a) short-term employee benefits;	624,487	549,315
(b) post-employment benefits – superannuation contributions	77,927	53,221
(c) other long-term benefits – net increases in long service leave provision	6,289	9,847
(d) termination benefits;	75,323	–
(e) share-based payment	–	–
Total	**784,026**	**612,383**

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

All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Credit Union. The amount approved for 2008 was $185,000 [2007 $171,000].

b. Loans to Directors and Other Key Management Persons

		2008 $	2007 $
(i)	The aggregate value of loans to Directors and other key management persons as at balance date amounted to	**76,757**	**82,608**
(ii)	The total value of revolving credit facilities to Directors and other key management persons, as at balance date amounted to	38,000	46,000
	Less amounts drawn down and included in (i)	–	290
	Net balance available	**38,000**	**45,710**
(iii)	During the year the aggregate value of loans disbursed to Directors and other key management persons amounted to:		
	Revolving credit facilities	–	142,200
	Personal loans	–	–
	Term loans	–	–
		–	**142,200**
(iv)	During the year the aggregate value of revolving credit facility limits granted or increased to Directors and other key management persons amounted to:		
		–	**–**
(v)	Interest and other revenue earned on Loans and revolving credit facilities to KMP	**4,239**	**5,002**

The Credit Union's policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit with the exception of loans to KMP who are not Directors.

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

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

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

	2008 $	2007 $
Total value term and savings deposits from KMP	**241,031**	**329,356**
Total Interest paid on deposits to KMP	**11,715**	**18,623**

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

c. Transactions with Other Related Parties

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

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

There are no benefits paid or payable to the close family members of the key management persons.

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

29. Economic Dependency

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

a. Cuscal Limited

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

(i) provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;

(ii) provides treasury and money market facilities to the Credit Union. The Credit Union has invested all of its liquid assets with the Credit Union to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

b. First Data International Limited (FDI)

This entity operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM suppliers to the Credit Union's EDP Systems.

c. Ultradata Australia Pty Limited

Provides and maintains the application software utilised by the Credit Union.

The Credit Union will be converted to the Ultracs core banking systems on [date]. The evaluation of the new systems is presently being undertaken by the industry to minimise the costs and operational impact.

d. TAS Pty Limited

This entity operates the computer facility on behalf of the Credit Union in conjunction with other credit unions. The Credit Union has a management contract with the company to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with the relevant Prudential Standards.

30. Segmental Reporting

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

31. Superannuation Liabilities

The Credit Union contributes to the CUE Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee.

The Credit Union has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

32. Securitisation

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union also manages the loans portfolio on behalf of the trust. The Credit Union bears no risk exposure in respect of these loans.

The amount of securitised loans under management as at 30 June 2008 is $ 2,095,088 (2007: $ 2,898,176).

33. Notes To Cash Flow Statement

		2008 $	2007 $
a.	**Reconciliation of cash**		
	Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
	Cash on hand	1,609,931	1,428,380
	Deposits at call	9,000,000	11,844,573
	Bank overdraft	(3,738,914)	–
	Total cash	**6,871,017**	**13,272,953**
b.	**Reconciliation of cash from operations to accounting profit**		
	The net cash increase/(decrease) from operating activities is reconciled to the profit after tax		
	Profit after income tax	1,497,534	1,531,379
	Add (Deduct):		
	Bad debts written off	1,496,217	1,569,422
	Depreciation expense	791,526	872,324
	Loss on sale of assets	9,761	3,822
	Increases in Amortised fees on loans	4,714	–
	Increase in provisions for staff leave	(51,595)	14,758
	Increase in provision for income tax	160,231	(339,531)
	Increase in Provision for loans	6,241	–
	Increase in other provisions	–	(54,858
	Increase in accrued expenses	(234,451)	159,259
	Increase in interest payable	365,635	(86,412)
	Increase in unearned income	–	12,548
	Loss (Gain) on sale of assets	(372)	(5,014)
	Decreases in prepayments	54,267	(19,586)
	Decreases in sundry receivables	271,693	(310,596)
	Decreases in deferred tax assets	28,999	65,817
	Decrease in other assets	–	–
	Accrued taxes-GST payable	(20,309)	–
	Decrease in interest receivable	(380,004)	(52,961)
	Net cash from revenue activities	**4,000,087**	**3,360,371**

34. Corporate Information

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

The address of the registered office is:
Level 1, 8 York Street, Sydney NSW 2000.

The address the principal place of business is:
Level 1, 8 York Street, Sydney NSW 2000.

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

Contact Information

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We understand
the Defence way of life