

# 2008 Annual Report



## Chairman's Report

On behalf of the Board of Directors, I am pleased to present to you the 45<sup>th</sup> Annual Report of Sydney Credit Union (SCU) for the financial year 2007-2008.

The Board is very pleased with the financial results. Full details are shown in the Report. Highlights are discussed in the Chief Executive Officer's report. SCU continues to show steady growth in all the important areas.

Sydney Credit Union was founded in 1963 to offer financial assistance to people who were receiving very little help from banks and very expensive offerings from some dubious financial institutions.

Although access to financial products for everyone has improved markedly since 1963, I still believe Credit Unions provide the best and most generous access to financial products for the working person.

This brings me to my next topic – the adoption of our new brand – “SCU More Generous Banking”. This is not just a glib advertising slogan. We intend to make this brand work by :

- ✓ Being more generous with our time
- ✓ Being more generous about rates and fees
- ✓ Being more generous with our profits
- ✓ Being more generous with the people who work for all of us

During the year Allan Lee, one of our longest serving Directors, retired. Allan became a Director in 1979 and from then until his retirement he gave freely of his time and energy to contribute to the success we all share today. On behalf of us all, I wish Allan and his wife Pauline, health and happiness in his retirement.

While the financial world appears to come up with new and unexpected disasters every day, the Australian credit union industry continues to appear to be a bastion of financial strength and security.

This is not down to luck. Our financial strength and security derives from the Standards and Regulations imposed on us by the Australian Government through the offices of the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

APRA's Standards and Regulations are, amongst other things, strongly aimed at protecting the interests of depositors. APRA regards Directors as bearing the main responsibility for this protection. The Directors of SCU accept this responsibility.

During the year, we were delighted to welcome the Members of Blue Mountains & Riverlands Community Credit Union to SCU. This amalgamation will benefit all Members, especially, in the area of access as it adds Branches at Springwood and Katoomba to our physical presence in Western Sydney.

In conclusion, my fellow Directors, the Chief Executive Officer, the Management Team and our Staff deserve our thanks for the wonderful way they have carried out their duties during the year.

On behalf of the Board, I thank all Members for your continued support and loyalty. Every Member has equal ownership of SCU. We each have one share. Please feel free to offer suggestions.



Brian Nevin  
CHAIRMAN

## Chief Executive Officer's Report

I am pleased to present the Annual Report for the financial year ended 30 June 2008.

In a time of unprecedented upheaval in the global financial markets, it is with great pride that I report the Federal Government has placed Sydney Credit Union on a parallel with the largest Australian Banks and Building Societies and guaranteed all deposits held in the Credit Union.

On 12 October 2008, the Federal Government guaranteed a new scheme to guarantee all deposits held in Credit Unions, Building Societies and Banks in Australia. The new scheme ensures that depositors with Sydney Credit Union will be guaranteed repayment of their funds.

The scheme was in response to the global economic conditions currently being experienced in global financial markets, and is an extra confidence measure for the already strong Australian Banking System. The Government guarantee applies for at least three years.

The significance of this decision should not be lost on our membership.

In making the announcement the Federal Government ratified Sydney Credit Union's standing in the Banking Community.

Sydney Credit Union must meet the same strict, legally-enforceable standards as Banks, under the Banking Act and strict oversight by the Australian Prudential Regulation Authority (APRA).

As Financial Institutions such as St George and Westpac plan their future 'marriage', BankWest and others relationalise their operations and "Non-ADIs", are restrained due to the upheaval, Sydney Credit Union is positioned to offer a "Banking Solution" that fills a void in our Market.

It is a great opportunity and something the Board and Management are excited in their pursuit.

Apart from the events that have unfolded recently, 2007 – 2008 was an extremely busy year for Sydney Credit Union.

In February 2008 after 12 months of planning, the IT Manager, David Crow and his dedicated project team unveiled the new core banking platform. The new system is an enormous investment for the credit union but necessary as it ensures we have the ability to pursue future aspirations.

The credit union was extremely proud of the effort of our conversion team and whilst there are always some people that do not embrace change as well as others I was pleased how the membership worked with staff, adopting the new system.

In April 2008, Sydney Credit Union welcomed Blue Mountains & Riverlands Community Credit Union members.

The transfer of business adds two new branches, Katoomba and Springwood to our growing branch network.

Directors, Eddie de Sousa and Gary Varcoe continue on the Sydney Credit Union Board representing the interests of Blue Mountains & Riverlands Community Credit Union members.

I wish to acknowledge the Blue Mountains & Riverland Community Credit Union Board, their General Manager Chris Carpenter, Management and Staff for recommending Sydney Credit Union and their efforts during the transfer process.

In July this year, after twelve months in the planning the credit union launched the re-positioning project, SCU More Generous Banking.

Congratulations to Adam Milbank and Angela Hanly, the driving forces behind this huge project. The logistics behind such a project is breath taking. To deliver the project on time and within budget was a credit to their commitment, ability and resolve.

Members, by now will be seeing changes to our brand i.e. Web-site, correspondence, signage etc. There is much more to do as we roll out the brand.

Some members have commented on the term "More Generous Banking". I can tell members it is more than a strapline.

It's the essence of everything we offer and drives the way we behave and communicate with our people, our members and our business partners.

People are our number 1 priority, so we ensure that we're easily accessible, always welcoming and always positive. We pride ourselves on our integrity and honest, down-to -earth approach.

We treat people as individuals so we take the time to listen in order to truly understand where they're coming from. We aim to be proactive and smart in all that we do, continually looking for ways to improve and grow, both as an organisation and as individuals.

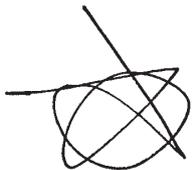
There were also comments on the use of "Banking" in the branding. Please be assured it is simply an expression of what people understand the Credit Union does best. We still maintain our Credit Union mutual values and continue to differentiate ourselves from the "Banks" through our generosity.

Whilst the above projects committed the credit union's financial resources, we continued to perform extremely well over the 12 months, as presented below:

- Assets increased by 19% to \$434,542,246
- Loans outstanding increased by 26% to \$342,486,939
- Deposits increased by 13% to \$355,207,979
- Members Equity increased by 11% to \$45,722,872
- Profit before Tax of \$3,122,748

I wish to thank all the staff for their continued commitment to Sydney Credit Union, and their consistent attention to detail in implementing the Board of Directors strategic goals.

I am also grateful for the support and loyalty of our members, something that isn't taken for granted but which motivates us to do our best for them.



Ashley Jennings  
Chief Executive Officer

**DIRECTORS' REPORT**

Your Directors present their report on the Credit Union for the financial year ended 30 June 2008.

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

**INFORMATION ON DIRECTORS**

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

Mr B T Nevin (Chairman)	Mr M E Sawyer
Mrs V J Duncan (Deputy Chairman)	Mr R W Thorn
Mr G W Brooks	Mr P J Macklin
Mr J N Allen	Mr. E A DeSousa (merged from BMRCCU 1.4.08)
Mr W E Day	Mr. G M Varcoe (merged from BMRCCU 1.4.08)
Mrs M C Bickley	Mr A Lee (Retired 30.3.08)

<b><u>Mr B T Nevin</u></b>	-	Chair
Qualifications	-	Certified Practising Accountant Member of the Australasian Mutuals Institute Justice of the Peace
Experience	-	Appointed Chair 1997 Deputy Chair 1986-1997 Board Member 1972 – Current Executive Committee, 1986 - Current Risk Management Committee 2005 - Current
Interest in Shares	-	1 Member Share in the Credit Union

<b><u>Mrs V J Duncan</u></b>	-	Deputy Chair
Qualifications	-	Bachelor of Business Master of Business (General Administration) Certified Practicing Accountant Fellow of the Australian Institute of Company Secretaries Member of the Australasian Mutuals Institute Member of the Institute of Company Directors
Experience	-	Director, December 2005 - Current Deputy Chair, December 2005 – Current Risk Management Committee, December 2005 – Current Executive Committee, December 2005 - Current Director, Prospect Credit Union 2000 – 2006 Chair, Prospect Credit Union, 2003 – 2006
Interest in Shares	-	1 Member Share in the Credit Union

<b><u>Mr J N Allen</u></b>	-	Director
Qualifications	-	Bachelor of Electrical Engineering Diploma of Management Fellow of the Institute of Engineers Australia Member of the Australasian Mutuals Institute
Experience	-	Director, December 2005 – Current Chair, Risk Management Committee, December 2005 – Current Director, Prospect Credit Union 2004 – 2006
Interest in Shares	-	1 Member Share in the Credit Union

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<b><u>Mrs M C Bickley</u></b>	-	Director
Qualifications	-	Bachelor of Arts Master of Commerce (Work Place Relations) Member of the Australasian Mutuals Institute
Experience	-	Director, December 2005 – Current Corporate Governance Committee, December 2005 - Current Director - Prospect Credit Union 1996 – 2006
Interest in Shares	-	1 Member Share in the Credit Union
<b><u>Mr G W Brooks</u></b>	-	Director
Qualifications	-	Certified Practising Accountant Member of the Australasian Mutuals Institute
Experience	-	Deputy Chair 1997 - 2005 Board member 1976 – Current Executive Committee, 1997 - Current Chair, Audit & Compliance Committee 1993 - Current
Interest in Shares	-	1 Member Share in the Credit Union
<b><u>Mr W E Day</u></b>	-	Director
Qualifications	-	Commerce Certificate (Sydney TAFE) Bachelor of Economics (Economics and Political Science) Post Graduate Diploma in Management Masters in Business Administration Member of the Australian Institute of Company Directors Member of the Australasian Mutuals Institute
Experience	-	Director, December 2005 – Current Chair, Corporate Governance Committee, December 2005 – Current Executive Committee, December 2005 – Current Director - Prospect Credit Union, 1984 - 1994, and 2004 – 2006 Chair - Prospect Credit Union, 1989-1994 Past Director of Western Sydney Business Connection Past Chair - Sydney West Marketing
Interest in Shares	-	1 Member Share in the Credit Union
<b><u>Mr P J Macklin</u></b>	-	Director
Qualifications	-	Associate Diploma in Human Resources Management Member of the Australasian Mutuals Institute
Experience	-	Director 2005 – Current Alternate Director 2000 - 2005 Member of Industrial Relations Committee 2000 – 2004 Corporate Governance Committee 2005 - Current
Interest in Shares	-	1 Member Share in the Credit Union

## **SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

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**Mr M E Sawyer** - Director  
Qualifications - Member of the Australian Institute of Management  
Member of the Australasian Mutuals Institute  
Electrical Trades Certificate (TAFE)  
Supervision Certificate (TAFE) majoring in Human Relations & Industrial Supervision  
Experience - Director, October 2005 – Current  
Audit & Compliance Committee, December 2005 - Current  
Director, Pinnacle Credit Union, 2003 – 2005  
Past Director of Licensed / Registered Club (1993-1994)  
Total Quality Management (Energy Australia 1992-1994)  
Interest in Shares - 1 Member Share in the Credit Union

**Mr R W Thorn** - Director  
Qualifications - Bachelor of Business  
Certificate in Electrical Engineering  
Member of the Australasian Mutuals Institute  
Experience - Director, December 2005 – Current  
Audit & Compliance Committee, December 2005 - Current  
Director of Prospect Credit Union, 2001 – 2006  
Interest in Shares - 1 Member Share in the Credit Union

**Mr E A DeSousa** - Director  
Qualifications - NSW Psychiatric Nursing Certificate  
Bachelor of Law  
Master of Dispute Resolution  
Associate Fellow – Australasian Mutuals Institute  
Experience - Director, April 2008 – Current (transfer from BMRCCU)  
Chair, BMRCCU – Nov 2004 – March 2008  
Presiding Lawyer Member, NSW Mental Health Review Tribunal  
Oct 1991 to Oct  
2005  
Past President, Blue Mountains Hydrotherapy Committee  
Past President, Rotary Club of Central Blue Mountains  
Past President, Blue Mountains Business Network  
Interest in Shares - 1 Member Share in the Credit Union

**Mr G M Varcoe** - Director  
Qualifications - Bachelor of Engineering  
Graduate Diploma of Management (Technology Management)  
Master of Business Administration (Technology Management)  
Builders Licence  
Member of the Australasian Mutuals Institute  
Experience - Director, April 2008 – Current (transfer from BMRCCU)  
Audit & Compliance Committee, May 2008 – Current  
Director, BMRCCU 1997 – Mar 2008  
Chair, BMRCCU Corporate Governance Committee 2006-Mar 2008  
Licensed Builder and Consultant Engineer  
Interest in Shares - 3 member Shares in the Credit Union

**Mr A Lee** - Director (June 2007-Mar 2008)  
Qualifications - Member of the Australasian Mutuals Institute

- Experience - Deputy Chair 1997 - 2005  
Board Member 1979 – March 2008 (retired)  
Industrial Relations Committee 1997-2004  
Audit & Compliance Committee 2004 – March 2008 (retired)
- Interest in Shares - 1 Member Share in the Credit Union

The name of the Company Secretary in office at the end of the year is :-

- Mr Ashley Jennings** - **Chief Executive Officer and Company Secretary**
- Qualifications - Advanced Diploma in Accounting  
Certificate III Course in Investment and Personal Financial Planning  
Member of the Australasian Mutuals Institute  
Justice of the Peace
- Experience - 30 years in the Financial Services Industry  
Sydney Credit Union CEO and Company Secretary since 1998
- Other Directorships - Transaction Solutions Pty Ltd  
Australasian Mutuals Institute (AMI)  
BACS Ltd  
Shared Services Pty Ltd
- Interest - 1 Member Share in the Credit Union

Director	Board		Executive		Audit & Compliance		Risk Management		Corporate Governance		Period of appointment
	H	A	H	A	H	A	H	A	H	A	
Mr. Brian Nevin	10	9	5	5			4	4			1/7/07 to 30/6/08
Mr. Garry Brooks	10	10	5	4	6	6					1/7/07 to 30/6/08
Mr Peter Macklin	10	9							4	4	1/7/07 to 30/6/08
Mr Mark Sawyer	10	9			6	6					1/7/07 to 30/6/08
Mrs Valerie Duncan	10	9	5	5			4	4			1/7/07 to 30/6/08
Mr Jeff Allen	10	10	5	4			4	3			1/7/07 to 30/6/08
Mr Warren Day	10	9	5	5					4	4	1/7/07 to 30/6/08
Mrs Christine Bickley	10	9							4	4	1/7/07 to 30/6/08
Mr Ray Thorn	10	10			6	5					1/7/07 to 30/6/08
Mr. Eddie DeSousa (transfer from BMCU)	2	2									01/4/08 to 30/6/08
Mr. Gary Varcoe (transfer from BMCU)	2	1			1	1					01/4/08 to 30/6/08
Mr. Allan Lee (retired)	8	8			4	4					1/7/07 to 30/3/08

**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 33 of the financial report.

### ***Indemnifying Officer Or Auditor***

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

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

### ***Financial Performance Disclosures***

#### ***Principal Activities***

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

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

#### ***Operating Results***

The net profit of the Credit Union for the year after providing for income tax and extraordinary items was \$2,089,873 [2007 \$2,808,771]. The result for the prior year was significantly impacted by the sale of the Credit Union's investment in the company of CU Financial Advisory Services Pty Limited, which added \$339,214 to the result for the prior year. The results of the current year were further impacted by this event with the receipt of \$51,500 from the next instalment from the sale of this investment. This amount added to the profit for the year. There were no other significant impacts on the current year's result.

#### ***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, from the profits earned during the year ended 30 June 2008.

#### ***Review Of Operations***

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

#### ***Significant Changes In State Of Affairs***

The Credit Union merged with the Blue Mountains and Riverlands Community Credit Union Limited on 1 April 2008. The merger added 3,650 members with \$28.3 million dollars in assets, \$24.7 million of member deposits, \$15.8 million of member loans and \$2,659,387 in retained earnings and reserves.

Other than the above event, there were no other significant changes to the State of Affairs of the Credit Union during the year.

#### ***Events Occurring After Balance Date***

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.

**AUDITORS' INDEPENDENCE**

*The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001 as set out below.*

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



B Nevin  
Chairman



R Thorn  
Acting Chairman – Audit & Risk  
Committee

Signed and dated this 25 September 2008

**DECLARATION OF INDEPENDENCE BY NEVILLE SINCLAIR TO THE DIRECTORS OF SYDNEY CREDIT UNION LIMITED**

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

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit, and
- (ii) any applicable code of professional conduct in relation to the audit.



BDO Kendalls



Neville Sinclair, Partner

Dated 25 September 2008.

**INDEPENDENT AUDITOR'S REPORT** to the members of Sydney Credit Union Limited

**Report on the Financial Report**

We have audited the accompanying financial report of Sydney 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 Sydney Credit Union Limited, would be in the same terms if provided to the directors at the time that this auditor's report was made.

***Auditor's Opinion***

In our opinion

- a. the financial report of Sydney Credit Union Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
  
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*BDO Kendalls*

BDO Kendalls  
Sydney, 25 September 2008

*Neville Sinclair*

Neville Sinclair  
Partner

**DIRECTORS' DECLARATION**

The directors of Sydney Credit Union Ltd 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 the *Corporations Act 2001*; 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.

*B. Nevin*

B. Nevin  
Chairman

Dated this 25 September 2008

**INCOME STATEMENT  
 FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 \$	2007 \$
Interest revenue	2.a	30,388,256	27,149,898
<b>Less:</b> Interest expense	2.c	13,093,629	11,058,555
Net Interest income		17,294,627	16,091,343
<b>Add:</b> Other Income (1)	2.b	5,016,754	5,477,659
Sub Total		22,311,381	21,569,002
Less:			
<b>Non Interest Expenses</b>			
Impairment Losses on loans and advances	2.d	826,761	1,032,350
Fee and Commission expenses (1)		4,163,300	4,187,286
		4,990,061	5,219,636
General Administration			
- Employees costs		7,883,009	6,979,870
- Depreciation and Amortisation	2.e	1,010,850	945,465
- Information technology		527,863	641,613
- Office Occupancy		2,034,007	1,673,985
- Other administration		1,635,098	1,478,670
Total General Administration		13,090,827	11,719,603
Other Operating Expenses	2.f	1,107,745	811,118
Total Non Interest Expenses		19,188,633	17,750,357
<b>Profit before Income Tax</b>		3,122,748	3,818,645
Income Tax Expense	3	1,032,875	1,009,874
<b>Profit after Income Tax</b>		2,089,873	2,808,771
<b>Other increases in Members equity</b>		-	-
<b>Total increase in Members equity</b>		2,089,873	2,808,771

**STATEMENT OF CHANGES IN MEMBER EQUITY  
 FOR THE YEAR ENDED 30 JUNE 2008**

	<b>General Reserve</b>	<b>Asset Revaluation Reserve</b>	<b>Reserve for Credit Losses</b>	<b>Capital Reserve Account</b>	<b>Retained Profits</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
Total at 30 June 2007	5,263,367	1,015,061	1,670,404	465,664	30,947,574	39,362,070
Profit for the year	-	-	-	-	2,089,873	2,089,873
Receipts from Transfer of Engagement	1,843,406	733,981	82,000	-	-	2,659,387
Transfers to (from) Reserves	-	-	-	28,976	(28,976)	-
Dividends Paid	-	-	-	-	(141,698)	(141,698)
<b>Total at 30 June 2008</b>	<b>7,106,773</b>	<b>1,749,042</b>	<b>1,752,404</b>	<b>494,640</b>	<b>32,866,773</b>	<b>43,969,632</b>

**STATEMENT OF CHANGES IN MEMBER EQUITY  
 FOR THE YEAR ENDED 30 JUNE 2007**

	<b>General Reserve</b>	<b>Asset Revaluation Reserve</b>	<b>Reserve for Credit Losses</b>	<b>Capital Reserve Account</b>	<b>Retained Profits</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
Total at 30 June 2006	5,263,367	1,015,061	1,670,404	378,006	28,359,683	36,686,521
Profit for the year	-	-	-	-	2,808,771	2,808,771
Receipts from Transfer of Engagement	-	-	-	-	-	-
Transfers to (from) Reserves	-	-	-	87,658	(87,658)	-
Dividends Paid	-	-	-	-	(133,222)	(133,222)
<b>Total at 30 June 2007</b>	<b>5,263,367</b>	<b>1,015,061</b>	<b>1,670,404</b>	<b>465,664</b>	<b>30,947,574</b>	<b>39,362,070</b>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

**BALANCE SHEET  
AS AT 30 JUNE 2008**

	Note	2008 \$	2007 \$
<b>ASSETS</b>			
Cash	4	17,106,203	8,448,587
Receivables from other financial institutions	5	61,308,935	74,327,958
Receivables	6	2,131,106	2,113,873
Prepayments		255,300	299,026
Loans to members	7 & 8	340,680,576	269,116,007
Available for Sale Investments	9	2,091,842	2,167,633
Property, Plant and Equipment	10	8,551,341	7,662,308
Taxation Assets	11	1,776,839	1,642,812
Loans to Capital Investors	12	200,000	200,000
Intangible Assets	13	440,104	116,678
<b>TOTAL ASSETS</b>		<u>434,542,246</u>	<u>366,094,882</u>
<b>LIABILITIES</b>			
Short Term Borrowings	14	5,000,000	-
Deposits from other institutions		13,348,700	-
Deposits from Members	15	355,207,979	314,579,615
Creditor Accruals and Settlement Accounts	16	10,109,754	5,155,060
Taxation liabilities	17	514,764	778,356
Provisions	18	2,678,257	2,519,981
Deferred tax liabilities	19	-	-
Long Term Borrowings	20	1,959,920	1,946,560
<b>TOTAL LIABILITIES</b>		<u>388,819,374</u>	<u>324,979,572</u>
<b>NET ASSETS</b>		<u>45,722,872</u>	<u>41,115,310</u>
<b>MEMBERS EQUITY</b>			
Preference Share Capital	21	1,753,240	1,753,240
Capital Reserve Account	22	494,640	465,664
Asset Revaluation Reserve	23	1,749,042	1,015,061
Other Reserves	23	7,106,773	5,263,367
General Reserve for Credit Losses	24	1,752,404	1,670,404
Retained earnings		32,866,773	30,947,574
<b>TOTAL MEMBERS EQUITY</b>		<u>45,722,872</u>	<u>41,115,310</u>

Note	Description	Note	Description
<b>25</b>	Risk management policies and strategies	<b>32</b>	Contingent liabilities
<b>26</b>	Categories of financial instruments	<b>33</b>	Disclosures on directors and other key management personnel
<b>27</b>	Maturity profile of financial assets and liabilities	<b>34</b>	Economic dependency
<b>28</b>	Interest rate change profile of financials assets and liabilities	<b>35</b>	Superannuation liabilities
<b>29</b>	Net fair value of financial assets and liabilities	<b>36</b>	Securitisation
<b>30</b>	Financial commitments	<b>37</b>	Notes to statement of cash flows
<b>31</b>	Standby borrowing facilities	<b>38</b>	Corporate information

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 \$	2007 \$
<b>OPERATING ACTIVITIES</b>			
<b>Revenue Inflows</b>			
Interest received		30,648,985	26,952,984
Fees and commissions		4,501,165	5,099,170
Dividends		171,807	243,807
Other income		179,531	157,801
		<u>35,501,488</u>	<u>32,453,762</u>
<b>Revenue Outflows</b>			
Interest paid		(12,229,127)	(11,148,906)
Suppliers and employees		(17,583,723)	(17,064,688)
Income taxes paid		(1,586,265)	(1,125,009)
Dividends Paid		(141,698)	(133,222)
		<u>(31,540,813)</u>	<u>(29,471,825)</u>
<b>Net Cash from Revenue Activities</b>	<b>37(c)</b>	<b><u>3,960,675</u></b>	<b><u>2,981,937</u></b>
<b>INFLOWS FROM OTHER OPERATING ACTIVITIES</b>			
Decrease in member loans (net movement)		(55,953,396)	(7,031,794)
Increase in member deposits and shares (net movement)		19,098,252	(312,294)
Increase in deposits from other institutions (Net movement)		13,348,700	-
Decrease in receivables from other financial institutions (net movement)		21,819,123	902,734
<b>Net Cash from Operating Activities</b>		<b><u>(1,687,321)</u></b>	<b><u>(6,441,354)</u></b>
<b>INVESTING ACTIVITIES</b>			
<b>Inflows</b>			
Proceeds on sale of investment in shares		59,050	412,000
Proceeds on sale of property, plant and equipment		87,300	38,606
Net cash received on transfer of engagement		2,267,368	-
<b>Less: Outflows</b>			
Purchase of Shares		-	(5,900)
Purchase of Intangible Assets		(385,154)	-
Purchase of property plant and equipment		(644,302)	(723,668)
<b>Net Cash from Investing Activities</b>		<b><u>1,384,262</u></b>	<b><u>(278,962)</u></b>
<b>FINANCING ACTIVITIES</b>			
<b>Inflows ( Outflows)</b>			
Increase in Borrowings (net movement)		5,000,000	-
<b>Net Cash from Financing Activities</b>		<b><u>5,000,000</u></b>	<b><u>-</u></b>
Total Net Cash increase/ (decrease)		8,657,616	(3,738,379)
Cash at Beginning of Year		8,448,587	12,186,966
<b>Cash at End of Year</b>	<b>37(a)</b>	<b><u>17,106,203</u></b>	<b><u>8,448,587</u></b>

**1. STATEMENT OF ACCOUNTING POLICIES**

This financial report is prepared for Sydney Credit Union Limited as a single entity, for the year ended the 30<sup>th</sup> June 2008. The report was authorised for issue on 25 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), Interpretations of the Australian Accounting Standards Board, and the Corporations Act 2001. In accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with the International Financial Reporting Standards.

**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 our investments in Collateralised Debt Obligations (CDO's) 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 inclusion**

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 debts considered doubtful. A loan is classified as impaired where recovery is considered unlikely as determined by the board of directors.

**(ii) Interest earned**

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

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

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the 28<sup>th</sup> day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

Non accrual loan interest – while still legally recoverable, 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. The amounts brought to account are included as part of 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. The amounts brought to account are 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 Provision**

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8. Note 25 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

**(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. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- the level of security taken as collateral.
- the concentration of loans taken by employment type

**(iii) Renegotiated loans**

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

**d. Bad debts written off (direct reduction in loan balance)**

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

**e. Property, Plant and Equipment**

Land and buildings are measured at acquisition cost less accumulated depreciation. Current valuations to within 3 years of the reporting date are used to determine the need to recognise in the accounts any impairment to the acquisition cost. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the income statement. Revaluation decreases are debited to the income statement unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

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

- Buildings - 40 years.
- Leasehold Improvements – lesser of the lease term or 10 years.
- Plant and Equipment - 3 to 7 years..

**f. Receivables from Other Financial Institutions**

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

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

**g. Equity Investments and Other Securities**

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

Investments in shares listed on the stock exchanges are re-valued to fair value based on the market bid price at the close of business on balance sheet date. The gains and losses in fair value are reflected in equity through the asset revaluation reserve.

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

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

All investments are in Australian currency.

**h. Member Deposits****(i) Basis for Determination**

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

**(ii) Interest Payable**

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

**i. Borrowings**

All loans and 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.

A provision is recognised for the estimated make good costs on the operating leases, based on the Net Present Value of the future expenditure at the conclusion of the lease term discounted at 5%. Increases in the provision in future years shall be recognised as part of the interest expense.

**I. Income Tax**

The income tax expense shown in the Income Statement is based on the operating 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 a future income tax benefit to be obtained.

**m. Intangible Assets**

Under the AIFRS, items of computer software which not integral to the computer hardware owned by the credit union are classified as intangible assets, not as part of plant and equipment.

Computer software held as intangible assets 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 other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (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), except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

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

**o. Business Combinations**

The Credit Union has elected to adopt the revised Accounting Standard AASB3 – Business Combinations, which was issued in March 2008 and which is not mandatory until 1 July 2009.

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued, the value of the equity instruments is their market value as at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date.

Since the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised as an increase in Reserves, but only after a reassessment of the identification and measurement of the net assets acquired..

**p. Impairment of Assets**

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

**q. Accounting Estimates and Judgements**

Management have made 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 .

**r. New or emerging standards**

Certain Accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The company's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Nature of Change	Application date:	Impact on Initial Application
AASB 123 (revised Jun 2007)  Borrowing Costs	To the extent that borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, the option of recognising borrowing costs immediately as an expense has been removed. Consequently all borrowing costs for qualifying assets will have to be capitalised.	Periods commencing on or after 1 January 2009	<b><i>The transitional provisions of this standard only require capitalisation of borrowing costs on qualifying assets where commencement date for capitalisation is on or after 1 January 2009. As such, there will be no impact on prior period financial statements when this standard is adopted.</i></b>
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**

**a. Analysis of interest revenue**

	Note	2008 \$	2007 \$
<b>Interest revenue on assets carried at amortised cost</b>			
Cash – deposits at call		687,182	566,591
Receivables from financial institutions		5,248,842	4,864,429
Loans to members		24,423,238	21,692,655
Loans to capital investors		28,994	26,223
<b>TOTAL INTEREST REVENUE</b>		<b>30,388,256</b>	<b>27,149,898</b>

**b. Fee, commission and other income**

<b>Fee and commission revenue</b>			
Fee income on loans – other than loan origination fees		633,003	508,631
Fee Income from member deposits		2,202,735	2,294,455
Other fee income		776,409	753,314
Insurance commissions		502,025	526,400
Other commissions		471,406	645,132
<b>TOTAL FEE AND COMMISSION REVENUE</b>		<b>4,585,578</b>	<b>4,727,932</b>

**Other income**

**Available for sale assets**

Gain on sale of available for sale investments – not previously re-valued in equity		51,500	339,214
Dividends received on available for sale assets		171,807	243,807
Bad debts recovered		92,176	127,581
Income from property (rental income)		86,607	29,100
Gain on disposal of assets - Property, plant and equipment		28,338	8,905
Miscellaneous revenue		748	1,120
<b>TOTAL FEE COMMISSION AND OTHER INCOME</b>		<b>5,016,754</b>	<b>5,477,659</b>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	Note	2008 \$	2007 \$
<b>c. Interest expenses</b>			
<b>Interest expense on liabilities carried at amortised cost</b>			
Short Term Borrowings		9,611	-
Deposits from other financial institutions		75,073	-
Deposits from members		12,795,983	10,858,692
Overdraft		33,262	33,557
Interest – Subordinated Debt		179,700	166,306
<b>TOTAL INTEREST EXPENSE</b>		<u><u>13,093,629</u></u>	<u><u>11,058,555</u></u>
	Note	2008 \$	2007 \$
<b>d. Impairment losses on loans and advances</b>			
Available for Sale Assets			
Increase in provision for impairment		826,761	1,032,350
<b>TOTAL IMPAIRMENT LOSSES ON LOANS AND ADVANCES</b>		<u><u>826,761</u></u>	<u><u>1,032,350</u></u>
	Note	2008 \$	2007 \$
<b>e. Other prescribed expense disclosures</b>			
<b>General administration - employees costs include:</b>			
- net movement in provisions for employee annual leave		140,329	107,353
- net movement in provisions for employee long service leave		141,722	149,730
		<u><u>141,722</u></u>	<u><u>149,730</u></u>
<b>General Administration - Depreciation expense comprises</b>			
Buildings		198,157	178,958
Plant and equipment		582,082	530,449
Leasehold improvements (includes lease make-good prov.)		230,611	236,058
		<u><u>1,010,850</u></u>	<u><u>945,465</u></u>
<b>General Administration – Office Occupancy costs include -</b>			
Property operating lease payments			
- minimum lease payments		1,503,752	1,329,370
		<u><u>1,503,752</u></u>	<u><u>1,329,370</u></u>

	<b>Note</b>	<b>2008</b>	<b>2007</b>
		\$	\$
<b>f. Other Operating expenses include</b>			
Auditors remuneration (GST Exclusive)			
- Audit fees – current year		93,350	91,130
- Other Services – taxation		5,037	3,300
- Other Services – compliance		2,500	1,800
- Other Services – other		11,000	500
		111,887	96,730
Defined contribution superannuation expenses		106,438	116,095
Loss on disposal of assets			
- Property, plant, equipment		682	-
Net movement in provisions for other liabilities		125,416	56,764
	<b>Note</b>	<b>2008</b>	<b>2007</b>
		\$	\$
<b>3. INCOME TAX EXPENSE</b>			
a. The income tax expense comprises amounts set aside as:-			
Current tax expense - current year profits (3b)		981,532	1,077,902
Adjustments for previous years		(15,204)	(87,996)
<b>Total current income tax expense</b>		<b>966,328</b>	<b>989,906</b>
<b>Deferred tax expense</b>			
Adjustment to opening increase in deferred tax asset as per tax return		66,547	19,968
<b>Total income tax expense in income statement</b>		<b>1,032,875</b>	<b>1,009,874</b>
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:			
<b>Profit</b>		<b>3,122,748</b>	<b>3,818,645</b>
Prima facie tax payable on profit before income tax at 30%		936,824	1,145,594
Add tax effect of expenses not deductible		139,094	11,954
<b>Subtotal</b>		<b>1,075,918</b>	<b>1,157,548</b>
Less			
- Deductions Allowed not in Accounting Expenses		(42,843)	-
- Franking rebate		(51,543)	(51,682)
- Non assessable income		-	(27,964)
<b>Income tax expense attributable to current year profit</b>		<b>981,532</b>	<b>1,077,902</b>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	Note	2008 \$	2007 \$
<b>4. CASH</b>			
Cash on hand		2,429,477	2,034,545
Deposits at call		14,676,726	6,414,042
		<u>17,106,203</u>	<u>8,448,587</u>
<b>5. RECEIVABLES FROM OTHER FINANCIAL INSTITUTIONS</b>			
Deposits with other Credit Unions		0	2,016,989
Deposits with other ADIs		30,340,792	28,500,000
Deposits with Banks		30,968,143	43,810,969
		<u>61,308,935</u>	<u>74,327,958</u>
<b>6. RECEIVABLES</b>			
Interest receivable on deposits with other financial institutions		716,996	810,646
Sundry debtors and settlement accounts		1,414,110	1,303,227
		<u>2,131,106</u>	<u>2,113,873</u>
<b>7. LOANS TO MEMBERS</b>			
<b>a. Amount due comprises:</b>			
Overdrafts and revolving credit		15,196,589	15,698,263
Term loans		327,290,350	255,082,366
<b>Subtotal</b>		<u>342,486,939</u>	<u>270,780,629</u>
Less:			
Unamortised loan origination fees		(135,991)	(189,650)
Unearned Income		(153,614)	(104,104)
<b>Subtotal</b>		<u>342,197,334</u>	<u>270,486,875</u>
Less:			
Provision for impaired loans (Note 8)		(1,516,758)	(1,370,868)
		<u>340,680,576</u>	<u>269,116,007</u>
<b>b. Credit Quality – Security held against loans</b>			
Secured by mortgage over business assets		10,479,704	5,132,441
Secured by mortgage		274,208,101	199,567,114
Partly secured by goods mortgage		34,201,439	34,589,771
Wholly unsecured		23,597,695	31,491,303
<b>TOTAL</b>		<u>342,486,939</u>	<u>270,780,629</u>

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

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Security held as mortgage against real estate is on the basis of		
- loan to valuation ratio of less than 80%	228,155,522	190,006,273
- loan to valuation ratio of more than 80% but mortgage insured	18,849,697	2,967,564
- loan to valuation ratio of more than 80% and not mortgage insured	<u>27,202,882</u>	<u>6,593,277</u>
Total	<u><u>274,208,101</u></u>	<u><u>199,567,114</u></u>

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

	<b>Note</b>	<b>2008</b>	<b>2007</b>
		<b>\$</b>	<b>\$</b>
<b>c. Concentration of Loans</b>			
(i) Loans to individual or related groups of members which exceed 10% of member's equity in aggregate.		<u>7,124,849</u>	<u>-</u>
(ii) There are no loans to members concentrated to individuals employed in any individual industry.			
(iii) Loans to members are concentrated in the following Geographical locations:			
<b>NSW</b>			
<b>Sydney</b>			
- Central		4,670,525	4,310,497
- Eastern		24,632,092	20,239,849
- Western		126,844,469	103,525,121
- Southern		102,385,923	91,946,790
- Northern		<u>23,820,832</u>	<u>13,399,589</u>
<b>Total Sydney</b>		<b><u>282,353,841</u></b>	<b><u>233,421,846</u></b>
- Blue Mountains		17,542,785	4,065,611
- Parkes		7,190,666	5,307,079
- Other NSW		<u>25,707,072</u>	<u>22,062,405</u>
<b>Total NSW</b>		<b><u>332,794,364</u></b>	<b><u>264,856,941</u></b>
- Interstate & Overseas		<u>9,692,575</u>	<u>5,923,688</u>
<b>TOTAL</b>		<b><u><u>342,486,939</u></u></b>	<b><u><u>270,780,629</u></u></b>
(iv) Loans by Customer type were			
<b>Loans to Natural persons</b>			
Residential loans and facilities		221,584,063	150,817,817
Personal loans and facilities		107,258,340	108,945,178
Business loans and facilities		<u>1,533,828</u>	<u>2,954,339</u>
<b>TOTAL</b>		<b><u>330,376,231</u></b>	<b><u>262,717,334</u></b>
<b>Loans to corporations</b>		<u>12,110,708</u>	<u>8,063,295</u>
<b>TOTAL</b>		<b><u>342,486,939</u></b>	<b><u>270,780,629</u></b>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	Note	2008 \$	2007 \$
<b>8. PROVISION ON IMPAIRED LOANS</b>			
<b>a. Total provision comprises</b>			
Collective provisions		-	-
Individual Specific provisions		1,516,758	1,370,868
<b>Total Provision</b>		<b>1,516,758</b>	<b>1,370,868</b>
<b>b. Movement in the Specific Provision</b>			
Balance at the beginning of year		1,370,868	1,047,595
Add (deduct):			
Transfers from (to) Income Statement		826,761	1,032,350
Transfers from Blue Mountains Credit Union		124,093	-
Transfers from Prospect District Credit Union		-	-
Bad debts written off provision		(804,964)	(709,077)
<b>Specific Provision Balance at end of year</b>		<b>1,516,758</b>	<b>1,370,868</b>

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

<b>c. Impaired loans written off</b>			
Amounts written off against the provision for impaired loans		804,964	709,077
Amounts written off directly to expense		-	-
<b>Total bad debts</b>		<b>804,964</b>	<b>709,077</b>
Bad debts recovered in the period		95,700	128,364
		<b>95,700</b>	<b>128,364</b>

**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
	\$	\$	\$		\$	\$	\$
<b>Loans to members</b>							
Mortgages	258,994,036	1,785,058	9,575		192,634,674	1,008,346	38,558
Personal & Commercial	68,296,314	2,313,610	1,153,130		62,447,692	1,914,290	1,014,078
Revolving Credit Facilities	15,196,589	535,743	354,053		15,698,263	390,202	318,232
<b>Total</b>	<b>342,486,939</b>	<b>4,634,411</b>	<b>1,516,758</b>		<b>270,780,629</b>	<b>3,312,838</b>	<b>1,370,868</b>

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

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

**e. Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding**

	<b>2008 Carrying Value</b>	<b>2008 Provision</b>	<b>2007 Carrying Value</b>	<b>2007 Provision</b>
	\$	\$	\$	\$
Non impaired up to 30 days	337,852,528	-	267,467,791	-
30 to 90 days in arrears	2,527,664	188,336	1,302,649	129,123
90 to 180 days in arrears	629,537	175,210	501,530	153,751
180 to 270 days in arrears	205,058	118,354	217,587	127,969
270 to 365 days in arrears	143,386	110,344	513,745	262,329
Over 365 days in arrears	593,023	570,461	387,125	379,464
Over-limit facilities over 14 days	535,743	354,053	390,202	318,232
<b>Total</b>	<b><u>342,486,939</u></b>	<b><u>1,516,758</u></b>	<b><u>270,780,629</u></b>	<b><u>1,370,868</u></b>

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

Note	2008	2007
	\$	\$

**f. Assets acquired via enforcement of security**

- -

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

There are loans with a value of \$1,585,984 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:*

<b>Loans members</b>	<b>1- 3 Mths</b>	<b>3-6 Mths</b>	<b>6-12 Mths</b>	<b>&gt; 1 Year</b>	<b>Total</b>
<b>2008</b>					
Mortgage secured	1,585,984	-	-	-	1,585,984
Personal loans	-	-	-	-	-
Revolving Credit Facilities	-	-	-	-	-
<b>Total</b>	<b>1,585,984</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,585,984</b>

<b>2007</b>					
Mortgage secured	662,756	-	-	-	662,756
Personal loans	-	-	-	-	-
Revolving Credit Facilities	-	-	-	-	-
<b>Total</b>	<b>662,756</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>662,756</b>

**Key assumptions in determining the provision for impairment**

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

Period of impairment	% of
Up to 30 days	0
31 days to 90 days	20
91 days to 181 days	40
181 days to 270 days	60
270 days to 265 days	80
Over 365 days	100

	2008 \$	2007
<b>9. AVAILABLE FOR SALE INVESTMENTS</b>		
<b>Shares in Listed companies –</b>		
- shares in Baycorp Advantage Ltd	-	-
<b>Shares in Unlisted companies – at cost</b>		
- Cuscal Limited (a)	1,495,516	1,374,495
- TransAction Solutions Pty Limited (b)	1,079,901	1,079,901
- Shared Services Pty Ltd	1	1
<b>Total Value of investments</b>	2,575,418	2,454,397
<b>Less Provisions for impairment</b>		
- TransAction Solutions Pty Limited (b)	(483,576)	(286,764)
<b>TOTAL INVESTMENTS net of provision</b>	<b>2,091,842</b>	<b>2,167,633</b>

**Disclosures on Shares held at cost**

**a. Cuscal Limited**

The shareholding in Cuscal is measured at cost, as its fair value could not be measured reliably. This company was created to supply services to the member credit unions 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 34. 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, without a majority of shareholder approval.

**b. TransAction Solutions Pty Limited (TAS)**

The shareholding in TAS is measured at cost as its fair value could not be measured reliably.

These shares are held to enable the Credit Union to receive essential computer support staff and services to meet the day to day needs of the Credit Union, and compliance with the relevant Prudential Standards. The shares are not able to be traded and are not redeemable.

The financial reports of TAS record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of TAS, 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, to dispose of these shares.

	Note	2008 \$	2007 \$
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>			
<b>a. Fixed Assets</b>			
<b>Land – at deemed cost</b>		1,150,000	1,150,000
		<b>1,150,000</b>	<b>1,150,000</b>
<b>Buildings – at deemed cost</b>		6,714,703	5,423,394
Less: Provision for depreciation		(589,997)	(391,839)
		<b>6,124,706</b>	<b>5,031,555</b>
<b>Total Land &amp; Buildings</b>		<b>7,274,706</b>	<b>6,181,555</b>
<b>Plant and equipment - at deemed cost</b>		5,205,680	4,679,441
Less: Provision for depreciation		(4,322,798)	(3,802,444)
		<b>882,882</b>	<b>876,997</b>
<b>Capitalised Leasehold Improvements at deemed cost</b>		2,757,660	2,737,052
Less: Provision for amortisation		(2,376,820)	(2,156,469)
		<b>380,840</b>	<b>580,583</b>
<b>Lease Makegood Asset</b>		153,550	153,550
Less: Provision for amortisation		(140,637)	(130,377)
		<b>12,913</b>	<b>23,173</b>
		<b>393,753</b>	<b>603,756</b>
<b>Total Property, Plant and Equipment</b>		<b>8,551,341</b>	<b>7,662,308</b>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

**b. Land and Buildings – Valuation**

The following properties have been valued on the bases stated:

<b>LOCATION</b>	<b>DATE</b>	<b>BASIS</b>	<b>COST</b>	<b>VALUE AMT</b>	<b>VALUER</b>
Car Park 251-255a Clarence Street, Sydney NSW	24/8/05	Market Value	\$23,159	\$85,000	Jeff Millar AAPI/Director Reg Val.No. 2745 (NSW) Reg Val. No. 2393 (QLD)
Land & Buildings 60 Cooper Street, Surry Hills NSW	24/8/05	Market Value	\$590,000	\$1,150,000	Jeff Millar AAPI/Director Reg Val. No. 2745 (NSW) Reg Val. No. 2393 (Qld)
Land & Buildings 234 The Boulevard, Punchbowl NSW	22/9/05	Fair Market Value	\$539,731	\$590,000	Stephen J McLaren AAPI Reg. Val. No. 2130
Land & Buildings 138 Waterloo Road, Greenacre NSW	22/9/05	Fair Market Value	\$686,931	\$750,000	Stephen J McLaren AAPI Reg. Val. No. 2130
Land & Buildings 19 Second Avenue, Blacktown NSW	26/10/05	Fair Market Value	\$4,368,998	\$4,875,000	V.J. Lupton F.A.P.I (Val & Econ) Reg Val. No. 1221 Alcorn Lupton & Associates Pty Ltd
Land & Buildings 189 Clarinda Street Parkes NSW	29/3/07	Fair Market Value	\$343,690	\$340,000	James S Patterson AAPI Regional & Rural Valuers Pty Limited. Reg. Val. No. 2546
Land & Buildings 268 Macquarie Road Springwood NSW	22/6/07	Fair Market Value	\$1,200,000	\$1,200,000	Lloyd's Property Valuations Reg Val. No. 1640

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

	2008			2007		
	Property	Plant & equipment	Leasehold	Property	Plant & equipment	Leasehold
	\$	\$	\$	\$	\$	\$
Opening balance	6,181,555	876,997	603,756	6,360,512	1,122,404	547,568
Purchases in the year	91,309	531,344	20,608	-	333,242	252,547
Transfer from Blue Mountains Credit Union	1,200,000	54,539	-	-	-	-
	7,472,864	1,462,880	624,364	6,360,512	1,455,646	800,115
<b>Less</b>						
Assets Disposed	-	(59,644)	-	-	(29,701)	-
Depreciation charge	(198,158)	(520,354)	(230,611)	(178,957)	(548,948)	(196,359)
<b>Balance at the end of the year</b>	<b>7,274,706</b>	<b>882,882</b>	<b>393,753</b>	<b>6,181,555</b>	<b>876,997</b>	<b>603,756</b>

	2008	2007
	\$	\$
<b>11. TAXATION ASSETS</b>		
Deferred Tax Asset	1,664,491	1,532,700
GST Recoverable	112,348	110,112
	<u>1,776,839</u>	<u>1,642,812</u>
<b>Deferred tax asset comprise:</b>		
Accrued expenses not deductible until incurred	357,994	24,491
Provisions for impairment on loans	455,027	411,260
Provisions for employee benefits	855,714	855,794
Provisions for other liabilities		91,171
Depreciation on fixed assets	(19,216)	93,089
Deferred fees on loan origination	14,972	56,895
	<u>1,664,491</u>	<u>1,532,700</u>
<b>12. LOANS TO CAPITAL INVESTORS</b>		
<b>Loans to capital investors</b>		
Subordinated loans to investors in subordinated debt	20	200,000
		<u>200,000</u>

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

- the loans are unsecured
- interest is payable quarterly at 30 September, 31 December, 31 March and 30 June at a margin of 1.19% above the 90 Day BBSW rate at the commencement of each quarter
- interest may be withheld if the credit union fails to pay dividends or interest on the respective liabilities
- no repayments are required until the respective liabilities are settled in accordance with the agreements

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>13. INTANGIBLE ASSETS</b>		
Computer software	523,033	137,879
Less provision for amortisation	(82,929)	(21,201)
	<u>440,104</u>	<u>116,678</u>
<b>Movement in the assets balances during the year were :</b>		
Opening balance	116,678	-
Purchases	385,154	137,879
Less		
Assets disposed	-	-
Depreciation charge	(61,728)	(21,201)
Impairment loss	-	-
<b>Balance at the end of the year</b>	<u>440,104</u>	<u>116,678</u>
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>14. BORROWINGS</b>		
Overdraft	-	-
Loan	5,000,000	-
<b>TOTAL BORROWINGS</b>	<u>5,000,000</u>	<u>-</u>
<b>15. DEPOSITS FROM MEMBERS</b>		
Member Deposits		
- at call	204,932,358	182,727,627
- term	149,935,550	131,520,730
Member Withdrawable Shares	340,071	331,258
<b>TOTAL DEPOSITS &amp; SHARES</b>	<u>355,207,979</u>	<u>314,579,615</u>

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

**Concentration of Member Deposits**

There were no significant individual member deposits which in aggregate represent more than 10% of the total liabilities:

## (i) Geographical concentrations

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Sydney</b>		
- Central	6,439,481	5,379,815
- Eastern	29,777,346	26,505,088
- Western	141,804,273	133,621,109
- Southern	96,228,909	94,226,231
- Northern	14,580,014	14,572,512
<b>Total Sydney</b>	<u>288,830,023</u>	<u>274,304,755</u>
- Blue Mountains	27,957,665	3,358,011
- Parkes	7,813,399	7,852,645
- Other NSW	26,254,083	24,343,252
<b>Total NSW</b>	<u>350,855,170</u>	<u>309,858,663</u>
- Interstate	4,352,809	4,720,952
<b>Total per Balance Sheet</b>	<u>355,207,979</u>	<u>314,579,615</u>

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>16. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS</b>		
Annual Leave	1,047,814	790,118
Creditors and accruals	923,756	688,839
Interest payable on borrowings	9,611	-
Interest payable on deposits	3,235,950	2,236,201
Accrual for GST payable	53,597	45,652
Sundry creditors	4,839,026	1,394,250
<b>TOTAL AMOUNTS PAYABLE</b>	<b><u>10,109,754</u></b>	<b><u>5,155,060</u></b>
<b>17. TAXATION LIABILITIES</b>		
Current income tax liability	514,764	778,356
<b>TOTAL TAXATION LIABILITIES</b>	<b><u>514,764</u></b>	<b><u>778,356</u></b>
<b>Current income tax liability comprises:</b>		
Balance – previous year	778,356	737,964
Less: Payments in current year	<u>&lt;763,152&gt;</u>	<u>&lt;649,968&gt;</u>
<b>Over / under statement in prior year</b>	<b><u>15,204</u></b>	<b><u>87,996</u></b>
Liability for income tax in current year	1,100,293	1,287,991
Less: Instalments paid in current year	<u>&lt;817,392&gt;</u>	<u>&lt;509,635&gt;</u>
	282,901	778,356
Add: Amounts received on transfer of engagement	<u>231,863</u>	<u>-</u>
<b>Balance – current year</b>	<b><u>514,764</u></b>	<b><u>778,356</u></b>
<b>18. PROVISIONS</b>		
Long service leave	1,670,285	1,428,465
Lease make good of premises	153,550	153,550
Provisions - other	854,422	937,966
<b>TOTAL PROVISIONS</b>	<b><u>2,678,257</u></b>	<b><u>2,519,981</u></b>
<b>19. DEFERRED TAX LIABILITIES</b>		
Deferred tax liabilities	<u>-</u>	<u>-</u>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	2008 \$	2007 \$
<b>20. LONG TERM BORROWINGS</b>		
<b>SUBORDINATED DEBT ACCOUNT</b>		
Balance at the beginning of the year	1,946,560	1,933,200
Increase due to debt issued		
- Subordinated Debt		
Less: Debt Raising Discount	-	-
Add: Debt Raising Discount amortised	13,360	13,360
<b>Balance at the end of year</b>	<b><u>1,959,920</u></b>	<b><u>1,946,560</u></b>

The Credit Union entered into an agreement to issue subordinated debt. The agreement specified that the Credit Union also place loans equivalent to 10% of the liability with the investors as security for payment of interest.

**21. PREFERENCE SHARES**

Balance at the beginning of the year	1,753,240	1,753,240
Increase due to shares issued	0	0
<b>Balance at the end of year</b>	<b><u>1,753,240</u></b>	<b><u>1,753,240</u></b>

The Credit Union entered into an agreement to issue redeemable preference shares.

The credit union issued 200,000 redeemable preference shares with a face value of \$100 each to Australian Mutual T1 Capital Funding Trust. The shares may be redeemable after June 2016.

Less capital raising costs associated with the issue	2,000,000	2,000,000
As part of the capital raising scheme, the credit union was required to provide a limited recourse unsecured subordinated loan to the Trustee for 10% of the face value of shares issued. The loan is repayable upon the redemption of the shares.	(46,760)	(46,760)
	(200,000)	(200,000)
<b>Net amount received for the issue of shares.</b>	<b><u>1,753,240</u></b>	<b><u>1,753,240</u></b>

**Key Assumptions**

The structure of the share issue agreement and the T1 Loss Reserve are considered to be effectively one transaction to raise capital. This view is consistent with the way the capital is treated for prudential capital adequacy requirements.

	2008 \$	2007 \$
<b>22. CAPITAL RESERVE ACCOUNT</b>		
Balance at the beginning of the year	465,664	378,006
Transfer from retained earnings on share redemptions	28,976	87,658
Appropriation from Retained Earnings	-	-
<b>Balance at the end of year</b>	<b>494,640</b>	<b>465,664</b>

**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.

	2008 \$	2007 \$
<b>23. OTHER RESERVES</b>		
Asset revaluation reserve – land & buildings	1,749,042	1,015,061
General Reserve	7,106,773	5,263,367
<b>TOTAL OTHER RESERVES</b>	<b>8,855,815</b>	<b>6,278,428</b>

Movements in Reserves

**(i) Asset Revaluation Reserve – Land & Buildings**

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

Balance at the beginning of the year	1,015,061	1,015,061
Add: Transfer from Blue Mountains CU	733,981	-
<b>Balance at the end of year</b>	<b>1,749,042</b>	<b>1,015,061</b>

**(ii) General Reserve**

Balance at the beginning of the year	5,263,367	5,263,367
Add: Transfer from Blue Mountains CU	1,843,406	-
<b>Balance at the end of year</b>	<b>7,106,773</b>	<b>5,263,367</b>

## SYDNEY CREDIT UNION LTD

ABN 93 087 650 726

2008 Annual Financial Report

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	2008 \$	2007 \$
<b>24. GENERAL RESERVE FOR CREDIT LOSSES</b>		
General reserve for credit losses	1,670,404	1,670,404
Other reserve for credit losses		
Add Transfer from Blue Mountains CU	82,000	-
<b>TOTAL CREDIT LOSS GENERAL RESERVES</b>	<b><u>1,752,404</u></b>	<b><u>1,670,404</u></b>

## 25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Introduction

The Board of Directors 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, capital management, liquidity risk and operational risk. Authority flows from the board of directors to the risk committee and from there to the audit committee which are integral to the management of risk. The following diagram gives an overview of the structure.



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

**Board of Directors:** 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. The Board is responsible for ensuring that risks facing the Credit Union are identified, assessed and properly managed in line with the prudential standard regime and other risk related regulation. The Board will categorise risk under these headings: Prudential, Operational and Legal. The Board will use prevailing best practice and adopt the methodologies of Australian Standards in relation to risk management e.g. AS4360. The Board should ensure that its decisions and actions do not pose an unacceptable prudential risk to the institution

The Board will create an Audit & Compliance Committee and other committees as appropriate to oversee critical functions; the Board retains responsibility for decision making at all times and for ensuring the performance of the duties delegated to the Committees, including Audit & Compliance and Risk Management.

**Risk Management Committee:** This is a key body in the control of risk. It comprises a minimum of 3 Directors. Senior Management and the Risk Manager attend by invitation. The purpose of the Risk Management Committee is to assist the Board of Directors in the discharge of its responsibilities by way of

monitoring the compliance with prudential and statutory requirements to which the Credit Union is obliged to comply. It does this through the following processes:

- Approve and review the risk management framework and policies for risk incurred or likely to be incurred in the credit union's businesses, particularly in the areas of;
  - Credit Risk
  - Market Risk
  - Liquidity Risk
  - Capital Management, including the Internal Capital Adequacy Assessment Program (ICAAPS)
  - Operations Risk, including compliance risk, data risk and business continuity.
- Be informed of the credit union's practices and procedures and ensure that these procedures adequately support the risk management policies.
- Ensure that management maintains a set of standards designed to achieve outcomes consistent with the credit union's risk/return expectations.
- Approve the ALCO Committee's plan to review key Risk Management areas and receive reports covering compliance with policies and key practices and procedures on a regular basis.
- Approve the overall structure of delegated authorities for approval of risk related transactions.
- Overview of the Credit Union's Risk Register, and the ongoing maintenance of key controls over the risks identified through regular reports from the Risk Manager
- Overseeing the: -
  - financial reporting process with regard to Risk Management;
  - formulation, review and testing of the Business Continuity Plan;
  - adequacy of Internal controls implemented by management to maintain compliance with the Credit Union's Risk Strategy;
  - compliance with the APRA Prudential Standards and other APRA directions;
  - compliance with all applicable laws, regulations and codes of conduct relevant to the Credit Union's business;
  - adequacy of risk management systems to suit the changing regulatory framework and business environment;
  - provision of the risk management reports to APRA as prescribed;

**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) – Credit Risk :** This committee of senior management meets monthly and has responsibility for managing and reporting risk exposure in the areas of:

- Credit Risk,
- Liquidity Risk,
- Capital Risk,
- Market Risk, and
- Financial and Accounting Risk.

It scrutinises operational reports and monitors exposures against limits determined by the Board. The ALCO Committee has responsibility for implementing policies to ensure that all risk exposures are properly measured and controlled.

This committee also has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP.

**Risk Manager:** This person has responsibility for ensuring that all key risk controls are being maintained ongoing, through affirmative reporting from those responsible for the performance of those controls.

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

## **SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

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

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

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

### **A. MARKET RISK AND HEDGING POLICY**

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

Market risk is the risk that changes in interest rates and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union does not trade in the financial instruments and only undertakes hedges in order to reduce the risk 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 Risk Committee.

#### **(i) INTEREST RATE RISK**

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

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

#### **Interest rate risk in the banking book**

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

The interest rate risk on the banking book is measured daily, reported to the ALCO, the Risk Committee and the Board, monthly.

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

The level of mismatch on the banking book is set out in Note 28 below. **The table set out at note 28 displays the period that each asset and liability will reprice as at the balance date.** This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

#### **Method of managing risk**

The Credit Union manages its interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

#### **Interest rate sensitivity**

The Credit Union's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Credit Union to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The measured Gap should not result in a reduction in profit of greater than 10% of the Capital Base of the Credit Union should there be a 2% shift in interest rates uniformly along the interest rate yield curve. The Gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within

acceptable levels. The policy of the Credit Union permits the undertaking of derivatives to reduce interest rate risks, but no such derivatives have been undertaken to date. The Credit Unions exposure to interest rate risk is set out in Note 28 which details the contractual interest change profile.

The Credit Union undertakes an independent assessment and benchmarking of its interest rate risk exposure annually through Protecht Advisery Services Pty Limited

Based on the calculations as at 30 June 2008 (30 June 2007), the net profit impact as a percentage of the Capital Base, for a 2% movement in interest rates would be 2.81% (2007: 5.45%.)

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

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

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change ;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate at the within 28 days;
- personal loans would reprice after a 3 month delay;
- all loans would be repaid in accordance with the current average repayment rate ( or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

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

## **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 organisation, Credit Union Financial Support Services (CUFSS), which can access industry funds to provide support to the Credit Union should it be necessary at short notice. The Credit has not had any need to access funds from this source.

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 maintain 15% of funds as liquid assets, to ensure that the Credit Union maintains at all times 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, borrowing facilities or other liquidity support facilities available. Note 31 details the borrowing facilities as at balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

specific note 27. The ratio of liquid funds over the past year is set out below:

<b>To total adjusted liabilities</b>		<b>2008</b>	<b>2007</b>
As at 30 June		17.56%	23.16%
Average for the year		23.05%	24.29%
Minimum during the year		14.22%	21.67%%
Maximum during the year		28.61%	28.20%

**C. CREDIT RISK**

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

**(i) CREDIT RISK – LOANS**

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

	<b>2008</b>	<b>2008</b>	<b>2008</b>		<b>2007</b>	<b>2007</b>	<b>2007</b>
<b>Loans to</b>	<b>Carrying value</b>	<b>Off balance sheet</b>	<b>Max exposure</b>		<b>Carrying value</b>	<b>Off balance sheet</b>	<b>Max exposure</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>
Mortgage	258,994,036	20,303,371	279,297,407		192,634,674	14,763,718	207,398,392
Personal	54,651,778	3,660,130	58,311,908		53,359,319	3,198,483	56,557,802
Revolving Credit	15,196,589	13,813,846	29,010,435		15,698,263	20,279,149	35,977,412
Commercial	12,110,708	-	12,110,708		6,134,034	-	6,134,034
<b>Total to natural persons</b>	<b>340,953,111</b>	<b>37,777,347</b>	<b>378,730,458</b>		<b>267,826,290</b>	<b>38,241,350</b>	<b>306,067,640</b>
Corporate borrowers	1,533,828	-	1,533,828		2,954,339	-	2,954,339
<b>Total</b>	<b>342,486,939</b>	<b>37,377,347</b>	<b>380,264,286</b>		<b>270,780,629</b>	<b>38,241,350</b>	<b>309,021,979</b>

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (loans approved not advanced, redraw facilities, and undrawn approved revolving credit line facilities). The details are shown in note 30 and a summary is in note 7(c).

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

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 on a weekly basis of defaults in the repayment of loans thereafter. The credit policy has been endorsed by the Board of Directors, to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments) .

The Credit Union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;

- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Management and recovery procedures for loans in repayment default; 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. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Loan repayments are monitored daily to detect delays in repayments, and recovery action is undertaken. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action. The exposures to losses arise predominantly in the personal loans and revolving credit facilities not secured by registered mortgages over real estate.

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

In addition to specific provisions against individually significant financial assets, the Credit Union makes collective provision 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, based on passed experience, it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in counterparty's risk, changes in a counterparty's industry conditions and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. (Details are as set out in Note 8.)

**Bad debts**

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

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

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

**Collateral securing loans**

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed to risks in the reduction the Loan to Value (LVR) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

## **SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

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The board policy is to maintain at least 50% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 7.b describes the nature and extent of the security held against the loans held as at the balance date.

### **Concentration risk – individuals**

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10%) 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 is set out in note 7. [The Credit Union holds no significant concentrations of exposures to members.]

### **Concentration risk – industry**

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

## **(ii) CREDIT RISK – LIQUID INVESTMENTS**

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 50% of the Credit Union's capital base can be invested with any one financial institution at a time. With respect to Cuscal, this limit is increased to 150%

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one Credit Union. Also the relative size of the Credit Union as compared to the industry is relatively low such that the risk of loss is reduced.

Under the Credit Union Industry's liquidity support scheme, at least 3.2% of the total assets must be invested in Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed. The board policy is to maintain at least 60% of the investments in Cuscal Limited, a company set up to support the member Credit Unions and which has an AA- rating.

The Board has approved that the majority of its investments will generally be with financial institutions with a rating not lower than BBB-. The Board permits investments with counterparties with ratings below this rating, or otherwise unrated to a limit of 10% of the Credit Union's capital base for any single counterparty, or 30% of the capital base in total for all such counterparty investments.

**Investment in Collateralised Debt Obligation (CDO)**

As at the 30 June 2008 the Credit Union has two investments totalling \$3,500,000 in CDO's, which comprise 8.3% of the Credit Union capital base. These instruments have a five (5) year term and mature on 4 December 2008. While presenting a higher risk profile than other investments undertaken by the Credit Union, the Credit Union manages this risk through its Liquidity Management Policy. These risk management controls include;

- All investments must be Board approved.
- They may only be undertaken when the Credit Union has excess liquidity holdings.
- The investment must be independently rated by Standard and Poors. These investments were originally rated A and AA, but have received investment upgrades during the term of the investment, and both investments are currently rated AAA.
- The total amount of such investments is restricted based upon the independent credit rating of the investments, and at the maximum cannot exceed 25% of the capital base of the Credit Union.

In addition the Credit Union has undertaken the following additional controls over this investment;

- Prior to undertaking the investment it obtained independent financial advice about the investment to ensure that both management and the Board fully understood the nature of the investment and its associated risks.
- Ensuring that the Credit Union only deals with well known and reputable institutions. These investments were issued through the Commonwealth Bank of Australia.
- To ensure the ongoing satisfactory performance of each investment, the Credit Union has obtained a report at the end of each quarter on the performance of the investments.
- Any diminution in the value of the investments has been recognised through the profit and loss and the investment reported at its market value. While the Credit Union currently maintains a provision for diminution against the Investment of \$49,900, this is only reflecting the investments reduced value if it was to be sold prior to maturity. It has always been the intention of the Credit Union to hold these investments until they mature. All current indications are that these investments will realise their full face value when they mature on 4 December 2008.

The CDO's are measured at fair value as stated in the accounting policies. The fair value of the CDO's is determined by obtaining an independent value assessment from an experienced dealer in these instrument types. The current valuation has been provided by the Commonwealth Bank of Australia. The fair value of the CDO's is included in Note 5 Advances to Other Financial Institutions.

**External Credit Assessment for Institution Investments**

The Credit Union uses the ratings of Standard & Poors ratings agency to assess the credit quality of investment exposures, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

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

Investments with	30 June 2008			30 June 2007		
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
Cuscal – rated AA-	26,890,692	-	-	25,000,000	-	-
Banks – rated AA and above	13,148,911	-	-	19,458,944	-	-
Banks – rated below AA	17,819,232	-	-	24,352,024	-	-
Non-Banks rated AA and above	3,500,000	-	(49,900)	3,500,000	-	-
Unrated institutions – Credit Unions	0	-	-	2,016,990	-	-
<b>Total</b>	<b>61,358,835</b>	<b>-</b>	<b>(49,900)</b>	<b>74,327,958</b>	<b>-</b>	<b>-</b>

**(iii) CREDIT RISK – GUARANTEES**

The Credit Union provides financial guarantees on behalf of members. All guarantees provided are fully secured against either an existing registered mortgage facility already held by the Credit Union, or by funds lodged as a term deposit with the Credit Union. The total value of guarantees issued at 30 June 2008 amounted to \$571,693 (30 June 2007 \$210,399)

**D. OPERATIONAL RISK**

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

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

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behavior;
- implementation of the whistle-blowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff ;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- education of members about the risk of loss from fraud, particularly in the areas of on-line banking and credit and debit card usage.
- 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 financial institutions, 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 minimum capital levels required to be maintained by all Financial Institutions are prescribed by the 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 its land and buildings are discounted to 45% of the value net of any capital gains tax and estimated costs of sale.

Capital in the Credit Union is made up as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Tier 1</b>		
Share capital	1,953,240	1,953,240
Capital reserve	48,000	0
General reserve	6,450,807	5,734,586
Retained earnings	34,117,830	30,982,442
	<u>42,569,877</u>	<u>38,670,268</u>
Less prescribed deductions	(3,079,053)	(2,039,025)
Net tier 1 capital	<u>39,490,824</u>	<u>36,631,243</u>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

<b>Tier 2</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Subordinated debt	1,959,920	1,946,560
Reserve for credit losses	1,752,404	1,682,552
Asset revaluation reserves on property (discount ed to 45% )	787,069	1,015,061
Asset revaluation reserves on equity (discount ed to 45% )	-	-
	<u>4,499,393</u>	<u>4,644,173</u>
Less prescribed deductions	<u>(1,810,054)</u>	<u>(1,774,496)</u>
Net tier 2 capital	<u>2,689,339</u>	<u>2,869,677</u>
<b>Total Capital</b>	<b><u>42,180,163</u></b>	<b><u>39,500,920</u></b>

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

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

		<b>Carrying Value</b>	<b>Risk Weighted Value</b>
		<b>\$</b>	<b>\$</b>
Cash	0%	2,429,477	0
Deposits in highly rated ADI's	20%	69,435,561	13,887,112
Deposits in less highly rated ADI's	50% - 150%	3,100,000	1,550,000
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	234,271,523	81,995,033
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 75%	31,366,586	18,713,404
Investments in equity instruments	400%	71,694	286,776
Other assets	100%	91,194,977	91,194,977
Total		<u>431,869,818</u>	<u>207,627,302</u>

*(The risk weighted assets processes were modified by APRA as from the 1 January 2008 as part of the Basel 2 Prudential framework enhancements. Comparative data has not been available on the revised methods – the risk weighted assets for 2007 and prior reflect the previous methodology.)*

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

<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>17.01%</b>	<b>18.72%</b>	<b>18.07%</b>	<b>17.07%</b>	<b>18.17%</b>

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 between different risk weighting categories. During the 2008 year, changes to APRA's Prudential Standards specifying the manner in which the capital ratio is to be calculated, has resulted in a reduction in the capital ratio of the Credit Union.

To manage the Credit Union's capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 15%. 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.

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

- operational risk capital \$25,913,434

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 of Directors in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Credit Union is reassessed.

In relation to the operational risks, the major measurements for additional capital as a percentage of risk weighted assets are:

- Credit Concentration risk 1%
- Interest Rate Risk 2%
- Strategic Risk 2%
- Regulatory Risk 1%

The optional additional capital charge recognised by the board equates to \$12,457,638 (2007: \$NIL).

**26. CATEGORIES OF FINANCIAL INSTRUMENTS**

The following information classifies the financial instruments into measurement classes

	Note	2008 \$	2007 \$
<b>Financial assets</b> - carried at amortised cost			
Cash	4	17,106,203	8,448,587
Receivables	6	2,131,106	2,113,873
Receivables from financial institutions – Term Deposits		57,858,835	70,827,958
Receivables from financial institutions – CDO's		3,450,100	3,500,000
<b>Total Receivables from financial institutions</b>	5	61,308,935	74,327,958
Loans to members	7&8	342,486,939	270,780,629
Loans to capital investors	12	200,000	200,000
<b>Total loans and receivables</b>		423,233,183	355,871,047
Available for sale investments - carried at cost		2,091,842	2,167,633
Available for sale investments - carried at fair value		-	-
<b>Total Available for sale investments</b>		2,091,842	2,167,633
<b>TOTAL FINANCIAL ASSETS</b>		<b>425,325,025</b>	<b>358,038,680</b>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	Note	2008 \$	2007 \$
<b>Financial liabilities</b>			
Short term borrowings	14	5,000,000	-
Creditors	16	9,061,940	4,364,942
Deposits from other institutions		13,348,700	-
Deposits from members	15	355,207,979	314,579,615
Long term borrowings	20	1,959,920	1,946,560
Preference shares	21	1,753,240	1,753,240
Total carried at amortised cost		<u>386,331,779</u>	<u>322,644,357</u>
Fair value through profit and loss		-	-
Derivatives		-	-
<b>TOTAL FINANCIAL LIABILITIES</b>		<u>386,331,779</u>	<u>322,644,357</u>

**27. MATURITY PROFILE OF FINANCIAL LIABILITIES**

Monetary 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. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the balance sheet.

2008	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	After 5 years \$	No Maturity \$	Total \$
<b>LIABILITIES</b>							
Borrowings	-	-	5,219,851	-	-	-	5,219,851
Creditors	5,816,379	-	-	-	-	-	5,816,379
Deposits from other financial institutions	-	-	14,426,790	-	-	-	14,426,790
Deposits from members – at call	205,286,353	-	-	-	-	-	205,286,353
Deposits from members – term	25,318,663	42,510,202	86,975,861	2,419,119	-	-	157,223,845
Subordinated debt	-	-	-	2,543,198	-	-	2,543,198
<b>On Balance sheet</b>	<b>236,421,395</b>	<b>42,510,202</b>	<b>106,622,502</b>	<b>4,962,317</b>	<b>-</b>	<b>-</b>	<b>390,516,416</b>
<b>Undrawn commitments</b>							
<b>Note 30</b>	-	-	-	-	-	-	-
<b>Interest rate swaps</b>	-	-	-	-	-	-	-
<b>Total financial Liabilities</b>	<b>236,421,395</b>	<b>42,510,202</b>	<b>106,622,502</b>	<b>4,962,317</b>	<b>-</b>	<b>-</b>	<b>390,516,416</b>

2007	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total
	\$	\$	\$	\$	\$	\$	\$
<b><u>LIABILITIES</u></b>							
Borrowings	-	-	-	-	-	-	-
Creditors	2,128,741	-	-	-	-	-	2,128,741
Deposits from other financial institutions	-	-	-	-	-	-	-
Deposits from members – at call	183,070,621	-	-	-	-	-	183,070,621
Deposits from members – term	19,462,828	37,414,897	72,986,171	7,400,437	-	-	137,264,333
Subordinated debt	-	-	-	2,515,289	-	-	2,515,289
<b>On Balance sheet</b>	<b>204,662,190</b>	<b>37,414,897</b>	<b>72,986,171</b>	<b>9,915,726</b>	<b>-</b>	<b>-</b>	<b>324,978,984</b>
<b>Undrawn commitments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Interest rate swaps</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total financial Liabilities</b>	<b>204,662,190</b>	<b>37,414,897</b>	<b>72,986,171</b>	<b>9,915,726</b>	<b>-</b>	<b>-</b>	<b>324,978,984</b>

## 28. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

2008	Wgt'd Avg Int.	Within 1 month	1-3 months	3-12 months	1-5 years	Non interest bearing	Total
		\$	\$	\$	\$	\$	\$
<b><u>ASSETS</u></b>							
Cash	6.33	17,106,203	-	-	-	-	17,106,203
Advances to other financial institutions	7.86	37,990,168	16,218,667	7,100,100	-	-	61,308,935
Receivables		-	-	-	-	2,131,106	2,131,106
Loans & Advances – mortgage	7.64	209,013,351	831,437	9,326,687	39,822,561	-	258,994,036
Loans & Advances - personal	11.16	67,698,110	81,845	288,413	1,779,999	-	69,848,367
Loans & Advances - other	7.84	13,319,151	160,160	-	165,225	-	13,644,536
Investments		-	-	-	-	2,091,842	2,091,842
<b>On Balance sheet</b>		<b>345,126,983</b>	<b>17,292,109</b>	<b>16,715,200</b>	<b>41,767,785</b>	<b>4,222,948</b>	<b>425,125,025</b>
<b>Undrawn commitments</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,777,347</b>	<b>37,777,347</b>
<b>Note 30 Interest rate swaps</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Financial Assets</b>		<b>345,126,983</b>	<b>17,292,109</b>	<b>16,715,200</b>	<b>41,767,785</b>	<b>42,000,295</b>	<b>462,902,372</b>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

2008	Wgt'd Avg Int.	Within 1 month	1-3 months	3-12 months	1-5 years	Non interest bearing	Total
<b>LIABILITIES</b>							
Deposits from members	4.32	228,868,056	39,352,515	84,475,485	2,171,852	340,071	355,207,979
Deposits from other financial institutions	8.08	-	-	13,348,700	-	-	13,348,700
Borrowings	8.77	-	-	5,000,000	-	-	5,000,000
Creditors		-	-	-	-	9,061,940	9,061,940
Subordinated Debt	9.03	-	1,959,920	-	-	-	1,959,920
<b>On Balance Sheet</b>		<b>228,868,056</b>	<b>41,312,435</b>	<b>102,824,185</b>	<b>2,171,852</b>	<b>9,402,011</b>	<b>384,578,539</b>
<b>Undrawn commitments Note 30</b>		-	-	-	-	-	-
<b>Interest rate swaps</b>		-	-	-	-	-	-
<b>Total Liabilities</b>		<b>228,868,056</b>	<b>41,312,435</b>	<b>102,824,185</b>	<b>2,171,852</b>	<b>9,402,011</b>	<b>384,578,539</b>
<b>ASSETS</b>							
Cash	5.75	8,448,587	-	-	-	-	8,448,587
Advances to other financial institutions	7.36	27,200,827	44,552,944	2,574,187	-	-	74,327,958
Receivables		-	-	-	-	2,113,873	2,113,873
Loans & Advances – mortgage	7.18	166,903,362	824,335	3,093,043	21,813,934	-	192,634,674
Loans & Advances - personal	10.86	66,057,198	19,787	752	1,050,584	-	67,128,321
Loans & Advances - other	7.70	11,017,634	-	-	-	-	11,017,634
Investments		-	-	-	-	2,167,633	2,167,633
<b>On Balance sheet</b>		<b>279,627,608</b>	<b>45,397,066</b>	<b>5,667,982</b>	<b>22,864,518</b>	<b>4,281,506</b>	<b>357,838,680</b>
<b>Undrawn commitments Note 30</b>		-	-	-	-	38,241,350	38,241,350
<b>Interest rate swaps</b>		-	-	-	-	-	-
<b>Total financial assets</b>		<b>279,627,608</b>	<b>45,397,066</b>	<b>5,667,982</b>	<b>22,864,518</b>	<b>42,522,856</b>	<b>396,080,030</b>

2007	Wgt'd Avg Int.	Within 1 month	1-3 months	3-12 months	1-5 years	Non interest bearing	Total
<b><u>LIABILITIES</u></b>							
Deposits from members	3.45	198,602,482	36,408,349	72,196,198	7,041,328	331,258	314,579,615
Deposits from other financial institutions		-	-	-	-	-	-
Borrowings		-	-	-	-	-	-
Creditors		-	-	-	-	4,364,942	4,364,942
Subordinated Debt	7.63	-	1,946,560	-	-	-	1,946,560
<b>On Balance sheet</b>		<b>198,602,482</b>	<b>38,354,909</b>	<b>72,196,198</b>	<b>7,041,328</b>	<b>4,696,200</b>	<b>320,891,117</b>
<b>Undrawn commitments</b>		-	-	-	-	-	-
<b>Note 30</b>		-	-	-	-	-	-
<b>Interest rate swaps</b>		-	-	-	-	-	-
<b>Total financial liabilities</b>		<b>198,602,482</b>	<b>38,354,909</b>	<b>72,196,198</b>	<b>7,041,328</b>	<b>4,696,200</b>	<b>320,891,117</b>

## 29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

	2008			2007		
	Fair Value	Book Value	Variance	Fair Value	Book Value	Variance
	\$	\$	\$	\$	\$	\$
<b><u>ASSETS</u></b>						
Cash	17,106,203	17,106,203	-	8,448,587	8,448,587	-
Advances to other financial institutions	61,308,935	61,308,935	-	74,327,958	74,327,958	-
Receivables (1)	2,131,106	2,131,106	-	2,113,873	2,113,873	-
Loans – mortgage	257,746,699	258,994,036	(1,247,337)	192,640,688	192,634,674	6,014
Loans – personal	69,832,682	69,848,367	(15,685)	68,678,212	69,057,582	(379,370)
Loans - other	13,641,870	13,644,536	(2,666)	9,088,373	9,088,373	-
Investments	2,091,842	2,091,842	-	2,167,633	2,167,633	-
<b>Total Assets</b>	<b>423,859,337</b>	<b>425,125,025</b>	<b>(1,265,688)</b>	<b>357,465,324</b>	<b>357,838,680</b>	<b>(373,356)</b>

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	Fair Value	2008 Book Value	Variance	Fair Value	2007 Book Value	Variance
	\$	\$	\$	\$	\$	\$
<b>LIABILITIES</b>						
Borrowings	5,000,000	5,000,000	-	-	-	-
Deposits from members - call	205,272,429	205,272,429	-	183,058,885	183,058,885	-
Deposits from members - term	149,932,954	149,935,550	(2,596)	131,519,927	131,520,730	(803)
Deposits from other institutions	13,348,893	13,348,700	193	-	-	-
Creditors (1)	9,008,343	9,008,343	-	4,319,290	4,319,290	-
Subordinated debt	1,959,920	1,959,920	-	1,946,560	1,946,560	-
<b>Total Liabilities</b>	<b>384,522,539</b>	<b>384,524,942</b>	<b>(2,403)</b>	<b>320,844,662</b>	<b>320,845,465</b>	<b>(803)</b>

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

**(i) 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.

**(ii) Loans, 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 repricing 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.

**(iii) 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.

**(iv) 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.

	2008 \$	2007 \$
<b>30. FINANCIAL COMMITMENTS</b>		
<b>a. Outstanding Loan commitments</b>		
The loans approved but not funded	<u>7,672,142</u>	<u>5,913,712</u>
<b>b. Loan Redraw facilities</b>		
The loan redraw facilities available	<u>16,291,359</u>	<u>12,048,489</u>
<b>c. Undrawn Loan Facilities</b>		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	HÍ, GÍ Í, JÍ G	35,977,412
Less: Amount advanced	(15,111, FÍ Î)	(15,698,263)
<b>Net undrawn value</b>	<u>21,071,786</u>	<u>20,279,149</u>
<b>Total financial commitments</b>	<u><del>45,035,287</del> 45,035,287</u>	<u>38,241,350</u>
<p>These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.</p>		
<b>d. Lease expense commitments for operating leases on property occupied by the Credit Union</b>		
Not later than one year	1,146,996	1,491,198
Later than one year but not later than five years	1,245,911	2,117,735
Over five years	-	26,973
	<u>2,392,907</u>	<u>3,635,906</u>

The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 to 6 years and options for renewal are usually obtained for a further period up to 5 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

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	2008 \$	2007 \$
<b>e. Computer Bureau Expense Commitments</b>		
As referred to in Note 32, the Credit Union has a management contract with TransAction Solutions Pty Limited (TAS) 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.		
The costs committed under contracts with TAS are as follows:		
Not later than one year	466,848	529,928
Later than 1 year but not 2 years	466,848	529,928
Later than 2 years but not 5 years	933,696	1,589,785
Later than 5 years	-	-
	<u>1,867,392</u>	<u>2,649,641</u>
<b>f. Other expense commitments</b>		
Not later than one year	273,840	-
Later than 1 year but not 2 years	273,840	-
Later than 2 years but not 5 years	821,520	-
Later than 5 years	456,400	-
	<u>1,825,600</u>	<u>-</u>

**31. STANDBY BORROWING FACILITIES**

The Credit Union has a borrowing facility with Cuscal of:

	2008		
	Gross \$	Current Borrowing \$	Net Available \$
Overdraft Facility	2,000,000	-	2,000,000
<b>TOTAL STANDBY BORROWING FACILITIES</b>	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>
	2007		
	Gross \$	Current Borrowing \$	Net Available \$
Overdraft Facility	2,000,000	-	2,000,000
<b>TOTAL STANDBY BORROWING FACILITIES</b>	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>

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 arrangement

**32. CONTINGENT LIABILITIES**

**Liquidity Support Scheme**

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

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating CU 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 issued guarantees on behalf of members for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total \$571,693. The guarantee is payable only on the member defaulting on the contractual repayments to the Lessor / supplier. The guarantees are generally fully secured against registered first mortgages or Term Deposit funds lodged.

**33. DISCLOSURES ON DIRECTORS and other KEY MANAGEMENT PERSONNEL**

**a. Remuneration of Key Management Personnel [KMP]**

**Key Management Persons (KMP)** has been taken to comprise the directors and the 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:

	2008 Directors & Other KMP \$	2007 Directors & Other KMP \$
(a) short-term employee benefits;	454,121	419,473
(b) post-employment benefits - Superannuation contributions	81,781	68,528
(c) other long-term benefits – net increases in Long Service leave provision	12,112	32,111
(d) termination benefits;	-	-
(e) share-based payment.	-	-
<b>Total</b>	<b>548,014</b>	<b>520,112</b>

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

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

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	2008 \$	2007 \$
<b>b. Loans to Directors and other Key Management Persons</b>		
(i) The aggregate value of loans to directors and other Key Management Personnel as at Balance date amounted to	<u>1,392,845</u>	<u>920,662</u>
(ii) The total value of revolving credit facilities to directors and other Key Management Personnel, as at Balance date amounted to	188,500	116,500
Less amounts drawn down and included in (i)	<u>(35,269)</u>	<u>(28,155)</u>
Net balance available	<u>153,231</u>	<u>88,345</u>
(iii) During the year the aggregate value of loans disbursed to directors and other Key Management Personnel amounted to:		
Revolving credit facilities	182,315	111,316
Term Loans	<u>423,984</u>	<u>-</u>
	<u>606,299</u>	<u>111,316</u>
(iv) During the year the aggregate value of Revolving Credit Facility limits granted or increased to directors and other Key Management Personnel amounted to:	<u>12,000</u>	<u>30,000</u>
(v) Interest and other revenue earned on Loans and revolving credit facilities to KMP	<u>88,318</u>	<u>72,933</u>

The credit union's policy for lending to directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit with the exception of loans to KMP who are not directors. There are no loans which are impaired in relation to the loan balances with director's or other KMP's.

KMP who are not directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to Fringe Benefits tax, are included in the remuneration in 33(a) above.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management Persons. There are no loans which are impaired in relation to the loan balances with close family relatives of directors and KMP.

**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.

	2008 \$	2007 \$
Total value Term and Savings Deposits from KMP	<u>575,802</u>	<u>478,539</u>
Total Interest paid on deposits to KMP	<u>18,577</u>	<u>24,162</u>

#### **34. ECONOMIC DEPENDENCY**

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

**a. Cuscal**

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, 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 the majority of its liquid assets with the entity 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.

**d. TransAction Solutions 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.

#### **35. 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.

The Credit Union contributes to the State Authorities Superannuation Scheme (SASS) and to the State Authorities Non-Contributory Superannuation Scheme (SANCS) for the purpose of defined benefits superannuation schemes which are only available to a limited number of employees and no new employees are eligible to join these schemes. 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 liable for any shortfall in reserves to meet the employees' entitlements. Currently the plan is in surplus and it is anticipated the Credit Union is unlikely to be required to have any further liability to these funds.

#### **36. 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 \$31,243,940 (2007 \$49,323,149).

**SYDNEY CREDIT UNION LTD**

ABN 93 087 650 726

2008 Annual Financial Report

	2008 \$	2007 \$
<b>37. NOTES TO STATEMENT OF CASH FLOWS</b>		
<b>a. Reconciliation of Cash</b>		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	2,429,477	2,034,545
Deposits at call	14,676,726	6,414,042
Bank overdraft	-	-
<b>Total Cash</b>	<u><u>17,106,203</u></u>	<u><u>8,448,587</u></u>
	<b>2008 \$</b>	<b>2007 \$</b>
<b>b. Cash unavailable for use</b>		
Cash which is excluded from the above amount of cash since it is not readily available for use by reason of it securing overnight settlement obligations.	-	-
	<u><u>2008 \$</u></u>	<u><u>2007 \$</u></u>
<b>c. Reconciliation of Cash from Operations to Accounting Profit</b>		
The net cash increase/(decrease) from operating activities is reconciled to the operating profit after tax		
Profit after income tax	2,089,873	2,808,771
Add (Deduct) :		
Provision for Impairment	826,761	1,032,350
Depreciation expense	952,848	945,465
Amortisation of Intangible Assets	61,728	
Profit on sale of assets	(79,155)	(348,119)
Increase in provisions for staff leave	346,375	257,083
Increase in tax liabilities	(501,176)	40,392
Increase in other provisions	98,712	271,486
Increase in accrued expenses	59,347	(1,098,278)
Increase in interest payable	864,502	(103,711)
Increases in Other Liabilities	(63,108)	
Decreases in prepayments & sundry receivables	73,844	371,238
Decrease in other Assets	(2,104)	(155,527)
Decrease in Receivables	210,829	(196,914)
Decrease in Taxation Assets	(52,214)	
Bad Debts Written off	(784,689)	(709,077)
Dividends Paid	(141,698)	(133,222)
<b>Net Cash From Operating Activities</b>	<u><u>3,960,675</u></u>	<u><u>2,981,937</u></u>

**38. CORPORATE INFORMATION**

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

The address of the registered office is:

19 Second Avenue, Blacktown NSW 2148

The address the principal places of business :

19 Second Avenue, Blacktown NSW 2148

The nature of it's operations, and it's principal activities are the provision of deposit taking facilities and loan facilities to the Members of the Credit Union.



[www.moregenerousbanking.com.au](http://www.moregenerousbanking.com.au)

Sydney Credit Union Ltd. 19 Second Ave Blacktown NSW 2148.  
ABN 93 087 650 726 AFSL 236476

Please address all mail to PO Box 444 Blacktown NSW 2148  
[enquiries@moregenerousbanking.com.au](mailto:enquiries@moregenerousbanking.com.au)