



## CREDIT UNION AUSTRALIA LIMITED

ABN 44 087 650 959

# Financial Report 2007

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# Directors' Report

The Directors have pleasure in presenting their report together with the financial report of Credit Union Australia Limited (CUA) and of the consolidated group, being CUA and its controlled entities, for the year ended 30 June 2007 and the auditor's report thereon.

## DIRECTORS

The directors of CUA at any time during or since the end of the financial year are:

**R. E. POWELL** Cert. Bus Admin (Real Estate), FAICD, FAMI  
Chairman  
Independent non-executive director

Mr Powell was appointed a director and Chairman consequent upon CUA's merger with Australian National Credit Union Limited (ANCU) on 1 January 2006, and was previously the Chairman of ANCU. He has been a credit union director for 31 years. He is a licensed estate agent and auctioneer and has owned and operated his own real estate businesses. He is a member of the Board Executive Committee, a director of Credicorp Insurance Pty Ltd and a director and Chairman of Credicare Health Fund Ltd. He is former Chairman of Health Professionals Insurance Association (HPIA) 2002-2004.

**K. B. ROSS** B.Econ., Dip. Pub. Admin., J.P. (Qual.), FAMI, MAICD  
Deputy Chairman  
Independent non-executive director

Mr Ross has been a credit union director for 21 years. Following the merger with ANCU he was elected as the Deputy Chairman having previously been the Chairman of CUA for 5 years. He is also a member of the Board Executive Committee and is a director and Chairman of CUA Financial Planning Pty Ltd. He previously was the Director of Health and Corporate Support with the Department of Veterans Affairs.

**T. A. COLES** GAICD, AFAMI  
Independent non-executive director

Mr Coles has extensive experience in the credit union movement including 5 years as a Director of Australian National Credit Union, 5 years as Deputy Chairman and 2 years as Chairman of Advantage Credit Union, and is a former Director of Advantage Financial Management Pty Ltd. He was formerly a long serving employee of Telstra and NDC Ltd and is now a consultant offering IT and web technology solutions for small business and sporting clubs. He is currently a member of the Board Audit and Risk Committee and a Director of Credicare Health Fund Ltd.

**P. G. DOWLING** AM, BA (Acc), FCA, FAICD  
Independent non-executive director

Mr Dowling has been a credit union director for more than 4 years. He is a Chartered Accountant and professional company director and was previously a partner of international accounting firm Ernst & Young. He is a director of CUA Financial Planning Pty Ltd and is a member of the Board Audit and Risk Committee. He holds a number of other directorships including Monto Minerals Ltd, Paridian Property Development Fund Ltd, Asset Management CRC, Jellinbah/Bowen Basin Coal Group, SPYRUS Pty Ltd, Virgin Blue's aircraft leasing subsidiaries and Queensland Ballet. He is also a member of Maroochy Shire's and Queensland Transport's Audit Committees and Chairs investment bankers InterFinancial Limited's Compliance Committee.

**E. A. FOSTER** B.Bus, FCPA, GAICD, MAMI  
Independent non-executive director

Ms Foster was appointed a director on 1 January 2006 following the merger with ANCU. She has been a credit union director for 17 years. She is a self employed finance consultant who has extensive experience

in finance and accounting. She has also been CEO of RACV Credit Union. She is a member and Chair of the Board Audit and Risk Committee and is also a director of the Credit Union Foundation of Australia.

**C. FRANKS** MMgt, BA(Statistics), AIMM, GAICD, MAMI, RN  
Independent non-executive director

Ms Franks was appointed a director on 1 January 2006 following the merger with ANCU where she served as a Director for the previous 7 years. She is the Development Manager for the Maccabi Victoria Sports Foundation and is a Director of Credicare Health Fund Ltd and Credicorp Insurance Pty Ltd. She is currently independent Chair of the Australian Council for International Development, Code of Conduct committee which oversees a sector wide code of practice and financial reporting standards. She has previously held several not-for-profit directorships including Oxfam and Save the Children NSW.

**C. M. GREER** LLB., Grad.Dip. Legal.Prac. GAICD, MAMI  
Independent non-executive director

Ms Greer has been a credit union director for more than 4 years. A lawyer by profession, Ms Greer practiced in the areas of Family and Criminal Law, Civil litigation and subsequently Stock Broking, before embarking upon a career in the hospitality and marketing industries. She is a Director of CUA Financial Planning Pty Ltd and is a member of the Board Audit and Risk Committee. She has been a Director of Queensland Events Corporation and Chair of Restaurant and Catering Queensland, Brisbane Branch. Ms Greer has acted in an advisory capacity to the Committee for Economic Development of Australia (CEDA).

**G. C. HANLON** Cert. Mgmt (Purchasing & Supply), FAMI, AFAIM, FAICD, J.P. (C. Dec)  
Independent non-executive director

Mr Hanlon has been a credit union director for 15 years. He was previously Chief Executive Officer, C.P.S. Credit Society Ltd. He is a director and Chairman of Credicorp Insurance Pty Ltd and a director of Credicare Health Fund Ltd.

**P. G. OLRICH** FAMI, FAIM, MAICD, Dip. F.S., SFFin  
Managing Director

Mr Olrich has been a Board appointed director for 6 years. He is a member of the Board Executive Committee. He is also a Director of Credicare Health Fund Limited, Credicorp Finance Pty Ltd, Credicorp Insurance Pty Ltd, CUA Friendly Society Limited, Leisure Travel Pty Ltd and CUA Financial Planning Pty Ltd. In addition, he is a Director and Chairman of the Australasian Mutuals Institute (AMI).

#### **Other directors who held office during the year:**

**E. J. ANDERSEN** MIR., Dip. App. Sc., Grad. Cert. Mgmt., J.P. (Qual.), GAICD  
Resigned 31 December 2006

#### **COMPANY SECRETARY**

The following person held the position of Company Secretary at the end of the financial year.

**R. B. NICHOLLS** FCPA, FCIS, FAICD, FAIM

Mr Nicholls was appointed as company secretary in June 2007. He is also the Deputy to the Managing Director of CUA and was formerly the Chief Executive Officer of ANCU until its merger with CUA on 1 January 2006. He is a director of CUA Financial Planning Pty Ltd, CUA Friendly Society Ltd, Credicorp Finance Pty Ltd, Credicorp Insurance Pty Ltd, Leisure Travel Pty Ltd and Credicare Health Fund Ltd. He is a director and Chairman of CUSCAL Ltd.

**DIRECTORS' MEETINGS**

The number of meetings of Directors and meetings of Board Committees held during the year and the number of meetings attended by each Director were as follows:

**A** = Number of meetings eligible to attend.

**B** = Number of meeting attended.

	Board Meetings		Board Audit and Risk Committee		Board Executive Committee	
	A	B	A	B	A	B
R E Powell	11	11	-	-	11	11
K B Ross	11	11	-	-	11	11
E J Andersen	5	5	-	-	-	-
T A Coles	11	11	4	4	-	-
P G Dowling	11	11	4	4	-	-
E A Foster	11	11	4	4	-	-
C Franks	11	11	-	-	-	-
C M Greer	11	11	4	4	-	-
G C Hanlon	11	11	-	-	-	-
P G Olrich	11	11	-	-	11	11

**DIRECTORS' BENEFITS**

During, or since the end of the financial year, no director has received, or become entitled to receive, a benefit by reason of a contract entered into by CUA, or its controlled entities, with the director, a firm of which the director is a member, or an entity in which the director has a substantial financial interest, other than a benefit to which the director is entitled as a member of CUA, as detailed in the notes to the financial statements.

**INDEMNIFICATION OF DIRECTORS AND OFFICERS**

During the financial year, CUA paid an insurance premium in respect of an insurance policy for the benefit of directors, secretaries, executive officers and employees of the credit union and related entities. The insurance policy grants indemnification in respect of certain liabilities for which the Corporations Act 2001 allows indemnification. The insurance policy does not permit the disclosure of the nature of the liabilities insured nor the amount of the premium.

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 financial year comprised the raising of funds by deposit and the provision of loans and associated services to members. Through its controlled entities, the consolidated group was also involved in insurance, health insurance, financial planning and travel activities.

There was no significant change in the nature of these activities during the year.

**OPERATING RESULTS**

The consolidated net profit after income tax for the financial year ended 30 June 2007 was \$48,336,243 (2006 - \$ 38,549,496).

**DIVIDENDS**

The constitution of the parent does not currently allow for the payment of dividends.

**REVIEW OF OPERATIONS**

A review of the operations and the results of those operations is included in the Chairman and Managing Director's Review.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

There were no significant changes in the state of affairs of the consolidated group during the financial year.

**EVENTS OCCURRING AFTER BALANCE DATE**

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

**LIKELY DEVELOPMENTS**

No 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.

**ROUNDING**

Except where indicated, the amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars in accordance with ASIC Class Order 98/0100.

**AUDITORS INDEPENDENCE**

The Directors have obtained a copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001.



■ 1 Eagle Street  
Brisbane QLD 4000  
Australia

■ Tel 61 7 3011 3333  
Fax 61 7 3011 3100  
DX 165 Brisbane

PO Box 7878  
Waterfront Place  
Brisbane QLD 4001

## **Auditor's Independence Declaration to the Directors of Credit Union Australia Limited**

In relation to our audit of the financial report of Credit Union Australia Limited for the financial year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Mark Hayward  
Partner  
27 September 2007

Liability limited by a scheme approved under Professional Standards Legislation.

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

R. E. Powell  
Director

K. B. Ross  
Director

Brisbane, 27 September 2007.

# Income Statement

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	CONSOLIDATED		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Revenue</b>					
Interest revenue	2	417,629	296,381	416,228	295,020
Interest expense	2	(284,215)	(196,774)	(285,326)	(197,686)
Net interest revenue		133,414	99,607	130,902	97,334
Net gain or (loss) on financial assets and liabilities designated at fair value through the profit and loss	3	6,060	7,576	(8,893)	(3,178)
Other income	3	112,747	104,700	73,089	63,262
Net operating income		252,221	211,883	195,098	157,418
<b>Expenses</b>					
Bad and doubtful debts	3	2,893	2,122	2,778	2,064
Personnel	3	49,049	40,706	45,412	35,861
Occupancy	3	16,244	12,081	16,099	11,957
Depreciation of plant and equipment	3	6,755	4,243	6,741	4,230
Amortisation of intangible assets	3	722	861	722	861
Other expenses	3	110,586	98,823	64,991	56,412
Total operating expenses		186,249	158,836	136,743	111,385
<b>Profit before income tax expense</b>		65,972	53,047	58,355	46,033
Income tax expense	4	(17,636)	(14,498)	(16,256)	(13,167)
<b>Net profit after tax</b>		48,336	38,549	42,099	32,866
Net profit attributable to minority interests		(84)	(85)	-	-
<b>Net profit attributable to members of the parent</b>		48,252	38,464	42,099	32,866

# Balance Sheet

AS AT 30 JUNE 2007

	Notes	CONSOLIDATED		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ASSETS</b>					
Cash and cash equivalents	7	54,599	72,528	53,961	72,381
Financial assets - held to maturity	8	482,970	456,362	462,944	440,637
Derivative financial instruments	9	16,273	8,694	16,273	8,694
Loans and advances	10	5,945,751	5,179,034	5,942,726	5,172,300
Other receivables	12	27,598	12,582	8,551	11,988
Investments	13	15,962	16,895	18,903	19,836
Available for sale assets	14	12,558	-	12,558	-
Property, plant and equipment	15	23,335	37,678	23,290	37,648
Deferred tax assets	16	10,053	9,044	10,002	8,960
Intangible assets	17	2,605	2,153	2,605	2,153
Other assets	18	1,388	931	1,369	909
<b>TOTAL ASSETS</b>		<b>6,593,092</b>	<b>5,795,901</b>	<b>6,553,182</b>	<b>5,775,506</b>
<b>LIABILITIES</b>					
Bank overdraft	19	4,837	-	4,837	-
Derivative financial instruments	9	953	456	953	456
Deposits	20	3,512,963	3,306,810	3,597,034	3,371,297
Wholesale borrowings	21	2,550,899	2,012,316	2,473,918	1,965,251
Other payables	22	29,187	32,424	15,253	22,010
Income tax payable	23	7,909	5,192	7,896	4,783
Provisions	24	6,039	6,697	6,025	6,542
<b>TOTAL LIABILITIES</b>		<b>6,112,787</b>	<b>5,363,895</b>	<b>6,105,916</b>	<b>5,370,339</b>
<b>NET ASSETS</b>		<b>480,305</b>	<b>432,006</b>	<b>447,226</b>	<b>405,167</b>
<b>MEMBERS FUNDS</b>					
Reserves	25	8,900	8,678	8,900	8,678
Retained earnings	26	470,172	421,686	438,366	396,489
Minority interests	27	1,233	1,642	-	-
<b>TOTAL MEMBERS FUNDS</b>		<b>480,305</b>	<b>432,006</b>	<b>447,266</b>	<b>405,167</b>

## Statement of Changes in Equity

### CONSOLIDATED

(\$'000)

	Preference Share Reserve	Credit Loss Reserve	Total Reserves	Retained Earnings	Minority Interests	Total Members Funds
<b>Balance at 1 July 2005</b>	914	2,917	3,831	190,756	1,591	196,178
Equity on transfer of ANCU business	-	-	-	197,313	-	197,313
Movements in credit loss reserve	-	4,540	4,540	(4,540)	-	-
Movements in preference share reserve	307	-	307	(307)	-	-
Dividends paid	-	-	-	-	(34)	(34)
Profit for the year	-	-	-	38,464	85	38,549
<b>Balance at 30 June 2006</b>	<u>1,221</u>	<u>7,457</u>	<u>8,678</u>	<u>421,686</u>	<u>1,642</u>	<u>432,006</u>
<b>Balance at 1 July 2006</b>	1,221	7,457	8,678	421,686	1,642	432,006
Transfer of minority interest to parent	-	-	-	456	(456)	-
Movements in preference share reserve	222	-	222	(222)	-	-
Dividends paid	-	-	-	-	(37)	(37)
Profit for the year	-	-	-	48,252	84	48,336
<b>Balance at 30 June 2007</b>	<u>1,443</u>	<u>7,457</u>	<u>8,900</u>	<u>470,172</u>	<u>1,233</u>	<u>480,305</u>

## Statement of Changes in Equity

### PARENT

(\$'000)

	Preference Share Reserve	Credit Loss Reserve	Total Reserves	Retained Earnings	Total
<b>Balance at 1 July 2005</b>	914	2,917	3,831	170,040	173,871
Equity on transfer of ANCU business	-	-	-	198,430	198,430
Movements in credit loss reserve (net of tax)	-	4,540	4,540	(4,540)	-
Movements in preference share reserve	307	-	307	(307)	-
Profit for the year	-	-	-	32,866	32,866
<b>Balance at 30 June 2006</b>	<u>1,221</u>	<u>7,457</u>	<u>8,678</u>	<u>396,489</u>	<u>405,167</u>
<b>Balance at 1 July 2006</b>	1,221	7,457	8,678	396,489	405,167
Movements in preference share reserve	222	-	222	(222)	-
Profit for the year	-	-	-	42,099	42,099
<b>Balance at 30 June 2007</b>	<u>1,443</u>	<u>7,457</u>	<u>8,900</u>	<u>438,366</u>	<u>447,266</u>

# Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED		PARENT	
	2007 \$'000 Inflows (Outflows)	2006 \$'000 Inflows (Outflows)	2006 \$'000 Inflows (Outflows)	2006 \$'000 Inflows (Outflows)
<i>Cash Flows from Operating Activities</i>				
Interest received	402,609	288,439	419,660	275,004
Interest and other borrowing costs paid	(285,236)	(204,630)	(286,347)	(181,592)
Other non interest income received	111,035	119,788	53,489	45,068
Net increase in members' and customers' loans	(767,294)	(559,081)	(770,998)	(561,836)
Cash paid to suppliers and employees	(190,940)	(151,217)	(144,433)	(87,120)
Income tax paid	(12,433)	(13,567)	(10,653)	(8,354)
Net cash provided by operating activities	29 (742,259)	(520,268)	(739,282)	(518,830)
<i>Cash Flows from Investing Activities</i>				
(Purchase)/sale of investments	(25,675)	19,792	(21,374)	17,356
Proceeds from sale of property, plant and equipment	2,711	696	2,708	694
Dividends received	1,716	2,411	4,216	2,411
Payments for property, plant and equipment	(6,537)	(7,327)	(6,505)	(7,327)
Cash received on transfer of business	-	7,509	-	5,752
Net cash (used in)/provided by investing activities	(27,785)	23,081	(20,955)	18,886
<i>Cash Flows from Financing Activities</i>				
Proceeds from borrowings	545,579	527,640	515,663	482,518
Dividend paid	(38)	(47)	-	-
Net increase in members' deposits	206,574	17,695	226,154	67,197
Net cash provided by financing activities	752,115	545,288	741,817	549,715
<b>NET INCREASE/ (DECREASE) IN CASH</b>	(17,929)	48,101	(18,420)	49,771
Cash at the beginning of the year	72,528	24,427	72,381	22,610
Cash at the end of the year	7 54,599	72,528	53,961	72,381

# Notes

## NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### Corporate Information

The financial report of Credit Union Australia Limited (the Company) and its subsidiaries for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 27 September 2007.

Credit Union Australia Limited is a company limited by shares incorporated and domiciled in Australia.

### Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, the Corporations Act 2001 and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

This financial report has been prepared on an historical cost basis, except for derivative financial instruments and listed shares which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

### Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Except for the amendments to AASB 101 *Presentation of Financial Statements* and AASB 8 *Operating Segments* which the Group has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2007. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 7 <i>Financial Instruments: Disclosures</i> .	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 11 <i>AASB 2 – Group and Treasury Share Transactions</i> .	1 March 2007	This is consistent with the Group's existing accounting policies for share-based payments, so the standard is not expected to have any impact on the Group's financial report.	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from	Amending standard issued as a consequence of AASB Interpretation 12	1 January 2007	The Group currently has no service concession arrangements or public-	1 July 2007

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
	AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	<i>Service Concession Arrangements.</i>		private-partnerships (PPP), so the standard is not expected to have any impact on the Group's financial report.	
AASB 2007-5	Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities [AASB 102]	This Standard makes amendments to AASB 102 <i>Inventories.</i>	1 July 2007	This amendment only relates to Not-for-Profit Entities and as such is not expected to have any impact on the Group's financial report.	1 July 2007
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]	Amending standard issued as a consequence of revisions to AASB 123 <i>Borrowing Costs.</i>	1 January 2009	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	1 July 2009
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	Amending standards for wording errors, discrepancies and inconsistencies.	1 July 2007	The amendments are minor and do not affect the recognition, measurement or disclosure requirements of the standards. Therefore the amendments are not expected to have any impact on the Group's financial report.	1 July 2007
AASB 7	<i>Financial Instruments: Disclosures</i>	New standard replacing disclosure requirements of AASB 130 <i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i> and AASB 132 <i>Financial Instruments: Disclosure and Presentation.</i>	1 January 2007	Refer to AASB 2005-10 above.	1 July 2007
AASB 123 (amended)	<i>Borrowing Costs</i>	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset must be capitalised.	1 January 2009	Refer to AASB 2007-6 above.	1 July 2009
AASB Interpretation on 10	<i>Interim Financial Reporting and Impairment</i>	Addresses an inconsistency between AASB 134 <i>Interim Financial Reporting</i> and the impairment requirements relating to goodwill in AASB 136 <i>Impairment of Assets</i> and equity instruments classified as available for sale in AASB 139 <i>Financial Instruments: Recognition and Measurement.</i>	1 November 2006	The prohibitions on reversing impairment losses in AASB 136 and AASB 139, which are to take precedence over the more general statement in AASB 134, are not expected to have any impact on the Group's financial report.	1 July 2007

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB Interpretation 11	<i>Group and Treasury Share Transactions</i>	Addresses whether certain types of share-based payment transactions with employees (or other suppliers of good and services) should be accounted for as equity-settled or as cash-settled transactions under AASB 2 <i>Share-based Payment</i> . It also specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent.	1 March 2007	Refer to AASB 2007-1 above.	1 July 2007
AASB Interpretation 12	<i>Service Concession Arrangements</i>	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008

\*designates the beginning of the applicable annual reporting period

### Significant accounting judgements and estimates

In the process of applying the groups accounting policies management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

#### *Impairment losses on loans and advances*

The Company reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the Income Statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

#### *Insurance claims payable*

A liability is recorded at the end of the year for the estimated cost of claims incurred but not yet settled at the reporting date, including the cost of claims incurred but not yet reported to the group.

The estimated cost of claims includes expenses to be incurred in settling claims. The group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established. Refer to Note 1 (l) for additional disclosures.

### Summary of significant accounting policies

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

#### (a) **Basis of Consolidation**

The consolidated financial statements comprise the financial statements of Credit Union Australia Limited and all of its controller entities (the group). A controlled entity is any entity (including

special purpose entities) over which Credit Union Australia Limited has the power to govern directly or indirectly in relation to financial and operating policies, so as to require that entity to conform with the objectives of Credit Union Australia Limited.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profit or losses, have been eliminated on consolidation. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The financial statements of controlled entities are prepared for the same accounting period as the parent company.

Where subsidiaries have entered or left the consolidated group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

**(b) Income Tax**

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

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

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

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

**(c) Financial Assets and Liabilities**

*Cash and Cash Equivalents*

Receivables from other financial institutions are primarily settlement account balances due from banks, building societies and other credit unions and exclude call and term deposits with other Approved Deposit Taking Institutions (ADI's). They are brought to account at the gross value of the outstanding balance. Interest is brought to account in the Income Statement when earned.

*Financial assets – held to maturity*

Financial assets classified as held to maturity represent deposits with ADI's, negotiable discount securities, or loans to subsidiaries and are measured at amortised cost.

*Financial assets or financial liabilities designated at fair value through profit and loss*

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategies.

Financial assets and liabilities at fair value through the profit and loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets and

liabilities designated at fair value through the profit and loss'. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract.

The group use derivative financial instruments such as interest rate swaps to mitigate its risks associated with interest rate fluctuations. Such derivative financial instruments are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

#### *Loans and advances*

'Loans and advances to members' are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the Income Statement in 'Bad and doubtful debts'.

#### *Deposits and Wholesale Borrowings*

All deposits and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

### **(d) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### *Interest Revenue*

Interest revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

When a loan is classified as non-accrual, the consolidated group ceases to recognise interest and other income earned but not yet received.

Interest on loans and advances is not brought to account by the group if a loan has been transferred to a debt collection agency or a judgement has been obtained. No interest is charged on loans where repayments are in arrears and the prospects of a contribution from the member are minimal. However, accrued interest may be recovered as part of the recovery of the debt.

#### *Fees & Commissions Revenue*

Fees and commission are brought to account on an accrual basis over the period that they cover once a right to receive consideration has been attained. Financial service fees are recognised as and when the service is provided.

#### *Health Fund Contribution Income*

Contribution income comprises contributions received from members, inclusive of the 30% Government rebate. Contribution income is recognised when earned over the period of the membership. Contributions in arrears are carried at nominal amounts due, less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full amount is no longer probable. Members are expected to pay on due dates according to method of payment. Contributions in advance amounts are recognised as revenue as the income is earned.

(e) **Impairment – Loans & Advances**

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Impairment losses are recognised in the Income Statement.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses directly in the Income Statement.

The various components of impaired assets are as follows:

"Restructured loans" are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members.

"Past-due loans" means a loan in arrears which has not been operated within its key terms by the borrower for at least 90 days and which is not an impaired loan.

(f) **Securitisation**

As part of its operational activities, the credit union securitises loan assets, generally through the sale of these assets to special purpose entities ("SPEs") which issue securities to investors. As the credit union is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the credit union's balance sheet and Income Statement.

(g) **Property, Plant and Equipment**

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

*Property*

Freehold land and buildings are measured at cost less subsequent depreciation and impairment losses. It is the policy of the consolidated group to have an independent valuation undertaken at least every four years, with annual appraisals being made by the directors.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

*Plant and Equipment*

Plant and equipment are measured on the cost basis less depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets employment and subsequent disposal. Any decrement in the carrying amount is recognised as an impairment expense in the net profit or loss in the reporting period in which the impairment loss occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

*Depreciation*

All property, plant and equipment including buildings and capitalised leased assets but excluding freehold land, is depreciated over their expected useful lives to the consolidated group

commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements. Land is not depreciated.

Depreciation is calculated using the straight-line method to write down the cost of the asset to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Asset category	Estimated useful life
Buildings	40 years
Motor Vehicles	5 years
Computer Hardware	5 years
Office Furniture and Equipment	10 years
Leasehold improvements	10 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Assets under \$300 are not capitalised.

An item is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement.

**(h) Assets Classified as Held For Sale**

Assets classified as held for sale are those assets whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use. These assets are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised. Interest expense continues to be recognised on liabilities of a disposal group classified as held for sale.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for subsequent increases in fair value less costs to sell of an asset but not exceeding any cumulative impairment losses previously recognised.

**(i) Intangible Assets – Computer Software**

The only intangible assets of the group relate to costs for computer software. These costs are capitalised as intangible assets and amortised on a straight line basis over the estimated finite useful life which currently does not exceed four years.

**(j) Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses over the period of the lease on a straight-line basis unless another systematic basis is more representative of the time pattern of the benefits.

**(k) Provisions**

Provisions comprise liabilities for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

Superannuation contributions are made by the consolidated group to defined contribution superannuation funds and are charged as expenses when incurred.

**(l) Insurance accounting policies***Health fund contribution income*

Contribution income comprises contributions received from members, inclusive of the 30% Government rebate. Contribution income is recognised when earned over the period of the membership. Contributions in arrears are carried at nominal amounts due, less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full amount is no longer probable. Members are expected to pay on due dates according to method of payment. Contributions in advance amounts are recognised as revenue as the income is earned

*Health fund benefits paid and claims liabilities*

Benefits are recognised as an expense on approval of a valid claim. Unprocessed claims held by the fund and not yet entered into the processing system are provided for on a monthly basis.

The claim liabilities provide for the expected future payments in relation to claims reported but not yet paid and claims incurred but not yet reported with an allowance for claims handling expenses. The claim liabilities are measured as the central estimate of the expected future payments against claims incurred but not settled as at the reporting date under insurance contracts issued by the company, with an additional risk margin to allow for inherent uncertainty in the central estimate.

The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

An actuarial assessment taking into account historical patterns of claim incidence and processing in relation to claim liabilities is undertaken periodically throughout the year by the company. The outstanding claims liability is derived on one class of valuation being for hospital, medical and ancillary claims in total. It assumes that the development pattern of the current claims will be consistent with historical experience.

**(m) Redeemable Preference Share Reserve**

The Corporations Act 2001 requires that member shares are classified as redeemable preference shares. The redemption of these shares is required under the Act to be made from profits. The value of the shares that have been paid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated.

**(n) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. 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 in the balance sheet are shown inclusive of GST.

**(o) Comparative Figures**

Where required by accounting standards, comparative figures have been adjusted to conform to changes in presentation in the current year.

**(p) Restatement of prior period results**

During 2007 the group considered its accounting treatment for a number of matters resulting from the continuing evolution of the professional interpretation of Australian and International accounting pronouncements. Where the group has identified the requirement to change accounting treatments related to the prior year, the 2006 figures in the financial report have been restated to reflect this revised accounting treatment. The group considers that these changes present more relevant and reliable information regarding the group's financial position and performance, as represented by the results of its operations, its changes in equity and cash flows. The changes to the prior year financial report are detailed below:

- 1) **Securitisation - special purpose entities**  
Previously the group's securitisation special purpose entities ("Harvey Trusts") were not consolidated into the parent entity on transition though these entities have been consolidated into the group. Following a review of AASB 139 *Financial Instruments: Recognition and Measurement* we have determined that the Loans and advances sold from the credit union to these entities are required to be included in the results of parent entity. The impact of the change to the 2006 Balance Sheet has been to increase Loans and advances and Wholesale borrowings by \$1,818 million and Other receivables by \$10.7 million in 2006. Recognition of these assets and liabilities has also increased the Interest revenue by \$126.2 million; Other income by \$10.7 million; Interest expense by \$126.2 million; and Income tax expenses and tax provision by \$3.2 million in the 2006 Income Statement.

There is no change to the consolidated results for this adjustment.

- 2) **Consolidation of CUA Friendly Society Limited**  
The group has consolidated CUA Friendly Society Limited in accordance with AASB 127 *Consolidated and Separate Financial Statements*. The Society was not included in the consolidated financial statements due to exemptions that were effective until 30 June 2005 under Australian Prudential Regulatory Authority Prudential Rule 47 *Friendly Society Financial Statements* (PR 47) and Australian Securities Investment Commission (ASIC) Class Order 99/1225 *Financial Reporting Requirements for Benefit Fund Friendly Societies*. The impact of this correction on the 2006 financial report has been to increase net assets by \$1.2 million (2007: \$1.2 million). The net profit impact to members after the minority interests was nil (2007: nil).

There is no change to the parent entity results for this adjustment.

- 3) **Deferred tax assets**  
With the introduction of AIFRS and in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, the parent entity was required to transfer the general provision for loans and advances to a credit loss reserve within Members Funds. Whilst this transfer occurred the corresponding impact in Deferred tax assets was not recognised. The impact of this adjustment has resulted in reducing Deferred tax assets and Member Funds in 2006 by \$3.2 million.

- 4) **Balance Sheet and Income Statement presentation**  
The group has also reassessed the presentation and has amended the disclosure categories and titles of the consolidated Balance Sheet and Income Statement. Comparative figures have been adjusted to reflect the revised presentation.

There is no change to the consolidated results for this adjustment.

## CONSOLIDATED

**NOTE 2. INTEREST REVENUE AND INTEREST EXPENSE**

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate.

**Interest Revenue 2007**

Cash and cash equivalents	63,564	1,676	2.64
Receivables due from other financial institutions	2,261	157	6.94
Financial assets held to maturity	485,986	31,664	6.52
Loans and advances	5,562,393	384,132	6.91
Total Interest Revenue	6,114,204	417,629	6.83

**Interest Expense 2007**

Members' deposits	3,409,887	148,408	4.35
Short term borrowings	2,281,608	135,807	5.95
Total Interest Expense	5,691,495	284,215	4.99

**Net Interest Revenue 2007**

	133,414	1.84
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**Interest Revenue 2006**

Cash and cash equivalents	48,478	817	1.69
Receivables due from other financial institutions	4,304	136	3.16
Financial assets held to maturity	344,076	22,532	6.55
Loans and advances	4,026,899	272,896	6.78
Total Interest Revenue	4,423,757	296,381	6.70

**Interest Expense 2006**

Members' deposits	2,415,476	100,282	4.15
Short term borrowings	1,711,582	96,492	5.64
Total Interest Expense	4,127,058	196,774	4.77

**Net Interest Revenue 2006**

	99,607	1.93
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	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 3. PROFIT BEFORE TAX</b>				
<b>Revenue</b>				
Interest revenue	417,629	296,381	416,228	295,020
Interest expense	(284,215)	(196,774)	(285,326)	(197,686)
Net interest revenue	133,414	99,607	130,902	97,334
Net gain or (loss) on financial assets and liabilities designated at fair value through the profit and loss	6,060	7,576	(8,893)	(3,178)
Other income:				
Dividends revenue	1,716	1,311	4,216	2,411
Fees and commissions	39,680	36,170	33,437	30,532
Contribution income – Credicare Health Fund Limited	50,879	47,667	-	-
Bad debts recovered	845	706	845	706
Rental income	1,280	874	1,496	1,089
Other	18,347	17,972	33,095	28,524
	112,747	104,700	73,089	63,262
Net operating income	252,221	211,883	195,098	157,418
<b>Expenses</b>				
Bad and doubtful debts	2,893	2,122	2,778	2,064
Personnel				
Salaries, wages and related expenses	44,155	38,591	40,530	33,756
Superannuation contributions	4,894	2,115	4,882	2,105
	49,049	40,706	45,412	35,861
Occupancy	16,244	12,081	16,099	11,957
Depreciation				
Depreciation of buildings	262	187	262	187
Depreciation of plant and equipment	6,493	4,056	6,479	4,043
	6,755	4,243	6,741	4,230
Amortisation of intangible assets	722	861	722	861
Other expenses				
Benefits paid – Credicare Health Fund	44,403	41,393	-	-
Fees and commissions paid	32,087	20,101	32,234	19,596
General administrative expenses	34,096	37,329	32,757	36,816
	110,586	98,823	64,991	56,412
Total operating expenses	186,249	158,836	136,743	111,385

**NOTE 4. INCOME TAX**

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Prima Facie tax payable on profit @ 30% (2006 @ 30%)	<b>20,542</b>	16,243	<b>17,507</b>	13,810
<b>Adjust for Tax effect of :</b>				
Other non-allowable expenses	<b>68</b>	64	<b>76</b>	37
Non-deductible depreciation and amortisation	<b>27</b>	44	<b>25</b>	44
Non-assessable income	<b>(1,646)</b>	(1,130)	<b>(1)</b>	(1)
Fully franked dividends received	<b>(1,265)</b>	(723)	<b>(1,265)</b>	(723)
(Over)/under provision in prior year	<b>(90)</b>	-	<b>(86)</b>	-
	<b>17,636</b>	14,498	<b>16,256</b>	13,167
The components of tax expense comprise :				
Current tax	<b>15,342</b>	11,166	<b>13,964</b>	12,855
Deferred tax	<b>2,294</b>	3,326	<b>2,292</b>	306
Underprovision for tax in prior years	-	6	-	6
	<b>17,636</b>	14,498	<b>16,256</b>	13,167
<b>Franking Account</b>				
Balance of franking account at year end, adjusted for franking credits and debits arising from payment of income tax or receipt of dividends at the reporting date based on a tax rate of 30% (2006: 30%)				
	<b>75,707</b>	68,547	<b>68,243</b>	57,199

**NOTE 5. REMUNERATION OF AUDITORS**

	CONSOLIDATED		PARENT	
	2007 \$	2006 \$	2007 \$	2006 \$
Remuneration of the auditor for:				
Auditing or reviewing the financial report	<b>221,220</b>	225,389	<b>148,919</b>	221,405
Other services - audit	-	30,450	-	30,450
Others services - due diligence	-	61,258	-	61,258
Other services - information technology	<b>32,374</b>		<b>32,374</b>	
Other services - taxation services, trust and regulatory services	<b>60,431</b>	53,154	<b>43,165</b>	41,355
	<b>314,025</b>	370,251	<b>224,458</b>	354,468

Remuneration amounts relating to the 2006 financial period were paid to the previous auditors of the group. Amounts shown are inclusive of any non-recoverable GST.

**NOTE 6. KEY MANAGEMENT PERSONNEL****(a) Directors and Key Management Personnel**

The names of Directors and Key Management Personnel (KMP) who have held office during the financial year are:

## Directors

R. E. Powell  
 K. B. Ross  
 E. J. Andersen (resigned 31 December 2006)  
 T. A. Coles  
 P. G. Dowling  
 E. A. Foster  
 C. Franks  
 C. M. Greer  
 G. C. Hanlon  
 P. G. Olrich

## Key Management Personnel

D. M. Daley (resigned 29 June 2007)  
 J. A. Gill (resigned 5 April 2007)  
 A. D. Hadley  
 R. B. Nicholls  
 H. W. A. Pruyn (resigned 29 September 2006)

**(b) Compensation of Key Management Personnel**

Compensation shown as short term benefits means (where applicable) wages and salaries, paid annual leave and paid sick leave, bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

	DIRECTORS		OTHER KMP	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
The aggregate compensation of key management persons during the year comprising amount paid or payable or provided for was as follows :				
(a) short term employee benefits	1,093	981	1,874	954
(b) post employment benefits – superannuation	39	78	121	195
(c) other long term benefits	183	10	10	22
(d) termination benefits	130	123	1,599	1,100
	<b>1,445</b>	1,192	<b>3,604</b>	2,271

**(c) Loans to Directors and other Key Management Personnel**

CUA's policy for lending to directors and executive management is that all loans are approved on the same terms and conditions that applied to members for each class of loan, however the Managing Director and other executive managers may receive concessional rates of interest, the costs of which forms part of their compensation.

All loans disbursed to Directors and other Key Management Personnel were approved on the same terms and conditions which were applicable to members for each class of loan, with the exception of those KMP who are not directors. There are no loans that are impaired in relation to the loan balances with directors and management.

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

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

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 6. KEY MANAGEMENT PERSONNEL (Con't)</b>				
Aggregate of loans to Directors and other Key Management Personnel as at balance date amounted to:	<b>5,774</b>	5,339	<b>5,189</b>	4,756
The total value of revolving credit facilities to Directors and other Key Management Personnel as at balance date amounted to	<b>587</b>	614	<b>562</b>	584
Less amounts drawn down	<b>(31)</b>	(20)	<b>(31)</b>	(20)
Net balance available	<b>556</b>	594	<b>531</b>	564
During the year the aggregate value of loans disbursed to Directors and other Key Management Personnel amounted to:				
Term Loans	<b>2,870</b>	1,850	<b>2,870</b>	1,750
Interest and other revenue earned on loans and revolving credit facilities to Directors and other Key Management Personnel	<b>239</b>	236	<b>207</b>	211
Total value of term and savings deposits from Directors and other Key Management Personnel as at balance date	<b>919</b>	955	<b>908</b>	948
Total interest paid on deposits to Directors and other Key Management Personnel	<b>31</b>	24	<b>30</b>	23

**(d) Other transactions with Directors**

Directors have received interest on deposits with CUA during the financial year as detailed above. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to members of CUA.

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

There are no service contracts to which Key Management Personnel or their close family members are an interested party.

This note should be read in conjunction with notes 13, 34 and 36 of the financial statements.

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 7. CASH AND CASH EQUIVALENTS</b>				
Cash on hand	30,173	34,461	29,535	34,169
Deposits at call due from Authorised Deposit Institutions	24,426	38,067	24,426	38,212
	<b>54,599</b>	72,528	<b>53,961</b>	72,381

**NOTE 8. ASSETS - HELD TO MATURITY**

Loan to subsidiary	-	-	4,000	4,000
Deposits with Authorised Deposit Institutions	482,970	456,362	458,944	436,637
	<b>482,970</b>	456,362	<b>462,944</b>	440,637

**NOTE 9: DERIVATIVES****Interest rate swap contracts**

At 30 June 2007, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Less than 1 year	350,000	225,000	350,000	225,000
1 – 2 year	325,000	350,000	325,000	350,000
2 – 3 years	325,000	325,000	325,000	325,000
3 - 4 years	-	25,000	-	25,000
4 – 5 years	50,000	-	50,000	-
Total	<b>1,050,000</b>	925,000	<b>1,050,000</b>	925,000
Fair values reflected in Balance Sheet				
Interest Rate Swaps – positive values	16,273	8,694	16,273	8,694
Interest Rate Swaps – negative values	953	456	953	456

**NOTE 10. LOANS AND ADVANCES**

Overdrafts	138,549	117,736	138,549	117,735
Term loans	5,812,030	5,065,548	5,808,876	5,058,692
Gross Loans and Advances	5,950,579	5,183,284	5,947,425	5,176,427
Provision for impairment	(4,828)	(4,250)	(4,699)	(4,127)
Net Loans and Advances	<b>5,945,751</b>	5,179,034	<b>5,942,726</b>	5,172,300

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 11. IMPAIRMENT OF LOANS AND ADVANCES</b>				
Provision for Impairment				
Opening Balance	4,250	2,853	4,127	2,710
Bad and doubtful debts expense	2,893	2,122	2,778	2,064
Bad debts written off	(2,315)	(2,078)	(2,207)	(2,000)
Transfer from ANCU on transfer of business	-	1,353	-	1,353
Closing Balance	4,828	4,250	4,698	4,127
Impaired Loans				
Restructured Loans				
Balance	85	85	61	85
Provision for impairment	44	44	32	44
Past-due Loans				
Balance	8,915	5,754	8,706	5,631
Provision for impairment	4,522	4,011	4,393	3,888
Interest revenue recognised and foregone				
Interest revenue recognised on non-accrual and restructured loans	213	342	213	342
Interest foregone on non-accrual and restructured loans	145	195	145	195
<b>NOTE 12. OTHER RECEIVABLES</b>				
Accrued income	280	325	280	325
Sundry debtors	11,459	11,591	8,271	11,663
Securitisation Trusts collection accounts	15,859	666	-	-
	27,598	12,582	8,551	11,988
<b>NOTE 13. INVESTMENTS</b>				
Listed shares	-	700	-	700
Shares in subsidiary	-	-	2,941	2,941
Shares in unlisted entities - carried at cost	15,962	16,195	15,962	16,195
	15,962	16,895	18,903	19,836

This note should be read in conjunction with notes 6, 34 and 36 of the financial statements.

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 14. AVAILABLE FOR SALE ASSETS</b>				
Land and buildings – at cost	14,608	-	14,608	-
Accumulated Depreciation	(2,050)	-	(2,050)	-
Total land and buildings	12,558	-	12,558	-
<i>Reconciliation of carrying amounts:</i>				
Buildings				
Opening value less accumulated depreciation at 1 July	6,729	-	6,729	-
Depreciation expense	(215)	-	(215)	-
Net carrying amount at 30 June	6,514	-	6,514	-
Land				
Opening value less accumulated depreciation at 1 July	6,044	-	6,044	-
Net carrying amount at 30 June	6,044	-	6,044	-
Total net carrying amount	12,558	-	12,558	-

**Valuations**

Freehold land and buildings with a written down value of \$12.6 million has been independently valued at \$25.0 million in June 2007. The increase in value has not been brought to account in the Balance Sheet.

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 15. PROPERTY, PLANT AND EQUIPMENT</b>				
Land and buildings – at cost	2,680	17,801	2,680	17,801
Accumulated depreciation	(181)	(2,091)	(181)	(2,091)
Total land and buildings	2,499	15,710	2,499	15,710
Plant and equipment - at cost	44,389	58,172	43,940	57,808
Accumulated depreciation	(26,053)	(36,821)	(25,649)	(36,487)
Total plant and equipment	18,336	21,351	18,291	21,321
Total capital work in progress	2,500	617	2,500	617
Total property, plant and equipment	23,335	37,678	23,290	37,648

### Valuations

Freehold land and buildings with a written down value of \$2.5 million have been independently valued at \$3.8 million in June 2004. The increase in value has not been brought to account in the Balance Sheet.

Reconciliation of carrying amounts				
Land	7,293	1,179	7,293	1,179
Assets transferred on merger with ANCU	-	6,114	-	6,114
Transferred to available for sale assets	(6,044)	-	(6,044)	-
Net carrying amount	1,249	7,293	1,249	7,293
Building	8,417	968	8,417	968
Depreciation expense	(47)	(187)	(47)	(187)
Disposals	(391)	-	(391)	-
Assets transferred on merger with ANCU	-	7,636	-	7,636
Transferred to available for sale assets	(6,729)	-	(6,729)	-
Net carrying amount	1,250	8,417	1,250	8,417
Total net carrying amount of land and buildings	2,499	15,710	2,499	15,710
Plant and equipment	21,351	12,421	21,321	12,368
Depreciation expense	(6,493)	(4,056)	(6,479)	(4,043)
Additions	5,355	7,327	5,322	7,327
Disposals	(1,877)	(153)	(1,873)	(153)
Assets transferred on merger with ANCU	-	5,812	-	5,822
Total Plant and equipment	18,336	21,351	18,291	21,321

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 16. DEFERRED TAX ASSETS</b>				
Deferred tax assets comprise temporary differences attributable to:				
- doubtful debts	1,448	1,495	1,409	1,398
- employee benefits	1,819	1,962	1,807	1,962
- provisions	255	2,024	255	2,037
- fixed assets	1,536	1,238	1,536	1,238
- swap adjustment	4,995	2,325	4,995	2,325
	<b>10,053</b>	<b>9,044</b>	<b>10,002</b>	<b>8,960</b>
<b>NOTE 17. INTANGIBLE ASSETS</b>				
Computer Software at cost	5,831	5,153	5,831	5,153
Accumulated amortisation	(3,226)	(3,000)	(3,226)	(3,000)
	<b>2,605</b>	<b>2,153</b>	<b>2,605</b>	<b>2,153</b>
Reconciliation of carrying amounts				
Intangible	2,153	570	2,153	570
Additions	1,174	394	1,174	394
Additions on merger with ANCU	-	2,268	-	2,268
Disposals	-	(218)	-	(218)
Amortisation expense	(722)	(861)	(722)	(861)
Net carrying amount	<b>2,605</b>	<b>2,153</b>	<b>2,605</b>	<b>2,153</b>
<b>NOTE 18. OTHER ASSETS</b>				
Prepayments	1,388	931	1,369	909
<b>NOTE 19. BANK OVERDRAFT</b>				
Overdraft with Cuscal Limited	4,837	-	4,837	-

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 20. DEPOSITS</b>				
Members' shares	3,364	3,360	3,364	3,360
Members' call deposits	2,200,137	1,837,962	2,269,782	1,885,466
Members' term deposits	1,284,878	1,440,183	1,299,060	1,457,226
Interest Payable	24,584	25,305	24,828	25,245
	<b>3,512,963</b>	<b>3,306,810</b>	<b>3,597,034</b>	<b>3,371,297</b>

There are no concentrations of risk, including customer or industry groups, which represent 10% or more of total liabilities.

The value of members shares above represents the amounts contributed for the purchase of a single voting share held by each member.

#### NOTE 21. WHOLESALE BORROWINGS

Securitisation Trust Borrowings	2,500,881	1,861,464	2,423,900	1,814,399
Term Borrowings	50,018	150,852	50,018	150,852
Borrowings	<b>2,550,899</b>	<b>2,012,316</b>	<b>2,473,918</b>	<b>1,965,251</b>

#### NOTE 22. OTHER PAYABLES

Insurance claims payable	4,034	4,114	-	-
Trade creditors and accruals	25,153	28,310	15,253	22,010
	<b>29,187</b>	<b>34,424</b>	<b>15,253</b>	<b>22,010</b>

Insurance claims payable relates to Credicare Health Fund Ltd and Credicorp Insurance Pty Ltd. This amount represents a combination of a central estimate, a risk margin of 14.2% and a probability of adequacy in excess of 95%.

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 23. INCOME TAX PAYABLE</b>				
Current income tax payable	<b>7,909</b>	5,192	<b>7,896</b>	4,783
<b>NOTE 24. PROVISIONS</b>				
Employee benefits	<b>6,039</b>	6,697	<b>6,025</b>	6,542
Movements in carrying amounts of provisions				
Opening balance	<b>6,697</b>	2,838	<b>6,542</b>	2,831
Movements during the year	<b>(658)</b>	3,858	<b>(517)</b>	3,711
Closing balance	<b>6,039</b>	6,697	<b>6,025</b>	6,542
<b>NOTE 25. RESERVES</b>				
Credit loss reserve	<b>7,457</b>	7,457	<b>7,457</b>	7,457
Redeemable preference share reserve	<b>1,443</b>	1,221	<b>1,443</b>	1,221
Closing balance	<b>8,900</b>	8,678	<b>8,900</b>	8,678
<b>NOTE 26. RETAINED EARNINGS</b>				
Opening balance	<b>421,686</b>	190,756	<b>396,489</b>	170,040
Net profit after tax	<b>48,252</b>	38,464	<b>42,099</b>	32,866
Transfer from Minority interest	<b>456</b>	-		
Amount received on transfer of business of ANCU	-	197,313	-	198,430
Transfers from to Credit loss reserve	-	(4,540)	-	(4,540)
Transfer to Redeemable preference share reserve	<b>(222)</b>	(307)	<b>(222)</b>	(307)
Closing balance	<b>470,172</b>	421,686	<b>438,366</b>	396,489

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 27. MINORITY INTERESTS</b>				
Minority interests in:				
Issued capital	-	300	-	-
Retained profits	-	149	-	-
Current year profit	-	40	-	-
Dividend provided for or paid	-	(34)	-	-
Reserves of Friendly Society	<b>1,233</b>	1,187		
Total	<b>1,233</b>	1,642	-	-

During the financial year Credicorp Finance acquired the 11% interest in Credicorp Insurance that was previously held by an external party.

#### NOTE 28. COMMITMENTS

##### (a) Capital expenditure commitments:

Amounts contracted for branch refurbishments or relocations

	<b>1,253</b>	421	<b>1,253</b>	421
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##### (b) Lease expenditure commitments not provided for:

Operating leases (non-cancellable)

-not later than 1 year

**12,175** 11,784      **12,175** 11,784

-later than 1 and not later than 5 years

**30,527** 24,075      **30,527** 24,075

-later than 5 years

**222** 2,105      **222** 2,105

**42,924** 37,964      **42,924** 37,964

The group has operating leases for various branches, offices and ATM installations.

##### (c) Outstanding Loan Commitments

Loan and credit facilities approved but not funded or drawn at the end of the financial year :

Loans approved but not funded

**197,954** 129,789      **197,954** 129,789

Undrawn overdrafts and credit facilities

**223,744** 229,010      **223,744** 229,010

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 29. CASH FLOW STATEMENT RECONCILIATION</b>				
Net profit after income tax	48,336	38,549	42,099	32,866
<b>Non-cash flows in profit after income tax:</b>				
Depreciation and amortisation	7,477	5,104	7,463	5,091
Provision for loan impairment	2,893	2,064	2,778	2,064
<b>Changes in assets and liabilities</b>				
Derivative financial instruments	(7,082)	(15,261)	(7,082)	(11,496)
Other receivables	(15,016)	(7,942)	3,437	(6,660)
Other payables	(10,067)	23,229	(14,965)	26,956
Loans and Advances	(767,294)	(559,081)	(770,998)	(561,836)
Prepayments	(457)	(3,534)	(460)	(9,817)
Income taxes payable	479	922	83	666
Deferred tax asset	(2,187)	(183)	(2,154)	3,050
Provisions	658	(4,135)	517	286
Net cash provided by operating activities	(742,260)	(520,268)	(739,282)	(518,830)

**Cash Flows Presented on a net basis**

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- movement in members' deposits;
- sales and purchases of investment securities;
- movement in borrowings; and
- provision of member loans and repayments.

**NOTE 30. SUPERANNUATION COMMITMENTS**

CUA contributes to a number of defined contribution superannuation funds, which provide benefits for employees on retirement, death or disability. Employees may contribute additional amounts of their gross income to their respective superannuation fund. CUA has no financial interest in any of the funds and is not liable for their performance or their obligations.

**NOTE 31. EVENTS SUBSEQUENT TO BALANCE DATE**

No circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect, the operations of the economic entity, the results of those operations, or the state of affairs of the consolidated group in future financial years.

**NOTE 32. STANDBY BORROWING FACILITIES**

In the normal course of business CUA enters into various types of contracts which give rise to the following standby facilities:

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Standby and overdraft arrangements:</b>				
(i) Standby				
Approved limit	-	-	-	-
Amount utilised	-	-	-	-
(ii) Overdraft				
Approved limit	<b>10,000</b>	15,000	<b>10,000</b>	15,000
Amount utilised	-	-	-	-
(iii) Wholesale Funding				
Approved limit	<b>100,000</b>	200,000	<b>100,000</b>	200,000
Amount utilised	<b>50,018</b>	150,851	<b>50,018</b>	150,851

**NOTE 33. CONTINGENT LIABILITIES**

CUA is a participant in the Credit Union Financial Support System (CUFSS). The purpose of the scheme is to protect the interests of credit union members, increase stability in the industry and to provide emergency liquidity support. A contract entered into on 4 March 1999 between Cuscal Limited, CUFSS and participating credit unions, required CUA to execute an equitable charge, in favour of Cuscal Limited. The charge is a fixed and floating charge over the assets and undertakings of CUA as security in the event any advances are made to CUA under the scheme. No advances were made to CUA during the financial year and the balance of any drawings by CUA at the end of the financial year was \$nil (2006 - \$nil).

**NOTE 34. PARTICULARS IN RELATED TO CONTROLLED ENTITIES**

The consolidated financial statements include the financial statements of the ultimate parent Credit Union Australia Ltd and the subsidiaries listed in the following table:

**INVESTMENTS IN CONTROLLED ENTITIES**

Name of Entity	Equity Interest %		Investment \$	
	2007	2006	2007	2006
Credicare Health Fund Limited	100%	100%	-	-
Credicorp Finance Pty Ltd	100%	100%	800,000	800,000
Credicorp Insurance Pty Ltd	100%	89%	-	-
CUA Financial Planning Pty Ltd	100%	100%	-	-
Leisure Travel Pty Ltd	100%	100%	-	-
Members Retail Services Pty Ltd	100%	100%	-	-
Australian National Financial Planning Pty Ltd	100%	100%	2,141,023	2,141,023
A.C.N. 093 462 269 Pty Ltd	100%	100%	-	-
CUA Superannuation Pty Ltd	100%	100%	-	-
			2,941,023	2,941,023
Harvey Securitisation Trusts	-	-	-	-
CUA Friendly Society Ltd	-	-	-	-

All entities are incorporated in Australia.

**NOTE 34. PARTICULARS IN RELATED TO CONTROLLED ENTITIES (con't)**

CUA does not retain an equity interest in CUA Friendly Society Ltd or the Harvey Securitisation Trusts, however under accounting standards we are required to consolidate them as we are deemed to exercise control over these entities.

**Acquisition of Subsidiaries**

On 1 January 2006, CUA acquired, through the transfer of business of ANCU, 100% of Australian National Financial Planning Pty Ltd and A.C.N. 093 462 269 Pty Ltd, with CUA being entitled to all profits earned from 1 January 2006.

In March 2007 Credicorp Finance Pty Ltd acquired the 11% equity interest in Credicorp Insurance Pty Ltd that was previously held by an external party.

This note should be read in conjunction with notes 6, 13 and 36 of the financial statements.

**NOTE 35. ECONOMIC DEPENDENCY**

CUA has significant service contracts with the following suppliers:

**(a) Cuscal Limited**

This entity provides CUA with rights to VISA card system in Australia and provides settlement services with other financial institutions for ATM, VISA card transactions, BPay, Cheque processing and Direct entry transactions.

**(b) First Data International Limited**

This company operates the electronic switching network used to link member transactions on ATM's, VISA cards and Redicards to CUA's computer system.

**NOTE 36. RELATED PARTIES**

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

	Year	Sales to related parties \$	Purchases from related parties \$	Other transactions
<b>Parent Entity :</b>				
Dividend paid to CUA by Credicorp Finance Pty Ltd	2007	-	-	2,500,000
	2006	-	-	1,100,000
Rental paid to CUA by CUA Financial Planning Pty Ltd, Leisure Travel Pty Ltd, Credicare Health Fund Ltd	2007	358,383	-	-
	2006	272,808	-	-
Management charges paid to CUA by Credicare Health Fund Ltd, CUA Friendly Society Ltd, Credicorp Insurance Pty Ltd	2007	3,389,583	-	-
	2006	3,179,643	-	-
Interest paid on investments held with CUA on behalf of Leisure Travel Pty Ltd, CUA Financial Planning Pty Ltd, Credicare Health Fund Pty Ltd, Credicorp Insurance Pty Ltd and CUA Friendly Society Ltd	2007	-	1,106,771	-
	2006	-	1,602,177	-
Interest received by CUA relating to interest charged on a loan held with Credicorp Finance Pty Ltd	2007	632,977	-	-
	2006	826,923	-	-
Commission received by CUA from Credicorp Insurance Pty Ltd	2007	1,025,097		
	2006	897,949		

This note should be read in conjunction with notes 6, 13 and 34 of the financial statements.

**NOTE 37: RISK MANAGEMENT****Risk Management Policy Objectives**

The consolidated groups financial instruments, other than derivatives, comprise loans, overdrafts and deposits. The main purpose of these financial instruments is to raise finance for the consolidated group's operations. The consolidated group also enters into derivative transactions via interest rate swaps to manage market risk from the consolidated groups operation CUA has undertaken the strategies to minimise the risks arising from financial instruments. The consolidated group is also affected by insurance risk via its health fund operations. Details on the consolidated groups approach to managing these risks is detailed below.

**Market Risk and Hedging Policy**

CUA is not exposed to currency risk and the credit union does not trade in the financial instruments it holds on its books.

CUA is exposed to interest rate risk arising from changes in market interest rates.

CUA uses the Value at Risk (VaR) methodology for quantifying financial risk in terms of the potential for loss given the statistical worst-case probability of a shift in the underlying interest rates. The policy of CUA is to set a maximum benchmark VaR as a percentage of its capital that is acceptable to the board given its risk attitude and objectives. CUA undertakes derivative transactions to manage interest rate risk and keep VaR below its prescribed limit.

The consolidated group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities, are detailed as follows:

Repricing Period at 30 June 2007	Floating Interest Rate	Fixed Interest rate maturing			Non Interest Sensitive	Total	Effective Interest Rate
		Within 1 Year	1 to 5 Years	Over 5 Years			
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	%
<b>Assets</b>							
Cash and cash equivalents	25,281	-	-	-	29,318	54,599	2.60%
Financial assets - held to maturity	-	482,970	-	-	-	482,970	6.51%
Derivative financial instruments	-	-	-	-	16,273	16,273	-
Loans and advances	1,295,787	883,819	3,766,145	-	-	5,945,751	6.97%
Other receivables	-	-	-	-	27,598	27,598	-
Investments	-	-	-	-	15,962	15,962	-
Available for sale assets	-	-	-	-	12,558	12,558	-
Property, plant and equipment	-	-	-	-	23,335	23,335	-
Deferred tax assets	-	-	-	-	10,053	10,053	-
Intangible assets	-	-	-	-	2,605	2,605	-
Other assets	-	-	-	-	1,388	1,388	-
<b>Total Assets</b>	<b>1,321,068</b>	<b>1,366,789</b>	<b>3,766,145</b>	<b>-</b>	<b>139,090</b>	<b>6,593,092</b>	<b>-</b>
<b>Liabilities</b>							
Bank overdraft	4,837	-	-	-	-	4,837	8.85%
Derivative financial instruments	-	-	-	-	953	953	-
Deposits	1,884,923	1,573,875	54,165	-	-	3,512,963	4.51%
Wholesale borrowings	-	2,550,899	-	-	-	2,550,899	6.56%
Other payables	-	-	-	-	29,187	29,187	-
Income tax payable	-	-	-	-	7,909	7,909	-
Provisions	-	-	-	-	6,039	6,039	-
<b>Total Liabilities</b>	<b>1,889,760</b>	<b>4,124,774</b>	<b>54,165</b>	<b>-</b>	<b>44,088</b>	<b>6,112,787</b>	<b>-</b>

## NOTE 37: RISK MANAGEMENT (con't)

Repricing Period at 30 June 2006	Floating Interest Rate	Fixed Interest rate maturing			Non Interest Sensitive	Total	Effective Interest Rate
		Within 1 Year	1 to 5 Years	Over 5 Years			
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	%
<b>Assets</b>							
Cash and cash equivalents	34,462	-	-	-	38,066	72,528	2.40%
Financial - assets held to maturity	-	446,922	6,500	-	2,940	456,362	5.81%
Derivative financial instruments	-	-	-	-	8,694	8,694	-
Loans and advances	890,657	1,242,294	3,046,083	-	-	5,179,034	6.70%
Other receivables	-	-	-	-	12,582	12,582	-
Investments	-	-	-	-	16,895	16,895	-
Property, plant and equipment	-	-	-	-	37,678	37,678	-
Deferred tax assets	-	-	-	-	9,044	9,044	-
Intangible assets	-	-	-	-	2,153	2,153	-
Other assets	-	-	-	-	931	931	-
<b>Total Assets</b>	<b>925,119</b>	<b>1,689,216</b>	<b>3,052,583</b>	<b>-</b>	<b>128,983</b>	<b>5,795,901</b>	<b>-</b>
<b>Liabilities &amp; Equity</b>							
Derivative financial instruments	-	-	-	-	456	456	-
Deposits	880,684	2,399,552	26,574	-	-	3,306,810	3.60%
Wholesale borrowings	-	2,012,316	-	-	-	2,012,316	5.30%
Other payables	-	-	-	-	32,424	32,424	-
Income tax payable	-	-	-	-	5,192	5,192	-
Provisions	-	-	-	-	6,697	6,697	-
<b>Total Liabilities</b>	<b>880,684</b>	<b>4,411,868</b>	<b>26,574</b>	<b>-</b>	<b>44,769</b>	<b>5,363,895</b>	

**Credit Risk – Loans**

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

CUA minimises concentrations of credit risk in relation to loans, by undertaking transactions with a large number of members. Credit risk is currently managed in accordance with Australian Prudential Regulation Authority (APRA) Prudential Standards to reduce CUA's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement. The Directors are of the opinion that there is no undue concentration of risk by way of geographical area or member groupings.

**Credit Risk – Liquid Investments**

All liquid investments are placed with Approved Deposit Taking Institutions (ADIs) regulated by APRA. The extent to which CUA will invest its liquid investments in any one institution is based upon predetermined exposure limits with reference to the ADI's independent credit rating.

**Credit Risk**

The consolidated group has a concentration of credit risk exposure in excess of 10% of capital with Cuscal Limited, as follows:

	CONSOLIDATED	
	2007	2006
	\$000	\$000
Cash and liquid assets	523	7,895
Investment securities	174,909	135,632
Shares	13,618	18,333
	<b>189,050</b>	<b>161,860</b>

**NOTE 37: RISK MANAGEMENT (con't)****Liquidity Risk**

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The following table shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the above dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

	Within 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	No Maturity	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Consolidated Group – 2007</b>							
<b>Assets</b>							
Cash and cash equivalents	25,281	-	-	-	-	29,318	54,599
Financial assets - held to maturity	192,194	161,451	129,325	-	-	-	482,970
Derivative financial instruments	16,273	-	-	-	-	-	16,273
Loans and advances	1,863,159	36,797	279,650	3,415,231	350,914	-	5,945,751
Other receivables	-	-	-	-	-	27,598	27,598
<b>Total Financial Assets</b>	<b>2,096,907</b>	<b>198,248</b>	<b>408,975</b>	<b>3,415,231</b>	<b>350,914</b>	<b>56,916</b>	<b>6,527,901</b>
<b>Liabilities</b>							
Bank Overdraft	4,837	-	-	-	-	-	4,837
Derivate financial instruments	953	-	-	-	-	-	953
Deposits	2,404,639	335,482	718,677	54,165	-	-	3,512,963
Wholesale borrowings	2,500,880	50,019	-	-	-	-	2,550,899
Other payables	-	-	-	-	-	29,187	29,187
Income tax payable	-	-	-	-	-	7,909	7,909
Provisions	-	-	-	-	-	6,039	6,039
<b>Total Financial Liabilities</b>	<b>4,911,309</b>	<b>385,501</b>	<b>718,677</b>	<b>54,165</b>	<b>-</b>	<b>43,135</b>	<b>6,112,787</b>
<b>Consolidated Group – 2006</b>							
<b>Assets</b>							
Cash and cash equivalents	34,462	-	-	-	-	38,066	72,528
Financial assets - held to maturity	185,751	139,203	121,968	6,500	-	2,940	456,362
Derivative financial instruments	8,694	-	-	-	-	-	8,694
Loans and advances	1,827,072	105,314	201,962	2,822,222	222,464	-	5,179,034
Other receivables	-	-	-	-	-	12,582	12,582
<b>Total Financial Assets</b>	<b>2,055,979</b>	<b>244,517</b>	<b>323,930</b>	<b>2,828,722</b>	<b>222,464</b>	<b>53,588</b>	<b>5,729,200</b>
<b>Liabilities</b>							
Derivate financial instruments	456	-	-	-	-	-	456
Deposits	2,674,115	173,865	432,256	26,574	-	-	3,306,810
Wholesale borrowings	66,406	1,945,910	-	-	-	-	2,012,316
Other payables	-	-	-	-	-	32,424	32,424
Income tax payable	-	-	-	-	-	5,192	5,192
Provisions	-	-	-	-	-	6,697	6,697
<b>Total Financial Liabilities</b>	<b>2,740,977</b>	<b>2,119,775</b>	<b>432,256</b>	<b>26,574</b>	<b>-</b>	<b>44,313</b>	<b>5,363,895</b>

## NOTE 37: RISK MANAGEMENT (con't)

	Within 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	No Maturity	Total
Parent – 2007	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>							
Cash and cash equivalents	24,643	-	-	-	-	29,318	53,961
Financial assets - held to maturity	187,546	149,015	122,383	-	4,000	-	462,944
Derivative financial instruments	16,273	-	-	-	-	-	16,273
Loans and advances	1,860,133	36,797	279,650	3,415,232	350,914	-	5,942,726
Other receivables	-	-	-	-	-	8,551	8,551
<b>Total Financial Assets</b>	<b>2,088,595</b>	<b>185,812</b>	<b>402,033</b>	<b>3,415,232</b>	<b>354,914</b>	<b>37,869</b>	<b>6,484,455</b>
<b>Liabilities</b>							
Bank Overdraft	4,837	-	-	-	-	-	4,837
Derivative financial instruments	953	-	-	-	-	-	953
Deposits	2,480,082	340,010	722,557	54,385	-	-	3,597,034
Wholesale borrowings	2,423,900	50,018	-	-	-	-	2,473,918
Other payables	-	-	-	-	-	15,253	15,253
Income tax payable	-	-	-	-	-	7,896	7,896
Provisions	-	-	-	-	-	6,025	6,025
<b>Total Financial Liabilities</b>	<b>4,909,772</b>	<b>390,028</b>	<b>722,557</b>	<b>54,385</b>	<b>-</b>	<b>29,174</b>	<b>6,105,916</b>
<b>Parent – 2006</b>							
<b>Assets</b>							
Cash and cash equivalents	34,169	-	-	-	-	38,212	72,381
Financial assets - held to maturity	185,751	122,418	126,968	1,500	4,000	-	440,637
Derivative financial instruments	8,694	-	-	-	-	-	8,694
Loans and advances	1,820,338	105,314	201,962	2,822,222	222,464	-	5,172,300
Other receivables	-	-	-	-	-	11,988	11,988
<b>Total Financial Assets</b>	<b>2,048,952</b>	<b>227,732</b>	<b>328,930</b>	<b>2,823,722</b>	<b>226,464</b>	<b>50,200</b>	<b>5,706,000</b>
<b>Liabilities</b>							
Derivative financial instruments	456	-	-	-	-	-	456
Deposits	2,738,602	173,865	432,256	26,574	-	-	3,371,297
Wholesale borrowings	47,886	1,917,365	-	-	-	-	1,965,251
Other payables	-	-	-	-	-	22,010	22,010
Income tax payable	-	-	-	-	-	4,783	4,783
Provisions	-	-	-	-	-	6,542	6,542
<b>Total Financial Liabilities</b>	<b>2,786,944</b>	<b>2,091,230</b>	<b>432,256</b>	<b>26,574</b>	<b>-</b>	<b>33,335</b>	<b>5,370,339</b>

**Insurance Risk**

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 (The Act) which is premised on the fundamental principal of community rating.

Community rating is the system by which premiums for Australian Private Health Insurance (PHI) are set. In principle, this is a system where the premium charged for a particular group of people does not depend on the risk profile of that particular group. The intention is to achieve one premium rate irrespective of age, gender, occupation, health status, smoking status, number of dependents, pre-existing illness or other common risk-rating factors. The “principles of community rating” are referred to in the Act.

**NOTE 37. RISK MANAGEMENT (con't)**

Given the regulated nature of private health insurance in Australia, compliance with the regulations is included in the groups risk management strategy and is a way that the group mitigates its exposure to insurance risk.

**NOTE 38. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Disclosed below is the fair value of the consolidated group financial instruments.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

*Cash and cash equivalents:* The carrying amount approximates fair value as they are short term in nature or are receivable on demand.

*Financial Assets - held to maturity:* Financial assets available for sale are carried at net market/fair value that have their net fair value determined based on quoted market prices or net assets of associates.

Financial assets held to maturity are carried at cost as these assets are intended to be held until maturity.

*Loan and advances:* The carrying value of loans, advances and other receivables is net of specific provision for impairment.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of the net fair value. The net fair value for fixed rate loans was calculated by utilizing discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June 2007.

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

*Deposits:* The net fair value for deposits was calculated by utilizing discounted cash flow models based on the maturity of the deposits. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June 2007.

The net fair value of non-interest bearing, call and variable rate deposits repriced within twelve months is the carrying value as at 30 June 2007.

Discounted cash flow models based upon deposit types and related maturities were used to calculate the net fair value of the other term deposits.

**NOTE 38. FAIR VALUE OF FINANCIAL INSTRUMENTS (Con't)**

The aggregate net fair values of financial assets and financial liabilities, at balance date, are as follows:

	Total carrying amount as per the Balance Sheet		Aggregate net fair value	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	54,599	72,528	54,599	72,528
Financial assets – held to maturity	482,970	456,362	482,970	456,362
Derivative financial instruments	16,273	8,694	16,273	8,694
Loans and advances	5,945,751	5,179,034	5,586,622	5,080,306
Other receivables	27,598	12,582	27,598	12,582
Investments	15,962	16,895	15,962	16,895
<b>Total Financial Assets</b>	<b>6,543,153</b>	<b>5,746,095</b>	<b>6,184,024</b>	<b>5,647,367</b>
<b>Financial Liabilities</b>				
Bank overdraft	4,837	-	4,837	-
Derivative financial instruments	953	456	953	456
Deposits	3,512,963	3,306,810	3,511,990	3,201,546
Wholesale borrowings	2,550,899	2,012,316	2,550,899	2,012,316
<b>Total Financial Liabilities</b>	<b>6,069,652</b>	<b>5,319,582</b>	<b>6,068,679</b>	<b>5,214,318</b>

**NOTE 39. COMPANY DETAILS**

The controlling entity in the consolidated group is Credit Union Australia Limited. The registered office and principal place of business is:

Credit Union Australia Limited  
Level 3  
175 Eagle Street  
Brisbane Qld 4000

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# Directors' Declaration

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In accordance with a resolution of the Directors of Credit Union Australia Limited, we declare that:

In the opinion of the Directors:

- (a) the financial statements and notes of the credit union and of the consolidated group are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the credit union's and the consolidated group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the credit union and the consolidated group will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

R. E. Powell  
Director

K. B. Ross  
Director

Brisbane, 27 September 2007.



■ 1 Eagle Street  
Brisbane QLD 4000  
Australia

■ Tel 61 7 3011 3333  
Fax 61 7 3011 3100  
DX 165 Brisbane

PO Box 7878  
Waterfront Place  
Brisbane QLD 4001

## Independent auditor's report to the members of Credit Union Australia Limited

We have audited the accompanying financial report of Credit Union Australia Limited, which comprises the balance sheet as at 30 June 2007, 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 of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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 that the financial report, comprising the consolidated 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. 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 met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Liability limited by a scheme approved under Professional Standards Legislation.



*Auditor's Opinion*

In our opinion:

1. the financial report of Credit Union Australia Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of Credit Union Australia Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Ernst & Young

Mark Hayward  
Partner  
Brisbane  
27 September 2007



