

2010 Annual Report



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Mission, Vision and Guiding Principles

Our Mission

EECU delivers competitive banking with exceptional service for the benefit of the ExxonMobil community.

Our Vision

EECU will be the primary institution meeting the personal financial services needs of the ExxonMobil community and their families.

Our Guiding Principles

By joining together, our members will always be able to:

- access competitive finance;
- achieve competitive and secure returns on savings and investments; and
- advantage themselves through the quality of our service.

In striving to attain our vision, the Credit Union will be noted for the:

- personal financial security afforded to members;
- prudent manner in which it equitably manages members' resources;
- way that it demonstrates to members the practical benefits and financial rewards that accrue from traditional credit union philosophy, ethics and values;
- unique relationship it has with the ExxonMobil community; and
- benefit it provides members through their employment with ExxonMobil.

Member Relations Staff

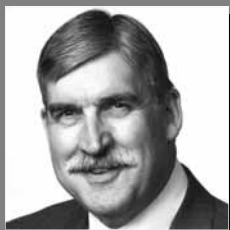


David Nicholds
General Manager



Melbourne: *(left to right)*

Peter Barber, Tracey Cherubin, Mary Christou, Rachel Ellsmore, Helen Renfrew



Ron Cox
Senior Manager
Member Relations



Sale: *(left to right)*

Jenny Counahan, Trudi Elston, Vicki Gray, Quinn Schuback, Susan Thomas

Chairperson's Report



Ron Reinten

“EECU experienced strong deposit growth during the financial year in a banking environment where fierce competition occurred for retail deposits...”

I am pleased to report on the credit union's performance and activities in the financial year ending June 2010.

The financial sector in Australia continued to be affected by the global financial crisis during the past year, principally in terms of the availability and cost of funds. However the economy was in better shape and the Reserve Bank saw fit to increase official interest rates to 4.50% by the end of the year, still an historically low figure. Early in 2010 the Australian government determined that economic circumstances had greatly improved and announced that the government guarantee would no longer be available for new deposits in excess of \$1 million. The guarantee will stay in place for other retail deposit accounts until at least October 2011.

Availability of funds to the major banks from overseas has continued to be more limited than before the GFC. As a result there has been heightened competition in the retail deposit area, to the great benefit of depositors. This competition seemed to be at its height in the late part of 2009 and the early part of 2010 when very high term deposit rates were on offer. EECU matched some of these rates in order to meet its obligations to members and to retain sufficient funds for lending and liquidity. As the year progressed deposit rates returned to more normal levels.

Member Services

EECU members have readily taken up self-managed banking applications, including internet banking and the use of mobile phones for transacting. We are committed to facilitating this activity but must ensure that high security is maintained for our members, and for the credit union of course. Therefore we introduced 'Security Validation' for certain internet banking transactions from July 2009. This requires an additional code for first-time transactions made to parties outside

of the credit union. We acknowledge that this introduces an additional step for member payments but it is a necessary precaution to protect against internet fraud.

Further on the subject of security, we are fully aware of the risks which exist with debit and credit cards. As part of our strategy of minimising risks to members and the credit union we introduced electronic chips cards for all new or replacement EECU Visa Debit cards from late in 2009. All EECU Visa cards will be converted to chip cards as they expire over the period to December 2011. In addition we have just released a new version of the 'Verified by Visa' system to improve the security of online transactions.

EECU members can access the rediATM network with their Visa Debit cards and rediCARDS. This network was significantly expanded in September 2009 when the ATMs of the National Australia Bank were added, making this the second largest ATM network in Australia which is owned by financial institutions. I am pleased to note that the ATMs of the Bank of Queensland will be added fully by December 2010 to provide members with a network of more than 3,500 'direct charge free' ATM's around Australia.

We introduced mobile phone banking in October 2009. This enables members to use their phones for internet banking transactions, though the range of facilities is slightly less than those available through internet banking, for security reasons.

Industry Issues

All credit unions and most Australian building societies are mutuals, meaning that their customers are also shareholders in the organisation. EECU is affiliated with an industry association for mutual banking institutions called Abacus which

provides representation to government, promotes the industry and performs other vital services. Abacus research shows that mutuals enjoy high regard amongst their members but have a low level of recognition in the general community. Abacus developed an industry promotion campaign to improve awareness and the first phase occurred in June 2009, with a further phase taking place in September. The campaign has been featured on television and online under the banner "It all comes back to our members". EECU is pleased to participate in this co-operative endeavour.

Deposits and Loans

EECU experienced strong deposit growth during the financial year in a banking environment where fierce competition occurred for retail deposits and many people preferred the certainty of interest on deposits to the vagaries of other markets.

Our member deposits grew by \$21.5 million to \$187.7 million, an increase of 13%. Growth was all in term deposits, which increased by \$27.6 million, while savings deposits declined by \$6.1 million. This means that just over half of our member deposits are now held as term deposits.

Growth in loans was more subdued, increasing by \$12.2 million or 6.6%. As usual the majority of this growth was in mortgage secured lending. I wish to thank our borrowers for the continued good management of their loans which contributes to EECU having one of the lowest levels of loan delinquency in the industry.

Financial Performance

EECU's operating profit of \$483 thousand was marginally lower than the result for the previous year. Improvements in net interest income were offset by reductions in other ('non-interest') income and an increase in operating costs.

Chairperson's Report

Our non-interest income amount reverted to normal levels after the 2009 level was boosted by several one-off receipts. Operating expenses increased, particularly in the areas of salaries and information technology, where additional regulatory requirements increased staffing and technology requirements.

This level of profit, as EECU's principal means of building capital, was lower than preferred for a growing business like ours but the board is confident that profitability will improve in the new financial year. Signs of this recovery are evident at the time of preparing this report.

Future Developments

Notwithstanding the improving circumstances your board is conscious of the need to boost EECU's capital base to support the strong growth in loan demand by members and the need to find sufficient sources of funds to meet these demands. Many financial institutions are in a similar position since the global financial crisis.

In considering future options EECU is presently working with a group of credit unions to assess an alternative operating structure. The structure would give improved access to capital and funding and also reduce costs, through centralisation of regulatory

compliance functions. Importantly it would occur without loss of identity or loss of focus on the financial needs of a particular community, in our case the ExxonMobil community. Of course it would represent a substantial structural change for all credit unions which participate. The work is at an early stage and requires careful assessment, due diligence and regulatory support. EECU will review the outcomes of the assessment and the potential benefit for our members. If it proves to be beneficial and the preferred option for the future the board will submit the matter to members for their consideration.

The Board

During the year the board resolved to create a Governance Committee to deal with the increasing responsibilities in the area of board nominations, performance assessment, training and regulatory governance responsibilities. A decision was made at the same time to disband the Loans Committee and transfer its responsibilities to the board or the Audit & Risk Committee. These changes have worked well and I commend my fellow directors for the commitment they have made to their responsibilities as board and committee members. The expectation

by regulators of directors' expertise and time commitment continues to increase and is not influenced by the honorary nature of our directors' involvement. It has been a pleasure to work with this dedicated and hard working board of directors during the year.

In the past year there has been one change in the board when Stuart Jeffries was relocated to the United States. Kevin Dixon was appointed to the casual vacancy and his appointment was subsequently supported by the members at the 2009 AGM.

Staffing

This has been another year of stable staffing which has assisted us in dealing with the continuing effects of the global financial crisis and increased regulatory demands. I commend our staff for continuing to provide our members with top quality service while dealing with a range of strategic and funding demands.

On behalf of the board I commend the report on the 2010 financial year to you.

Ron Reinten
Chairperson

22 September 2010

Directors



Ron Reinten
Chairperson



Stuart Brown
Deputy Chairperson



Kevin Dixon



Mark Goonan



Nick Heath



Denis Lister



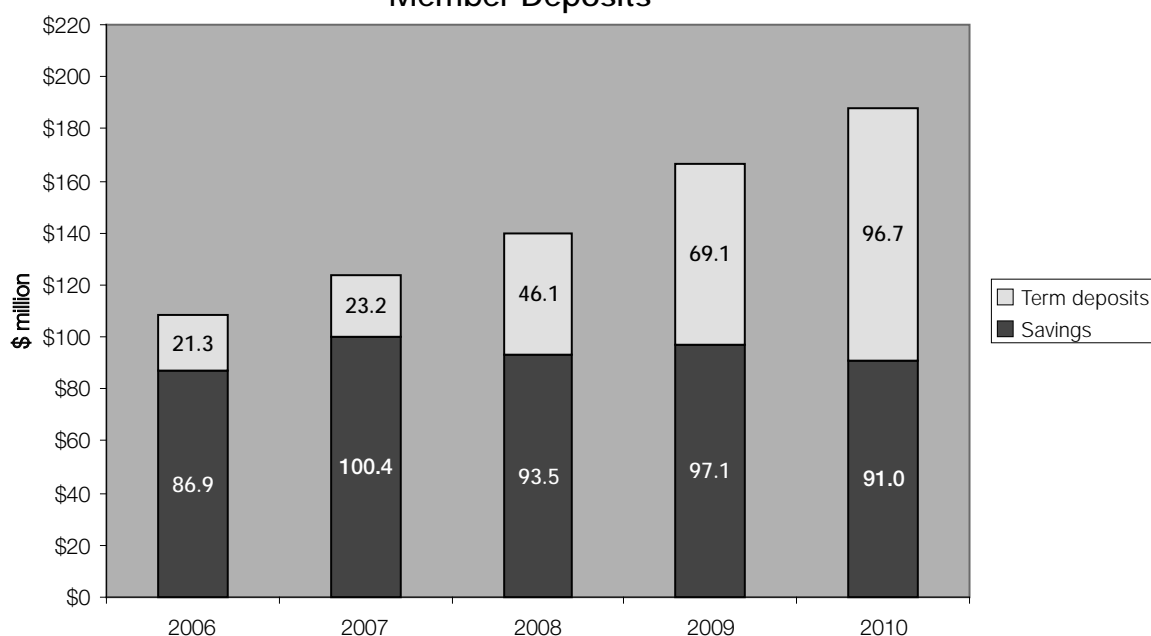
Barry Thompson

Statistical & Financial Highlights

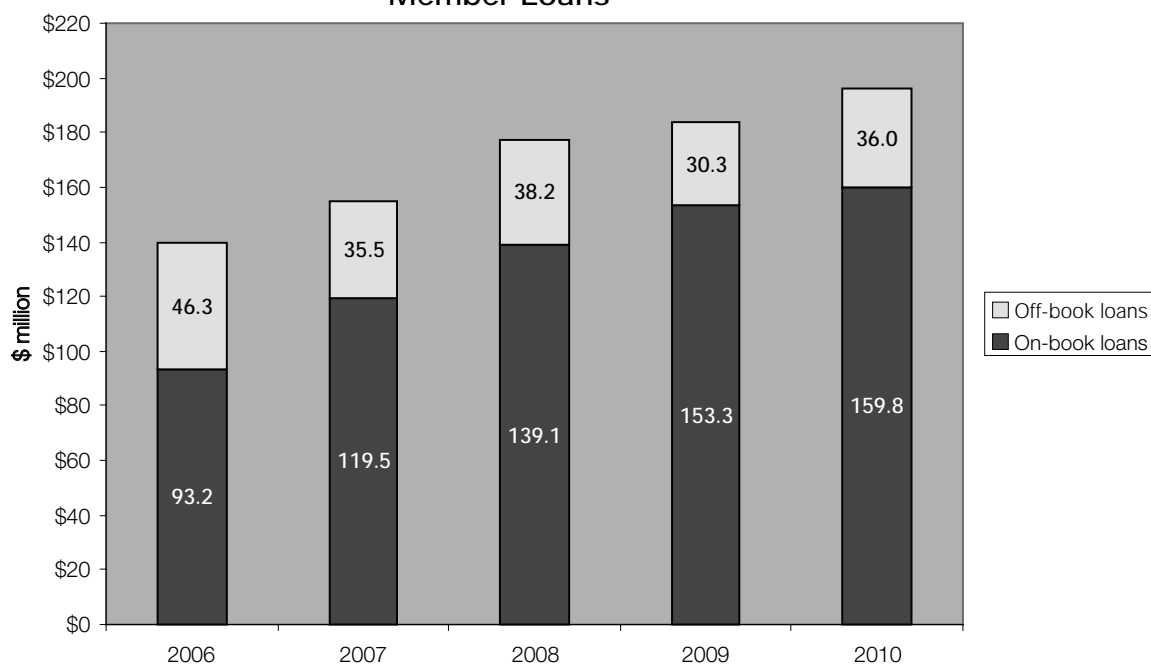
	2006	2007	2008	2009	2010
Number of members	5,490	5,358	5,434	5,549	5,678
Number of staff - equivalent full time	18.6	19.5	19.0	18.2	19.8
Member deposits (\$m)	108.3	123.6	139.6	166.2	187.7
Member loans* (\$m)	139.5	154.9	177.3	183.6	195.8
Loans funded* (\$m)	47.5	50.7	68.1	44.2	48.8
Total assets* (\$m)	169.2	183.2	205.3	219.8	252.8
Profit after income tax (\$k)	654	414	625	488	483
Members' equity (\$m)	7.2	7.6	8.3	8.8	9.4

*Includes off-book loans

Member Deposits



Member Loans



Directors' Report

Your directors present their report on the credit union for the financial year ended 30 June 2010. The credit union is a company registered under the Corporations Act 2001.

Information on directors

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

Name	Qualifications	Responsibilities
Ron Reinten Chairperson	BEng (Hons)	Director since Oct 2001, Chairperson since May 2007 Chairperson of Loans Committee, Chairperson of Governance Committee*
Stuart Brown Deputy Chairperson	BEc, LLB (Hons)	Director since Oct 2000, Deputy Chairperson since Sep 2001 Chairperson of Audit & Risk Committee
Kevin Dixon ¹	BEng (Hons), FIE Aust, FAICD	Director since July 2009, Member of Governance Committee*
Mark Goonan		Director since June 2009, Member of Loans Committee
Nick Heath	BEng (Hons)	Director since Sep 2008, Member of Governance Committee*
Stuart Jeffries ²	BEng, BA	Director from April 2008 - July 2009
Denis Lister	BComm, CPA, FCIS	Director since Aug 2001, Member of Audit & Risk Committee
Barry Thompson	BEng, BA	Director since Feb 2007, Member of Audit & Risk Committee

*Inaugurated 19 August 2009

1 Kevin Dixon was appointed as a director on 22 July 2009

2 Stuart Jeffries resigned from the Board effective 31 July 2009

Information on company secretary

The company secretary in office at any time during or since the end of the year was:

Name	Qualifications	Experience
David Nicholds	BA, BComm, CPA, FAMI	Company secretary since Nov 1995

Directors' meeting attendance

Directors	Board Meetings held - 14		Audit & Risk Committee Meetings held - 7		Governance Committee Meetings held - 2	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Stuart Brown	14	11	7	7	-	-
Kevin Dixon	14	14	-	-	2	2
Mark Goonan	14	10	-	-	-	-
Nick Heath	14	13	-	-	2	2
Stuart Jeffries	1	1	-	-	-	-
Denis Lister	14	13	7	6	-	-
Ron Reinten	14	10	-	-	2	1
Barry Thompson	14	13	7	6	-	-

No meetings were held for the Loans Committee during the period 1 July 2009 to 19 August 2009, at which time the Loans Committee was disbanded.

Directors' benefits

No director has received or become entitled to receive during or since the financial year, a benefit because of a contract made by the credit union, controlled entity, or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest, other than that disclosed in Note 34 of the financial report.

Indemnifying officer or auditor

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

No insurance cover has been provided for the benefit of the auditors of the credit union.

Directors' Report

Financial performance disclosures

Principal activities

The principal activities of the credit union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution. No significant changes in the nature of these activities occurred during the year.

Rounding

The amounts contained in the financial report have been rounded under the option available under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies, and in accordance with that Class Order, amounts in the Directors' Report and the financial report have been rounded to the nearest thousand dollars (where rounding is appropriate).

Operating results

The comprehensive income of the credit union for the year after providing for income tax was (in \$'000) - \$646 [2009 \$488]

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended by the directors of the credit union since the end of the financial year.

Review of operations

The results of the credit union's operations from its activities of providing financial services to members were unchanged from the modest levels of the previous year, indicating the continuing impact of the global financial crisis (GFC).

Competition for funds was strong, particularly in the middle of the year, and the costs of retail and wholesale funds remained high against historical levels. The significant growth in member deposits was focused in term deposits and there was a slight fall in the volume of 'at call' deposits held. Non-interest income declined from the GFC-boosted levels of 2009 and salary costs increased due to higher staff levels, which were required to meet regulatory requirements.

Significant changes in state of affairs

Apart from the matters referred to in 'Review of operations' there were no significant changes in the state of affairs of the credit union during the year.

Events occurring after balance date

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

Likely developments and results

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

(i) The operations of the credit union; (ii) The results of those operations; or (iii) The state of affairs of the credit union in the financial years subsequent to this financial year.

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



Ron Reinten (Chairperson)
Signed and dated this 22 September 2010

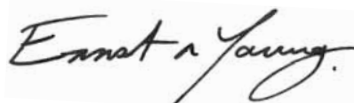


Denis Lister (Director)

Auditor's independence declaration

The auditors have provided the following declaration of independence to the board as prescribed by the Corporations Act 2001.

In relation to our audit of the financial report of EECU Limited for the financial year ended 30 June 2010, 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



T M Dring (Partner) Melbourne
Ernst & Young

Signed and dated this 22 September 2010

Statement of Comprehensive Income

	Note	2010 \$'000	2009 \$'000
Net income			
Interest revenue	2a	11,445	12,479
Interest expense	2c	7,904	9,443
Net interest income		3,541	3,036
Other income	2b	858	1,090
Total net income		4,399	4,126
Less:			
Non-interest expenses			
Impairment losses on loans and advances	2d	12	1
Fee and commission expenses		282	322
General administration			
Employees' compensation and benefits		1,654	1,489
Depreciation and amortisation	2e	159	182
Information technology		403	355
Office occupancy		163	162
Other administration		688	624
Other operating expenses		338	290
Total non-interest expenses		3,699	3,425
Profit before income tax		700	701
Income tax expense	3	217	213
Profit after income tax		483	488
Fair value revaluation of land and buildings		233	-
Income tax on items of other comprehensive income		(70)	-
Other comprehensive income for the period, net of tax		163	-
Total comprehensive income for the period		646	488

Statement of Changes in Members' Equity

	Capital reserve	General reserve	Asset revaluation reserve	Reserve for credit losses	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2008	50	5,937	-	117	2,159	8,263
Profit for the year	-	-	-	-	488	488
Transfers to/(from) reserves	2	-	-	48	(50)	-
Balance at 30 June 2009	52	5,937	-	165	2,597	8,751
Other comprehensive income	-	-	163	-	-	163
Profit for the year	-	-	-	-	483	483
Transfers to/(from) reserves	1	-	-	(7)	6	-
Balance at 30 June 2010	53	5,937	163	158	3,086	9,397

Statement of Financial Position

as at 30 June 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Cash	4	2,083	295
Receivables from financial institutions	5	47,316	33,481
Receivables from other institutions	6	4,881	-
Receivables	7	521	482
Prepayments		46	12
Loans and advances	8 & 9	159,814	153,281
Available for sale investments	10	342	342
Property, plant and equipment	11	976	750
Taxation assets	12	136	119
Intangible assets	13	147	208
Loans to capital investors	14	500	500
Total assets		216,762	189,470
Liabilities			
Borrowings	15	-	-
Deposits	16	198,885	172,848
Creditor accruals	17	2,959	2,552
Taxation liabilities	18	134	49
Provisions	19	353	307
Deferred income tax liabilities	20	124	69
Subordinated debt	21	3,724	3,711
Preference shares	22	1,186	1,183
Total liabilities		207,365	180,719
Net assets		9,397	8,751
Members' equity			
Capital reserve	23	53	52
General reserve	24	5,937	5,937
Reserve for credit losses	25	158	165
Asset revaluation reserve	26	163	-
Retained earnings	27	3,086	2,597
Total members' equity		9,397	8,751

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Statement of Cash Flows

for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
Operating activities			
Revenue inflows			
Interest received		11,286	12,558
Fees and commissions		759	920
Dividends		43	119
Other income		56	51
Revenue outflows			
Interest paid		(7,300)	(8,972)
Suppliers and employees		(3,588)	(2,857)
Income taxes paid		(165)	(210)
Net cash from revenue activities		1,090	(1,609)
Inflows/(Outflows) from other operating activities			
Increase in liquid investment balances		(18,716)	(10,806)
Increase in loan balances		(6,534)	(14,162)
Increase in deposit balances		26,038	21,344
Net cash from operating activities	38b	1,878	(2,015)
Investing activities			
Outflows			
Purchase of property, plant and equipment		(90)	(92)
Net cash from investing activities		(90)	(92)
Financing activities			
Inflows/(outflows)			
Borrowings (net movement)		-	-
Net cash from financing activities		-	-
Total net cash increase/(decrease)		1,788	(2,107)
Cash at beginning of year		295	2,402
Cash at end of year	38a	2,083	295

Notes to Financial Statements

for the year ended 30 June 2010

1. Statement of accounting policies

This financial report is prepared for EECU Limited as a single entity, for the year ended 30 June 2010. The report was authorised for issue on 22 September 2010 in accordance with a resolution of the board of directors.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, and the Corporations Act 2001.

The financial statements have been prepared on an historical cost basis. The accounting policies are consistent with the prior year unless otherwise stated.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

EECU Limited is incorporated and domiciled in Australia.

a. Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ('IFRS').

Certain Australian Accounting Standards have been recently issued or amended but are not yet effective and have not been adopted by the credit union for the annual reporting period ended 30 June 2010. The assessment of the impact of these new standards and interpretations (to the extent relevant to the credit union) is set out below:

Reference	Title	Summary	Application date of standard	Impact on the Credit Union financial report	Application date for Credit Union
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.	1 January 2010	The Credit Union has not yet determined the extent of the impact of the amendments, if any.	1 July 2010

Notes to Financial Statements

for the year ended 30 June 2010

1. Statement of accounting policies - continued

b. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand, which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in current liabilities on the statement of financial position.

c. Loans to members

(i) Basis of inclusion

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

Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and amounts paid or received between parties to the contract such as transaction costs, other premiums and discounts.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the credit union at balance date, less any allowance or provision against debts where there is objective evidence of impairment.

(ii) Interest earned

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the credit union revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded.

Notes to Financial Statements

for the year ended 30 June 2010

1. Statement of accounting policies – continued

c. Loans to members – continued

(iii) Loan origination fees and discounts

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan using the effective interest rate method. The amounts brought to account are included as part of interest revenue.

(iv) Transaction costs

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

d. Loan impairment

(i) Provisioning

The credit union assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably measured.

Evidence of impairment may include indicators that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the credit union first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the credit union determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The critical assumptions in the calculation are set out in Note 9.

The APRA Prudential Standards also require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears.

(ii) Reserve for credit losses

In addition to provisioning, the board of directors has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve is based on an estimation of potential risk in the loan portfolio based upon the level of security taken as collateral.

e. Bad debts written off

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

f. Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation.

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

- Buildings - 40 years.
- Leasehold Improvements - term of lease, to maximum 10 years.
- Plant and Equipment - 3 to 7 years.

Assets less than \$300 are not capitalised.

Notes to Financial Statements

for the year ended 30 June 2010

1. Statement of accounting policies – continued

g. Deposits with other financial institutions

Term deposits are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity and recorded using the effective interest rate method. All deposits are in Australian currency. These items are brought to account at the gross value of the outstanding balance.

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

h. Equity investments and other securities

Investments in shares are classified as available for sale assets.

Investments in shares where a market value is readily available are revalued to market value, with the gains and losses reflected in equity through the asset revaluation reserve.

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

All investments are in Australian currency.

i. Member deposits

(i) Basis for determination

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

(ii) Interest payable

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

j. Borrowings

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

k. Provision for employee entitlements

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to balance date.

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

Provision for long service leave is on a pro-rata basis from commencement of employment with the credit union, based on the present value of its estimated future cash flows. Annual leave is accrued in respect of all employees on pro-rata entitlement for part year of service and leave entitlement due but not taken at balance date. Contributions are made by the credit union to an employees' superannuation fund and are charged to the statement of comprehensive income as incurred.

l. Leasehold on premises

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

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term. Increases in the provision in future years shall be recognised as part of the interest expense.

Notes to Financial Statements

for the year ended 30 June 2010

1. Statement of accounting policies – continued

m. Income tax

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

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

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

n. Intangible assets

Under the Australian Accounting Standards, items of computer software which are not integral to the computer hardware owned by the credit union are classified as intangible assets.

Computer software held as intangible assets is amortised over the expected useful life of the software on a straight line basis so as to write off the net cost of each asset over its expected useful life to the credit union. These lives range from 2 to 5 years.

o. Goods and services tax (GST)

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

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

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

p. Impairment of non-financial assets

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

q. Accounting estimates and judgements

Management has made judgements when applying the credit union's accounting policies with respect to the classification of assets as available for sale.

The detail of the critical accounting estimates and assumptions are set out in Note 9 for the impairment provisions for loans.

Notes to Financial Statements

for the year ended 30 June 2010

1. Statement of accounting policies – continued

r. Risk management objectives and policies

The credit union has undertaken the following strategies to minimise the risks arising from financial instruments:

(i) Market risk policy

The credit union is not exposed to currency risk and other price risks in relation to trading financial instruments. The credit union does not trade in the financial instruments it holds on its books.

The credit union is exposed to interest rate risk arising from changes in market interest rates. The credit union's Market Risk policy sets limits for fixed rate exposures. Exposure to fixed rate deposits has increased due to high rates which have been prevalent in the market.

(ii) Credit risk – loans

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board of directors policy is to require lender's mortgage insurance (LMI) cover when mortgage secured loans have a loan-to-valuation ratio which exceeds 80%.

Note 8(b) describes the nature of the security held against the loans as at the balance date.

The credit union has a concentration in retail lending for members who comprise employees in the oil and gas industry and their family members. This concentration is considered acceptable on the basis that the credit union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue as other employment opportunities are available to the members to facilitate the repayment of the loans.

The details of the geographical and industry concentrations are set out in Note 8.

(iii) Significant accounting judgements

The significant accounting judgements related to the determination of the provision for impairment of loans are set out in Note 9.

(iv) Credit risk – liquid investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity.

All EECU investments are in APRA approved investments. The board of directors' policy is to spread the risk by limiting the level of investment in various entities according to their rating by recognised rating agencies. Limits are also set by institution and by specified sectors. The credit union maintains specified minimum amounts of liquid funds with Cuscal Limited, a services company established by credit unions and regulated by APRA, to meet their requirements and the requirements of the Credit Union Financial Support System.

(v) Equity investments

All investments in equity instruments are solely for the benefit of service to the credit union. The credit union has invested in Cuscal Limited, to utilise services such as treasury, banking and credit products where specialisation and the need for economies of scale warrant this approach. Further details of the investments are set out in Note 10.

(vi) Liquidity risk

The credit union has set out in Note 28 the maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms.

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours, under APRA Prudential Standards. The credit union policy is to apply a minimum of 10% of total adjusted liabilities and to have contingency plans for when liquidity is at or below 12.5%. The liquidity ratio is calculated daily and forecasts are used based on known transaction levels, proposed loan fundings and other matters impacting liquid funds.

The credit union has access through Cuscal Limited to a range of facilities which can be used to manage liquidity levels. Contingency plans include use of liquidity facilities and a range of matters affecting deposits and loans, should these be necessary.

Note 32 describes the borrowing facilities as at the balance date.

Notes to Financial Statements

for the year ended 30 June 2010

2. Statement of comprehensive income

a. Analysis of interest revenue

2010	Interest revenue \$'000	Average balance \$'000	Average interest rate %
Category of interest bearing assets			
Cash - deposits at call	94	2,846	3.54
Receivables from financial institutions	1,586	35,872	4.42
Receivables from other institutions	9	407	2.26
Loans and advances	9,756	164,175	5.94
	<u>11,445</u>	<u>203,300</u>	<u>5.63</u>

2009	Interest revenue \$'000	Average balance \$'000	Average interest rate %
Category of interest bearing assets			
Cash - deposits at call	277	3,488	4.58
Receivables from financial institutions	2,012	31,335	6.42
Receivables from other institutions	-	-	-
Loans and advances	10,190	146,399	6.96
	<u>12,479</u>	<u>181,222</u>	<u>6.89</u>

b. Other income comprises

Note	2010 \$'000	2009 \$'000
Dividend received	43	119
Fee and commission revenue		
Loan fee income – other than unamortised loans	213	260
Other fee income	233	310
Insurance commissions	54	56
Visa commissions	60	56
Securitised lending commissions	146	198
Other commissions	53	40
Decrease in provision for annual leave	-	2
Decrease in provision for impairment	4	5
Other revenue		
Bad debts recovered	8	2
Income from property (rental income)	12	11
Business services	32	31
	<u>858</u>	<u>1,090</u>

Notes to Financial Statements

for the year ended 30 June 2010

2. Statement of comprehensive income - continued

c. Analysis of interest expense

2010	Interest expense \$'000	Average balance \$'000	Average interest rate %
Category of interest bearing liabilities			
Deposits	7,627	188,583	4.04
Borrowings from other financial institutions	13	297	7.29
Subordinated debt	204	3,800	5.35
Preference shares	60	1,200	5.01
	<u>7,904</u>	<u>193,880</u>	<u>4.08</u>

2009	Interest expense \$'000	Average balance \$'000	Average interest rate %
Category of interest bearing liabilities			
Deposits	9,090	169,777	5.35
Borrowings from other financial institutions	6	278	8.33
Subordinated debt	272	3,800	7.15
Preference shares	75	1,200	6.27
	<u>9,443</u>	<u>175,055</u>	<u>5.39</u>

	Note	2010 \$'000	2009 \$'000
d. Impairment losses on loans and advances			
Bad debts written off directly against profit		12	1
		<u>12</u>	<u>1</u>
e. Other prescribed expense disclosures			
(i) Property lease		125	122
(ii) Provision for annual leave		15	-
(iii) Provision for long service leave		30	16
(iv) APRA supervision levy		9	7
(v) Superannuation		237	227
(vi) Depreciation and amortisation comprises			
Plant and equipment		37	59
Leasehold improvements (inc. lease make good provision)		2	2
Buildings		19	16
Intangibles		101	105
		<u>159</u>	<u>182</u>
(vii) Auditors' remuneration, excluding GST		\$	\$
Note: amounts for auditors' remuneration are shown in whole dollars			
- Audit fee - external (Ernst & Young)		42,230	41,638
- Audit fee - internal (AFS & Associates)		43,710	41,720
- Other services (Ernst & Young, AFS & Associates)		10,830	22,235
- Taxation services (AFS & Associates)		2,550	2,400

Notes to Financial Statements

for the year ended 30 June 2010

Note	2010 \$'000	2009 \$'000
3. Income tax expense		
a. The income tax expense comprises amounts set aside as:		
Current tax expense - current year profit	247	190
Adjustments from previous year	(1)	26
Total current income tax expense	246	216
Increase/(decrease) in deferred tax expense	(29)	(3)
Income tax expense attributable to profit	217	213
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	700	701
Prima facie tax payable on profit before income tax at 30%	210	210
Add: tax effect of expenses not deductible		
- Other non-deductible expenses	10	19
- Dividend on preference shares not deductible	17	22
	237	251
(Over)/under provision in previous year/s	(2)	13
Less:		
Franking rebate	(18)	(51)
Income tax expense attributable to profit	217	213
c. Franking credits		
Franking credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year	2,466	2,303
4. Cash		
Cash on hand	212	218
Deposits at call	1,871	77
	2,083	295
5. Receivables from financial institutions		
Deposits with Cuscal Limited	7,316	18,981
Deposits with other societies	14,000	4,500
Deposits with banks	26,000	10,000
	47,316	33,481
6. Receivables from other institutions		
Investments in government securities	4,881	-
	4,881	-

Notes to Financial Statements

for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
7. Receivables			
Interest receivable		379	238
Sundry debtors		142	244
		521	482
8. Loans and advances			
a. Amount due comprises			
Overdrafts		1,759	1,680
Term loans		158,036	151,597
		159,795	153,277
Less:			
Unamortised loan origination fees		21	12
Unearned income		-	(1)
		21	11
Less:			
Provision on impaired loans	9	(2)	(7)
		159,814	153,281
b. Security dissection			
Secured by mortgage over business assets		867	4,820
Secured by mortgage over real estate		153,745	143,678
Partly secured by goods mortgage		4,052	3,501
Wholly unsecured		1,131	1,278
		159,795	153,277
<p>It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued in order to determine the amount. A breakdown of the quality of the security on a portfolio basis is as follows:</p> <p>Security held as mortgage against real estate is on the basis of:</p> <ul style="list-style-type: none"> - loan to valuation ratio of less than 80% - loan to valuation ratio of more than 80% but mortgage insured - loan to valuation ratio of more than 80% but not mortgage insured* <p>* This arises from a characteristic of the banking system for interest only loans which have been funded to the 80% loan-to-valuation (LVR) level, above which mortgage insurance would be mandatory. The system charges interest at the end of the month, increasing the LVR above 80%. It should be noted that an automatic offsetting interest payment occurs the following day, which reverts the LVR to the previous level.</p>			
		146,719	131,962
		1,766	7,340
		5,260	4,376
		153,745	143,678
c. Concentration of loans			
(i) Individual loans which exceed 10% of members' equity in aggregate		9,362	8,882
(ii) Loans by customer type were:			
(a) Loans to natural persons		157,656	151,916
(b) Loans to corporations		2,138	1,361
(iii) Loans by value to members are concentrated principally in Australia, in the following regions: Gippsland 41% Melbourne 41% NSW 11% Other 7%			
(iv) Loans to members are concentrated to individuals employed in the oil and gas industry.			

Notes to Financial Statements

for the year ended 30 June 2010

Note	2010 \$'000	2009 \$'000
8. Loans and advances - continued		
c. Concentration of loans - continued		
(v) Loans by purpose		
Residential loans and facilities	150,397	143,669
Personal loans and facilities	6,412	5,930
Business loans and facilities	2,986	3,678
	159,795	153,277
9. Provision on impaired loans		
a. Total provision	2	7
b. Movement in the total provision		
Balance at the beginning of year	7	12
Transfers from/(to) statement of comprehensive income	(5)	(5)
Balance at the end of year	2	7
c. The loans provision consists of:		
(i) Collective provision	2	6
(ii) Specific provision	-	1
	2	7
d. Impaired loans written off		
Amounts written off directly to expense	12	1
Total impaired loans written off	12	1
e. Impaired loans disclosures		
(i) Impaired loans disclosures as at balance date		
Balance of the impaired loans	5	313
Estimated value of loans which are secured	-	304
(ii) Loans upon which interest is not being accrued		
Loans with provision for impairment	-	4
Less: specific provision	-	(4)
Loans with no provision for impairment	-	-
(iii) Total non accrual loans	5	313
(iv) Restructured loans with no provision for impairment	-	304
(v) Loans with repayments past due but not impaired (due to security held)	-	101
(vi) No assets have been acquired via enforcement of security in the current or prior year	-	-
(vii) Revenue on impaired loans (non accrual & restructured)		
Interest and other revenue recognised as revenue earned during the year	-	2
Interest and other revenue accrued but not recognised as revenue (i.e. foregone) in the year	-	1

Notes to Financial Statements

for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
9. Provision on impaired loans - continued			
e. Impaired loans disclosures - continued			
(viii) Key assumptions in determining the provision for impairment			
<p>In the course of the preparation of the annual report the credit union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other objective evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the credit union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years.</p>			
		% of loan balances	
Period of impairment			
Up to 90 days		0	
90 days to 181 days		40	
182 days to 272 days		60	
273 days to 364 days		80	
365 + days		100	
10. Available for sale investments			
Shares in unlisted companies			
Cuscal Limited		342	342
		342	342

Disclosures on shares

Cuscal Limited

Cuscal Limited was created to supply services to member credit unions and has a limited independent business focus. These shares are held to enable the credit union to receive essential banking services – refer to Note 35. The shares are not redeemable.

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

The credit union is not intending to dispose of these shares as at balance date.

Notes to Financial Statements

for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
11. Property, plant and equipment			
a. Property, plant and equipment comprises:			
Plant and equipment - at cost		569	524
Less: accumulated depreciation		(490)	(455)
		79	69
Capitalised leasehold improvements at cost		114	114
Less: accumulated depreciation		(109)	(106)
		5	8
Land - at cost		100	100
Buildings		800	657
Less: accumulated depreciation		(8)	(84)
		892	673
		976	750
b. Movement in the asset balances during the year were:			
Opening balance		750	814
Purchases		50	13
Revaluation increment		233	-
Less:			
Depreciation charge		(57)	(77)
Balance at the end of the year		976	750
c. Revaluation of buildings			
EECU engaged Herron Todd White (Gippsland) Pty Ltd, an accredited independent valuer that uses the standards issued by the Australian Property Institute as a reference, to determine the fair value of its building. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by EECU, and to market based yields for comparable properties. The effective date of the revaluation was 1 March 2010.			
12. Taxation assets			
a. Taxation assets comprise:			
Deferred tax assets		127	113
GST receivable		9	6
		136	119
b. Deferred tax assets comprise:			
Accrued expenses not deductible until incurred		10	10
Provisions for impairment on loans		1	2
Provisions for employee benefits		99	85
Depreciation on fixed assets		10	9
Other provisions		7	7
		127	113
		127	113
13. Intangible assets			
a. Intangible assets comprise:			
Computer software		634	593
Less: accumulated amortisation		(487)	(385)
		147	208

Notes to Financial Statements

for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
13. Intangible assets - continued			
b. Movement in the intangible asset balances during the year were:			
Opening balance		208	235
Purchases		40	78
Less:			
Amortisation charge		(101)	(105)
Balance at the end of the year		147	208
14. Loans to capital investors			
Subordinated loans to subordinated debt investors		380	380
Subordinated loans to preference share investors		120	120
		500	500
<p>These loans are issued as subordinated loans to the respective investors and on the following terms and conditions:</p> <ul style="list-style-type: none"> - the loans are unsecured - interest is payable quarterly - interest may be withheld if the credit union fails to pay dividends or interest on the respective liabilities - no repayments are required until the respective liabilities are settled in accordance with the agreements 			
15. Borrowings			
Overdraft		-	-
Payables to other financial institutions		-	-
		-	-
16. Deposits			
Member deposits			
- at call		91,049	97,119
- term		96,686	69,080
Total member deposits		187,735	166,199
Other deposits		11,100	6,600
Member withdrawable shares		50	49
		198,885	172,848
Concentration of member deposits			
<p>No members individually or as a group have deposits which represent 10% or more of total liabilities.</p> <p>Member deposits at balance date were generally received from individuals employed in the oil and gas industry.</p>			
17. Creditor accruals			
Creditors and accruals		709	870
Interest payable on deposits		2,147	1,560
Unearned interest		103	122
		2,959	2,552
18. Taxation liabilities			
a. Taxation liabilities comprise:			
Current income tax liability	18b	75	(1)
Accrual for GST payable		4	3
Accrual for other tax liabilities		55	47
		134	49

Notes to Financial Statements

for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
18. Taxation liabilities - continued			
b. Current income tax liability comprises			
Opening balance		(1)	5
Less: tax paid		(43)	(57)
Plus: refunded tax		51	33
(Over)/under statement in prior year		(1)	26
Liability for income tax in current year		247	190
Less: Instalments paid in current year		(178)	(198)
		75	(1)
19. Provisions			
a. Provisions comprise:			
Lease make good of premises		24	23
Annual leave		91	76
Long service leave (LSL)		238	208
		353	307
b. Provisions movements* comprises:			
Opening balance		23	22
Liability increase in current year		1	1
Balance at the end of the year		24	23
*movement required for provisions other than LSL and annual leave			
Total number of full-time equivalent (FTE) employees at year end		19.77	18.16
20. Deferred income tax liabilities			
Deferred income tax liability comprises:			
- Tax due on timing differences in deduction of capital and debt raising expenses		27	25
- Provision for intangible assets		21	40
- Deferred loan fees		6	4
- Tax on revalued property held in equity		70	-
		124	69
21. Subordinated debt			
Debt at cost		3,800	3,800
Less: costs of debt		(76)	(89)
Balance at the end of the year		3,724	3,711
The credit union entered into an agreement to issue subordinated debt in the 2006 financial year. The agreement specified that the credit union also place loans equivalent to 10% of the liability with the investors as security for payment of interest.			
22. Preference shares			
Preference shares at cost		1,200	1,200
Less: capital raising expenses		(14)	(17)
Balance at the end of the year		1,186	1,183
The credit union entered into an agreement to issue preference shares in the 2006 financial year which was approved at the members meeting held on 8 March 2006. The agreement specified that the credit union also place loans equivalent to 10% of the value of the shares with the investors as security for payment of dividends. Each preference share confers a right to receive dividends in priority to any dividends paid or payable on issued member shares.			
(i) the number of shares authorised by Australian Mutual Capital Fund		500,000	500,000
(ii) the number of shares issued and fully paid for by the credit union		12,000	12,000
(iii) par value per share		\$100	\$100

Notes to Financial Statements

for the year ended 30 June 2010

Note	2010 \$'000	2009 \$'000
23. Capital reserve		
Opening balance	52	50
Transfer from retained earnings on share redemptions	1	2
Balance at the end of the year	<u>53</u>	<u>52</u>
Share redemption		
The accounts represent the amount of redeemable preference shares redeemed by the credit union since 1 July 1999. The law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account. 146 shares were redeemed during the year.		
24. General reserve		
a. General reserve	5,937	5,937
	<u>5,937</u>	<u>5,937</u>
b. Movement in general reserve		
Opening balance	5,937	5,937
Add: transfer from profit and loss appropriation	-	-
Balance at the end of the year	<u>5,937</u>	<u>5,937</u>
25. Reserve for credit losses		
a. Reserve for credit losses	158	165
	<u>158</u>	<u>165</u>
b. Movement in reserve for credit losses		
This reserve records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA		
Opening balance	165	117
Add: increase/(decrease) transferred from retained earnings	(7)	48
Balance at the end of the year	<u>158</u>	<u>165</u>
26. Asset revaluation reserve		
a. Asset revaluation reserve - buildings	163	-
	<u>163</u>	<u>-</u>
b. Movement in reserves		
The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value		
Opening balance	-	-
Increase/(decrease) in value	233	-
Less: deferred tax liability	(70)	-
Balance at the end of the year	<u>163</u>	<u>-</u>
27. Retained earnings		
Retained earnings at the beginning of the year	2,597	2,159
Add: operating profit for the year	483	488
Less: transfer to reserve for credit losses in year	7	(48)
Less: transfer to capital account on redemption of shares	(1)	(2)
Retained earnings at the end of the year	<u>3,086</u>	<u>2,597</u>

Notes to Financial Statements

for the year ended 30 June 2010

28. Maturity profile of assets and liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the 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.

2010	Within 1 month \$ '000	1- < 3 months \$ '000	3 - < 12 months \$ '000	1-5 years \$ '000	After 5 years \$ '000	No maturity \$ '000	Total \$ '000
Assets							
Cash	2,083	-	-	-	-	-	2,083
Receivables from financial institutions	8,000	33,316	6,000	-	-	-	47,316
Receivables from other institutions	-	-	4,881	-	-	-	4,881
Receivables	-	-	-	-	-	521	521
Prepayments	-	-	-	-	-	46	46
Loans & advances	2,732	287	11,137	41,818	103,819	21	159,814
Investments	-	-	-	-	-	342	342
Property, plant and equipment	-	-	-	-	-	976	976
Taxation assets	-	-	-	-	-	136	136
Intangible assets	-	-	-	-	-	147	147
Loans to capital investors	-	-	-	-	500	-	500
	12,815	33,603	22,018	41,818	104,319	2,189	216,762
Liabilities							
Deposits	98,216	40,562	57,685	2,422	-	-	198,885
Creditors	-	-	-	-	-	2,959	2,959
Tax liabilities	-	-	-	-	-	134	134
Provisions	-	-	-	-	-	353	353
Deferred tax liabilities	-	-	-	-	-	124	124
Subordinated debt	-	-	-	-	3,724	-	3,724
Preference shares	-	-	-	-	1,186	-	1,186
	98,216	40,562	57,685	2,422	4,910	3,570	207,365
2009							
2009	Within 1 month \$ '000	1- < 3 months \$ '000	3 - < 12 months \$ '000	1-5 years \$ '000	After 5 years \$ '000	No maturity \$ '000	Total \$ '000
Assets							
Cash	295	-	-	-	-	-	295
Advances to other financial institutions	9,989	23,492	-	-	-	-	33,481
Receivables	-	-	-	-	-	482	482
Prepayments	-	-	-	-	-	12	12
Loans & advances	2,608	1,973	8,110	40,087	100,492	11	153,281
Investments	-	-	-	-	-	342	342
Property, plant and equipment	-	-	-	-	-	750	750
Taxation assets	-	-	-	-	-	119	119
Intangible assets	-	-	-	-	-	208	208
Loans to capital investors	-	-	-	-	500	-	500
	12,892	25,465	8,110	40,087	100,992	1,924	189,470
Liabilities							
Deposits	113,574	23,371	27,049	8,854	-	-	172,848
Creditors	-	-	-	-	-	2,552	2,552
Tax liabilities	-	-	-	-	-	49	49
Provisions	-	-	-	-	-	307	307
Deferred tax liabilities	-	-	-	-	-	69	69
Subordinated debt	-	-	-	-	3,711	-	3,711
Preference shares	-	-	-	-	1,183	-	1,183
	113,574	23,371	27,049	8,853	4,894	2,978	180,719

Notes to Financial Statements

for the year ended 30 June 2010

29. Fair value of financial assets and liabilities

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

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

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

	Fair value \$ '000	2010 Book value \$ '000	Variance \$ '000	Fair value \$ '000	2009 Book value \$ '000	Variance \$ '000
Assets						
Cash	2,083	2,083	-	295	295	-
Receivables from financial institutions	47,328	47,316	12	33,481	33,481	-
Receivables from other institutions	4,879	4,881	(2)			
Receivables	521	521	-	482	482	-
Prepayments	46	46	-	12	12	-
Loans & advances	159,834	159,814	20	153,535	153,281	254
Investments	342	342	-	342	342	-
Property, plant and equipment	976	976	-	750	750	-
Taxation assets	136	136	-	119	119	-
Intangible assets	147	147	-	208	208	-
Loans to capital investors	500	500	-	500	500	-
	<u>216,792</u>	<u>216,762</u>	<u>30</u>	<u>189,724</u>	<u>189,470</u>	<u>254</u>
Liabilities						
Deposits from members	199,277	198,885	392	173,156	172,848	308
Creditors	2,959	2,959	-	2,552	2,552	-
Tax liabilities	134	134	-	49	49	-
Provisions	353	353	-	307	307	-
Deferred tax liabilities	124	124	-	69	69	-
Subordinated debt	3,724	3,724	-	3,711	3,711	-
Preference shares	1,186	1,186	-	1,183	1,183	-
	<u>207,757</u>	<u>207,365</u>	<u>392</u>	<u>181,027</u>	<u>180,719</u>	<u>308</u>

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

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

(a) Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 3 months approximate their fair value as they are short term in nature or are receivable on demand.

(b) Loans and advances

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

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

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

(c) Deposits

The fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repricing within 3 months, is the amount shown in the statement of financial position as at 30 June. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value of other term deposits.

(d) Short term borrowings

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

Notes to Financial Statements

for the year ended 30 June 2010

30. Risk management

The credit union is exposed to a range of risks through its operation in the retail financial services market. These include credit, liquidity, market and operational risks. The credit union has risk management systems in place to monitor, measure and control these risks because the process of risk management is critical to its continuing profitability. These risk control systems do not include business risks such as changes in the environment, technology and industry but they are monitored through the credit union's strategic planning process.

Primary responsibility for the identification and control of these risks lies with senior management and the Audit and Risk Committee, under the authority of the board of directors. The board is ultimately responsible for identifying and controlling risks. The board reviews and agrees policies for managing each of the risks identified below, including the setting of limits. Separate independent bodies are also responsible for assisting in the managing and monitoring of risks.

Treasury/Asset and Liability Committee (ALCO)

The credit union has a treasury function that is responsible for managing the pricing of the credit union's financial assets and liabilities and the interest margin. It is also primarily responsible for the funding and liquidity risks of the credit union.

Internal audit

Risk management processes in the credit union are audited through the year by the credit union's internal audit function, which is appointed to examine the adequacy of controls, procedures and compliance with regulatory requirements. The internal auditor presents the results of its assessments to management, reports its findings and recommendations directly to the Audit & Risk Committee and shares its findings with the external auditors.

Risk measurement and reporting systems

The credit union's risks are measured using a number of methods including modelling, measuring expected losses arising in normal circumstances, and unexpected losses based on past experiences and as part of the processes prescribed by regulatory bodies such as APRA.

Monitoring and controlling risks is primarily based on limits established by the credit union. These limits reflect the business strategy and market environment of the credit union as well as the level of risk that the credit union is willing to accept. In addition, the credit union monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from each area of business activity is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Audit and Risk Committee and the board of directors and includes compliance, controls and breach reporting.

The credit union holds a reserve for credit losses which is determined from a formula specified by the board and based on the collateral for each loan. The formula is determined after consideration of historical analysis of the delinquency of the loan portfolio and the nature of the collateral provided for these loans. The required reserve is calculated monthly.

Excessive risk concentration

Concentrations of risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

By the nature of its bond of membership to companies in the ExxonMobil group the credit union's prospects are inextricably linked to the future operations of ExxonMobil in Australia. At present these are in a growth phase associated with oil and gas developments in various parts of Australia and nearby areas. Similarly the credit union is heavily exposed to the residential mortgage market in Australia because of the demographic profile of its membership base. It controls the exposure to the residential mortgage market through conservative credit risk policies.

Notes to Financial Statements

for the year ended 30 June 2010

30. Risk management - continued

Credit risk

Credit risk is the risk of counterparty default. Examples of credit risks include the inability of members to repay their loans or trade debtors to meet their financial obligations to the credit union. The credit union's exposure to a counterparty (or group of associated counterparties) is limited to 25% of the capital base. This is the maximum allowable under the prudential regulations

The Credit Risk Management Policy exists to facilitate prudent risk assessment in order to minimise the risk of loss through default, large exposures, or inadequacy of securities held.

The credit union actively uses collateral to reduce its credit risks.

The Credit Risk Management Policy is regularly reviewed to ensure it remains effective and relevant to the credit union.

Staff are provided with lending delegation authorities, as approved by the Board, relevant to the position held and skill base of the employee.

With respect to the credit risk arising from the financial assets of the credit union, the credit union's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these items as disclosed in the statement of financial position.

Monitoring and measuring credit risk

Impaired credit risk assets are reviewed weekly by credit union staff and the Board is notified monthly of:

- Impaired assets;
- Aged dissection; and
- Large exposures

Guarantees

The credit union makes available to its members guarantees as disclosed at Note 33b, which may require that the credit union makes payments on their behalf. Such payments are collected from members on the terms of the letter of credit. They expose the credit union to similar risks to loans and these are mitigated by the same control processes and policies.

Collateral

The amount and type of collateral required depends on the loan product requested by the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are:

- For retail lending, mortgages over residential properties; and
- For commercial lending, mortgages over real estate properties, including both residential and commercial properties.

Management monitors the market value of collateral during its review of the adequacy of the reserve for credit losses.

Credit quality

The credit union has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established which assign each counterparty an internal risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the credit union to assess the potential loss as a result of the risks to which it is exposed and take timely corrective action. For further information about credit quality based on loan to value ratios, please refer to Note 8b and Note 8c.

The credit quality of loans is managed through parameters in the Credit Risk Management Policy. 'Past due' loans and advances include those that are 30 days or more in arrears. As at the balance date there are no mortgage secured 'past due' loans which are considered to be impaired. An age analysis of loans and advances in arrears is provided to the board on a monthly basis.

The aged analysis of loans and advances as at 30 June 2010 and 30 June 2009, respectively, are:

	2010		2009	
	No. of Accounts	\$'000	No. of Accounts	\$'000
30 – < 60 days	18	34	3	7
> 60 days	61	1	5	107

Notes to Financial Statements

for the year ended 30 June 2010

30. Risk management - continued

Impairment assessment

The main considerations for the loan impairment assessment are whether any payments of principal or interest are overdue by more than 90 days for all loans and 14 days for overdrawn deposit accounts or there are any known difficulties in the cash flows of counterparties or infringement of the original terms of the contract.

The credit union addresses impairment assessment individually for losses on loans, advances and overdrawn deposit accounts. Allowances are evaluated each month. The assessment takes into account arrears and any other known circumstances which may affect future capacity to meet obligations.

Note 8b discloses a security dissection of the loan portfolio

Note 8c discloses the credit concentration risk within the loan portfolio

Note 9 discloses impaired loan details

Liquidity risk

Liquidity risk is the risk that the credit union will be unable to meet its payment obligations as and when they fall due. Some liquidity risks include:

- Excessive demand for loan funding (including from undrawn facilities)
- Slow or irregular deposits
- Concentration of maturing deposits
- Increase in rate sensitivity of products
- Maturity mismatch between assets and liabilities

The credit union's Liquidity Management System is designed to ensure that the credit union:

- Has sufficient high quality liquid assets always available to meet cash flow and liquidity requirements
- Holds high quality liquid assets that are readily negotiable to provide a cushion of liquidity in times of extreme liquidity pressure
- Has sufficient available liquid assets to meet the credit union's obligations under the Credit Union Financial Support System (CUFSS), and
- Can implement an approved contingency plan in the event of a liquidity crisis

Monitoring and measuring liquidity risk

The credit union maintains an Asset and Liability Committee (ALCO) which has delegated authority from the Board to determine interest rates for deposit and loan products, providing a change does not exceed the limits of the Board. Senior management have delegated authority from the Board for the placement of excess liquid funds providing such placements fall within Board approved guidelines for the mix of liquid assets. Borrowing facilities and associated limits are approved by the Board and these limits are reviewed at least annually to ensure continued adequacy of the facilities.

The credit union has systems in place to monitor and measure daily cash flow requirements, forecast liquidity requirements for each financial period and calculate daily regulatory liquidity requirements. These systems are reviewed by senior management. A portfolio gap analysis and the liquidity position are provided to the Board on a monthly basis and the Board considers long term liquidity requirements at least annually.

The portfolio gap analysis and monthly liquidity position as at 30 June 2010 and 30 June 2009, respectively, are:

	2010	2009
Total Liquidity	25.30%	18.98%
Total Funding Gap (\$'000)	\$27,159	\$24,921

Note 28 discloses the maturity profile of financial assets and liabilities as at balance date

Note 29 discloses the fair value of financial assets and liabilities as at balance date

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. For the credit union, market risk includes general market risks and interest rate risk.

Examples of the former include:

- Rapid asset growth which outstrips the rate at which capital can be accumulated from profits or sourced by other means, and
- Changes within the ExxonMobil group affecting the membership base.

Notes to Financial Statements

for the year ended 30 June 2010

30. Risk management - continued

Market risk (cont'd)

Examples of interest rate risk include:

- Movements in market interest rates which adversely affect the credit union's interest margin, and
- Mismatches in the maturity profiles of deposits and loan accounts

The credit union's Market Risk Management System is designed to ensure that the credit union:

- Has sufficient capital to cope with rapid growth
- Monitors and maintains consistent and appropriate volume and mix relationships between member deposits and loans
- Maintains a system to measure and monitor interest rate and market risk movements and the effect of these movements on the market value of interest rate sensitive assets and liabilities
- Monitors movements in market interest rates and accommodates movements which may adversely affect the credit union's interest margin
- Remains aware of significant changes affecting the bond of membership it serves which could have a material impact on the credit union's business, and
- Maintains awareness of developments in the financial services sector which could affect its market

Monitoring and measuring market risk

The ALCO meets:

- weekly to review and consider interest rates on fixed rate products
- following RBA changes to official interest rates to review and consider variable rate products, and
- at other times when it is believed necessary to adjust interest rates due to changes in market conditions

The Board is notified monthly of:

- The actual and projected interest rate margin
- Current product interest rates
- Any adverse factors which may compromise the credit union's future interest rate margin
- Any factors that are likely to have a material impact on the business base
- Portfolio analysis which includes a sensitivity analysis of the effect of a 0.25% interest rate movement, maturity and repricing gap analysis

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The interest rate risk of the credit union is managed and monitored using, amongst other methods, a maturity repricing analysis which is reported to the Board each month. The data below shows the annual impact on profit after tax and equity (as at balance date) of a possible change in interest rates of 25 basis points.

	2010	2009
+/-25bp	+/-126,637	+/- 110,573

The result for 2010 is higher than the previous year as a greater proportion of member deposits were held in fixed term accounts.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The credit union cannot expect to eliminate all operational risks, but through a robust controls framework and by monitoring and responding to potential risks, the credit union is able to manage its operational risk. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education processes and the internal audit process.

Notes to Financial Statements

for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
31. Financial commitments		
a. Outstanding loan commitments		
Loans approved but not funded	4,032	4,030
Loan redraw facilities available	20,194	17,749
	<u>24,226</u>	<u>21,779</u>
b. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	7,612	7,708
Less: amount advanced	(1,735)	(1,681)
Net undrawn value	<u>5,877</u>	<u>6,027</u>
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
c. Lease expense commitments for operating leases on property occupied by the credit union		
Not later than one year	128	115
Later than one year but not later than five years	165	270
	<u>293</u>	<u>385</u>

The operating leases are in respect of property used for providing branch services to members and credit union offices. There are no contingent rentals applicable to leases taken out. The term of the leases is 5 years and options for renewal are usually obtained for a further 5 years.

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

32. Standby borrowing facilities

Cuscal Limited

2010

Overdraft facility

	Gross \$'000	Current Borrowing \$'000	Net available \$'000
	5,000	-	5,000
	<u>5,000</u>	<u>-</u>	<u>5,000</u>

2009

Overdraft facility

	Gross \$'000	Current Borrowing \$'000	Net available \$'000
	5,000	-	5,000
	<u>5,000</u>	<u>-</u>	<u>5,000</u>

Cuscal Limited holds an equitable mortgage charge over all of the assets of the credit union as security.

33. Contingent liabilities

a. Liquidity support scheme

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

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

Notes to Financial Statements

for the year ended 30 June 2010

33. Contingent liabilities - continued

b. Guarantees

The credit union has issued guarantees on behalf of members for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total \$120,200. The guarantees are payable only on the member defaulting on the contractual repayments to the lessor/supplier. The guarantees are fully secured against registered first mortgages.

34. Disclosures on directors and other key management personnel

a. Remuneration of key management personnel

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

Key management personnel has been taken to comprise the directors and the 4 members of the executive management responsible for the day to day financial and operational management of the credit union. *Key management personnel* are as follows -

Directors: *Ron Reinten, Stuart Brown, Kevin Dixon, Mark Goonan, Nick Heath, Stuart Jeffries, Denis Lister, Barry Thompson*
Executive management: *David Nicholds, Ron Cox, Leanne Ladson, Michael Xu*

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

	2010 Directors \$'000	2010 Other KMP \$'000	2009 Directors \$'000	2009 Other KMP \$'000
Short-term employee benefits	-	386	-	280
Post-employment benefits - superannuation contributions	-	96	-	134
Other long-term benefits – net increases in long service leave provision	-	-	-	10
	-	482	-	424

In the above table, remuneration shown as short term benefits means wages, salaries, paid annual leave, and value of fringe benefits received, but excludes out-of-pocket expense reimbursements.

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

b. Loans to directors and other key management personnel

(i) The aggregate value of loans to directors and other key management personnel as at balance date amounted to

	2010 \$'000	2009 \$'000
(i) The aggregate value of loans to directors and other key management personnel as at balance date amounted to	2,224	3,773
(ii) The total value of revolving credit facilities to directors and other key management personnel, as at balance date amounted to	38	35
Less: amounts drawn down and included in (i)	(13)	-
Net balance available	25	35
(iii) During the year the aggregate value of loans disbursed to directors and other key management personnel amounted to:		
Revolving credit facilities	188	218
Term loans	279	2,373
	467	2,591
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to directors and other key management personnel amounted to:	10	-
(v) Interest and other revenue earned on loans and revolving credit facilities to directors and other key management personnel	127	159

(ii) The total value of revolving credit facilities to directors and other key management personnel, as at balance date amounted to

Less: amounts drawn down and included in (i)

Net balance available

(iii) During the year the aggregate value of loans disbursed to directors and other key management personnel amounted to:

Revolving credit facilities

Term loans

(iv) During the year the aggregate value of revolving credit facility limits granted or increased to directors and other key management personnel amounted to:

(v) Interest and other revenue earned on loans and revolving credit facilities to directors and other key management personnel

Notes to Financial Statements

for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
34. Disclosures on directors and other key management personnel - continued		
b. Loans to directors and other key management personnel - continued		
The credit union's policy for lending to key management personnel is that all loans are approved on the same terms and conditions which applied to members for each class of loan.		
There are no loans which are impaired in relation to the loan balances with directors or other key management personnel.		
There are no benefits or concessional terms and conditions for loans applicable to the close family members of the key management personnel. There are no loans which are impaired in relation to the loan balances with close family relatives of directors and other key management personnel.		
Loans to directors and other key management personnel excludes loans which have been securitised. The aggregate amount of securitised loans to directors and other key management personnel at year end is \$nil (2009: \$ nil).		
c. Deposits from directors and other key management personnel		
The credit union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.		
(i) Total value term and at-call deposits from directors and key management personnel	320	356
(ii) Total interest paid on deposits to directors and key management personnel	5	3
d. Transactions with other related parties		
Other transactions between related parties include deposits from director related entities or close family members of directors, and other key management personnel.		
The credit union's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.		
There are no benefits paid or payable to the close family members of the key management personnel.		
There are no service contracts to which key management personnel or their close family members are an interested party.		

35. Economic dependency

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

a. Cuscal Limited

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

- (i) provides the licence rights to Visa card in Australia and settlement with bankers for ATM, Visa card and cheque transactions, as well as the production of Visa cards and Redicards for use by members;
- (ii) provides treasury and money market facilities to the credit union. The credit union has invested a substantial proportion of its liquid assets with the entity to comply with the Liquidity Support Scheme requirements.

b. First Data International (FDI)

This entity operates the computer network used to link Visa cards and Redicards operated through rediATM's and other approved ATM suppliers to the credit union's IT systems.

c. Data Action Pty Limited

This entity operates a computer bureau on behalf of the credit union in conjunction with other credit unions. The credit union has a management contract with the company to supply computer support staff and services to meet the day-to-day needs of the credit union and compliance with the relevant prudential standards.

Notes to Financial Statements

for the year ended 30 June 2010

36. Superannuation liabilities

The credit union uses Cuesuper Plan as its default superannuation fund for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee.

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

37. Securitisation

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

	2010 No.	2010 \$'000	2009 No.	2009 \$'000
Securitised loans	222	35,988	208	30,319

38. Notes to statement of cash flows

a. Reconciliation of cash

Cash includes cash on hand, and deposits at call with other financial institutions and comprises:

Cash on hand

Deposits at call

Total cash

	2010 \$'000	2009 \$'000
Cash on hand	212	218
Deposits at call	1,871	77
Total cash	2,083	295

Notes to Financial Statements

for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
38. Notes to statement of cash flows - continued		
b. Reconciliation of cash from operations to accounting profit		
The net cash increase/(decrease) from operating activities is reconciled to the profit after income tax.		
Profit after income tax	483	488
Add/(deduct):		
Depreciation expense	159	182
Increase/(Decrease) in provisions for staff leave	45	14
Increase/(Decrease) in provision for lease make good of premises	1	1
Increase/(Decrease) in provision for income tax	76	(6)
Increase/(Decrease) in deferred tax liabilities	(15)	49
Increase/(Decrease) in other tax liabilities	8	11
Increase/(Decrease) in accrued expenses	(161)	145
Increase/(Decrease) in interest payable	587	456
Increase/(Decrease) in unearned income	(19)	(36)
Decrease/(Increase) in subordinated debt	13	13
Decrease/(Increase) in preference shares	3	3
Decrease/(Increase) in prepayments	(33)	6
Decrease/(Increase) in sundry receivables	102	220
Decrease/(Increase) in deferred tax assets	(14)	(51)
Decrease/(Increase) in other tax assets	(4)	-
Decrease/(Increase) in interest receivable	(141)	114
Net cash from revenue activities	607	1,609
Add/(deduct) non-revenue operations		
Decrease/(Increase) in loan balances	(6,533)	(14,162)
Decrease/(Increase) in liquid investment balances	(18,716)	(10,806)
Increase/(Decrease) in deposit balances	26,037	21,344
Net cash increase/(decrease) from operating activities	1,878	(2,015)

39. Corporate information

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

The address of the registered office is: 12 Riverside Quay, Southbank, VIC 3006

The address of the principal place of business is: 12 Riverside Quay, Southbank, VIC 3006

The nature of the operations and its principal activities are the provision of deposit-taking facilities and loan facilities to the members of the credit union.

Directors' Declaration

In accordance with a resolution of the directors of EECU Limited ('the company'), I state that:

In the opinion of the directors:

- (a) The financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the board



Ron Reinten
Chairperson
Melbourne



Denis Lister
Director
Melbourne

Dated this 22 day of September 2010.

Independent Audit Report

To the members of EECU Limited.

Report on the financial report

We have audited the accompanying financial report of EECU Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the 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 the Notes, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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.

Auditor's opinion

In our opinion:

1. The financial report of EECU Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of EECU Limited at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.



Ernst & Young

ERNST & YOUNG



TM Dring

Partner

Melbourne

22 September 2010

Corporate Governance Disclosures

Board of directors

The board of directors has responsibility for the overall management and strategic direction of the credit union. All board members are independent of management and are elected by members on a rotation of every 3 years.

Each director must be eligible to act as a director under criteria set out in the credit union's constitution and in the Corporations Act 2001. Directors must also satisfy the Fit and Proper criteria set down by APRA.

The board has established policies to govern conduct of board meetings, director conflicts of interest and training in order to maintain director awareness of emerging issues and to satisfy all governance requirements.

The board of directors of the credit union deals with:

- Setting and reviewing strategic and business plans
- Approval of risk management systems
- Financial budgets and performance criteria
- Appointing members to the sub-committees
- Staff remuneration policies
- Remuneration and benefits for the General Manager.

Management staff deal with standard interest rate changes within policy and under delegated authority of the board of directors.

Remuneration - Board of directors and management

The board is authorised under the constitution to recommend an aggregate annual amount of director remuneration to members in general meetings of the credit union. To date the board has elected to remain honorary. The credit union pays for all expenses incurred by directors in discharging their duties, including travel, accommodation and training expenses. There are no other benefits received by directors from the credit union.

All management are remunerated by salary packages only. There are no bonus or equity benefits available to management.

Board of directors' committees

Sub-committees have been formed to assist the board of directors in dealing with relevant matters. Directors form these committees with attendance from associate directors and management staff where appropriate.

Audit & Risk Committee

The Audit and Risk Committee is established to oversee the financial reporting and risk management process. Its role includes:

- Monitoring audit reports received from internal and external auditors, and management's responses thereto;
- Liaising with the auditors (internal and external) on the scope of their work, their independence and their experience in auditing similar entities;
- Monitoring the credit union's internal audit and compliance process;
- Reviewing the credit union's corporate insurance for adequacy and completeness;
- Reviewing financial reports which are provided to members of the credit union, or APRA;
- Reviewing the risk profile of the credit union and ensuring that adequate risk management systems are in place.

Loans Committee

This committee was disbanded on 19 August 2009 with key responsibilities being transferred to the board of directors or the Audit and Risk Committee.

Governance Committee

The board inaugurated the Governance Committee in August 2009. The role of the committee is to promote best practice governance in accordance with prudential standards.

Its responsibilities include:

- Managing policy development relating to governance matters;
- Maintaining the process for identifying and recruiting future board members;
- Acting as the board's Nomination Committee;
- Providing oversight of the board election process;
- Ensuring effective training and education of board members;
- Ensuring that evaluation of the performance of board members and the General Manager takes place consistent with EECU's Corporate Governance Policy.

Corporate Governance Disclosures

Policies

The board has adopted systems of risk management and compliance to suit the risk profile of the credit union and its regulatory environment.

The board has adopted a code of conduct for directors' consideration of member matters. In order to demonstrate equity and objectivity this includes a requirement that board members are generally not aware of the names of the members for whom they are giving consideration.

Key risk management systems include:-

- Capital adequacy management
- Liquidity risk management
- Credit risk management
- Data risk management
- Operations risk management
- Market risk management

Compliance

The credit union has a compliance officer who is responsible for maintaining the awareness of staff for all changes in applicable legislation and responding to staff inquiries on compliance matters. The officer also monitors the FSR licence obligations. The credit union also has an Investigation Officer for member complaints and disputes should they arise.

External audit

External audit has been performed by Ernst & Young.

Internal audit

The internal audit function is principally carried out by AFS & Associates (AFS), chartered accountants. AFS provide internal and external audit services to several credit unions, and other entities. AFS review internal controls and regulatory compliance and are assisted where appropriate by a member of management who is responsible for risk and compliance.

Controls and compliance are also examined by the external auditors. The work performed by the external and internal auditors is examined by the Audit and Risk Committee to ensure that it is consistent with the current audit reporting role and does not impair their independence.

This role is supplemented by other external compliance reviews performed by security audits on the credit union's data processing centre for adequacy of the back-up, disaster recovery and internet security systems.

Regulation

The credit union is regulated by

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of the credit union;
- ASIC for adherence to Corporations Act, Accounting Standards disclosures in the financial report and Financial Services Reform (FSR) requirements. The FSR legislation sets minimum standards for conduct and disclosure when providing financial services.

Both APRA and ASIC conduct periodic inspections and the auditors report annually to both on compliance with respective requirements. The external auditors also report to APRA on prudential policy compliance and to ASIC on FSR compliance.

Site Representatives

Longford

Shane Bennett

Angela Jones

Barry Beach Marine Terminal

Colin Walker

Long Island Point

Pamela Johnson

Key to Abbreviations

Abacus

Abacus, Australian Mutuals is the industry association for mutual authorised deposit-taking institutions, which are all credit unions and mutual building societies.

ADI's

ADI's are authorised deposit-taking institutions and comprise credit unions, building societies and banks. They are regulated by APRA and licensed to accept deposits from the public.

APRA

Australian Prudential Regulation Authority

APRA is responsible for the supervision of credit unions, building societies, banks, life offices, general insurers, superannuation funds and friendly societies.

ASIC

Australian Securities and Investments Commission

ASIC is responsible for ensuring compliance of corporate entities with the Corporations Act 2001 (Cwlth) and with consumer protection legislation, where applicable.

CUFSS

Credit Union Financial Support System Ltd.

CUFSS is a voluntary self-regulated industry liquidity support scheme which is available to credit unions throughout Australia.

Cuscal Limited

Cuscal is a financial services company which provides treasury, electronic funds transfer and other transactional services.

EECU Staff

General Manager	David Nicholds <i>BA, BComm, CPA, FAMI</i>
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Administration Officer	Kathleen Harrison
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Member Relations Group

Senior Manager Member Relations	Ron Cox <i>BBus (Admin), Ass Dip Sys Des, MAMI</i>
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Melbourne

Manager Member Relations	Peter Barber
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Senior Member Relationship Officers	Helen Renfrew Mary Christou
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Member Relationship Officers	Tracey Cherubin Rachel Ellsmore
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Sale

Branch Manager	Jenny Counahan
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Loans Officer	Vicki Gray
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Senior Member Relationship Officer	Susan Thomas
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Member Relationship Officers	Trudi Elston Quinn Schuback
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Corporate Services Group

Manager Corporate Services	Leanne Ladson <i>BBus (Acc), CPA, MAMI</i>
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Risk Management Officer	Colin Moyle <i>BAppSc, BEc, FAMI</i>
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Project Officer	Janine Sawyer
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Systems Officer	Su Tran <i>BComm (Acc & Fin), CPA (Associate)</i>
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Finance Group

Manager Finance	Michael Xu <i>BComm (Acc & Fin), CPA (Associate)</i>
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Management Accountant	Glenis Blincoe <i>BBus (Acc), CPA, MAMI Member CUIAA</i>
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Accounting Officer	Leanne Hughan
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Marketing Group

Manager Marketing	Position Vacant
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Marketing Officer	Yvonne Ritchie
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Corporate Information

Registered name	EECU Limited
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Registered office	12 Riverside Quay, Southbank Vic 3006
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Australian Business Number	35 087 650 039
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Australian Financial Services Licence Number	244 356
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BSB number	802-254
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Website	eecu.com.au
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Telephone	Aust 1300 65 3328 Int'l +61 3 9608 8301
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Office locations

Melbourne	12 Riverside Quay, Southbank Vic 3006
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Postal: GPO Box 400,
Melbourne Vic 3001

t +61 3 9608 8300

f +61 3 9608 8305

e melbourne@eecu.com.au

Sale	113 Cunninghame Street, Sale Vic 3850
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t +61 3 5144 7094

f +61 3 5143 2716

e sale@eecu.com.au

Principal service providers

Affiliations	Cuscal Limited
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Credit Union Financial
Support System Ltd

Auditor - external audit	Ernst & Young
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Auditor - internal audit	AFS & Associates Chartered Accountants
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Bankers	Cuscal Limited in conjunction with National Australia Bank Limited
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Computer bureau	Data Action Pty Ltd
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Insurer	CUNA Mutual Group
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Solicitors	Daniels Bengtsson
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Wisewould Mahony



Better Banking for the
ExxonMobil Community

EECU Limited

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