new england credit union ltd.

annual report 2010

the feelings mutual | mutual advantage | mutual respect | mutual trust

the community mutual group

hunter mutual . new england mutual . orana mutual

directors

M.G. Dennis

B.M. Goodall

G.R. Goodman

D.R. Honner

K.E. James

J.B. O'Connor

M.A. Post (Retired)

A.J. Sheridan

G.M. Thompson

chief executive officer

K.P. Dupé

company secretary

D.L. Munday

registered office

Suite 4, New England Technology Park
Madgwick Drive
Armidale, NSW, 2350
(02) 6776 0444

solicitors

Daniels Bengtsson Pty Ltd
Level 4, 171 Clarence St
Sydney, NSW, 2000

bankers

Australian Settlements Ltd (ASL)
16 Thesiger Crt
Deakin, ACT, 2600

Australian and New Zealand Banking
Group Limited (ANZ)
Martin Place
Sydney, NSW, 2000

CUSCAL
National Australia Bank Limited
1 Margaret St
Sydney, NSW, 2000

Indue Ltd.
Lvl 3 / 601 Coronation Drv
Toowong, QLD, 4066

auditors

PricewaterhouseCoopers
201 Sussex St
Sydney, NSW, 1171

table of **contents**

Chairman's Report	2
Board of Directors	4
Executive Management Team	6
Results at a Glance	8
CMG History	9
Social Responsibility Statement	10
Corporate Governance Report	19
FINANCIAL REPORT 2009/10	25
Directors' Report	26
Statement of Comprehensive Income	30
Statement of Financial Position	31
Statement of Changes in Equity	32
Statement of Cash Flows	33
Notes to the Financial Statements	34
Declaration by Directors	75

chairman's **report**

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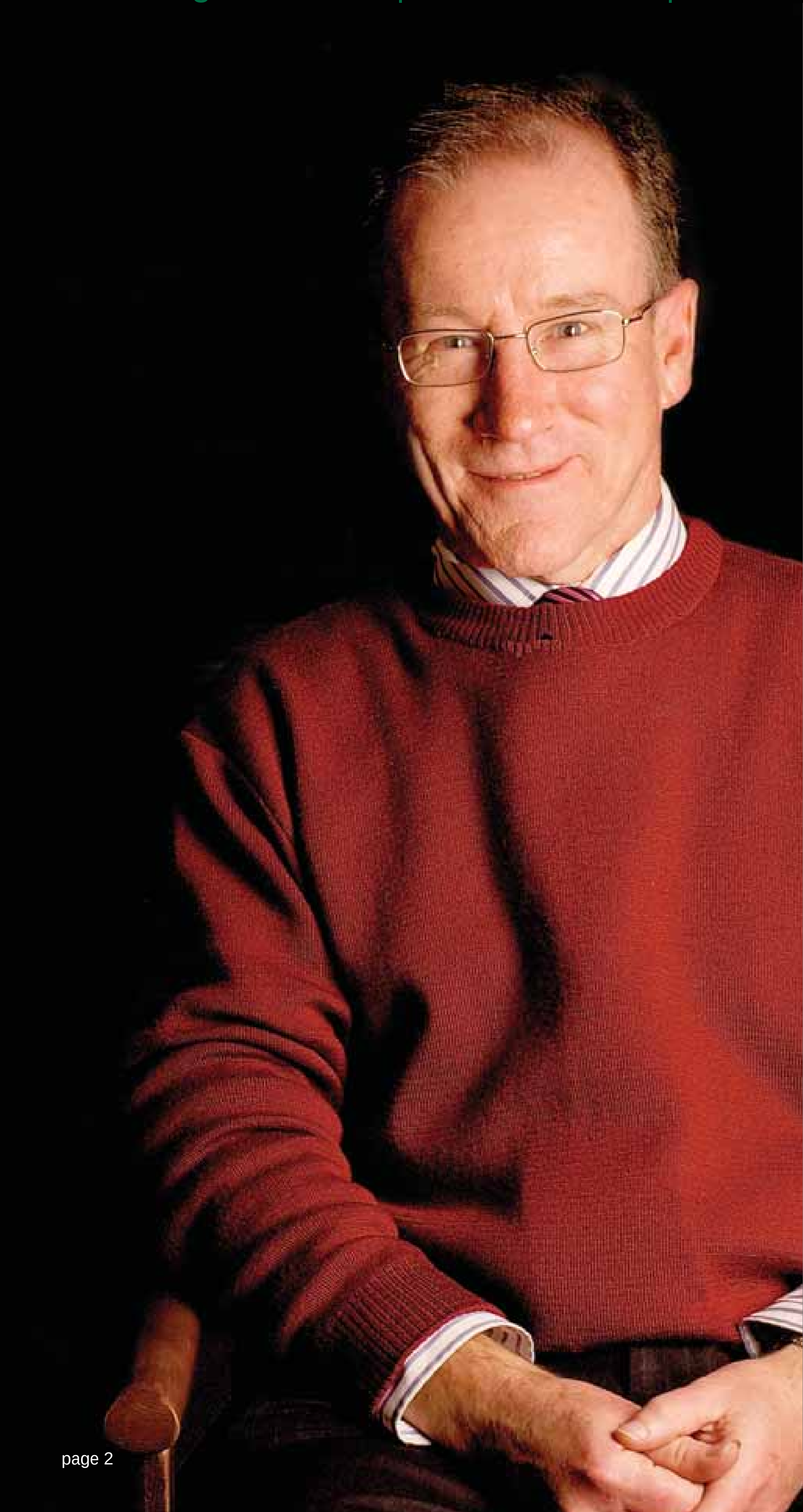

The 2009/10 financial year was another challenging but rewarding year for our organisation. Once again we have met the challenges presented to us and performed very well, both financially and in terms of our commitment to our members and the communities in which we operate.

The early part of the financial year focused largely on preparing for our merger with Hunter Mutual (HM), with members of both Credit Unions voting strongly in favour of the proposal. The merger resulted in a stronger organisation that now offers 32 branches and agencies, has almost 270 staff, 70,000 members and over $850 million in assets. More importantly, our increased size means we are in a better position to meet the challenges that come our way as a result of an increasingly competitive market.

Our decision to adopt a new branding strategy during the year, whereby we trade as Hunter Mutual, New England Mutual and Orana Mutual in our respective geographic areas, but refer to the collection of brands as The Community Mutual Group, highlights our commitment to retaining our links with our communities as our organisation continues to grow. We understand that our relationship with our local communities and our ability to make decisions at a local level are two of our greatest strengths as an organisation. I believe our recent mergers and our regional branding strategy will help us gain a balance between being a strong institution that has the skills and systems required to meet our prudential requirements and a Credit Union that local people know, trust and feel comfortable dealing with.

We continued our successful Community Support Program throughout the year, with over 300 local community groups receiving a sponsorship or donation from The Community Mutual Group. Further, in its second year of operation, our Community Partnership Account program made over $60,000 available to local community organisations. Our program of branch upgrades also continued, with Dubbo and Tamworth branches both moving to new premises in the heart of their respective central business districts. While all our locations are important to us, we have the potential to grow our membership significantly in both these key regional centres and we believe both new locations will help us achieve these goals.

It also gave us great pleasure to be awarded the NSW Business Chamber's Excellence in Environmental Commitment Award during the year. The award recognised initiatives such as the installation of solar panels and water tanks at our Head Office, the use of videoconferencing to reduce the amount of kilometres travelled by CMG staff and changes to the motor vehicle fleet in favour of more energy efficient vehicles. As an organisation we will continue to focus on reducing our environmental footprint while encouraging our members to do the same through our growing range of products that reward our members for making environmentally friendly purchases. A number of our branches also won awards from their local Chamber of Commerce for their community involvement and excellent member service.

While it gives us great pleasure to report on initiatives that focus on our members and our communities, it is also important to acknowledge the strong financial result our organisation has returned during the year. Our loans grew by 26.19% (11.43% excluding the HM merger) and our deposits by 26.45% (12.41% excluding the HM merger) and given the strong competition it is very pleasing that we were able to continue to support the needs of our communities. The ability to do so has been much more difficult since the onset of the global financial crisis and we thank our members for continuing to support us.

Our net profit before tax of $8.6 million is a strong financial result that allows us to continue to reinvest into the business and in our members.

One of the great things about mergers is the opportunity to receive talented new Directors onto our Board and I would like to take this opportunity to welcome Kate James and Geoff Thompson who both joined us as part of the HM merger. I would also like to recognise the service that Max Post, who retired from the Board during the year, provided during his 39 years as a Board member. We wish Max and his wife Jenny the very best for their retirement. My entire Board has provided me with strong levels of support during the year and I would like to thank them, along with our Chief Executive Officer Kevin Dupé and his management team, for their assistance.

Finally, I would like to thank our members for your continued support of The Community Mutual Group.

M.G. Dennis
Chairman

board of **directors**

the feeling's mutual | mutual trust | mutual respect | mutual goals

Mr David Honner
Board member since 1995

As the former Chairman of Orana Credit Union, David brings a wealth of Credit Union industry experience to the Board. David is a member of the Audit and Risk Committee.

Mr Brian Goodall
Board Member since 1997

A former member of the Orana Credit Union Board, Brian is a qualified Solicitor and member of the Corporate Governance Committee.

Mr John O'Connor
Board Member since 1974

John has extensive experience in local government engineering and management. Prior to joining the Board of New England Credit Union, John served on the Board of Peel Valley Credit Union for 30 years, with seven years as Chairman. Key responsibilities include Chair of Corporate Governance Committee.

Dr Alison Sheridan
Board Member since 2003

Alison has extensive experience in education and consulting activities in management. Key responsibilities include Chair of Audit and Risk Committee, which Alison has held for the last five years.

Mr Max Post (retired)
Board Member since 1971

Max brought experience in Administration to the Board from his former role at the University of New England. Key responsibilities included Member of Corporate Governance Committee.

Mr Michael Dennis
Chairman since 2005
Board member since 1995

Michael brings a legal and regulatory background to the Board. A qualified Solicitor, he has served on the Board for over fifteen years, the last four as Chairman. Key responsibilities on the Board include Member of Corporate Governance Committee and Member of Audit and Risk Committee.

Ms Kate James
Board Member since 2007

A member of the Hunter Mutual Board for two years prior to the merger with New England Credit Union, Kate has experience in small business and corporate governance. She has participated in a number of Agriculture and Government related consultative committees.

As a small business person and management consultant she is well aware of the unique challenges that face small businesses, particularly in regional and rural areas.

Mr Graham Goodman
Board Member since 1997

Graham has a diverse background in business, having experience in taxation, auditing and accounting positions within the public sector. He has prior Board experience, having served on the Board of Peel Valley Credit Union for nine years. Key responsibilities include Member of Audit and Risk Committee.

Mr Geoffrey Thompson
Board Member since 2008

Geoff joined the Board following the merger with Hunter Mutual in 2010. He is a partner in a successful Accounting firm and has significant experience in providing specialised business advice to some of the Hunter Valley's most significant businesses. He is also actively involved in the Maitland Business Chamber.

the community mutual group

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executive **management**

Mr Kevin Dupé
Chief Executive Officer

Kevin brings a strong economic background to the Credit Union. Kevin has over 20 years' experience in the Credit Union sector, including fifteen years at CMG. Prior to entering the Credit Union sector, Kevin spent 14 years as a Director in various economic and socioeconomic policy units in the Federal Government.

Ms Valerieanne Byrnes
Head of Human Resources and Organisational Development

Valerieanne has extensive management experience from the Credit Union and Building Society sector. Valerieanne has also worked as a volunteer and consultant for the Credit Union Foundation of Australia in Papua New Guinea, Vanuatu and as part of the Credit Care team, building capacity in regional and remote communities.

Mr Bill Miller
Head of Distribution

Bill brings 30 years of experience in banking and finance to the Executive Management team. Prior to The Community Mutual Group, Bill held managerial positions with Colonial State Bank and the Commonwealth Bank.

" I would like to thank our Chief Executive Officer Kevin Dupé and

Mr David Munday
Company Secretary and Head of Corporate Services

David has nine years of experience in the Credit Union sector, providing a broad knowledge of company secretarial and corporate governance processes and practices.

Mr David Cook
Chief Information Officer

David has more than 20 years' experience in the financial services sector. Prior to working at The Community Mutual Group, David worked in a variety of roles at Elders. David currently looks after the Information Technology and Marketing Departments at CMG.

Mr Angus McBean
Deputy Chief Executive Officer and Chief Financial Officer

Angus has over 20 years of experience with financial institutions including international managerial positions with Deutsche Bank, NM Rothschild & Son, HSBC Bank Australia Ltd and the University of New England.

his executive management team, for their assistance this year. "

Michael Dennis
Chairman

results at a **glance**

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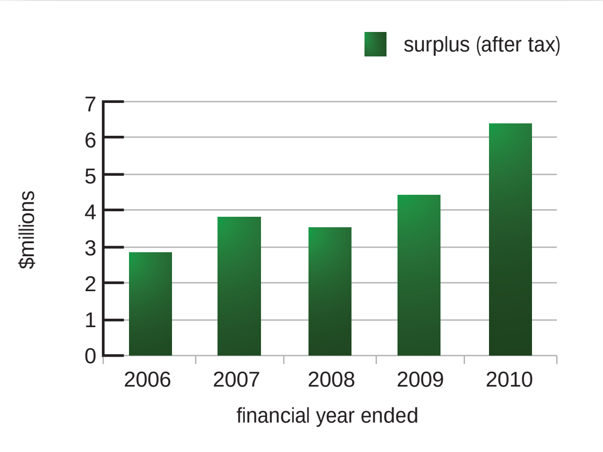
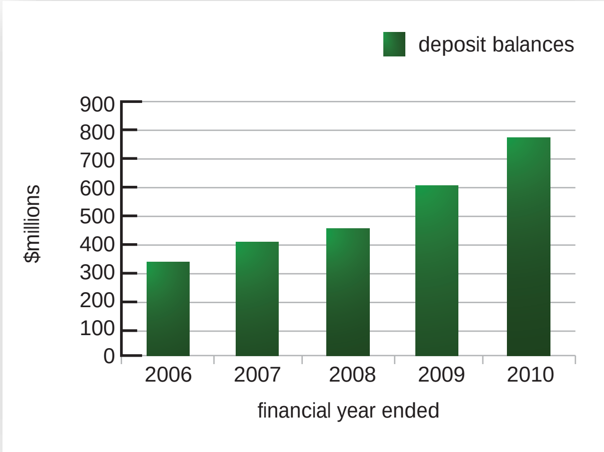
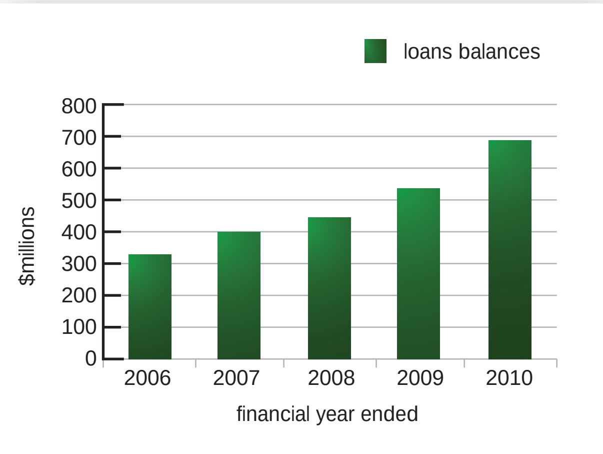
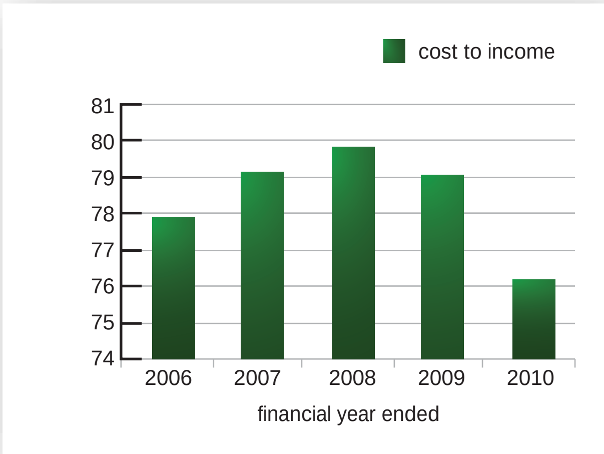
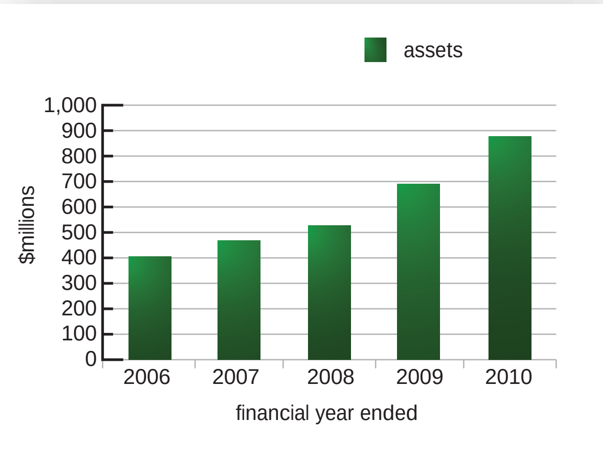
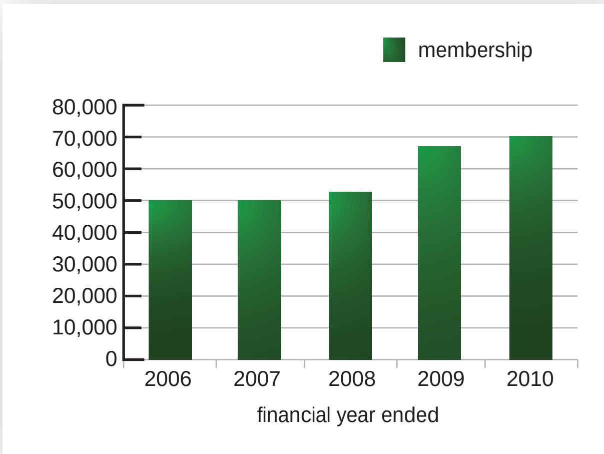






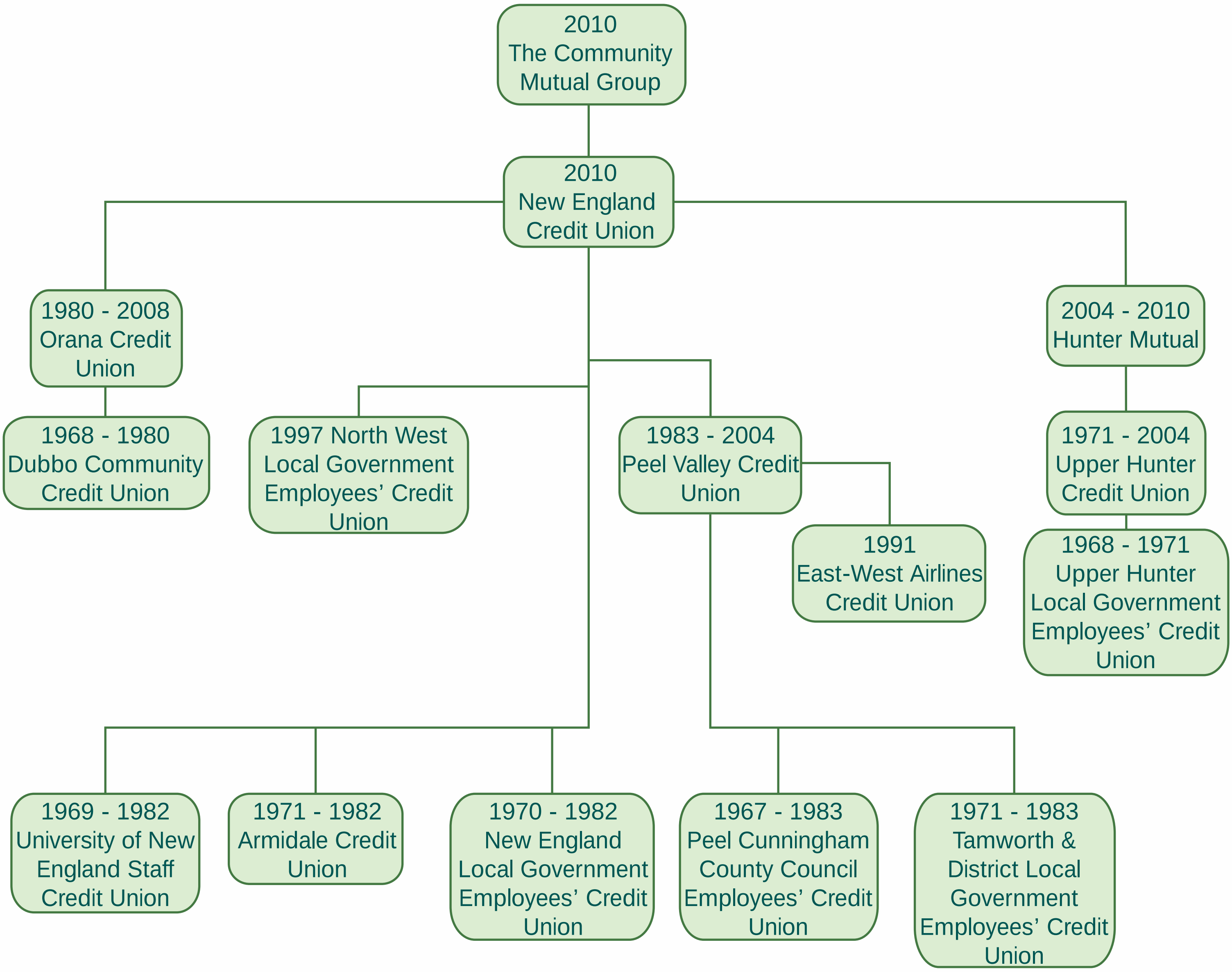






our family **tree**

mutual advantage | mutual interests | mutual success | mutual friends



The Community Mutual Group was adopted as a trading name of New England Credit Union Ltd in January 2010 following the merger of New England Credit Union and Orana Credit Union in 2008 and a subsequent merger with Hunter Mutual in 2010. The new name was developed as a way to refer to the group of regional Credit Union brands that operate across the New England, North West, Central West, Orana and Hunter Valley regions of New South Wales.

The diagram above shows how The Community Mutual Group has grown since the first board meeting of the University of New England Staff Credit Union in 1969. Since 15 January 1970, when the Credit Union opened its door for the first time, The Community Mutual Group has expanded through a series of new branch openings and mergers.

Overview

The Community Mutual Group (CMG) recognises that we have a responsibility to our members and the communities in which we operate. As an organisation we are committed to the welfare of our members, our staff, our community and our environment. This report will review our achievement against the goals we set for ourselves during 2009-2010.

We aspire to make a positive difference for the people in our community and we are passionate about researching and implementing ways to ensure our principles are demonstrated.

Our Principles and Priorities

Putting our Members First

Our commitment to our members is our number one priority. We aim to provide a superior level of member value, ensuring that our members have access to quality service and products. We encourage member participation at all levels from product and service feedback to actively participating in the democratic process by voting on items that affect the organisation.

Leading and Developing People

We aim to provide our workforce with a supportive environment, with a strong focus on professional development. This ensures that our people have the opportunity to reach their full potential. We strongly promote equality and respect in our diverse workforce and align the expectations we have of our staff to our values.

Employee Length of Service Anniversaries

During the year the following employees reached a significant milestone regarding their length of service:

25 years:	Debbie Clee
20 years:	Cindy Barraclough
15 years:	Neville Attwater, Robyn Cork, Dean Thompson, Christine Dawson
10 years:	Lynne Cooke, Jody Smith, Julia Mayo, Wendy Garland
5 years:	Anne Schofield, Lyndall Wallace, Mandy Keeble, Jodie Parsons, Janine Forster, Patrick McMahon, Mandy Brazier, Angus McBean, Sarah Erich, Kay Brennan, Suzanne Cornell, Colleen Matthews, Renee Rafferty, Kelly Woolfe.

Building Community Involvement

Building partnerships with community groups and other community organisations is a key aspect of our identity as a mutual. We aim to provide a benefit to the communities in which we operate beyond the provision of financial services through our community development programs, sponsorships and donations.

CMG is proud to be a corporate partner of the Armidale Aboriginal Cultural Centre and Keeping Place (ACCKP). We recently purchased the painting “The Apology”, which commemorates then Prime Minister Kevin Rudd’s famous apology to the stolen generation. Pictured is Daisy William (ACCKP), artist Lloyd Hornsby and CMG CEO Kevin Dupé.

Our Environmental Impact

CMG is fully aware of our responsibility in relation to the conservation of our environment. We are focused on reducing our footprint and aim to partner with like-minded organisations that help us achieve this goal.

Importantly, we are engaged in a continual process of review and improvement and invite all stakeholders to partner with us in achieving our goals

Armidale Branch Manager, Chris Stace, discusses the Green Loans Scheme with interested members of the community.

Members

We focus on responding to our members' needs. We offer easily accessible products through a growing network of secure service outlets and multiple delivery channels - Branches, Telephone Service Centre, BPAY, Internet Banking, EFTPOS and ATMs.

Goal	Result
Internet security will be reviewed with the planned introduction of two factor authentication systems to further safeguard members' online security.	**Completed:** Implementation scheduled for 2010/2011 financial year.
Undertaking a review of service outlets, web, video conferencing and telephone channels to improve our service options.	**Completed:** Additional features on our website were launched in early 2010. A new telephone system that will, in future, allow integration of communication between phone and web was installed. Software that will allow members to conduct internet banking via web-enabled mobile phones has been installed and is nearing the end of testing. Finally the upgrade and addition of new branches was researched and budgeted for 2010-2011.
Member Satisfaction: Conduct a survey of members across all segments and all regions and achieve a member satisfaction rating of at least 75%.	**Achieved:** A member satisfaction survey confirmed 93% of members who responded were satisfied with CMG's level of service.

Member Satisfaction **93% (2010)**

Employee Satisfaction **74% (2010)**

Our People

Our people are the backbone of our business, their relationship with the workplace, our members and stakeholders is vital to the continued success of CMG.

Goal	Result
An ongoing commitment to invest in learning and development across all employees with a minimum spend of no less than 1% of our total net profit.	**Achieved:** Our investment across all eligible employees was implemented successfully with almost 5% of total net profit spent in this area.
Further development of the Health and Wellbeing program over the next financial year to incorporate a more extensive program with expert guidance.	**Achieved:** The Health and Wellbeing program was extended to 10 formal initiatives and many other local activities are encouraged. In partnership with SportsUNE we now offer a local and distance based program that offers choice to all of our staff across each region.
Staff Satisfaction: Conduct a survey of staff and achieve a staff satisfaction rating of at least 70%.	**Achieved:** 74%. The annual staff satisfaction survey score has increased from the previous year's results in all categories.

At the inaugural Dubbo Branch Community Partnership Account (CPA) Presentation Day, staff member Brenda Moon was the successful bidder in a silent auction to shave the hair of Branch Manager Ben Luck. Funds raised on the day were donated to the Dubbo Wig Library, a CPA Recipient Organisation.

Community

As a member owned cooperative, providing support to the communities in which we operate is a key aspect of who we are. We strive to make a positive contribution to our communities:

Goal	Result
A continued focus and investment of 5% of net profit in our regional communities through an active sponsorship and donation program.	**Achieved**: Sponsorship and donations achieved the target of 5% of net profit. We provided 337 recipients with donations totalling $183,000.
Building partnerships with local providers to assist with employment creation and skilling.	**Achieved:** Partnerships have been developed with local employment agencies - Jobs Australia, Best Employment and Joblink Plus, local job advertisers including the Armidale Express and Hunter Valley News, and training providers such as TAFE and UNE Partnerships to ensure a community based strategy is continued.

In addition to the goals set last year we have made many other contributions to the community:

Community Partnership Accounts (CPA) The CPA offers community-based organisations the opportunity to boost their fundraising activities by donating 1% of supporters' account balances to the chosen community organisation.	Throughout the financial year, CMG has donated a total of $58,958 to 289 community organisations, an increase of $49,458 and 89 organisations from last year.
Credit Union Foundation Australia The Credit Union Foundation Australia (CUFA) is a credit union industry owned organisation.	We are currently a bronze sponsor of CUFA, contributing to assist in the social and financial well-being of less privileged countries in the region. We have a growing number of staff that are CUFA volunteers.

Volunteer Work - Through programs that are initiated by CMG or the staff members involved.	Many of our staff undertake volunteer work. A donation of time and labour is provided to other organisations who are helping the community.
Fundraising - Our staff are keen fundraisers and support many causes.	Charities in which fundraising has been conducted during the year include: RSPCA, SIDS, Tour de Cure, Australia's Biggest Morning Tea, the Memory Assessment Program (Alzheimers' and Dementia Research) and Medical Research.
Use of CMG Facilities We offer assistance to community groups who require facilities.	We frequently host community meetings at our Technology Park Head Office located in Armidale. Our marquees are also used regularly for community events such as school fetes, youth camps and sporting carnivals. We offer expertise and office support to several community groups.

Armidale Branch Assistant Managers Stephen Butler and Alex Ribeiro complete volunteer work at the local Vinnies Store.

Environment

Throughout the last financial year, we increased our involvement in sustainable practices. We place a high emphasis on conserving resources through management of energy, fuel, water and waste across our operations. In December 2009, CMG won the New South Wales Business Chamber – Excellence in Environmental Commitment Award for our continued efforts to implement sustainable practices.

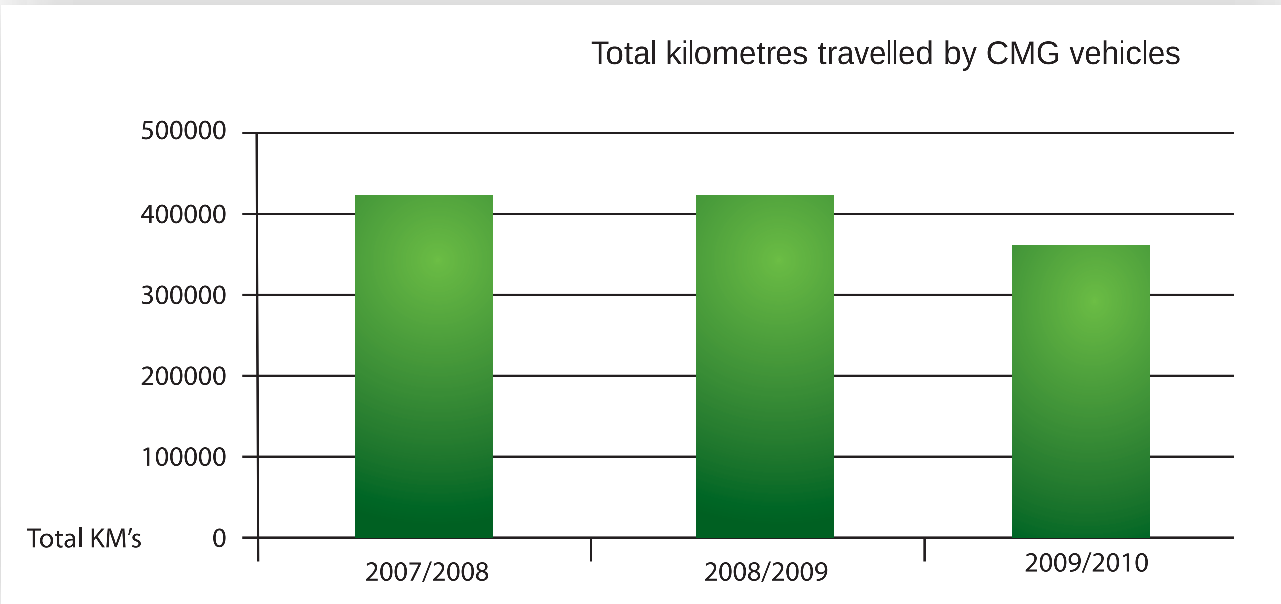
Whilst we didn't achieve all of our environmental goals this year, the work we have completed helps us build on our overall commitment and can be continued during 2010/11.

Goal	Result
Installation of rain water tanks at the CMG Head Office for toilet flushing and garden watering resulting in a lower usage of water.	**Achieved:** Rain water tanks were installed and are now being utilised for toilet flushing (garden watering does not currently occur).
Reduction of Carbon emissions by 5% through more considered road and air travel and further use of video conferencing.	**Achieved:** Further video conferencing units have been deployed throughout the network which over time will reduce travel. **Unsuccessful:** Carbon emissions did not decrease as planned however small improvements have begun to materialise. **Achieved:** A saving of 16% was achieved for the usage of motor vehicles owned by CMG.
Reduction of energy usage by 5% through the installation of Time in Use meters, energy efficient lighting and more energy efficient office designs.	**Achieved:** We experienced a 5% reduction on last year's usage (excluding additional sites acquired during the year).
A 10% reduction in total paper consumption.	**Partially Achieved:** Overall a 20.47% decrease per FTE was achieved. Due to limited reporting capabilities in 2008-2009, a more accurate calculation will be available next year.

In addition to the goals set last year we made a considerable effort to enhance our environmental commitment:

Earth Hour 2010 CMG participated in Earth Hour 2010 on 27th March 2010.	This was undertaken by our entire network with all branches turning off non-essential equipment.
The Northern Inland Sustainable Business Network (NISBN) CMG became a member of the Northern Inland Sustainable Business Network (NISBN).	NISBN enables CMG to network amongst other sustainable businesses. This interaction with like-minded organisations educates us and makes us more aware of contemporary sustainability practices.

Green Supply Chain We procure 'green' products from 'green' suppliers wherever possible.	All brochures, annual reports, newsletters and letterhead are produced on Forest Stewardship Council accredited paper.
Sustainable Motor Vehicle Fleet We have now reduced our Motor Vehicle fleet from 19 to 13 vehicles, 85% of which are economical four cylinder vehicles.	This reduction has resulted in a more effective utilisation of CMG owned vehicles, with hire cars used to supplement the existing fleet where required.
100% Green Website and Emails The 100% carbon offset of our website and emails.	This amounts to a total offset of 5 tonnes of carbon emissions per annum.
Green Products We encourage our members to purchase energy efficient items and build energy efficient homes through 'green' products such as the Enviro Loan and Sustainable Home Loan. We were one of the first group of financial institutions nationally to partner with the Federal Government's Green Loan scheme. These measures ensure we are able to assist members with their own sustainable practices.	Our Enviro Loan and Sustainable Home Loan provide an incentive to members wishing to make enviro-friendly purchases through discounted interest rates and favourable product features. The Green Loan scheme allowed members to purchase energy efficient equipment for their home, with CMG funding $1,904,961.20 worth of loans through 497 applications.



Future Goals

We have set ourselves ambitious goals for the 2010-2011 year, all of which we are confident can be achieved. We intend to improve on the 2009-2010 performance through the following priorities and goals.

Principles, Priorities & Goals

Putting our Members First

- Achieve a high member satisfaction rating of over 75%.
- Increase participation rates through Engagement Strategies.
- Implementing Member Education Programs in each Region.

Leading and Developing People

- Achieve a staff satisfaction rating of over 70%.
- Retain a high employee retention rate of 80%.
- Minimise staff absenteeism and sickness equal to or below the sector average.
- An ongoing commitment to invest in learning and development across all employees with a minimum spend of no less than 1% of our total net profit.

CMG Telephone Service Centre staff member Jessica Snell provides Chairman Michael Dennis a demonstration of our videoconferencing equipment.

Building Community Involvement

- A continued focus and investment of 5% of net profit in our regional communities through active sponsorship and donations program.
- The development and implementation of Community Engagement strategies in partnership with existing members and like organisations.
- The establishment of a Charitable Trust with Deductible Gift Recipient (DGR) status.

Our Environmental Impact

- Reduce electricity usage throughout the CMG branch network by 7.5% through the utilisation of energy efficient practices.
- Minimise the usage of paper throughout the network by 10% through the refinement of practices.
- Implementation of sustainable waste practices throughout the network.

corporate governance **statement**

mutual advantage | mutual interests | mutual success | mutual friends

This statement reflects the principles and practices of New England Credit Union's (trading as the Community Mutual Group - CMG) corporate governance framework. The Board places great importance on its governance framework and continues to review and develop CMG's practices to ensure they meet the interest of members and other relevant stakeholders.

Whilst CMG is not required to report against the ASX Corporate Governance Principles and Recommendations, it seeks to embrace these guidelines to ensure a best practice approach is followed.

BOARD STRUCTURE

Role and Responsibility

The role and responsibilities of the Board of Directors are set out in CMG's Governance Policy. The responsibilities include:

- Board approval of the strategic plan and development of initiatives and strategies to ensure the continued growth and success of the business;
- monitoring financial performance through the review of business results and monitoring of budgetary controls;
- monitoring and reviewing the risk management processes, CMG's risk profile and processes for adherence with prudential regulations and standards;
- establishing and monitoring CMG's values, culture, reputation and ethical standards;
- accountability to members;
- policy formulation and ongoing development; and
- appointing and reviewing the performance of the CEO.

To ensure the CMG Board is well equipped to discharge its responsibilities, CMG has established guidelines for the nomination and selection of Directors and for the operation of the Board. The duties of Directors are clearly articulated to ensure a clear and transparent expectation of their role.

Composition

The CMG Board comprises 8 Directors. Details of their experience and qualifications is set out in the Directors' Report. The Board seeks to ensure that its membership comprises an appropriate balance of Directors with relevant skills, knowledge and experience.

Directors' Independence

The CMG Board has adopted specific principles in determining Directors' independence. To ensure compliance with governing prudential standards, a CMG Director cannot be regarded as independent if that Director:

- is employed, or has previously been employed in an executive capacity by the regulated institution or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;

- has within the last three years been a principal of a material professional adviser or a material consultant to the regulated institution or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the regulated institution or other group member, or an officer of or otherwise associated directly with a material supplier or customer; or
- has a material contractual relationship with the regulated institution or another group member other than as a Director.

The Board assesses independence annually in accordance with its Governance Policy, requiring each Director to disclose all information that could reasonably be considered to influence their capacity to act as an independent Director. All current Directors have been assessed as independent Directors.

Board Commitment

Meetings of the Board are currently held twelve times each year with special Board meetings held as required. The Board committees meet as often as required to carry out their respective functions. Directors are expected to prepare for, attend and participate at Board meetings and meetings of committees.

The Chief Executive Officer, Deputy Chief Executive Officer / Chief Financial Officer and Company Secretary are invited to attend all Board meetings. It is the Board's practice to allow other members of Executive Management to attend Board meetings when an issue which comes under their area of responsibility is being considered or as otherwise requested by the Board.

Remuneration

The Board, upon the recommendation of the Corporate Governance Committee, is responsible for remuneration practices that assist in attracting and retaining executive and other individuals who are critical to CMG's success. It is CMG's objective to provide maximum member benefit from the retention of a high quality Board and Executive Management team by remunerating fairly and appropriately by reference to prevailing market benchmarks. To this end, independent benchmarking data is used to ensure that remuneration practices are consistent with market practices. The Board is currently in the process of identifying external providers to undertake a review of remuneration over the coming 12 months.

STRUCTURING THE BOARD TO ADD VALUE

All of the Directors of CMG serve in a non-executive capacity. The Board requires that each of its Directors undertake fit and proper character assessments, including police checks and other assessment criteria, in accordance with prudential and statutory requirements.

The Board is composed of 'independent Directors' and is structured in accordance with the following parameters:

- must be of a size that facilitates effective and efficient decision making;
- must comprise Directors with a broad range of skills and experience from a diverse range of backgrounds appropriate to CMG's business; and
- the Board Chairman and the Audit & Risk Committee Chairman must be independent Directors.

To assist it in discharging its responsibilities and the monitoring of the performance of the business, the Board has established two committees, being the Audit & Risk Committee and the Corporate Governance Committee. Membership of these committees is set out below:

	Committe Membership	
Director	Audit & Risk	Corporate Governance
Mr Michael G Dennis	Ex-offico Member	Ex-offico Member
Mr Max A Post (1)		Member
Mr John B O'Connor		Member & Chair
Mr David R Honner	Member	
Mr Brian M Goodall		Member
Mr Graham R Goodman	Member	
Mr Geoffrey M Thompson (2)	Member	
Ms Kate E James (2)		Member
Dr Alison J Sheridan	Member & Chair	

(1) Resigned 11 December 2009

(2) Appointed as member with effect 1 January 2010

Each Board committee operates within its own terms of reference which set out matters relevant to the composition and responsibilities of that committee, which are reviewed by the Board every twelve months. The reporting of the minutes and action items for each committee are included in the Board papers of the following month.

The Board carries out the role of the Director Nominations Committee and Remuneration Committee and delegates to the Corporate Governance Committee the role of conducting fit and proper assessments for Director candidates.

Membership of each committee is based on Directors' skills and experience to add value to the respective committee.

Audit & Risk Committee

The Audit and Risk Committee's Terms of Reference are to:

- review monthly financial reports;
- make recommendations to the Board on significant accounting and financial policies;
- review compliance with APRA statutory reporting requirements;
- evaluate the adequacy and effectiveness of risk management framework;
- review and recommend to the Board financial risk management policies around operational risk, credit risk and financial risk;
- review the effectiveness of business continuity and disaster recovery planning and consider whether they are relevant, reliable and capable of prompt implementation;
- recommend the appointment, and where necessary, the removal of the external and internal auditor;
- review the performance of the external auditor;
- review the reports on the findings of the audits and ensure that issues are being managed and rectified in an appropriate and timely manner;
- review and approve the annual audit plans and activities for the internal audit function;
- review the annual financial reports and statements and make recommendations to the Board for approval; and
- oversee whistle blowing policy and processes.

The Internal Auditor and the External Auditor are both invited to attend meetings at the discretion of the committee.

The committee currently holds twelve scheduled meetings per year.

Corporate Governance Committee

The Corporate Governance Committee's Terms of Reference are to:

- develop and ensure the CEO's Key Performance Indicators are aligned to strategic direction, and recommend to Board;
- assess all persons, including existing Directors, prior to their appointment or election as a Director as to their fitness and propriety and make recommendations to the Board on candidates for appointment as Director;
- undertake twice yearly reviews of the CEO's performance against agreed Key Performance Indicators;
- coordinate the annual Board and Director performance assessment process;
- make recommendations to the Board with regard to succession planning for the positions of Chairman, Director and Chief Executive Officer;
- review all Corporate Governance policies and make recommendations to the Board on the content of these policies;
- make recommendations to the Board on Director and Chief Executive Officer remuneration, as well as the remuneration packages of the direct reports to the CEO and other persons covered by the Remuneration Policy;
- ensure there is an induction / orientation and education program for new Directors and to make recommendations on opportunities to improve Directors knowledge and skills;
- review plans on succession planning for executive management positions; and
- review adherence to CMG's social, ethical and legal responsibilities.

The committee holds meetings as required.

Performance Assessment

The Board conducts an annual assessment of the performance and effectiveness of the Board as a whole and its committees. In addition, the Chairman meets with each individual Director to undertake an annual assessment of their performance.

Management Delegation

The Board has delegated authority to achieve CMG's strategic objectives to the Chief Executive Officer (CEO) who is responsible for day-to-day leadership and management of CMG's business activities and implementation of Board-approved strategies, policies, resolutions and directions.

The CEO has developed an approvals framework where management committees make recommendations to the CEO in relation to operational matters. Delegations from the CEO to management are clearly articulated in appropriate policies.

The Executive Team meets regularly with the CEO to provide advice on matters that are strategic or have the potential to impact our business.

Independent Advice

In order to fulfil their responsibilities Directors have the right to seek independent professional advice whenever it is considered necessary. Individual Directors may seek independent professional advice on any matter connected with the discharge of their responsibilities to ensure they exercise their objective, unfettered and independent judgement.

In addition, the Board and each committee, at the expense of CMG, may obtain relevant professional advice, as required, to assist in undertaking its role.

RECOGNISE AND MANAGE RISK

The Board is responsible for reviewing and approving CMG's Overview of the Risk Management Framework, including the setting and monitoring of the risk appetite. Through the Audit & Risk Committee, the Board is responsible for ensuring there are internal control systems. Further explanatory notes on the management of risk are included throughout the financial report.

ETHICAL AND RESPONSIBLE DECISION MAKING

Conflict of Interest

In accordance with the Corporations Act 2001 and CMG's Constitution, each Director must ensure that no action or decision is taken that places their interest in front of the interests of CMG. Directors commit to the collective decision-making processes of the Board. Individual Directors are expected to debate issues openly and constructively and to be free to question or challenge the opinions of others.

The Board has established a clear framework for the handling of actual or potential conflicts of interest with respect to the activities or decision-making responsibilities of CMG's Directors. In order to ensure that such conflicts are properly identified and managed, all CMG Directors are required to disclose any conflict of interest (whether actual or potential).

Code of Conduct

In carrying out its role, the Board operates in a manner reflecting CMG's values and in accordance with approved governance policies. The Board has developed a Code of Conduct which applies to everyone at CMG, including Board members, management and employees. This code is reviewed annually to ensure it reflects the highest level of behaviour and practices and provides a guideline for the standards of behaviour expected to be displayed by all CMG employees.

Whistleblower Protection

CMG has a whistleblower protection policy to ensure commitment to fostering a culture of compliance, ethical behaviour and good corporate governance. This policy enables individuals to voice concerns or escalate serious matters on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

financial **report**

Your Directors present their report on the New England Credit Union Limited ("the Credit Union") for the financial year ended 30 June 2010.

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

Information on Directors

The names of the Directors in office at any time during or since the end of the year are:
Mr Michael G Dennis - BLegS (Macquarie) - Non-Executive Chairman
Mr Maxwell A Post - Non-Executive Director [retired 11/12/2009]
Dr Alison J Sheridan - BAgEc (Hons) (Syd), PhD (UNE), GAICD - Non-Executive Director
Mr John B O'Connor - LGE, Grad Dip Mgmt & Bus Admin - Non-Executive Director
Mr David R Honner - JP, PNA, FAMI, GAICD - Non-Executive Director
Mr Brian M Goodall - BA LLB, GAICD - Non-Executive Director
Mr Graham R Goodman - BA (Economics) (UNE), FAMI - Non-Executive Director
Ms Kate E James - BRurSci (UNE), GAICD - Non-Executive Director [appointed 01/01/2010]
Mr Geoffrey M Thompson - BFin Admin, FCA - Non-Executive Director [appointed 01/01/2010]

Information on Company Secretary

The Company Secretary is Mr David L Munday BComm (UNE), Grad Dip Applied Corporate Governance (CSA Syd), GAICD, ACIS. Mr Munday was appointed to the position of Company Secretary in 2004.

Information on Board Meetings	Board		Corporate Governance		Audit & Risk	
	E	A	E	A	E	A
Mr Michael G Dennis	12	11	10	10	11	6
Mr Maxwell A Post [R]	6	6	5	5		
Dr Alison J Sheridan	12	10			11	11
Mr John B O'Connor	12	11	10	10		
Mr David R Honner	12	11			11	11
Mr Brian M Goodall	12	11	10	10		
Mr Graham R Goodman	12	12			11	10
Ms Kate E James	6	6	4	4		
Mr Geoffrey M Thompson	6	6			5	5

E = number of meetings Directors eligible to attend
A = number of meetings attended during the time the Director held office
R = retired during the financial year

Directors' Benefits

No Director has received or become entitled to receive, during, or since the end of the financial year, a benefit because of a contract made by the Credit Union 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 37 of the financial report.

Indemnifying Directors, Officers or Auditors

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 additional cover has been provided for the benefit of the auditors of the Credit Union.

Principal Activities

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

Operating Results for the Year

The net profit of the Credit Union for the year before income tax is $8,776,000 (2009: $6,656,000) representing an increase of 32% from the previous year.

The results for the financial year were influenced by:

- the successful merger with Hunter Mutual Ltd;
- a 25% increase in net interest income despite the volatility in interest rates;
- a 17% increase in operating income; and
- a significant increase in the provision for impairment of loans and advances;

Dividend on Tier 1 Shares

Dividends paid during the year on permanent preference shares was $4.77 per share amounting to a total dividend of $652,000 (2009: $746,000).

Significant Changes in State of Affairs

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

Significant Events After the Balance Date

There have been no significant events occurring after balance date which may affect the Credit Union's operations or results of those operations.

Likely Developments and Expected 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.

Rounding

The financial report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Credit Union under ASIC class order 98/100. The Credit Union is an entity to which the class order applies.

Non-Audit Services

The following non-audit services were provided by the Credit Union's auditor, Pricewaterhouse Coopers. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

PricewaterhouseCoopers received or are due to receive the following amounts for the provision of non-audit services:

	$
Taxation Services	16,000
Total	**16,000**

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 30.

Signed in accordance with a resolution of the Directors

M G Dennis
Director
28th September 2010

A J Sheridan
Director

PRICEWATERHOUSECOOPERS

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Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Auditor's Independence Declaration

As lead auditor for the audit of New England Credit Union Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of New England Credit Union Limited during the period.

M.Laithwaite

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Sydney
28 September 2010

STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Interest income	5	52,747	49,087
Interest expense	6	(22,979)	(25,229)
Net interest income		**29,768**	**23,858**
Non-interest income	7	7,070	7,725
Net operating income		**36,838**	**31,583**
Impairment loss on loans and advances	8	(1,219)	(557)
Employee benefits expense	8	(13,680)	(11,916)
Office occupancy expense	8	(2,045)	(1,645)
Depreciation and amortisation expense	8	(1,704)	(1,550)
Information technology and communication expense	8	(3,208)	(2,944)
Other operating expenses	8	(6,206)	(6,316)
Total operating expenses		**(28,062)**	**(24,928)**
Profit before income tax		**8,776**	**6,655**
Income tax expense	9	(2,567)	(2,182)
Net profit after tax attributable to members		**6,209**	**4,473**
Other comprehensive income			
Revaluation reserve	27	142	-
Income tax relating to components of other comprehensive income	9	(43)	-
Other comprehensive income for the year net of tax		**99**	**-**
Total comprehensive income for the year		**6,308**	**4,473**

The accompanying notes should be read in conjunction with these financial statements

STATEMENT OF FINANCIAL POSITION
As at

	Note	30 June 2010 $'000	Restated 30 June 2009 $'000	Restated 1 July 2008 $'000
ASSETS				
Cash and cash equivalents	11	100,044	84,074	22,076
Due from other financial institutions	12	6,000	7,000	1,000
Trade and other receivables	13	3,497	3,246	2,400
Loans and advances to members	14	675,511	535,548	439,828
Financial assets - available-for-sale	16	312	1,202	915
Financial assets - held-to-maturity	16	77,636	51,316	52,518
Property, plant and equipment	17	7,589	6,496	5,147
Intangible assets	18	1,119	800	397
Deferred tax assets	9	1,946	1,260	1,129
Loss reserve loan	19	2,390	1,990	1,650
Total Assets		**876,044**	**692,932**	**527,060**
LIABILITIES				
Deposits	20	766,678	605,792	455,213
Trade and other payables	21	12,773	10,261	10,948
Current tax liabilities	9	1,941	1,138	622
Deferred tax liabilities	9	260	235	204
Provisions	22	2,768	2,437	2,040
Borrowings	23	1,639	1,415	801
Subordinated debt	24	9,219	7,158	4,907
Total Liabilities		**795,278**	**628,436**	**474,735**
Net Assets		**80,766**	**64,496**	**52,325**
EQUITY				
Preference shares	25	14,382	12,393	11,243
Redeemable member shares	26	401	361	262
Reserves	27	734	461	461
Retained earnings	28	56,798	51,281	40,359
Contributed equity	29	8,451	-	-
Total Equity		**80,766**	**64,496**	**52,325**

The accompanying notes should be read in conjunction with these financial statements

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 30 June 2010

	Contributed Equity $'000	Preference Shares $'000	Member Shares $'000	Other Reserves $'000	Retained Earnings $'000	**Total $'000**
Balance at 1 July 2008 (restated)	**-**	**11,243**	**262**	**461**	**40,359**	**52,325**
Total comprehensive income for the year	-	-	-	-	4,473	**4,473**
Amortisation of preference share discount	-	79	-	-		**79**
Transfer to capital account on redemption of shares	-	-	48	-	(48)	**-**
Transfer of business	-	1,071	51	-	7,243	**8,365**
Transactions with preference shareholders	-	-	-	-	(746)	**(746)**
Balance at 30 June 2009 (restated)	**-**	**12,393**	**361**	**461**	**51,281**	**64,496**
Total comprehensive income for the year	-	-	-	99	6,209	**6,308**
Amortisation of preference share discount	-	35	-	-	-	**35**
Over/under provision for deferred tax on revaluation reserve in prior periods	-	-	-	174	-	**174**
Transfer to capital account on redemption of shares	-	-	40	-	(40)	**-**
Transfer of business	8,451	1,954	-	-	-	**10,405**
Transactions with preference shareholders	-	-	-	-	(652)	**(652)**
Balance at 30 June 2010	**8,451**	**14,382**	**401**	**734**	**56,798**	**80,766**

The accompanying notes should be read in conjunction with these financial statements

STATEMENT OF CASH FLOWS
For the Year Ended 30 June 2010

	Note	2010 $'000	2009 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		52,583	50,233
Dividends received		169	320
Fees and commissions received		6,550	6,879
Other income		309	488
Interest paid		(21,435)	(25,948)
Payments to suppliers and employees		(24,828)	(24,632)
Income taxes paid		(1,917)	(1,635)
(Increase)/Decrease in operating assets			
Net advances to other financial institutions		7,494	(6,000)
Net increase in member loans		(62,091)	(42,531)
Increase in operating liabilities			
Net increase in member deposits		74,703	76,071
Net cash provided by operating activities	31 (b)	**31,537**	**33,245**
CASH FLOW FROM INVESTING ACTIVITIES			
Net cash acquired in transfer of business		11,632	31,033
Proceeds from sale of available-for-sale financial assets		1,202	-
Payments for held-to-maturity financial assets		(26,320)	
Proceeds from sale of held-to-maturity financial assets		-	1,202
Proceeds from sale of property, plant and equipment		1,091	186
Payments for property, plant and equipment		(1,072)	(969)
Purchase of intangible assets		(804)	(706)
Net cash (used in) / provided by investing activities		**(14,271)**	**30,746**
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of finance leases		(644)	(247)
Net proceeds of subordinated debt issue		-	(1,000)
Net proceeds of preference share capital issue		-	-
Dividends paid		(652)	(746)
Net cash (used in) financing activities		**(1,296)**	**(1,993)**
Total net increase in cash and cash operations		15,970	61,998
Cash and cash equivalents at the beginning of year		84,074	22,076
Cash and cash equivalents at the end of year	11	**100,044**	**84,074**

The accompanying notes should be read in conjunction with these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: CORPORATE INFORMATION

The financial report of the Credit Union for the year ended 30 June 2010 was authorised for issuance in accordance with a resolution of the Directors on 28th September 2010.

New England Credit Union Limited ("the Credit Union") is a public company incorporated and domiciled in Australia. The members are the owners of the Credit Union.

The registered office is at Suite 4, Technology Park, Madgwick Drive, Armidale NSW 2350.

The nature of the operations and principal activities of the Credit Union are described in the Directors' Report.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report of New England Credit Union Limited is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for land and buildings which have been measured at fair value.

(b) Statement of Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as Mr Kevin Dupé, Chief Executive Officer of the Credit Union.

Internal reporting is presented on the basis of a single segment.

(d) Revenue recognition

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

(i) Interest and similar income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial instrument over the relevant period 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 to the net carrying amount of the financial asset or financial liability.

Loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a member's account on the last day of each month. Interest income on impaired loans is recognised using the original effective interest rate.

(ii) Fees and commission income

The Credit Union earns fee and commission income from a diverse range of services it provides to its members. Income is brought to account on an accrual basis once a right to receive consideration has been established.

(iii) Dividend income

Dividend income is recorded in non-interest income when the Credit Union's right to receive the payment is established.

(iv) Rental income

Rental income arising from Rural Transaction Centres is accounted for on a straight-line basis over the agreement terms and is recorded in non-interest income.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Credit Union, substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Credit Union will obtain ownership by the end of the lease term.

Leases, in which a significant portion of risks and rewards are not transferred to the Credit Union or lessee are classified as operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

A provision has been made for the present value of anticipated costs of future restoration of leased branch premises. The provision includes future cost estimates associated with dismantling furniture and fittings. An asset is created as a result of this provision which is included in leasehold improvements. This asset is amortised over the effective remaining life of each lease. The calculation of this provision requires assumptions which may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each branch is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for branches are recognised in the balance sheet by adjusting both the expense or asset (if applicable) and provision.

(g) Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are, with limited exception, measured initially at fair value at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Business Combinations (continued)

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the entity's share of the net identifiable assets is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(i) Change in accounting policy

A revised AASB 3 Business Combinations became operative on 1 July 2009. The revised standard now requires combinations of mutual entities to be accounted for under the acquisition method for business combinations.

Under AASB 3(r), in a combination of mutual entities where only net assets are transferred, the acquirer shall determine the amount of goodwill using the acquisition-date fair value of the acquirer's interest in the acquiree in place of the acquisition-date fair value of the consideration transferred.

In addition, the acquirer in a combination of mutual entities shall recognise the acquiree's net assets as a direct addition to equity in its statement of financial position, which is consistent with the way in which other types of entity apply the acquisition method. Such additions are made to the Contributed Equity account as discussed in note 2(h).

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill if applicable.

The changes above were implemented prospectively from 1 July 2009 and affected the accounting for the acquisition of Hunter Mutual Limited as disclosed in note 39.

Acquisition related costs of $205,612 were recognised in profit or loss during the period. These acquisition costs related to employee benefits and information technology expenses.

(h) Contributed Equity

Contributed Equity reflects the addition to equity arising from the application of AASB3(r) for business combinations undertaken by the Credit Union. From 1 July 2009, the acquirer in a combination of mutual entities is required to recognise the acquiree's net assets as a direct addition to equity in its Statement of Financial Position.

This Contributed Equity reserve is undistributable.

(i) Impairment of loans and advances

The Credit Union assesses at each balance date whether there is any objective evidence that a loan and advance to a member, or a group of loans and advances, is impaired. A loan and advance, or a group of loans and advances, 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 loan and advance or group of loans and advances that can be reliably estimated. Objective evidence of impairment may include indications that the borrower, or a group of borrowers is experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial restructure 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.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or decreased by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'bad debts recovered'.

Bad debts are written off when identified. Identification may include: bankruptcy, clearout or unlikelihood of recovery. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in values.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts.

(k) Due from other financial institutions

Receivables due from other financial institutions are primarily settlement account balances due from banks, building societies and other credit unions and exclude call and short term deposits with other Authorised Deposit-taking Institutions (ADIs). They are brought to account at the gross value of the outstanding balance. Interest is brought to account in the Statement of Comprehensive Income as interest income when earned.

(l) Trade and other receivables

Trade and other receivables include amounts owed to the Credit Union for services provided, accrued interest on loans and advances, investments, unpresented cheques and deposits not yet banked on the bank account and reimbursements of expenses incurred on behalf of a third party. Trade and other receivables includes interest accrued on investments which is received on maturity. Amounts due for services provided are normally settled in 30 days.

Trade and other receivables are initially recorded at cost including transaction costs. At reporting date, trade and other receivables are measured at amortised cost, less any allowance for impairment or uncollectability.

(m) Loans and advances

Loans and advances to members, including loans to key management personnel, are assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Such assets are measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

(n) Renegotiated loans

Where possible, the Credit Union seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(o) Investments and other financial assets

Investments and financial assets are categorised as either financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated each financial year end.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

(i) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Credit Union has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of the difference between the initially recognised amount and the maturity amount. For investments carried at amortised cost, gains or losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Investments and other financial assets (continued)

(ii) Available-for-sale investments
Available-for-sale investments are non-derivative financial assets, principally equity securities that are designated as available-for-sale. After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in profit or loss.

(iii) Recognition and derecognition
All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party unless under a 'pass-through' arrangement; or
- either (a) the Credit Union has transferred substantially all the risks and rewards of the asset, or (b) the Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Credit Union has arrangements with Integris Securitisation Services Pty Limited and Trinity Limited whereby it acts as an agent to promote loans on their behalf, for on sale to an investment trust. The Credit Union also manages the portfolio on behalf of the trust. The amount of securitised loans under management as at 30 June 2010 is $8,528,798 (2009: $9,676,167).

(p) Property, plant and equipment
Each category of property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

(i) Property
Land and buildings are measured at fair value, based on periodic but at least triennial valuations by external independent valuers, less subsequent depreciation on buildings and less any impairment losses recognised after the date of revaluation. The fair value is reassessed prior to sale.

Any revaluation increment net of tax is credited to other comprehensive income and the asset revaluation reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to other comprehensive income and the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amounts of the assets and depreciation based on the asset's original costs, net of tax.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Property, plant and equipment (continued)

(ii) Plant and Equipment
Plant and equipment are measured on the historical cost basis less depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the asset's employment and subsequent disposal.

Any decrease in the carrying amount is recognised as an impairment expense in the Statement of Comprehensive Income in the reporting period in which the impairment loss occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

(iii) Disposal
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the year the asset is derecognised.

(iv) Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to the residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

• Buildings	25 years
• Furniture, Fittings & Leasehold Improvements	5 to 15 years
• Office equipment	3 to 15 years
• Motor Vehicles	6 years
• Leased plant & equipment	3 to 8 years

(q) Intangible assets
Intangible assets relate to the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Amortisation is calculated using the straight line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

• Computer Software	3 years

(r) Impairment of assets
The Credit Union assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Credit Union makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and the difference is recognised as the impairment loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised. The carrying amount of the asset is increased to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Member deposits

All member deposits are initially recognised at the fair value of the amount received. After initial recognition, deposits are subsequently measured at amortised cost using the effective interest method.

Interest is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis. Interest is recognised on an effective interest basis.

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent accrued interest on deposits and liabilities for goods and services provided to the Credit Union prior to the end of the financial year that are unpaid and arise when the Credit Union becomes obliged to make future payments in respect of the purchase of these goods and services. Trade liabilities are normally settled within 30 days.

(u) Borrowings and subordinated debt

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

Borrowing costs are recognised as an expense when incurred.

(v) Provisions

Provisions are recognised when the Credit Union has a legal or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past events. It is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(w) Employee benefits

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date after the end of the period in which the employees render related service are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. The liability for annual leave and accumulating sick leave is recognised in the provision for annual leave.

The liability for long service leave is not expected to be settled within 12 months after the end of the period in which the employees render the related service recognised in the provision for long service leave and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, to the estimated future cash flows.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the Statement of Comprehensive Income as incurred.

(x) Directors' benefits

The provision made to 30th June 2009 for director retirement benefits arising from services rendered by directors has been written back during the financial year due to a change in legislation.

(y) Goods and services tax (GST)

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Goods and services tax (GST)(continued)

Revenue, expenses and assets are recognised net of the amount of GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The entity's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the entity's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Credit Union is yet to assess its full impact. However, initial indications are that it may affect the entity's accounting for available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

(ii) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 January 2010)

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Credit Union will apply the revised standards from 1 July 2011. On initial application, the Credit Union does not expect that any adjustments will be necessary as the result of applying the revised rules.

(iii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Credit Union will apply the amended standard from 1 July 2011. It is not expected to have any effect on the Credit Union's related party disclosures.

(iv) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. New England Credit Union has public accountability as defined in AASB 1053 and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

(v) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2010/1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Credit Union will apply the amendments from 1 July 2010. On initial application, the entity will need to make adjustments to the disclosure for AASB 7 and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) New accounting standards and interpretations (continued)

The following table shows the topics addressed by these amendments:

IFRS	Subject of Amendment	Applies from
IFRS 7 *Financial instruments: Disclosures*	The amendments include multiple clarifications related to the disclosure of financial instruments.	1 January 2011
IAS 1 *Presentation of Financial Statements*	Entities may present either in the statement of changes in equity or within the notes an analysis of the components of other comprehensive income by item.	1 January 2011

NOTE 3: FINANCIAL RISK MANAGEMENT

The Credit Union's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk and operational risk. The Credit Union's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Credit Union. The Credit Union uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity in the case of interest rate risk and ageing analysis for credit risk.

The Credit Union manages these risks on a daily basis through the operational responsibilities of Executive and Senior Management and the functioning of the Asset and Liability Committee (ALCo), the Credit Committee and the Operational Risk & Compliance Committee and under policies approved by the Board after recommendation from the Audit & Risk Committee.

The Credit Union holds the following financial instruments:

	2010 $'000	2009 $'000
Financial Assets		
Cash and cash equivalents	100,044	84,074
Due from other financial institutions	6,000	7,000
Trade and other receivables	3,497	3,246
Loans and advances to members	675,511	535,548
Financial assets - available-for-sale	312	1,202
Financial assets - held-to-maturity	77,636	51,316
Loss reserve loan	2,390	1,990
	865,390	**684,376**
Financial Liabilities		
Deposits	766,678	605,792
Trade and other payables	12,773	10,261
Borrowings	1,639	1,415
Subordinated debt	9,219	7,158
	790,309	**624,626**

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(a) 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 board has established limits on Value at Risk (VaR) and interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are considered to ensure positions are maintained within the established limits.

(i) Value at Risk (VaR)

VaR is a statistical measure of the potential loss expected due to a change in market conditions arising from currently held positions, given a certain confidence level and holding period. VaR is presented as a dollar amount and is based on historically observed volatility. The holding period represents the implied liquidation period of the portfolio. It is the number of days required to either liquidate a portfolio or hedge the risk within the portfolio. The observation period is the number of days over which the previous market data (interest rates) is observed to predict the future. The 99% confidence level is the degree of confidence with which the VaR number will not be exceeded. A 99% confidence level implies that for 99 out of 100 observations, the market value based loss will not be greater than the VaR number.

As a normal distribution is used, the standard deviation of the portfolio is multiplied by 2.33 to achieve a 99% confidence level. A proxy set of interest rates must be used to estimate the changes in the yield curve. The proxy curve used by the Credit Union is the interbank yield curve constructed from the official cash rate, BBSW and swap rates.

Since VaR is an integral part of the Credit Union's interest rate risk management, VaR limits have been established for all non-trading operations and exposures are reviewed monthly against the limits by management.

	2010 $'000	2009 $'000
VaR exposure at 30 June 2010	671	413
Average monthly VaR exposure	593	400
Maximum monthly VaR exposure	678	427
Minimum monthly VaR exposure	458	378

(ii) Sensitivity

The following table demonstrates the sensitivity to a reasonable change in interest rates, with all other variables held constant, of the Credit Union's income statement. This methodology was also applied at 30 June 2009.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net income for one year, based on floating rate non-trading financial assets and liabilities held at 30 June 2010.

1% shift upwards	(1,228)	(545)
1% shift downwards	1,228	545

(iii) Prepayment Risk

Prepayment risk is the risk that the Credit Union will incur a financial loss because its members and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages. The Credit Union is not exposed to significant prepayment risk given that its fixed rate portfolio is 13.13% of its total loan portfolio.

(b) Credit Risk

Credit risk is the risk that the Credit Union will incur a loss when its members, clients or counterparties fail to discharge their contractual obligations. The Credit Union manages and controls credit risk by setting limits for individual counterparties, geographical and industry concentrations and monitoring these exposures.

The Credit Union has established a credit control review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Credit limits are established by use of a comprehensive assessment process. The credit control review process allows the Credit Union to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(i) Maximum exposure to credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements

	2010 $'000	2009 $'000
Credit risk exposures relating to on balance sheet assets:		
Cash and cash equivalents	100,044	84,074
Due from other financial institutions	6,000	7,000
Trade receivables	3,497	3,246
Loans and advances to members	677,103	536,561
Financial assets - available for sale	312	1,202
Financial assets - held-to-maturity	77,636	51,316
Loss reserve loan	2,390	1,990
Total on balance sheet	**866,982**	**685,389**
Credit risk exposures relating to off balance sheet assets:		
Guarantees	749	1,051
Undrawn loan commitments	36,158	30,218
Other commitments	8,266	8,316
Total on and off balance sheet	**912,155**	**724,974**

(ii) Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the member. Guidelines are in place with regards to the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for commercial lending, charges over real estate properties and inventory;
- for retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The terms and conditions are specific to individual loan and security types.

It is the Credit Union's policy to dispose of repossessed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Credit Union does not occupy repossessed properties for business use.

During the financial period, the Credit Union has acquired $76,700 of real estate and other assets through the enforcement of security. As at period-end, there are no such assets owned by the Credit Union. The Credit Union does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

(iii) Impairment assessment

The main considerations for loan impairment assessment are as follows:

- whether any payments of principal or interest are overdue;
- there are any known difficulties in the cash flows of counterparties; or
- infringements of the original terms of the contract

The Credit Union addressed impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(iv) Individually assessed allowances

The Credit Union determines the allowances appropriate for each individually significant loan or advance on an individual basis. Objective evidence includes the timing of expected cash flows, the availability of other financial support and the realisable value of collateral. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(v) Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio being separately reviewed.

The collective assessment takes account of impairment that is likely to be present in the portfolio. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for calculating the length of the emergence period which can extend for as long as eighteen months. The impaired allowance is then reviewed by the Credit Committee to ensure alignment with the Credit Union's overall policy objectives.

(vi) Analysis of age of financial assets that are past due but not impaired

30 June 2010 **Loans and advances to members**	1 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	More than 91 days $'000	**TOTAL 2010 $'000**
Personal Loans	3,228	443	435	-	**4,106**
Mortgage Loans	10,769	1,073	968	-	**12,810**
Commercial Loans	1,032	297	47	-	**1,376**
Revolving Credit	3,248	48	17	-	**3,313**
Total	**18,277**	**1,861**	**1,467**	**-**	**21,605**

30 June 2009 **Loans and advances to members**	1 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	More than 91 days $'000	**TOTAL 2009 $'000**
Personal Loans	3,269	502	242	-	**4,013**
Mortgage Loans	4,438	476	639	-	**5,553**
Commercial Loans	626	523	-	-	**1,149**
Revolving Credit	702	16	9	-	**727**
Total	**9,035**	**1,517**	**890**	**-**	**11,442**

(vii) Analysis of financial assets individually determined to be impaired

	Gross Impaired Assets 2010 $'000	Individually Assessed Provisions 2010 $'000	Net Impaired Assets 2010 $'000	Gross Impaired Assets 2009 $'000	Individually Assessed Provisions 2009 $'000	Net Impaired Assets 2009 $'000
Loans and advances to members	3,925	344	3,581	2,353	341	2,012
Financial assets individually assessed as impaired	**3,925**	**344**	**3,581**	**2,353**	**341**	**2,012**

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(viii) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available):

	2010 $'000	2009 $'000
AAA	29,639	2,621
AA	50,818	72,689
A	11,389	7,500
BBB	34,651	20,201
Unrated	57,184	39,379
	183,681	**142,390**

The portfolio composition of loans and advances to members is as follows:

	Housing $'000	Commercial $'000	Personal $'000	TOTAL $'000
Loans	489,413	73,928	84,286	**647,627**
Revolving Credit and Overdrafts	8,680	8,584	12,212	**29,476**
Total Balances	**498,093**	**82,512**	**96,498**	**677,103**
Percentage of portfolio	**73.6%**	**12.2%**	**14.2%**	**100.0%**
Maximum percentage under policy	**100.0%**	**20.0%**	**30.0%**	

(c) Liquidity Risk

Liquidity risk is the risk that the Credit Union will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has wholesale funding sources in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows.

The Credit Union maintains a portfolio of high quality liquid assets that can be easily liquidated in the event of an unforeseen interruption to cash flow. The Credit Union also has committed lines of credit that it can access to meet its liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Credit Union. The most important of these is to maintain minimum regulatory limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consists of cash and short term bank deposits available for immediate sale.

In order to minimise the risk of NECU's liquidity ratio falling below 12%, the Board has determined a target liquidity ratio of 13%. In the event that NECU's liquidity ratio falls below 13%, or is considered to be at risk of falling below that level, specific remedial measures are required to be taken by the Board and management.

The liquidity ratio during the year was as follows:

	%	%
30 June	15.47	15.08
Average during the period	14.87	15.36
Highest	16.84	18.01
Lowest	13.27	13.61

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (continued)

Maturities of financial liabilities

The table below analyses the entity's financial liabilities into relevant maturity groupings as follows:

(a) based on their contractual maturities:
(b) based on the remaining period to the expected settlement date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Maturity	Total
As at 30 June 2010	$'000	$'000	$'000	$'000	$'000	$'000	**$'000**
Member deposits	360,703	278,603	133,953	4,921	-	-	**778,180**
Trade and other payables	12,773	-	-	-	-	-	**12,773**
Borrowings	-	253	409	1,289	-	-	**1,951**
Subordinated debt	-	142	9,726	-	-	-	**9,868**
Total financial liabilities	**373,476**	**278,998**	**144,088**	**6,210**	**-**	**-**	**802,772**
Contingent Liabilities	749	-	-	-	-	**-**	**749**
Commitments	30,447	5,991	1,527	4,237	2,059	**-**	**44,261**
Total contingent liabilities	**31,196**	**5,991**	**1,527**	**4,237**	**2,059**	**-**	**45,010**
As at 30 June 2009							
Member deposits	311,971	186,064	110,621	4,500	-	-	**613,156**
Trade and other payables	10,261	-	-	-	-	-	**10,261**
Borrowings	-	126	516	1,033	-	-	**1,675**
Subordinated debt	-	80	240	7,620	-	-	**7,940**
Total financial liabilities	**322,232**	**186,270**	**111,377**	**13,153**	**-**	**-**	**633,032**
Contingent Liabilities	1,051	-	-	-	**-**	**-**	**1,051**
Commitments	23,668	6,550	1,458	4,001	2,724	-	**38,401**
Total contingent liabilities	**24,719**	**6,550**	**1,458**	**4,001**	**2,724**	**-**	**39,452**

(d) Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes.

As of 1 July 2009, New England Credit Union Ltd has adopted the amendment to *AASB 7 Financial Instruments: Disclosures,* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)(level 2) and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The Credit Union does not have fair value financial instruments in the Statement of Financial Position except AFS Investments.

Investments in unlisted equity investments with a carrying value of $311,600 were included in Available for Sale Investments as at 30 June 2010. Due to the unlisted nature of the investments, their fair value could not be reliably measured and they are carried at cost. There is no immediate intention to dispose of these investments.

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(e) 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 control framework and by monitoring and responding to potential risks, the Credit Union is able to manage the risks. Controls include effective segregation of duties, access to systems, authorisation and reconciliation procedures, staff training and assessment processes including the use of internal audit.

(f) Capital Management

The Credit Union maintains an actively managed capital base to cover risks inherent in its business. The adequacy of the Credit Union's capital is monitored using, among other measures, the rules and ratios established by the Australian Prudential Regulation Authority.

The primary objectives of the Credit Union's capital management are to ensure that the Credit Union complies with externally imposed capital requirements and that the Credit Union maintains healthy capital ratios in order to support its activities.

During the past year the Credit Union has complied in full with all its externally imposed capital requirements.

Although the Credit Union actively monitors and manages its risk exposure in each of these areas, the Credit Union does not calculate and determine its minimum capital needs by allocating a specific value or 'capital charge' to each type of risk. Rather, the Board has resolved that the Credit Union will maintain, based on the outcomes of its annual capital planning processes, an 'internal minimum' prudential capital ratio (PCR) of 13%.

For capital adequacy purposes, authorised deposit-taking institutions must hold a minimum amount of Tier 1 capital. In addition, they may include an amount of Tier 2 capital as part of their required capital holdings, up to the limits specified in the Prudential Standard.

The Prudential Standard sets out the essential characteristics that an instrument must have to qualify as Tier 1 or Tier 2 capital for inclusion in the capital base for assessing Level 1 and Level 2 capital adequacy.

Tier 1 capital comprises the highest quality capital components. Tier 2 capital includes other components that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an institution as a going concern.

For capital adequacy purposes, the capital base at Level 1 and Level 2 is defined as the sum of Tier 1 and Tier 2 capital after all specified deductions and adjustments, subject to the various limits that apply.

	2010 $'000	2009 $'000
Tier 1 Capital	69,241	49,516
Tier 2 Capital	14,432	10,984
Total Capital	**83,673**	**60,500**
Risk Weighted Assets	468,927	379,148
Risk-based Capital Ratio	**17.84%**	**15.96%**

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

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

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(i) Classification and valuation of investments

The Credit Union has classified investments in unlisted securities as available-for-sale investments and movements in fair value are recognised directly in equity. The fair values of unlisted securities not traded in an active market are recorded at historical cost as it is not practical to determine a valuation that would reflect fair value.

(ii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(iii) Impairment of non-financial assets other than goodwill

The Credit Union assesses impairment of all assets at each reporting date by evaluating conditions specific to the Credit Union and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assassumptions.

(iv) Long service leave provision

As discussed in Note 2 (w), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

(v) Estimation of useful lives of assets

The estimation of the useful lives of assets is based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once every year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in Note 8.

(vi) Impairment of loans and advances

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

In addition to specific allowances against individually significant loans and advances, the Credit Union also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as deterioration in industry, as well as identified structural weaknesses or deterioration in cash flows.

(vii) Asset revaluations

Any property revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. Any revaluation decrease is recognised in profit or loss, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

(viii) Make good provisions

A provision has been made for the present value of anticipated costs of future restoration of leased branch premises. The provision includes future cost estimates associated with dismantling furniture and fittings. The calculation of this provision requires assumptions which may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each branch is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for branches are recognised in the balance sheet by adjusting both the expense or asset (if applicable) and provision.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates in preparing the financial report are reasonable. Actual results in the future may differ from those reported.

NOTE 5: INTEREST INCOME

	2010 $'000	2009 $'000
Cash and cash equivalents	464	484
Due from other financial institutions	6,801	6,316
Loans and advances to members	45,185	42,013
Interest income accrued on impaired financial assets	209	162
Other interest income	88	112
Total interest income	**52,747**	**49,087**

NOTE 6: INTEREST EXPENSE

	2010 $'000	2009 $'000
Deposits	22,579	24,707
Borrowings	18	36
Subordinated debt	382	486
Total interest expense	**22,979**	**25,229**

NOTE 7: NON-INTEREST INCOME

	2010 $'000	2009 $'000
Loan fees	1,012	879
Transaction fees	3,719	4,097
Insurance commissions	991	1,059
Other commissions	827	844
Bad debts recovered	56	27
Gain on sale of property, plant & equipment	43	38
Rental income	64	59
Dividend income	169	320
Insurance profit share	-	208
Other non-interest income	189	194
Total non-interest income	**7,070**	**7,725**

NOTE 8: OPERATING EXPENSES

	2010 $'000	2009 $'000
Bad and doubtful debts		
Change in provision for impairment of loans & advances	453	108
Bad debts written off directly	766	449
	1,219	**557**
Employee benefits expense		
Salaries and wages	10,838	9,544
Superannuation expense	911	793
Other employee benefits expense	1,931	1,579
	13,680	**11,916**
Office occupancy expense		
Rental expense on operating leases	1,137	1,009
Other office occupancy costs	908	636
	2,045	**1,645**
Depreciation and amortisation expense		
Depreciation of buildings and plant & equipment	1,052	935
Amortisation of finance leases and intangibles	652	615
	1,704	**1,550**
Information technology and communications expense		
Hardware and software maintenance	1,039	859
Communications expense	1,054	699
Other information technology expense	1,115	1,386
	3,208	**2,944**
Other expenses		
Marketing and promotional expenses	1,506	945
Loss on disposal of assets	121	112
Board and committee expenses	(32)	389
Membership protection and benefits	652	780
General administrative expenses	2,182	1,860
Loan administration costs	86	43
Motor vehicle expenses	100	119
Member transaction costs	1,422	1,944
Other operating expenses	169	124
	6,206	**6,316**
Total operating expenses	**28,062**	**24,928**

NOTE 9: INCOME TAX

	2010 $'000	2009 $'000
(a) The components of current income tax expense comprise:		
Current tax charge	2,682	2,221
Adjustment in respect of current income tax of previous years	(115)	(39)
	2,567	**2,182**
(b) The prima facie tax on profit differs from the income tax provided in the financial statements as follows:		
Net profit before tax	8,776	6,655
Prima facie tax calculated at 30% payable on the profit (2009:30%)	2,633	1,996
Add tax effect of:		
Non-deductible depreciation and amortisation	148	24
Under-provision for income tax in prior year	(115)	(39)
Less tax effect of:		
Other	(99)	201
Income tax attributable to profit	**2,567**	**2,182**
(c) Tax expense (income) relating to items of other comprehensive income		
Gains on revaluation of land and buildings	43	-

(d) Recognised deferred tax assets and liabilities

	Current Income Tax 2010 $'000	Deferred Income Tax 2010 $'000	Current Income Tax 2009 $'000	Deferred Income Tax 2009 $'000
Opening balance	(1,138)	1,025	(622)	925
Charged to transfer of business	61	326	-	201
Charged to income	(2,771)	204	(2,182)	-
Charged to equity	-	131	-	1
Other payments	1,907	-	1,666	(102)
Closing balance	**(1,941)**	**1,686**	**(1,138)**	**1,025**
Tax expense in income statement		2,567		2,182
Amounts recognised in the balance sheet:				
Deferred tax asset		1,946		1,260
Deferred tax liability		(260)		(235)
		1,686		**1,025**

NOTE 9: INCOME TAX (Continued)

(d) Recognised deferred tax assets and liabilities (continued)

Deferred tax at 30 June relates to the following:

	2010 $'000	2009 $'000
Deferred tax liabilities		
Net gain on revaluation of land and buildings	(131)	(167)
Net issuance fees on capital raising of equity and subordinated debt instruments	(105)	-
Other	(24)	(68)
	(260)	**(235)**
Deferred tax assets		
Net gain on revaluation of land and buildings	567	167
Doubtful debts	479	304
Other provisions and accrued expenses	900	789
Net issuance fees on capital raising of equity and subordinated debt instruments	-	-
	1,946	**1,260**
Net deferred income tax assets	**1,686**	**1,025**

NOTE 10: DIVIDENDS PAID

(a) Recognised amounts

Dividends are payable in arrears on 30 June, 30 September, 31 December and 31 March in each year that the permanent preference shares are on issue.

Dividends paid on permanent preference shares (fully franked) are as follows:

			2010 $'000	2009 $'000
30-Sep-09	109.04	cents (2009 : 191.05)	137	227
31-Dec-09	112.33	cents (2009 : 181.94)	142	229
31-Mar-10	125.45	cents (2009 : 123.24)	183	155
30-Jun-10	130.60	cents (2009 : 106.95)	190	135
Total dividends paid			**652**	**746**

The payment of dividends on permanent preference shares is at the discretion of the directors and, if paid, is on a quarterly basis at a floating rate equal to three month Australian Financial Markets Association (AFMA) BBSW reference rate plus a margin of 2.99% per annum multiplied by (1-T) where T is the prevailing Australian corporate tax rate at the time of payment of the dividend.

Dividends may only be paid out of distributable profits. Distributable profits refers to the profits after tax of the Credit Union for the 12 month period ending 30 June 2010.

The payment of a dividend is also subject to the Credit Union having profits available for the payment of a dividend as required by the Corporations Act and such payment not exceeding 100% of the Credit Union's annual profit after tax in any year.

(b) Tax rate used

The tax rate at which paid dividends have been franked is 30% (2009: 30%).

NOTE 10: DIVIDENDS PAID (Continued)

(c) Balance of franking account at year-end adjusted

The amount of franking credits available for the subsequent financial year are:

	2010 $'000	2009 $'000
Franking	16,593	13,119
Franking credits transferred on merger	2,025	2,382
Franking credits that will arise from payment of income tax payable as at the end of the financial year	1,907	1,271
Franking debits that will arise from payment of dividends as at the end of the financial year	72	147
Franking credits that will arise from receipt of dividends recognised as receivables as at the end of the financial year	(280) -	(326)
Franking account balance for future reporting periods	**20,317**	**16,593**

NOTE 11: CASH AND CASH EQUIVALENTS

	2010 $'000	2009 $'000
Cash on hand	6,537	5,818
Short term deposits	93,507	78,256
Total cash and cash equivalents	**100,044**	**84,074**

The entity's exposure to interest rate risk is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 12: DUE FROM OTHER FINANCIAL INSTITUTIONS

	2010 $'000	2009 $'000
Deposits with authorised deposit-taking institutions	**6,000**	**7,000**
Maturity analysis		
Longer than 3 months and not longer than 6 months	5,000	7,000
Longer than 6 months	1,000	-
	6,000	**7,000**

NOTE 13: TRADE AND OTHER RECEIVABLES

	2010 $'000	2009 $'000
Interest receivable on deposits	1,194	908
Sundry debtors and settlement accounts	2,117	2,224
Prepayments	186	114
Total trade and other receivables	**3,497**	**3,246**

There were no receivables past due at balance date.

All trade and other receivables are collectable within 12 months.

NOTE 14: LOANS AND ADVANCES TO MEMBERS

	2010 $'000	2009 $'000
Loans and advances to members		
Personal Loans	84,286	86,784
Mortgage Loans	489,413	373,809
Commercial Loans	73,928	54,257
Revolving Credit	29,476	21,711
Total loans and advances to members	**677,103**	**536,561**
Provision for impairment		
Personal Loans	(1,020)	(551)
Mortgage Loans	(99)	(297)
Commercial Loans	(210)	(32)
Revolving Credit	(263)	(133)
Less total provision for impairment	(1,592)	(1,013)
Net loans and advances	**675,511**	**535,548**

(a) Impairment allowance for loans and advances to members

	Personal Loans 2010 $'000	Mortgage Loans 2010 $'000	Commercial Loans 2010 $'000	Revolving Credit 2010 $'000	TOTAL $'000
At 1 July 2009	551	297	32	133	**1,013**
Charge for the year	879	(195)	167	230	**1,081**
Recoveries	51	-	-	4	**55**
Amounts written off	(649)	(13)	-	(104)	**(766)**
Interest accrued on impaired loans (Note 5)	188	10	11	-	**209**
At 30 June 2010	**1,020**	**99**	**210**	**263**	**1,592**
Individual impairment	62	54	210	18	**344**
Collective impairment	958	45	-	245	**1,248**
	1,020	**99**	**210**	**263**	**1,592**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,561	1,368	355	641	**3,925**

	Personal Loans 2009 $'000	Mortgage Loans 2009 $'000	Commercial Loans 2009 $'000	Revolving Credit 2009 $'000	TOTAL $'000
At 1 July 2008	521	9	128	76	**734**
Charge for the year	259	299	(103)	84	**539**
Recoveries	24	-	-	3	**27**
Amounts written off	(399)	(19)	-	(31)	**(449)**
Interest accrued on impaired loans (Note 5)	146	8	7	1	**162**
At 30 June 2009	**551**	**297**	**32**	**133**	**1,013**
Individual impairment	103	206	32	-	**341**
Collective impairment	448	91	-	133	**672**
	551	**297**	**32**	**133**	**1,013**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,201	638	72	442	**2,353**

NOTE 14: LOANS AND ADVANCES TO MEMBERS (Continued)

		2010 $'000	2009 $'000
(b)	**Maturity Analysis**		
	Not longer than 3 months	8,726	1,828
	Longer than 3 months and not longer than 12 months	18,155	3,453
	Longer than 12 months and not longer than 5 years	146,669	114,240
	Longer than 5 years	503,553	417,040
	Total loans and advances	**677,103**	**536,561**
(c)	**Security dissection**		
	Secured by mortgage over commercial property	25,833	24,521
	Secured by mortgage over real estate	558,904	413,059
	Partly secured by goods mortgage	74,185	75,429
	Wholly unsecured	18,181	23,552
	Total loans and advances	**677,103**	**536,561**

The Credit Union accepts a number of methods for valuing the fair value of collateral supporting loans. Real estate is valued utilising the purchase price of arms length residential sales, market appraisals from real estate agents (a lower loan to valuation ratio is applied) and licensed panel valuers where security is non residential, of high value or remotely located. Motor vehicles are valued by reference to an independent valuation guide.

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown of the loan to valuation ratio on loans secured by mortgages over real estate, on a portfolio basis is as follows:

		2010 $'000	2009 $'000
(d)	**Loan to valuation ratio**		
	Loan to valuation ratio of less than 80%	470,583	359,555
	Loan to valuation ratio of more than 80% but mortgage insured	39,697	25,665
	Loan to valuation ratio of more than 80% but not mortgage insured	48,624	27,839
	Total loans secured by mortgage over real estate and commercial property	**558,904**	**413,059**

(e) **Concentration of loans**

- There were no loans to individual or related groups of members which exceed 10% of member funds in aggregate.
- There is no concentration of loans to individual members employed in a particular industry.
- Loans to members are concentrated solely in Australia and principally in the Central West, North and North West of NSW.

	2010 $'000	2009 $'000
New South Wales	653,660	516,856
Victoria	1,642	767
Queensland	17,661	16,123
Western Australia	1,592	873
South Australia	151	111
Tasmania	628	611
Other	1,769	1,220
Total	**677,103**	**536,561**

NOTE 15: IMPAIRMENT OF LOANS AND ADVANCES

		2010 $'000	2009 $'000
(a)	**Provisions for impairment**		
	Opening balance	1,013	734
	Impairment expense:		
	Personal Loans	469	30
	Mortgage Loans	(198)	216
	Commercial Loans	178	(24)
	Revolving Credit	130	57
	Closing balance	**1,592**	**1,013**

Key assumptions in determining the provision for impairment
Refer to Note 2(h) on impairment of loans and advances.

		2010 $'000	2009 $'000
(b)	**Impairment expense**		
	Provisions for impairment	453	108
	Bad debts written off directly:		
	Personal Loans	649	399
	Mortgage Loans	13	19
	Commercial Loans	-	-
	Revolving Credit	104	31
	Total impairment expense	**1,219**	**557**

The level of restructured loan balances and provision for impairment are not considered material for disclosure.

		2010 $'000	2009 $'000
(c)	**Interest and other revenue recognised and foregone**		
	Interest foregone on non-accrual and restructured loans	**46**	**13**

There was no revenue on real estate or other assets acquired via enforcement of security during the year.

NOTE 16: FINANCIAL ASSETS

	2010 $'000	2009 $'000
(a) Available-for-sale		
Shares in unlisted companies – at cost		
Credit Union Services Corporation (Aust) Limited	-	1,202
Indue Ltd	312	-
Total available-for-sale	**312**	**1,202**

The shareholding in Indue Ltd (Indue) is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 38. The shares are not able to be traded and are not redeemable.

	2010 $'000	2009 $'000
(b) Held-to-maturity		
ADI debt securities	47,997	51,316
Other debt securities	29,639	-
Total Held-to-maturity	**77,636**	**51,316**

NOTE 17: PROPERTY, PLANT AND EQUIPMENT

(a) Fixed assets

	2010 $'000	2009 $'000
Land & buildings		
At valuation	2,836	2,995
Less accumulated depreciation	(67)	(282)
	2,769	**2,713**
Furniture, fittings & leasehold improvements		
At cost	4,531	3,365
Less accumulated depreciation	(2,017)	(1,395)
	2,514	**1,970**
Office equipment		
At cost	3,171	2,552
Less accumulated depreciation	(2,224)	(1,938)
	947	**614**
Motor vehicles		
At cost	95	93
Less accumulated depreciation	(50)	(28)
	45	**65**
Leased plant & equipment		
Capitalised leased assets	2,276	2,054
Less accumulated amortisation	(962)	(920)
	1,314	**1,134**
Net Fixed Assets	**7,589**	**6,496**

NOTE 17: PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Movements in carrying amounts

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the current financial year are set out below.

2010	Land & Buildings $'000	Furniture, Fittings & Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Leased Plant and Equipment $'000	TOTAL $'000
Balance at the beginning of the year	2,713	1,970	614	65	1,134	**6,496**
Merger Acquisitions	900	259	166	131	-	**1,456**
Revaluation	142	-	-	-	-	**142**
Additions	6	698	358	-	696	**1,758**
Disposals	(900)	(21)	-	(129)	(161)	**(1,211)**
Depreciation expense	(92)	(392)	(191)	(22)	(355)	**(1,052)**
Carrying amount	**2,769**	**2,514**	**947**	**45**	**1,314**	**7,589**

2009	Land & Buildings $'000	Furniture, Fittings & Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Leased Plant and Equipment $'000	TOTAL $'000
Balance at the beginning of the year	2,377	1,763	255	33	719	**5,147**
Merger Acquisitions	422	14	59	198	-	**693**
Additions	-	498	481	-	775	**1,754**
Disposals	-	-	-	(127)	(36)	**(163)**
Depreciation expense	(86)	(305)	(181)	(39)	(324)	**(935)**
Carrying amount	**2,713**	**1,970**	**614**	**65**	**1,134**	**6,496**

(c) Revaluations

The revaluation was made in accordance with a policy to revalue land and buildings every three years and prior to sale. The Narromine property revaluation was based on an independent assessment by Aspect Property Consultants as at 17th September 2009. The Armidale head office property revaluation was based on an independent assessment by Knight Davidson Property Advisory as at 12th August 2009.

	2010 $'000	2009 $'000
(d) If land and buildings were stated at historical cost, amounts would be as follows:		
Cost	2,709	2,664
Less accumulated depreciation	(1,282)	(816)
Net book value	**1,427**	**1,848**
(e) Gross carrying amount of fully depreciated property, plant & equipment		
Furniture & Fittings	685	201
Office Equipment	1,752	1,590
Gross carrying amount	**2,437**	**1,791**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 18: INTANGIBLE ASSETS

(a) Intangible assets

	2010 $'000	2009 $'000
Computer software at cost	2,890	2,035
Less accumulated amortisation	(1,771)	(1,235)
Net intangible assets	**1,119**	**800**

(b) Movements in carrying amounts

Reconciliations of the carrying amounts of each class of intangible asset between the beginning and end of the current financial year are set out below.

	2010 $'000	2009 $'000
Written down value balance at the beginning of the year	800	397
Acquisition on transfer of business	44	242
Additions	804	706
Disposals	-	(97)
Amortisation expense	(529)	(448)
Carrying amount	**1,119**	**800**

(c) Gross carrying amount of fully amortised intangible assets

	2010 $'000	2009 $'000
Software	1,235	664
Gross carrying amount	**1,235**	**664**

NOTE 19: LOSS RESERVE LOAN

	2010 $'000	2009 $'000
Preference share loss reserve loan	1,460	1,260
Subordinated debt loss reserve loan	930	730
Total loss reserve loan	**2,390**	**1,990**

On 21 June 2006, the Credit Union issued 126,000 preference shares, each having an issue price of $100, to the Australian Mutual T1 Capital Funding Trust No 1 (AMCFT). On that same date, the Credit Union issued 73,000 subordinated debt instruments, each having an issue price of $100, to Australian Mutual LT2 Capital Funding No 1 Limited (AMCFL).

Also on 21 June 2006, the Credit Union advanced loans to each of AMCFT and AMCFL, for amounts of $1,460,000 and $930,000 respectively, with both loans having similar terms as summarised below in this Note. The principal amount of the preference share loss reserve loan is being treated, for accounting purposes, as an unpaid component of the $14.6 million preference share issue. In the event that the Credit Union does not pay a dividend on the preference shares, the Credit Union is not required to pay, or deliver to the holder of those shares, any amounts or benefits. However, a non-payment of a dividend by the Credit Union may result in the Credit Union not receiving, from the Trust, an amount of interest that it would otherwise have received on the preference share loss reserve loan.

These loans have been provided on the following terms and conditions:
- the loans are unsecured;
- interest is due and payable to the Credit Union quarterly in arrears (by AMCFT and AMCFL respectively), on the dates and at the rate specified in the loan agreements. The rate of interest payable on both loans is specified in the contracts as 0.125% above the applicable 90 day AFMA BBSW reference rate, as determined on the first day of each quarterly interest period;
- interest may not be received on the loans (on one or more of the quarterly interest payment dates) if the Credit Union does not pay a dividend on the preference shares or fails to satisfy its interest payment obligations on the subordinated debt instruments; and
- neither AMCFT nor AMCFL is required to make any repayments of principal on the loans until the borrowers have fully satisfied certain payment obligations to third parties, as set out in the loss reserve loan agreements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 20: DEPOSITS

	2010 $'000	2009 $'000
Member call deposits (including member's shares)	360,703	311,971
Member term deposits	405,975	293,821
Total Deposits	**766,678**	**605,792**

(a) *Maturity analysis*

	2010 $'000	2009 $'000
At call	360,703	311,971
Not longer than 3 months	272,788	182,614
Longer than 3 months and not longer than 6 months	87,414	57,565
Longer than 6 months and not longer than 12 months	41,198	49,583
Longer than 12 months	4,575	4,059
	766,678	**605,792**

(b) *Concentration of Deposits*

There are no groups that represent in excess of 10% of total liabilities.

Member deposits at balance date were received from individuals employed in Australia. There are no significant groups of members concentrated in any particular industry.

	2010 $'000	2009 $'000
New South Wales	741,423	588,051
Victoria	3,045	2,509
Queensland	18,147	11,116
Western Australia	1,596	1,527
South Australia	897	1,110
Tasmania	592	533
Other	978	946
	766,678	**605,792**

NOTE 21: TRADE AND OTHER PAYABLES

	2010 $'000	2009 $'000
Accrued interest payable	5,644	3,814
Sundry creditors and accrued expenses	1,593	1,100
Clearing accounts	5,536	5,347
Total trade and other payables	**12,773**	**10,261**

NOTE 22: PROVISIONS

	2010 $'000	2009 $'000
Current		
Annual leave	1,019	849
Long service leave	927	685
Directors' retirement benefits	128	-
Non-current		
Make good	392	143
Long service leave	302	292
Directors' retirement benefits	-	468
Total provisions	**2,768**	**2,437**

NOTE 22: PROVISIONS (Continued)

(a) *Movements in provisions*

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	Make good provision $'000	Director Retirement Benefits $'000
At 1 July 2009	143	468
Arising during the year	249	128
Utilised	-	-
Reversed during the year	-	(468)
At 30 June 2010	**392**	**128**

NOTE 23: BORROWINGS

	2010 $'000	2009 $'000
Current lease liabilities	508	528
Non-current lease liabilities	1,131	887
Total borrowings	**1,639**	**1,415**

NOTE 24: SUBORDINATED DEBT

	2010 $'000	2009 $'000
Balance at the beginning of the year	7,158	4,907
Recognised on transfer of business	2,078	2,239
Amortise Fair Value	(40)	-
Write back of debt raising discount	23	12
Balance at end of year	**9,219**	**7,158**

The Credit Union issued subordinated debt instruments in 2006 with an aggregate issuance price of $9.3 million and for net proceeds (after transaction costs) of $9,039,500. Commensurate with the issuance of these subordinated debt instruments to Australian Mutual LT2 Capital Funding No 1 Limited (AMCFL), the Credit Union also agreed to lend AMCFL an amount of $930,000 (being 10% of the aggregate issuance price of the instruments), on terms set out in a loss reserve loan agreement. Refer Note 19.

The subordinated debt instruments were issued on the following terms and conditions:

- issued in Australian dollars;
- unsecured debt instruments;
- may be redeemed by the Credit Union subject to APRA approval;
- interest is payable quarterly in arrears at 90 day AFMA BBSW reference rate + 119 basis points for the initial five years;
- interest is calculated with a step up 50 bps thereafter;
- the instrument may be redeemed after the initial 5 years; and
- matures in 2016.

NOTE 25: PREFERENCE SHARES

	2010 $'000	2009 $'000
Balance at beginning of year	12,393	11,243
Recognised on transfer of business	1,954	1,071
Write back of debt raising discount	35	79
Balance at end of year	**14,382**	**12,393**

NOTE 25: PREFERENCE SHARES (Continued)

The Credit Union issued preference shares in 2006 year with an aggregate issuance price of $14.6 million and for net proceeds (after transaction costs) of $14,239,160. The preference shares were issued on terms consistent with the provisions of the Credit Union's Constitution, as amended by member resolution at a Special General Meeting held on 24 February 2006. Commensurate with the issuance of the preference shares to Australian Mutual T1 Capital Funding Trust No 1 (AMCFT), the Credit Union also agreed to lend AMCFT an amount of $1.460 million (being 10% of the aggregate issuance price of the shares), on terms set out in a loss reserve loan agreement. Refer Note 19.

These shares have been recognised as equity under the accounting standards. The effective nature of the share issuance transaction, when viewed together with the loss reserve loan advanced by the Credit Union to AMCFT (refer Note 19), is that the Credit Union has issued preference shares with an aggregate issuance price of $14.6 million, but with the amount of the loss reserve loan constituting an unpaid component of the share issue. In the event that the Credit Union does not pay a dividend on the preference shares, the Credit Union is not required to pay, or deliver to the holder of those shares, any amounts or benefits.

The preference shares were issued on the following terms and conditions:
- unsecured and undated;
- 115,000 issued shares, each with an issue price of $100;
- are non-voting in the hands of the holder;
- cannot be redeemed by the holder;
- can be redeemed by the Credit Union after 2016 subject to APRA approval;
- dividends may be payable, subject to available profits and Board approval, at the frequency, and at the rate and amount, as set out in the terms of issue (Refer Note 8(a));
- in respect of payment of dividends, rank ahead of member shares; and
- in the event of a winding-up, rank behind member shares and are unable to participate in any distribution of surplus.

NOTE 26: REDEEMABLE MEMBER SHARES

	2010 $'000	2009 $'000
Opening balance	361	262
Recognised on transfer of business	-	51
Transfer from retained earnings	40	48
Closing balance	**401**	**361**

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

NOTE 27: RESERVES

	30 June 2010 $'000	Restated 30 June 2009 $'000	Restated 1 July 2008 $'000
Asset revaluation reserve			
Opening balance	461	461	461
Net increase recognised on revaluation of assets	142	-	-
Provision for deferred tax on revaluation of assets in current period	(43)	-	-
Over/under provision for deferred tax on revaluation reserve in prior periods	174	-	-
Balance at end of year	**734**	**461**	**461**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 28: RETAINED EARNINGS

	30 June 2010 $'000	Restated 30 June 2009 $'000	Restated 1 July 2008 $'000
Opening balance	51,281	40,359	33,451
Merger retained earnings	-	7,243	-
Net profit attributable to members	6,209	4,473	3,655
Transfer to redeemed preference share capital account	(40)	(48)	(35)
Net transfer (to)/from reserves	-	-	4,103
Dividends paid	(652)	(746)	(815)
Total retained earnings	**56,798**	**51,281**	**40,359**

NOTE 29: CONTRIBUTED EQUITY

	2010 $'000	2009 $'000
Opening balance		
Contributed equity arising from business combination in the period (See note 39)	8,451	-
Balance at end of year	**8,451**	**-**

NOTE 30: REMUNERATION OF AUDITORS

	$	$
Remuneration of the auditor for:		
● Statutory audit and other assurance engagements	176,500	80,000
● Taxation services	16,000	12,000
● IT services	-	20,000
Total remuneration of auditors	**192,500**	**112,000**

NOTE 31: STATEMENT OF CASH FLOWS

	2010 $'000	2009 $'000

(a) Reconciliations of cash

For the purposes of the statement of cash flows, cash includes cash on hand and 'at call' deposits, net of overdrafts with other financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as follows:

	2010 $'000	2009 $'000
Cash liquid assets	100,044	84,074
	100,044	**84,074**

(b) Cash flows presented on a net basis

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

- customer deposits in and withdrawals from savings, money market and other deposit accounts;
- sales and purchases of maturing certificates of deposit;
- provision of member loans and the repayment of such loans.

(c) Reconciliation of cash flow from operations with profit after income tax

	2010 $'000	2009 $'000
Profit after income tax	6,209	4,473
Non-cash flows in profit after income tax:		
Net loss on sale of property, plant and equipment	78	74
Amortisation	652	615
Depreciation	1,052	935
Provision for loan impairment movement	1,219	557
Change in operating assets and liabilities:		
Decrease/(increase) in due from other financial institutions	7,494	(6,000)
(Increase) in member loans (gross)	(62,091)	(42,531)
Increase in provisions	-	69
(Increase) / decrease in receivables	(164)	1,145
Increase in deposits	74,703	76,071
Increase in deferred tax arising from prior year revaluation adjustment	131	-
Increase in income taxes payable	854	516
(Increase)/decrease in deferred tax asset	(328)	137
(Decrease)/Increase in deferred tax liability	(7)	31
Increase/(decrease) in trade and other payables	1,631	(1,794)
Decrease / (Increase) in other assets	104	(1,053)
Net cash provided by operating activities	**31,537**	**33,245**

(d) Non-cash Financing and Investing Activities

Property, plant and equipment

During the financial year the Credit Union acquired plant and equipment with an aggregate fair value of $750,249 (2009: $861,264) by means of finance lease. These acquisitions are not reflected in the Statement of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 32: MATURITY PROFILE OF FINANCIAL LIABILITIES

Monetary liabilities have differing maturity profiles depending on the contractual term. The following table shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal.

2010	Less than 1 month $'000	1 - 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	Over 5 years $'000	No Maturity $'000	TOTAL $'000
Deposits	484,159	149,332	128,612	4,575	-	-	**766,678**
Trade and other payables	-	-	-	-	-	12,773	**12,773**
Borrowings	1	-	39	1,599	-	-	**1,639**
Subordinated debt	-	-	9,219	-	-	-	**9,219**
Total Liabilities	**484,160**	**149,332**	**137,870**	**6,174**	**-**	**12,773**	**790,309**

2009	Less than 1 month $'000	1 - 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	Over 5 years $'000	No Maturity $'000	TOTAL $'000
Deposits	386,965	107,620	107,148	4,059	-	-	**605,792**
Trade and other payables	-	-	-	-	-	10,261	**10,261**
Borrowings	88	89	30	1,208	-	-	**1,415**
Subordinated debt	-	-	-	7,158	-	-	**7,158**
Total Liabilities	**387,053**	**107,709**	**107,178**	**12,425**	**-**	**10,261**	**624,626**

NOTE 33: REPRICING ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

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

2010	Weighted avg interest %	Within 1 month $'000	1 - 3 months $'000	3 - 12 months $'000	1 - 7 years $'000	Non interest bearing $'000	TOTAL $'000
ASSETS							
Cash and cash equivalents	4.69%	42,846	50,661	-	-	6,537	**100,044**
Due from other financial institutions	6.56%	-	1,000	5,000	-	-	**6,000**
Loans and advances to members	8.11%	588,205	3,183	15,629	68,494	-	**675,511**
Financial assets - available-for-sale		-	-	-	-	312	**312**
Financial assets - held-to-maturity	5.15%	35,992	31,334	10,310	-	-	**77,636**
Loss reserve loan	5.09%	-	2,390	-	-	-	**2,390**
Total Assets		**667,043**	**88,568**	**30,939**	**68,494**	**6,849**	**861,893**
LIABILITIES							
Deposits	4.15%	491,600	141,296	128,677	4,478	627	**766,678**
Trade and other payables		-	-	-	-	12,773	**12,773**
Borrowings	10.60%	1	-	39	1,599	-	**1,639**
Subordinated debt	4.66%	-	9,219	-	-	-	**9,219**
Total Liabilities		**491,601**	**150,515**	**128,716**	**6,077**	**13,400**	**790,309**

2009	Weighted avg interest %	Within 1 month $'000	1 - 3 months $'000	3 - 12 months $'000	1 - 7 years $'000	Non interest bearing $'000	TOTAL $'000
ASSETS							
Cash and cash equivalents	3.69%	78,256	-	-	-	5,818	**84,074**
Due from other financial institutions	3.91%	-	-	7,000	-	-	**7,000**
Loans and advances to members	6.94%	476,713	5,711	17,214	35,910	-	**535,548**
Financial assets - available-for-sale		-	-	-	-	1,202	**1,202**
Financial assets - held-to-maturity	3.97%	23,950	12,429	11,858	3,079	-	**51,316**
Loss reserve loan	4.82%	-	1,990	-	-	-	**1,990**
Total Assets		**578,919**	**20,130**	**36,072**	**38,989**	**7,020**	**681,130**
LIABILITIES							
Deposits	2.85%	389,477	108,031	103,654	4,034	596	**605,792**
Trade and other payables		-	-	-	-	10,261	**10,261**
Borrowings	10.90%	88	89	30	1,208	-	**1,415**
Subordinated debt	8.05%	-	7,158	-	-	-	**7,158**
Total Liabilities		**389,565**	**115,278**	**103,684**	**5,242**	**10,857**	**624,626**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 34: FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying amounts and fair values of the Credit Union's financial instruments that are carried in the financial statements. The table does not include the fair value on non-financial assets and non-financial liabilities.

	Carrying value 2010 $'000	Fair value 2010 $'000	Unrecognised gain / (loss) 2010 $'000	Carrying value 2009 $'000	Fair value 2009 $'000	Unrecognised gain / (loss) 2009 $'000
Financial Assets						
Cash and cash equivalents	100,044	100,044	-	84,074	84,074	-
Due from other financial institutions	6,000	6,000	-	7,000	7,000	-
Loans and advances to members	675,511	675,511	-	535,548	535,548	-
Financial Assets - held-to -maturity	77,636	77,636	-	51,316	51,316	-
Loss Reserve Loan	2,390	2,390	-	1,990	1,990	-
Financial Liabilities						
Deposits	766,678	766,678	-	605,792	605,792	-
Borrowings	1,639	1,639	-	1,415	1,415	-
Subordinated debt	9,219	9,219	-	7,158	7,158	-
Total unrecognised change in unrealised fair value			**-**			**-**

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

(i) Liquid assets and receivables from other financial institutions
The carrying values of cash, cash equivalents, liquid assets, and receivables due from other financial institutions approximate their net fair value as they are short term in nature or are receivable on demand.

Securities

Financial assets available for sale are carried at cost as its fair value cannot be reliably measured. Refer Note 16.

(ii) Financial assets - available for sale
Investments in unlisted equity investments with a carrying value of $311,600 were included in AFS Investments as at 30 June 2010. Due to the unlisted nature of the investments, their fair value could not be reliably measured and they are carried at cost. There is no immediate intention to dispose of these investments.

(iii) Loans and advances
The carrying value of loans, advances and other receivables is net of specific provisions for impairment.

For variable and fixed rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of the net fair value. The net fair value for fixed rate loans has not been discounted using cash flow models as the Credit Union considers any adjustment would be immaterial.

(iv) Short Term Borrowings
The carrying value of payables due to other financial institutions approximate their net fair value as they are short term in nature and reprice frequently.

	2010 $'000	2009 $'000

NOTE 35: COMMITMENTS

To meet the financial needs of members, the Credit Union enters into various commitments. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Credit Union.

(a) Future capital commitments

The credit union has entered into contracts for the purchase of property, plant and equipment which have not been recognised as a liability and is payable as follows:

	2010 $'000	2009 $'000
Not longer than 1 year	**280**	**-**

(b) Finance lease commitments

The credit union has finance leases and hire purchase contracts for various items of plant and equipment. These lease contracts expire within 5 years, with repayment payable monthly in advance. The credit union has the option to purchase the plant and equipment at the expiry of the lease at an agreed residual value. There are no escalation clauses.

Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are as follows:

	Total future minimum payments 2010 $'000	Interest charges 2010 $'000	Present value 2010 $'000	Total future minimum payments 2009 $'000	Interest charges 2009 $'000	Present value 2009 $'000
Not longer than 1 year	508	153	487	528	113	511
Longer than 1 and not longer than 5 years	1,131	158	989	887	256	771
Minimum lease payments	**1,639**	**311**	**1,476**	**1,415**	**369**	**1,282**

(c) Operating Lease Commitments

The credit union has entered into commercial leases on certain commercial properties from which branches operate. These leases have a remaining term of between one and twelve years with a renewal option included at the end of the term of the lease in some of the agreements. There are no restrictions placed upon the credit union by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2010 $'000	2009 $'000
Not longer than 1 year	1,040	947
Longer than 1 and not longer than 5 years	3,248	3,230
Longer than 5 years	2,059	2,724
Total operating lease commitments	**6,347**	**6,901**

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitment since most commitments to extend credit are contingent upon members maintaining specific standards. The Credit Union monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

(d) Undrawn Loan Commitments

	2010 $'000	2009 $'000
Loans approved but not funded	**5,711**	**6,550**
Undrawn lines of commitment	**30,447**	**23,668**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 36: CONTINGENT LIABILITIES

(a) Credit Union Financial Support System

The Credit Union is a participant in the Credit Union Financial Support System (CUFSS). The purpose of the CUFSS is to protect the interests of credit union members, increase stability in the industry and provide liquidity in excess of current borrowing limits in times of need.

An Industry Support Contract made on the 1 July 1999 between Credit Union Services Corporation (Australia) Limited (CUSCAL), Credit Union Financial Support System Limited and participating credit unions required the Credit Union to execute an equitable charge in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of the Credit Union and secures any advances that may be made to the Credit Union under the scheme.

The balance of the debt at 30 June 2010 was $Nil (2009: $Nil).

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

Guarantees are provided by New England Credit Union Ltd to Credit Union Services Corporation (Australia) Limited (CUSCAL) to support some members participating in the Bulk Electronic Clearing System for payrolls.

The amount guaranteed at balance date is limited to $190,000 (2009:$665,000).

(c) Financial Guarantees

Letters of guarantee commit the Credit Union to make payments on behalf of customers in the event of a specific act, generally related to contract performance. Guarantees carry the same credit risk as loans. The guarantees committed to by the Credit Union are secured by term deposit.

The amount guaranteed at balance date is limited to $559,418 (2009:$385,601)

NOTE 37: RELATED PARTIES DISCLOSURES

(a) Directors

The names of the directors of the Credit Union who have held office during the financial year are:

Mr Michael G Dennis - Chairman
Mr Maxwell A Post [resigned 11/12/2009]
Dr Alison J Sheridan - Director
Mr John B O'Connor - Director
Mr David R Honner - Director
Mr Brian M Goodall - Director
Mr Graham R Goodman - Director
Mrs Kathryn E James [appointed 01/01/2010]
Mr Geoffrey M Thompson [appointed 01/01/2010]

(b) Remuneration of Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any Director of that entity. Key management personnel has been taken to comprise the Directors and members of the Executive Management responsible for the day to day financial management and operational management of the Credit Union.

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

	2010 $	2009 $
• short-term employee benefits	1,617,880	1,391,348
• superannuation contributions	123,206	93,997
• retirement benefits	80,780	68,660
Total remuneration of key personnel	**1,821,866**	**1,554,005**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 37: RELATED PARTIES DISCLOSURES

(c) Loans to Key Management Personnel

All loans disbursed to directors and other key management personnel were approved on the same terms and conditions, which are applicable to members for each class of loan. There are no loans that are impaired in relation to the loan balances with directors and key management personnel.

Key management personnel who are not directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to fringe benefits tax, are included in the remuneration in (b) above.

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

	2010 $	2009 $
(i) The aggregate value of loans to directors and other key management personnel as at balance date amounted to	**3,339,137**	**2,227,706**
(ii) The total value of revolving credit facilities to directors and other key management personnel as at balance date amounted to	130,600	81,000
(iii) Less amounts drawn down and included in total loans above	(65,041)	(46,430)
Net balance available	**65,559**	**34,570**
During the year the aggregate value of loans disbursed to key management personnel amounted to:		
(i) revolving credit facilities	54,814	60,440
(ii) term loans	1,240,038	1,468,241
Total loans disbursed to key personnel	**1,294,852**	**1,528,681**
Interest and other revenue earned on loans and revolving credit facilities to key management personnel	**143,179**	**130,628**

(d) Deposits from Key Management Personnel

	2010 $	2009 $
Total value of term and savings deposits from key management personnel	**118,817**	**740,971**
Total interest paid on deposits to key management personnel	**9,916**	**30,831**

(e) Other Transactions of Directors

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

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

Mr. Michael Dennis performed legal services for an amount of $1,688.60 (2009: $0.00). The services are on the same terms and conditions as other contracted services of the Credit Union.

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

Apart from the above transactions, there are no service contracts to which key management personnel or their close family members are an interested party.

NOTE 38 : DEPENDENCY

The Credit Union has a dependency on the following suppliers of service:

(a) Credit Union Services Corporation (Australia) Limited (Cuscal)
This entity provides the Credit Union with services in the form of settlement with bankers for members' cheques, access to the direct entry system, ATM, EFTPOS and VISA transactions, and the production of Redicards and Visa cards for use by members.

(b) First Data International (FDI)
This entity operates the switching computer used to link Redicards and VISA cards operated through Reditellers and other approved ATM suppliers to the Credit Union's host computer.

(c) Ultradata
This entity provides and maintains the core banking software utilised by the Credit Union.

(d) Australian Securities Limited (ASL)
This entity provides the Credit Union with services in the form of settlement with bankers for members' cheques and access to the direct entry system.

(e) Indue Ltd (Indue)
This entity provides the Credit Union with services in the form of settlement with bankers for members' cheques and access to the direct entry system and ATM, EFTPOS and VISA transactions.

NOTE 39: BUSINESS COMBINATIONS

(a) Summary of business combination
Details of the acquisition-date fair value of the acquirees equity, the net assets acquired and any goodwill are as follows:

On 1 January 2010, the Credit Union completed a transfer of business of Hunter Mutual Ltd, an Upper Hunter based credit union. The transfer of business was predicated on their branch network presenting an ideal geographical fit, their culture and values being very similar given their regional and rural foundations and it offered potential to build on their member penetration.

As explained in note 2(g), under AASB3(r), combinations of mutual entities are accounted for using the acquisition method, whereby an acquirer is identified. Goodwill is calculated based on the consideration transferred and identifiable assets and liabilities acquired. In a combination of mutual entities where only equity interests are transferred, the acquirer shall use the acquisition-date fair value of the acquiree’s equity interests in place of the acquisition-date fair value of the consideration transferred.

NOTE 39: BUSINESS COMBINATIONS (Continued)

	2010 $'000
Permanent share capital	1,954
Contributed equity	8,451
Acquisition-date fair value of the acquiree's equity interests	**10,405**

Assets and liabilities recognised as a result of the acquisition are as follows:

	2010 $'000
Cash and cash equivalents	11,632
Due from other financial institutions	6,493
Trade and other receivables	190
Loans and advances to members	79,091
Financial assets - available for sale	312
Financial assets - held to maturity	-
Property, plant and equipment	1,456
Intangible assets	44
Deferred tax assets	359
Loss reserve loan	400
Deposits	(86,183)
Trade and other payables	(1,134)
Current tax liabilities	51
Deferred tax liabilities	(32)
Provisions	(113)
Borrowings	(83)
Subordinated debt	(2,078)
Net identifiable assets acquired	**10,405**

(i) Acquired receivables

The fair value of acquired loans and advances to members is $79,090,942. The gross contractual amount for loans and advances is $79,216,976 with a provision for impairment being $126,034. The fair value of trade and other receivables is $187,864 which is equal to the gross contractual amount.

(ii) Revenue and profit contribution

Disclosure of the amount of the acquiree's revenue and profit or loss since the acquisition date included in the acquirer's consolidated statement of comprehensive income for the period would be impracticable. This is because of the overlapping nature of the Credit Union and the acquiree's businesses which results in difficulties in attributing revenue and profit or loss to either entity.

(b) Business combination- cash outflow/(inflow)

	2010 $'000
Outflow of cash to acquire Hunter Mutual Limited	-
Less: Balances Acquired	
Cash	(11,632)
Net cash outflow/(inflow)	**(11,632)**

(c) Acquisition-related costs

	2010 $'000
Employee benefits expense	105
Information technology and communication expense	101
	206

NOTE 40: EVENTS AFTER BALANCE SHEET DATE

There have been no other significant events occurring after balance date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

NOTE 41: RESTATEMENT OF PRIOR YEAR AMOUNTS

During prior periods, a number of assets were disposed of that had been previously revalued upwards with a corresponding entry in the revaluation reserve. Following the assets' disposal the revaluation increments were incorrectly retained in the revaluation reserve. As a result of this error, the asset revaluation reserve at 30 June 2009 was overstated by $1,266,431. This error had the effect of understating retained earnings by $1,266,431 and had no effect on total assets, total liabilities or total equity at 30 June 2009. The error also had no effect on profit before or after income tax for the period ended 30 June 2009.

Due to the same error identified above, the asset revaluation reserve at 1 July 2008 was overstated by $1,266,431. This error had the effect of understating retained earnings by $1,266,431 and had no effect on total assets, total liabilities or total equity at 1 July 2008. The error also had no effect on profit before or after income tax for the period ended 30 June 2008.

The error has been corrected by restating each of the affected financial statement line items for the periods, as described above.

DECLARATION BY DIRECTORS

The Directors of New England Credit Union Limited declare that in the opinion of the Directors:

(a) The financial statements and notes of the Credit Union are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Credit Union as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001.

(b) There are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

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

M G Dennis
Director

A J Sheridan
Director

28th September 2010

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Independent auditor's report to the members of New England Credit Union Limited

Report on the financial report

We have audited the accompanying financial report of New England Credit Union Limited (the company), which comprises the balance sheet 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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of New England Credit Union Limited (continued)

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

Auditor's opinion

In our opinion:

(a) the financial report of New England Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's financial position as at 30 June 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;* and

(b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b).

PricewaterhouseCoopers

PricewaterhouseCoopers

M. Laithwaite

Marcus Laithwaite
Partner

Sydney
28 September 2010

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