ELECTRICITY CREDIT UNION LTD

ABN 50 087 650 986

FULL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2008

Version 1.0 Approved Board Meeting: 26 August 2008

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FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 June 2008

	Note	2008 $	2007 $
Interest income	2	15,891,976	12,513,787
Interest expense and borrowing costs	2	(9,764,187)	(6,858,624)
Net interest income		**6,127,789**	**5,655,163**
Net gain or (loss) on financial assets and liabilities designated at fair value through the profit and loss		35,079	-
Fee commission and other income	3	1,921,416	1,639,184
Net operating income		8,084,284	7,294,347
Expenses			
Net impairment loss on loans and advances to members	14(b)	29,483	(66,836)
Emp-loyee benefits expense	4	(2,492,328)	(2,239,727)
Occupancy expense	4	(164,647)	(169,401)
Depreciation and amortisation expense	4	(204,365)	(197,229)
Other expenses	4	(2,922,415)	(2,978,370)
Total operating expenses		(5,754,272)	(5,651,563)
Profit before income tax expense		2,330,012	1,642,784
Income tax expense	5	(730,171)	(529,145)
Profit for the period	38	**1,599,841**	**1,113,639**

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

BALANCE SHEET
As at 30 June 2008

	Note	2008	2007
		$	$
ASSETS			
Cash and cash equivalents	8	5,934,408	4,096,540
Trade and other receivables	9	182,854	102,925
Placements with, and loans and advances, to other ADIs	10	25,406,519	22,657,256
Loans and advances to members	11	188,926,254	157,060,932
Derivative financial instruments	12	39,144	-
Loans and advances to other entities	13	500,000	500,000
Investment securities	15	443,735	443,735
Property, plant and equipment	16	2,324,697	1,635,218
Intangibles	17	143,163	118,214
Deferred tax assets	18	196,655	200,305
TOTAL ASSETS		**224,097,429**	**186,815,125**
LIABILITIES			
Amounts owed to member depositors	19	188,232,496	164,399,186
Derivative financial instruments	12	3,260	-
Trade and other payables	20	402,895	373,340
Income tax payable	21	227,197	149,764
Deferred tax liabilities	18	476,890	300,851
Borrowings	22	20,065,917	8,977,947
Provisions	23	570,994	468,215
TOTAL LIABILITIES		**209,979,649**	**174,669,303**
NET ASSETS		**14,117,780**	**12,145,822**
MEMBERS FUNDS			
Redeemed preference share capital account	24	186,360	152,830
Reserves	26	1,319,641	977,496
Retained earnings	25	12,611,779	11,015,496
TOTAL MEMBERS FUNDS		**14,117,780**	**12,145,822**

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

	Note	Red Pref Share Capital Account	Reserves	Retained Earnings	TOTAL
		$	$	$	$
Balance at 01 July 2006		**133,250**	**1,205,008**	**9,692,520**	**11,030,778**
Profit attributable to members of the entity		-	-	1,113,639	1,113,639
Transfers to redeemed preference share capital account	24	19,580	-	(19,580)	-
Financial assets increase in fair value	26	-	1,405	-	1,405
Transfer to and from reserves					
- Financial Assets Reserve	26	-	(7,075)	7,075	-
- Reserve for Credit Losses	26	-	(221,842)	221,842	-
Balance at 30 June 2007		**152,830**	**977,496**	**11,015,496**	**12,145,822**
Profit attributable to members of the entity				1,599,841	1,599,841
Transfers to redeemed preference share capital account	24	33,530	-	(33,530)	-
Transfer to and from reserves					
- Reserve for Credit Losses	26	-	(29,972)	29,972	-
Asset revaluation increment	26	-	372,117	-	372,117
Balance at 30 June 2008		**186,360**	**1,319,641**	**12,611,779**	**14,117,780**

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

STATEMENT OF CASH FLOWS
For the year ended 30 June 2008

	Note	2008	2007
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		15,938,290	12,655,937
Fees and commissions received		1,823,717	1,511,610
Other sundry receipts		64,811	230,161
Dividends received		56,136	56,404
Interest and other borrowing costs paid		(9,047,416)	(6,364,207)
Payments to suppliers and employees		(5,645,178)	(5,497,744)
Net movement in placements, loans and advances to ADIs		(2,769,509)	10,000,000
Net movement in loans and advances to members		(31,799,707)	(27,973,690)
Net movement in member deposits		23,203,698	15,304,305
Income taxes paid		(632,529)	(470,831)
Net cash provided by / (used in) operating activities	38(c)	**(8,807,687)**	**(548,055)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net movement in investment securities		-	10
Payments for property, plant and equipment		(278,931)	(97,084)
Payments for intangible assets – computer software		(75,514)	(23,081)
Proceeds from sale of property, plant and equipment		-	4,091
Net cash provided by / (used in) investing activities		**(354,445)**	**(116,064)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in Borrowings		11,000,000	3,000,000
Net cash provided by / (used in) financing activities		**11,000,000**	**3,000,000**
Total net increase/(decrease) in cash held		1,837,868	2,335,881
Cash at the beginning of the financial year		4,096,540	1,760,659
Cash at the end of the financial year	38(a)	**5,934,408**	**4,096,540**

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

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

The financial report of the Credit Union is a general purpose financial report that has been prepared in accordance with Accounting Standards, Australian Accounting Interpretation, other authoritative pronouncements of the Australian Accounting Standards Board, the Corporations Act 2001 and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

The financial report covers Electricity Credit Union Ltd as an individual entity. Electricity Credit Union Ltd is a public company limited by shares, incorporated and domiciled in Australia.

The financial report of Electricity Credit Union Ltd complies with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of land and buildings, and financial assets and financial liabilities for which the fair value basis of accounting has been applied. The presentation currency of the financial report is Australian Dollars.

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

(a) Income Tax

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

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

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

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(b) Revenue

Loans Interest Revenue
Loan interest is calculated on the daily balance outstanding and is charged in arrears to the account on the last day of the month.

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

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

Loan interest is not brought to account when the Credit Union is informed that the member has deceased or generally if a loan has been transferred to a debt collection agency or a judgement has been obtained. No interest is charged on loans where repayments are in arrears and the prospect of a further payment from the member is minimal. However, accrued interest will be recovered as part of the recovery of the debt.

Investment Interest Revenue
Investment interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Fees on Deposit Accounts and Commissions Revenue
Fees and commissions are brought to account on an accrual basis once a right to receive consideration has been attained.

Loan Origination Fees Revenue
Loan origination fees are deferred and amortised as a component of the calculation of the effective interest rate in relation to originated loans. They therefore reduce the interest recognised in relation to this portfolio of loans.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed annually to ensure the amortisation methodology is appropriate.

Loan origination fees will be amortised on a straight-line basis over the 3-year average life of loans in the portfolio, as the results of this method are not materially different from the results generated from the use of the effective interest method.

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

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

GST
All revenue is stated net of the amount of Goods and Services Tax (GST).

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(c) Loan Transaction Costs - Effective Interest Method

All loan transaction costs that are direct and incremental to the establishment of the loan are deferred and amortised as a component of the calculation of the effective interest rate. Loan transaction costs are brought to account as a reduction of interest income over the expected life of the loan.

(d) Impairment - Loans and Advances

A provision for losses on impaired loans is recognised when there is objective evidence that impairment of a loan has occurred. All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

Impairment loss is measured at the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Impairment losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on impaired loans and advances continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease the impairment loss is reversed through the income statement.

The amount provided for impairment of loans is determined by management and the board. The Prudential Standards issued by APRA enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the Credit Union. In addition, the board makes a provision for loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. The critical assumptions used in the calculation are set out in Note 14. Note 1(p) B. details the credit risk management approach for loans.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. Movements in the Reserve for Credit Losses are recognised as an appropriation of retained earnings.

Bad debts are written off when collection of the loan or advance is considered to be remote as determined by management and the board. All write-offs are on a case-by-case basis, taking into account the exposure at the date of the write-off. On secured loans the write-off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

Bad debts are written off when identified. Write offs for bad debt expenses are recognised as expenses in the Income statement.

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

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(e) Financial Assets and Liabilities

(i) Initial recognition
The Credit Union initially recognises loans and advances to members, deposits, debt securities and sub-ordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit and loss) are initially recognised on trade date when the related contractual rights or obligations exist.

(ii) De-recognition
The Credit Union de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Credit Union is recognised as a separate asset or liability.

The Credit Union de-recognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Credit Union enters into transactions whereby it transfers assets recognised on its balance sheet but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not de-recognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and re-purchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to re-purchase transactions. In transactions where the Credit Union neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it de-recognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Credit Union continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Credit Union retains the right to service a transferred financial asset for a fee. The transferred asset is de-recognised in its entirety if it meets the de-recognition criteria. An asset or liability is recognised for the servicing rights, depending on whether the servicing fee is more than adequate to cover servicing expenses (asset) or is less than adequate for performing the servicing (liability).

The Credit Union also de-recognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

(iii) Off-setting
Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Credit Union has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(e) Financial Assets and Liabilities (Cont'd)

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as the Credit Union's trading activity.

(iv) Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement
Refer Note 35 for details.

(vi) Identification and measurement of impairment
Refer Note 1(d) and Note 1(h) for details.

(vii) Designation at fair value through profit or loss
The Credit Union designates financial assets or liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, unrestricted balances held in banks and highly liquid financial assets with overnight maturities, which are subject to insignificant risks of changes in their value, and are used by the Credit Union in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Credit Union does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Credit Union chooses to carry the loans and advances at fair value through profit or loss as described in Note 1(e) (vii).

Investment securities
Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available for sale.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(e) Financial Assets and Liabilities (Cont'd)

(i) Held-to-maturity
Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has a positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Credit Union from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Fair value through profit or loss
The Credit Union carries no investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in Note 1(e) (vii).

(iii) Available-for-sale
Available-for-sale investments are non-derivative investments that are not designated as another category of financial asset. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. The shares held in CUSCAL do not have a quoted market price in an active market and whose fair value cannot be reliably measured. The shares held in CUSCAL are measured at cost in accordance with AASB139.

Interest income from available-for-sale investments is recognised in profit and loss using the effective interest method. Dividend income from available-for-sale investments is recognised in profit or loss when the Credit Union becomes entitled to the dividend. Unrealised gains or losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity until the investment is sold or impaired and the balance is recognised in profit or loss. Realised gains and losses on available for sale financial assets taken to the income statement are included in gains and losses on disposal.

Deposits
Refer Note 1(i) for details.

Borrowings and sub-ordinated debt
Refer Note 1(j) for details.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(f) Property, Plant and Equipment

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

Property
Freehold land and buildings are measured at their fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, less subsequent depreciation. It is the policy of the Credit Union to have an independent valuation every three years, with annual appraisals being made by the directors.

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

A revaluation surplus is credited to the asset revaluation reserve included within members' equity unless it reverses a revaluation decrease on the same asset previously recognised in the income statement. A revaluation deficit is recognised in the income statement unless it directly offsets a previous revaluation surplus on the same asset in the asset revaluation reserve. On disposal, any revaluation reserve relating to sold assets is transferred to retained earnings.

Plant and Equipment
Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by Directors 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, which will be received from the assets employment and subsequent disposal. Any decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation
The depreciable amount of all property, plant and equipment including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Property, plant and equipment is depreciated on a straight line basis.

A summary of the rates used are disclosed:

Buildings	2.5%	Motor Vehicles	20.0%
Computer Hardware	25.0%	Office Furniture and Equip.	15.0%
Leasehold improvements	10.0%	Fixtures and fittings	7.5%

Assets under $300 are not capitalised.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(f) Property, Plant and Equipment (cont'd)

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(g) Intangible Assets

Software Licences
Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets. Computer software is amortised on a straight line basis over the expected useful life of the software. These lives range from 2 to 7 years.

(h) Impairment Testing of Assets (excluding Property, Plant and Equipment and Loans and Advances)

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible asset with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Members' Deposits

Member deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Interest on deposits is brought to account on an accrual basis. Interest accrued at balance date is shown as a part of member's deposits.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(j) Borrowings and Sub-ordinated Debt

Borrowings and sub-ordinated debt are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Credit Union chooses to carry the liabilities at fair value through the profit or loss.

The Credit Union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Preference shares that are mandatorily redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

(k) Derivative Instruments held for Risk Management Purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are classified as trading assets or liabilities. The Credit Union uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations.

Derivatives used for risk management purposes are measured at fair value in the balance sheet. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

All changes in fair value of derivatives are recognised immediately in profit or loss as a component of net income on other financial instruments carried at fair value.

(l) Employee Benefits

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

Contributions are made by the Credit Union to employee superannuation funds and are charged as expenses when incurred.

(m) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(n) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in the presentation in the current year.

(o) Goods and Services Tax (GST)

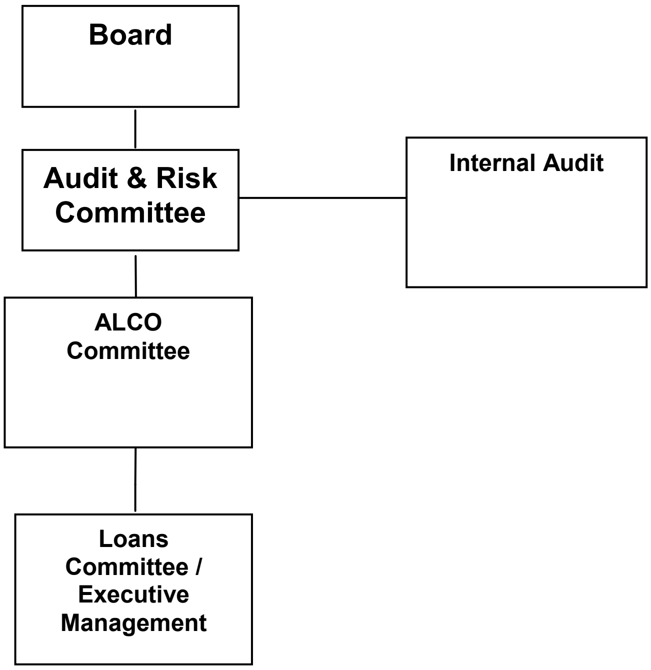
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

(p) Risk Management Policy and Objectives

Introduction

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

The Credit Union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the board of directors to the audit and risk committee. The following diagram gives an overview of the structure.



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

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

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(p) Risk Management Policy and Objectives (Cont'd)

Audit & Risk Committee: This is a key body in the control of risk. It has representatives from the board as well as the Credit Union's Chief Executive Officer and Chief Financial Officer whom attend all meetings. The Audit & Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Audit & Risk Committee through review of internal audit reports throughout the year. The Audit & Risk Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan.

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

The Audit & Risk Committee monitors compliance with the framework laid out in the policy and reports in turn to the board, where actual exposures to risks are measured against prescribed limits.

Loans Committee – Credit Risk: This committee of senior management meets weekly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the board. The Loans Committee also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be put in place regarding the authorisation of new loans.

The Loans Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All large credit exposure facilities above policy limits are approved by the Loans Committee or the board. All exposures are checked daily against approved limits, independently of each business unit, and are reported to the Loans Committee.

All loans are managed weekly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or over limit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Board.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated arrears person implements the Credit Union's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the balance sheet date.

ALCO - Market Risk: This committee has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP. The monthly scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by the Board.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(p) Risk Management Policy and Objectives (Cont'd)

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

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

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

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

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

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

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

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

Most banks are exposed to interest rate risk within its treasury operations.

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

The policy of the Credit Union is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The present value sensitivity of the measured gap to a movement of 1% in interest rates is to be maintained below 3.0% of prudential capital. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposit liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is to undertake derivative transactions to match the interest rate risks and to reduce the present value of the sensitivity analysis to less than 3% of prudential capital. The Credit Union's exposure to interest rate risk is set out in Note 32 which details the contractual interest change profile.

Based on calculations as at 30 June 2008, the net profit impact for a 1% (2007: 1%) movement in interest rates would be $372,948 (2007: $25,000).

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

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(p) Risk Management Policy and Objectives (Cont'd)

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

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable;
- transaction savings deposits would reprice with a 12 month delay;
- high yield cash management savings accounts and high yield internet e-saver accounts would reprice within 1 month;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate within 1 month;
- personal loans would reprice within a 1 month delay;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures interest rate risk in the reporting period.

The interest rate sensitivity is not representative of the risk inherent in the financial instrument during the financial year due to:
1. The changes in asset mix of fixed rate loans and longer term deposits and investments.

B. Credit risk
Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the loan book, investment assets and derivative contracts (where applicable).

Loans
The maximum credit risk exposure in relation to loans is discussed in Note 34.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are discussed below and in Note 34.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the board to ensure that loans are only made to members that are credit-worthy (capable of meeting loan repayments).

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(p) Risk Management Policy and Objectives (Cont'd)

The Credit Union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non-mortgage secured loans, commercial lending and concentrations of geographic and industry groups considered a high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

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

i) Past due and impaired loans
A loan is past due when the counterparty has failed to make payment when contractually due. As an example a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid each month. On the first day of the next month if the agreed repayment amount has not been paid the loan is past due. Past due does not mean that a counter party will never pay but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful external consultants are engaged to conduct recovery action once the loans are over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgage over real estate.

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

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

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

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

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(p) Risk Management Policy and Objectives (Cont'd)

The provisions for impaired and past due exposures relate to loans to members. Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details of past due and impaired balances and provisions for impairment of loans and advances to members are discussed in Note 14. Refer Note 1(d) for details of the Credit Union's policies in regards to bad debt write-offs.

(ii) Collateral securing loans
A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed to risks in the reduction of the Loan to Value (LVR) cover should the property market be subject to a decline at the same time as borrowers are unable to continue making loan repayments.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board policy is to maintain loans in well-secured residential mortgages which carry an 80% Loan to Valuation ratio or less. Where the member is unable to provide a 20% deposit, then the Board policy is for the loan to be approved subject to the consent of mortgage insurance. Note 14 outlines the nature and extent to the security held against the loans held as at balance date.

It is the policy of the Credit Union to allow members with a secured loan or advance reasonable assistance and opportunity to rectify a breach prior to recovery procedures being initiated. Details of assets acquired from loan recovery and their disposal are shown in Note 14.

(iii) Concentration risk – individuals
Concentration risk is a measurement of the Credit Union's exposure to individual counterparty (or group of related parties).

The Credit Union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers. Concentration risk is also managed in accordance with the Prudential Standards. A large exposure is considered to exist if prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10 per cent). No capital is required to be held against these but APRA must be informed and consulted prior to the exposure occurring. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10 per cent capital benchmark to be higher than acceptable.

The aggregate value of large exposure loans are set out in Note 34. The Credit Union holds no significant concentrations of exposures to members. Concentration exposures of counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of at least 80 per cent and annual reviews of compliance with this policy are conducted.

(iv) Concentration risk – industry
There is no concentration of credit risk by industry with respect to loans and receivables as the Credit Union has a large number of customers dispersed in areas of employment.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(p) Risk Management Policy and Objectives (Cont'd)

The Credit Union has a concentration in retail lending to members who comprise employees and family in the electricity supply industry. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 34.

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

(i) Concentration of credit risk
There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 40% of the Credit Union's prudential capital base can be invested in any one financial institution at a time.

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

Under the liquidity support scheme at least 3.2% of the total assets must be invested in Credit Union Services Corporation (Aust) Limited (CUSCAL) to allow the scheme to have adequate resources to meet its obligations. All other investment must be with financial institutions with a rating of at least investment grade i.e., a minimum rating of BBB.

(ii) External Credit Assessment for Institutional Investments
The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA Prudential Guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step for the Credit Union are as follows:

	2008 $			2007 $		
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
CUSCAL – rated AA	16,769,509	-	-	13,500,000	-	-
Banks – rated AA and above	1,500,000	-	-	3,500,000	-	-
Banks – rated below AA	7,000,000	-	-	5,500,000	-	-
Total	25,269,509	-	-	22,500,000	-	-

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(p) Risk Management Policy and Objectives (Cont'd)

Equity Investments
All investments in equity instruments are solely for the benefit of service to the Credit Union. The Credit Union invests in entities set up for the provision of services such as IT solutions, treasury services, etc where specialisation demands quality staff. This is best secured by one entity. Further details of the investments are set out in Note 15.

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

The Credit Union manages liquidity risk by:

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

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

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 2 business days under the APRA Prudential standards. The Credit Union's policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits and the borrowing facilities available. Note 22 describes the borrowing facilities as at balance date.

The maturity profile of the financial assets and financial liabilities based on the contractual repayment terms is set out in Note 30. The ratio of liquid funds over the past year is set out below:

	2008	2007
To total adjusted liabilities (as per APS 210):		
- As at 30 June	14.72%	15.01%
- Average for the year	14.24%	17.23%
- Minimum during the year	13.22%	13.67%
To total member deposits:		
- As at 30 June	16.58%	16.93%

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(p) Risk Management Policy and Objectives (Cont'd)

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

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

Systems of internal control are enhanced through:

- The segregation of duties between employee duties and functions, including approval and processing duties;
- Documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- Implementation of whistle blowing policies to promote a compliance culture and awareness of duty to report exceptions by staff;
- Education of members to review their account statements and report exceptions to the Credit Union promptly;
- Effective dispute resolution procedures to respond to member complaints;
- Effective insurance arrangements to reduce the impact of losses;
- Contingency plans for dealing with loss of functionality of system or premises or staff.

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

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

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

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(q) Capital Management

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

- Credit risk
- Market risk (trading book)
- Operations risk

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

Capital resources

(i) Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Preference share capital
- Retained profits
- Realised reserves

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

(ii) Tier 2 Capital

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

Tier 2 capital generally comprises:

- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital.
- A subordinated loan. The principal amount has been amortised on a straight line basis over the last 5 years to maturity of the loan in accordance with the requirements of APRA Prudential Standard APS 111.
- An asset revaluation reserve on the land and buildings are discounted to 45% of the value of net of any capital gains tax and estimated costs of sale.
- A General reserve for credit losses that records amounts previously set aside as a General Provision for Impaired Loans and is maintained to comply with the Prudential Standards as set down by APRA.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(q) Capital Management (cont'd)

Capital in the Credit Union is made up as follows:

Tier 1	**2008**	**2007**
	$	**$**
Preference share capital	2,120,266	2,500,000
Retained earnings	12,798,140	11,168,327
	14,918,406	13,668,327
Less prescribed deductions	783,298	268,102
Net Tier 1 capital	14,135,108	13,400,225
Tier 2		
Subordinated debt	3,600,000	3,600,000
Reserve for credit losses	357,930	387,902
Asset revaluation reserve on property (discounted to 45%)	618,243	379,025
Permanent preference shares (excess Tier 1 capital)	379,734	-
	4,955,907	4,366,927
Less prescribed deductions	471,868	-
Net Tier 2 capital	4,484,037	4,366,927
Total capital	18,619,148	17,767,152
Less deductions from total capital	-	943,735
Net total capital	18,619,148	16,823,417

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

The risk weighted assets are detailed below into risk categories as specified by APRA through the Australian Prudential Standards:

Credit risk using the standardised approach - (1) (2)	104,053,055	108,811,823
Operational risk using the standardised approach (2)	11,633,068	**
Total risk weighted assets	115,686,123	108,811,823

(1) The risk weighted asset processes were modified by APRA as from the 1 January 2008, as part of the Basel 2 Prudential framework enhancement. The risk weighted assets for 2007 were calculated using the previous methodology. Due to the change in methodology, the risk weighted assets for credit risk reduced slightly in the 2008 year.
(2) The Credit Union uses the Standardised approach which is considered to be most suitable for its business, given the small number of distinct transaction streams.

**The risk weighted asset processes were modified by APRA as from the 1 January 2008, as part of the Basel 2 Prudential framework enhancement. Comparative data has not been available on the revised methods as the Credit Union was not required to maintain capital for operational risks.

Capital adequacy ratio	**16.09%**	**15.46%**

The level of capital ratio can be affected by growth in asset relative to growth in reserves and by changes in the mix of assets and by capital raising and the repayment of Tier 2 subordinated debt capital.

To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the board and the regulator if the capital ratio falls below 12%. Further, a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Cont'd)

(q) Capital Management (cont'd)

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

(r) New or emerging standards

(i) Issued – not applied
At the date of authorisation of the financial report (refer Note 1(s)), certain Standards and Interpretations were on issue but not yet effective. With the exception Standards and Interpretations early adopted (refer Note 1(r)(ii)) these Standards and Interpretations have not been adopted in the preparation of the financial report for 30 June 2008.

The Credit Union expects to first apply these Standards and Interpretations in the financial report of the Credit Union relating to the annual reporting period beginning after the effective date of each pronouncement.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the parent or the Credit Union.

(ii) Issued – early adopted
The following new accounting standards, amendments to standards and interpretations have been issued and are not mandatory as at 30 June 2008. They are available for early adoption and have been applied in preparing this financial report. The Credit Union has made a formal written election to change accounting policies early from adoption of these new standards, interpretations and consequential amendments in accordance with s334(5) of the Corporations Act 2001.

AASB 8: Operating Segments (released February 2007) and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 (released February 2007)

The Credit Union has elected to early adopt the accounting standard AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 for the annual financial period commencing 1 July 2007. The new standard and its consequential amendments are mandatory for annual reporting periods commencing on or after 1 January 2009. The impact of early adoption of AASB 8 has been to remove all disclosures previously presented under AASB 114: Segment Reporting as AASB 8 only applies to listed and similar types of entities. AASB 2007-3 makes minor consequential amendments to other accounting standards arising from the adoption of AASB 8 that have no effect on the Credit Union.

(s) Date of issue

The financial report was authorised for issue on 26 August 2008 by the board of directors.

NOTE 2: INTEREST INCOME AND INTEREST EXPENSE

	2008 $	2007 $
(a) Interest revenue on assets carried at amortised cost		
Cash and cash equivalents	95,689	88,000
Placements with other ADIs	1,838,003	1,824,900
Loans and advances to members	13,922,041	10,762,250
Loans and advances to other entities	36,243	32,041
Total interest income	15,891,976	12,513,787
(b) Interest expense on liabilities carried at amortised cost		
Member deposits	8,804,534	6,367,734
Borrowings	953,758	490,890
	9,758,292	6,858,624
(c) Net Interest expense on Derivatives designated at fair value through profit and loss		
Interest rate swaps	5,895	-
Total interest expense	9,764,187	6,858,624

NOTE 3: INCOME

	2008 $	2007 $
Interest Income	**15,891,976**	**12,513,787**
Non-Interest Income		
Dividends received – available for sale investments	56,136	56,404
Fees and commissions		
• commissions earned	624,432	579,808
• loan fees	364,183	327,847
• transaction and member service fees – member deposits	826,275	594,810
• arrears fees	10,845	6,734
Fees and commissions received	1,825,735	1,509,199
Bad debts recovered	3,416	4,178
Proceeds on sale of property, plant and equipment	-	4,091
Income from property (rents)	10,853	13,250
Capital distributions received	-	2,343
Other	25,276	49,719
Total Non-Interest Income	**1,921,416**	**1,639,184**
Total Income	**17,813,392**	**14,152,971**
Interest income accrued on impaired financial assets	5,863	3,405

NOTE 4: PROFIT BEFORE INCOME TAX

	2008 $	2007 $
Profit before income tax has been determined after:		
(a) Expenses:		
Borrowing Costs		
Interest	9,731,987	6,825,424
Other	32,200	33,200
Total Borrowing Costs	**9,764,187**	**6,858,624**
Non-Borrowing Costs		
Impairment expense on loans and receivables	(29,483)	66,836
Employee benefit expenses	2,492,328	2,239,727
Occupancy	164,647	169,401
Depreciation of property, plant and equipment		
• buildings	23,591	26,289
• plant and equipment	130,209	126,020
Depreciation expense	153,800	152,309
Amortisation of Intangible Assets		
• Software	50,565	44,920
Amortisation expense	50,565	44,920
Other operating expenses		
• carrying value of property, plant and equipment sold	439	684
• fees and commissions	91,230	179,741
• personnel expenses	232,924	213,947
• promotion and marketing	253,934	250,296
• computer and data expenses	408,381	377,939
• member chequing expenses	53,138	67,266
• member electronic access expenses	815,923	807,186
• loans administration expenses	217,858	256,190
• ATM network expenses	16,957	18,048
• general and administration	831,631	807,073
Other expenses from operating activities	2,922,415	2,978,370
Total Non-Borrowing Costs	**5,754,272**	**5,651,563**
(b) Revenue and net gains		
Net gain / (loss) on disposal of non-current assets:		
• property, plant and equipment	**439**	**3,409**

NOTE 5: INCOME TAX

	2008 $	2007 $
(a) **The prima facie tax on profit before income tax is reconciled to the income tax provided in the financial report as follows:**		
Prima facie tax payable on profit before income tax at 30%	699,004	492,835
Permanent Differences		
Add: Tax effect of:		
• Non-deductible tax dividend payments on permanent preference shares	53,137	48,795
• Non-deductible expenditure	3,871	4,436
	756,012	546,066
Less: Tax effect of:		
• Rebateable fully franked dividends	(16,841)	(16,921)
• Other Items	(9,000)	-
Income tax expense attributable to operating profit	**730,171**	**529,145**
The income tax expense comprises amounts set aside as:		
• Current tax	709,961	552,994
• Deferred tax	20,210	(23,849)
	730,171	**529,145**
The applicable weighted average effective tax rates are as follows:	**32%**	**32%**
(b) The amount of franking credits available for the subsequent financial year are:		
• Franking account balance as at the end of the financial year	4,275,919	3,753,676
• Franking credits that will arise from the payment of income tax payable as at the end of the financial year	227,197	149,764
	4,503,116	**3,903,440**

(c) Deferred tax recognised directly in equity.
Aggregate deferred tax arising during the reporting period and not recognised in profit and loss but directly debited or credited to equity.

Deferred Tax

	2008 $	2007 $
Net gain on increase in fair value of financial assets available for sale	-	602
Net gain on revaluation of land and buildings	159,479	-
	159,479	602

NOTE 6: AUDITORS' REMUNERATION

Remuneration of the auditor for:	2008 $	2007 $
• Auditing or reviewing the financial report	43,800	47,750
• Internal audit services	80,203	58,795
• Taxation services	3,450	3,450
• Other services	1,200	1,200
	128,653	**111,195**

NOTE 7: KEY MANAGEMENT PERSONNEL

(a) Directors

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

MT Cunningham	CS Turnbull
JJ Fitzgerald	P S Horn
PE Pollard	GS Nucifora (appointed 27 October 2007)
RF Pyzik	GWS Nielsen (resigned 18 December 2007)
RK Scott	

(b) Remuneration of Key Management Personnel

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 (whether executive or otherwise) of that entity. *Control* is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Key Management Persons (KMP) have been taken to comprise the directors and five members of the executive management responsible for the day-to-day financial and operational management of the Credit Union.

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

	Directors		Other KMP	
	2008 $	2007 $	2008 $	2007 $
(i) Short-term employee benefits	20,823	25,045	599,912	577,918
(ii) Post-employment benefits - Superannuation contributions	17,480	7,145	89,292	63,847
(iii) Other long-term benefits - Net increase in long service leave provision	-	-	12,901	7,354
	38,303	**32,190**	**702,105**	**649,119**

NOTE 7: KEY MANAGEMENT PERSONNEL (Cont'd)

(b) Remuneration of Key Management Personnel (cont'd)

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

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

Directors' remuneration above excludes the cost of the premium for Directors' and Officers' Liability insurance and Group Accident insurance of $4,580 (30 June 2007: $4,580). Due to the nature of this cost, it is not practical to allocate this cost to each director as remuneration even though the Directors enjoy the benefit of such insurance.

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

NOTE 7: KEY MANAGEMENT PERSONNEL (Cont'd)

(c) Loans to Directors and other Key Management Persons

	2008 $	2007 $
The aggregate value of loans to Directors and other KMP as at Balance date amounted to	2,103,931	884,745
The total value of revolving credit facilities to Directors and other KMP as at Balance date amounted to	250,000	235,000
Less amounts drawn	217,669	193,419
Net balance available	32,331	41,581
During the year the aggregate value of loans disbursed to Directors and other KMP amounted to:		
• Commercial Loans	-	-
• Personal Loans	-	-
• Housing Loans	1,293,950	154,345
During the year the aggregate value of Revolving Credit Facility limits granted or increased to Directors and other KMP amounted to:	15,000	20,000
Interest and other revenue earned on Loans and revolving credit facilities to KMP	110,556	67,429
Total value Term and Saving Deposits from KMP	1,280,857	1,186,361
Total Interest paid on deposits to KMP	83,964	55,326

(d) 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 of each type of deposit.

There are no benefits paid or payable to close family members of the KMP.

NOTE 7: KEY MANAGEMENT PERSONNEL (Cont'd)

(d) Other Transactions of Directors (cont'd)

An associated entity of Mr Phillip Pollard, Director of Electricity Credit Union Ltd, has entered into a Subordinated Debt Agreement with the Credit Union whereby the entity has lent the Credit Union funds on a subordinated basis to all other Credit Union liabilities. The details of the agreement are:

	2008 $	2007 $
Principal amount lent	400,000	400,000
Interest paid	38,167	36,053

The interest rate applicable is based on the 90 day dealers bill rate as set on the 1st business day of each financial quarter and a margin for the first five years of 2.75% p.a. After the initial five years, the margin is stepped up to 3.00% p.a. The subordinated debt agreement is for a term of 10 years.

The terms and conditions of this subordinated debt agreement are no more favourable than those available on similar transactions to other subordinated debt holders.

The following persons and entities related to Directors have provided services to the Credit Union. In each case the transactions have occurred within a normal supplier-customer relationship on terms and conditions no more favorable than those available to other suppliers:

Legal services, including the preparation of loan securities, are provided by the law firm, Bennet & Philp Solicitors. Legal services, being fees and outlays for the 2008 financial year amounted to $241,789 (2007: $231,163).

	2008 $	2007 $
A summary of these legal services are:		
Mortgage preparation expenses (inclusive of GST and disbursements)	67,062	69,505
Mortgage registration and government duties and taxes payable by the firm to various taxing authorities	140,262	151,543
Mortgage Release fees (inclusive of GST and disbursements):	9,473	6,615
Legal advise and consulting on various matters (inclusive of GST and disbursements):	24,992	3,500

Legal services are provided upon request by the Credit Union from time to time in the ordinary course of business, for which usual professional fees are paid.

Mr. Lance Pollard is a partner of the firm, Bennet & Philp Solicitors. Mr. Lance Pollard is the son of the Director, Mr. Phillip Pollard.

NOTE 8: CASH AND CASH EQUIVALENTS

	2008	2007
	$	$
Cash on hand	914,636	806,379
Deposits with ADIs	5,019,772	3,290,161
	5,934,408	**4,096,540**

NOTE 9: TRADE AND OTHER RECEIVABLES

	2008	2007
Sundry debtors	81,543	102,925
Agency clearing and other sundry clearing accounts	101,311	-
	182,854	**102,925**

NOTE 10: PLACEMENTS WITH, AND LOANS AND ADVANCES TO, OTHER ADI'S

	2008	2007
Deposits with banks	8,500,000	9,000,000
Deposits with ADIs	16,769,509	13,500,000
Accrued interest	137,010	157,256
	25,406,519	**22,657,256**

NOTE 11: LOANS AND ADVANCES TO MEMBERS

	2008	2007
Overdrafts	17,278,717	14,580,067
Term loans	171,676,710	142,575,653
Gross loans and advances	**188,955,427**	**157,155,720**
Specific provisions for impairment	(29,173)	(94,788)
Net Loans and Advances	**188,926,254**	**157,060,932**

NOTE 12: DERIVATIVES

<u>Interest rate swap contracts</u>

The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2008	2007
1 - 2 years	4,500,000	-
2 - 3 years	5,000,000	-
4 - 5 years	2,000,000	-
Total	11,500,000	-

The contracts are settled on a net basis of interest receivable or payable each 90 days.

Fair values reflected in Balance Sheet

	2008	2007
Interest rate swaps – positive values	**39,144**	**-**
Interest rate swaps – negative values	**3,260**	**-**

NOTE 13: LOANS AND ADVANCES TO OTHER ENTITIES

	2008 $	2007 $
Loss reserve subordinated loan agreements	500,000	500,000
	500,000	**500,000**

On the 21 June 2006, the Credit Union entered into an agreement to raise capital for prudential purposes. The agreement was entered into in conjunction with another 21 Credit Unions for the purposes of raising prudential capital on a collective basis.

The capital raised by the Credit Union as part of the group was $5,000,000, comprising $2,500,000 in Tier 1 capital and $2,500,000 in Tier 2 capital. As part of the capital raising agreement, the Credit Union agreed to provide 10% of the capital raised as a subordinated loan to the investors.

The purpose of the subordinated loan is to act as a loss reserve to the investors as protection against the Credit Union or any Credit Union in the group defaulting on either the dividend payment under the Tier 1 capital instrument or the interest payable under the Tier 2 capital instrument. If there is no default, the Credit Union will earn interest revenue on the loan loss reserve at the 90-day Bank Bill Swap Rate plus a small margin. If there is a default, the interest earned on the loan loss reserve is used by the counterparty to the agreement to meet the Credit Unions obligation for the dividend and interest payments.

The loan loss reserve is only repayable to the Credit Union once all obligations (including all outstanding principal amounts and accrued dividends and accrued interest) owed under agreement by the Credit Union to the counterparty have been repaid in full.

NOTE 14: IMPAIRMENT OF LOANS AND ADVANCES

(a) Provision for Impairment

	2008 $	2007 $
Specific provisions for impairment		
Opening balance	94,788	56,737
Doubtful debts expense	(65,615)	38,051
Closing Balance	**29,173**	**94,788**
Provision for Impairment Calculation		
Provision prescribed by the prudential standards	27,083	79,593
Additional specific provision	2,090	15,195
	29,173	**94,788**

Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report the Credit Union has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances.

In identifying the impairment likely from these events, the Credit Union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time, resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

NOTE 14: IMPAIRMENT OF LOANS AND ADVANCES (Cont'd)

Period of impairment	Overdrafts	Unsecured Loans	Secured Loans (Category 2 facilities)
	% of balance	% of balance	% of balance
14 to 29 days	40	-	-
30 to 89 days	40	-	-
90 days to 181 days	75	40	5
182 days to 272 days	100	60	10
273 days to 364 days	100	80	15
Over 364 days	100	100	20

(b) Impairment Expense

	2008 $	2007 $
Specific provisions for impairment	(65,615)	38,051
Bad debts written off directly	36,132	28,785
	(29,483)	**66,836**

(c) Loans and advances by impairment class

Net impaired loans	7,155	215,017
Past due but not impaired	8,283,200	8,036,388
Neither past due or impaired	180,635,899	148,809,527
Net loans and advances to members	**188,926,254**	**157,060,932**

(d) Impaired loans and advances to members

Individually impaired loans	2,090	15,196
Collectively impaired loans	34,238	294,610
Provision for impairment	(29,173)	(94,789)
Balance	7,155	215,017

Impaired loans are generally not secured or are partly secured by a goods mortgage. Refer Note for details of security held. Past due values are the "on-balance sheet" loan balances.

NOTE 14: IMPAIRMENT OF LOANS AND ADVANCES (Cont'd)

	2008 $	2007 $
i. Individually impaired loans aging analysis		
Loan accounts		
30 to 90 days in arrears	2,090	15,196
Provision for impairment	(2,090)	(15,196)
Carrying amount	-	-
ii. Collectively impaired loans aging analysis		
Loan accounts		
90 to 182 days in arrears	396	231,453
182 to 273 days in arrears	-	13,078
Over 365 days in arrears	1,649	11,079
Over limit overdraft facilities /savings accounts		
14 days to 90 days in arrears	9,674	18,276
90 days to 182 days in arrears	4,452	1,519
Over 182 days in arrears	18,067	19,205
	34,238	294,610
Provision for impairment	(27,083)	(79,593)
Carrying amount	7,155	215,017

(e) Past Due but not impaired loans and advances to members

These loans are not considered impaired as either the value of the related security over property is in excess of the loan due or that the loan is less than 90 days in arrears and there is no other indication that the loan will be impaired (for example, the member has not been declared bankrupt).

Aging analysis		
Loan accounts		
0 to 29 days in arrears	8,256,176	7,949,729
30 to 59 days in arrears	8,098	53,440
60 to 89 days in arrears	14,328	12,277
Over limit overdraft facilities /savings accounts		
0 to 13 days	4,598	20,942
Carrying amount	8,283,200	8,036,388

NOTE 14: IMPAIRMENT OF LOANS AND ADVANCES (Cont'd)

(f) Security held against loans and advances to members

	2008 $	2007 $
i. Individually impaired loans		
Partly secured by goods mortgage	2,090	3,269
Wholly unsecured	-	11,927
ii. Collectively impaired		
Secured by mortgage over real estate	-	193,844
Secured by goods mortgage	-	27,950
Wholly unsecured	34,238	72,816
	36,328	309,806
iii. Past Due but not impaired		
Secured by mortgage over real estate	7,652,158	7,274,534
Secured by goods mortgage	585,372	675,282
Wholly unsecured	45,670	86,572
	8,283,200	8,036,388
iv. Against neither past due or impaired		
Secured by mortgage over real estate	160,775,090	129,287,905
Secured by goods mortgage	13,202,866	11,793,570
Secured by guarantee	1,458,476	1,520,315
Secured by funds lodged	350,501	441,183
Wholly unsecured	4,848,966	5,766,554
	180,635,899	148,809,527

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

Security held as mortgage against real estate is on the basis of:		
Loan to valuation ratio of less than 80%	145,501,263	***
Loan to valuation ratio of more than 80% but mortgage insured	11,152,320	***
Loan to valuation ratio of more than 80% and not mortgage insured	11,773,665	***
	168,427,248	

*** Information to enable the presentation of comparatives is not available and is impractible to retrieve and collate.

(g) Assets acquired from loan recovery

There were no assets acquired by the Credit Union during the financial year.
The policy of the Credit Union is to assist members to repay their debts and only after all measures have been exhausted will the Credit Union take control and/or possession of any loan security and realise such security at the highest possible price for the benefit of the member.

NOTE 15: INVESTMENT SECURITIES

Investment Securities comprise:	2008 $	2007 $
Available for sale financial assets:		
Shares in ADIs - at cost	443,735	443,735
	443,735	**443,735**

NOTE 16: PROPERTY, PLANT AND EQUIPMENT

(a)

	2008 $	2007 $
Land		
Freehold land – At Directors valuation 30/06/05	-	560,000
Freehold land – At Directors valuation 30/06/08	760,000	-
Buildings		
Buildings – At Directors valuation 30/06/05	-	790,000
Buildings – At Directors valuation 30/06/08	1,040,000	-
Accumulated depreciation	-	(58,004)
	1,040,000	731,996
Total Land and Buildings	**1,800,000**	**1,291,996**
Plant and Equipment		
Plant and equipment - At cost	1,339,758	1,111,742
Accumulated depreciation	(815,061)	(768,520)
	524,697	**343,222**
Total Property, Plant and Equipment	**2,324,697**	**1,635,218**

(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.

	Land $	Buildings $	Plant & Equipment $	Total $
Balance at the beginning of the financial year	560,000	731,996	343,222	1,635,218
Additions	-	-	312,123	312,123
Disposals	-	-	(439)	(439)
Revaluation increments	200,000	331,595	-	531,595
Depreciation expense	-	(23,591)	(130,209)	(153,800)
Carrying amount at the end of the financial year	760,000	1,040,000	524,697	2,324,697

NOTE 16: PROPERTY, PLANT AND EQUIPMENT (Cont'd)

(c) Revaluations

The Credit Union has a policy to obtain independent valuations of freehold land and buildings owned by the Credit Union every three years.

Land and Buildings has been valued at Directors' valuations as at 30 June 2008. The Directors have based the revaluations upon a combination of the independent valuations obtained and additional asset purchases and reclassifications made during the financial year. Details of the independent valuations are listed below.

(1) The independent valuation of freehold land was made by the Director General, Department of Natural Resources, on the 01 October 2007, with the valuation having effect as of 30 June 2008. The valuation placed upon the freehold land at that time was $760,000.

(2) The freehold land and building at 93 Sheridan Street, Cairns was independently valued by S Allwood (AAPI, Certified Practising Valuer), Registered Valuer of John Logan & Associates, Cairns on 01 June 2008. The valuation placed upon the freehold land and building at that time was $1,800,000.

The revaluation surplus, net of applicable deferred income taxes, was credited to an asset revaluation reserve in equity.

(d)

If land and buildings were stated at historical cost, amounts would be as follows:	2008 $	2007 $
Cost	943,216	943,216
Accumulated Depreciation	(509,863)	(488,681)
Net book value	**433,353**	**454,535**

NOTE 17: INTANGIBLE ASSETS

(a)

Computer software at cost	292,023	216,509
Accumulated amortisation	(148,860)	(98,295)
	143,163	**118,214**

(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.

	Computer Software $
Balance at the beginning of the financial year	118,214
Additions	75,514
Disposals	-
Amortisation expense	(50,565)
Carrying amount at the end of the financial year	143,163

NOTE 18: DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

	2008 $	2007 $
Deferred Tax Assets		
Deferred tax assets comprise temporary differences attributable to:		
Employee benefits	171,298	140,465
Accrued expenses and creditors	16,605	31,404
Provision for impairment	8,752	28,436
	196,655	**200,305**

	2008 $	2007 $
Deferred Tax Liabilities		
Deferred tax liabilities comprise temporary differences		
Amounts recognised in profit and loss		
Tax allowances relating to property, plant and equipment	39,174	38,148
Capitalised issue costs of Borrowings	15,030	10,020
Derivatives at fair value	10,524	-
Reduction in cost base of available for sale financial assets due to receipt of capital distribution	-	-
	64,728	48,168
Amounts recognised directly in equity		
Revaluation of property plant and equipment	412,162	252,683
Revaluation of available for sale financial assets to fair value	-	-
	412,162	252,683
	476,890	**300,851**

Reconciliations

(i) Gross Movement

The overall movement in the deferred tax account is as follows:

	2008 $	2007 $
Opening balance	(100,546)	(123,793)
(Charge) / Credit to Income statement	(20,210)	23,849
(Charge) / Credit to equity	(159,479)	(602)
Closing Balance	(280,235)	(100,546)

NOTE 18: DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Cont'd)

	2008 $	2007 $
ii) Deferred tax asset		
The movement in deferred tax assets for each temporary difference during the year is as follows:		
Employee benefits		
Opening Balance	140,465	126,067
(Charge) / Credit to Income statement	30,833	14,398
Closing Balance	171,298	140,465
Accrued expenses and creditors		
Opening Balance	31,404	32,991
(Charge) / Credit to Income statement	(14,799)	(1,587)
Closing Balance	16,605	31,404
Provision for impairment		
Opening Balance	28,436	17,021
(Charge) / Credit to Income statement	(19,684)	11,415
Closing Balance	8,752	28,436
(iii) Deferred tax liabilities		
The movement in deferred tax liabilities for each temporary difference during the year is as follows:		
Tax allowances relating to property, plant and equipment		
Opening Balance	(38,148)	(38,745)
(Charge) / Credit to Income statement	(1,026)	597
Closing Balance	(39,174)	(38,148)
Capitalised issue costs of Borrowings		
Opening Balance	(10,020)	(5,010)
(Charge) / Credit to Income statement	(5,010)	(5,010)
Closing Balance	(15,030)	(10,020)
Derivatives at Fair Value		
Opening Balance	-	-
(Charge) / Credit to Income statement	(10,524)	-
Closing Balance	(10,524)	-
Reduction in cost base of available for sale financial assets due to receipt of capital distribution		
Opening Balance	-	(1,004)
(Charge) / Credit to Income statement	-	1,004
Closing Balance	-	-

NOTE 18: DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Cont'd)

	2008 $	2007 $
<u>Tangible assets revaluation adjustments taken directly to equity</u>		
Opening Balance	(252,683)	(252,683)
Net revaluations during the current period	(159,479)	-
Closing Balance	(412,162)	(252,683)
<u>Revaluation of available for sale financial assets to fair value</u>		
Opening Balance	-	(2,430)
Charged directly to equity	-	(602)
(Charge) / Credit to Income statement due to disposal	-	3,032
Closing Balance	-	-

NOTE 19: DEPOSITS

	2008 $	2007 $
Member call deposits (including withdrawable shares)	73,563,033	73,938,809
Accrued interest payable on member call deposits	156,727	133,607
Member term deposits	112,264,284	88,684,810
Accrued interest payable on member term deposits	2,248,452	1,641,960
	188,232,496	**164,399,186**

Concentration of Member Deposits

	2008 $	2007 $
(i) The number of deposits the Credit Union has accepted from members which represent 10% or more of the Credit Union's liabilities at balance date	**-**	**-**
(ii) The aggregate amount of deposits the Credit Union has accepted from members or groups of members which represent 10% or more of the Credit Union's liabilities at balance date	-	-

NOTE 20: TRADE AND OTHER PAYABLES

	2008 $	2007 $
Sundry creditors and accrued expenses	289,657	274,086
Unearned income	75,404	47,470
Agency clearing and other sundry clearing accounts	37,834	51,784
	402,895	**373,340**

NOTE 21: INCOME TAX PAYABLE

	2008 $	2007 $
Provision for current income tax	**227,197**	**149,764**

NOTE 22: BORROWINGS

	2008 $	2007 $
Subordinated debt	3,600,000	3,600,000
Accrued interest payable on subordinated debt	29,070	25,368
	3,629,070	3,625,368
Subordinated debt issue costs	(66,594)	(74,944)
Total subordinated debt	3,562,476	3,550,424
Permanent preference shares	2,500,000	2,500,000
Permanent preference share issue costs	(66,594)	(74,944)
Total permanent preference shares	2,433,406	2,425,056
Wholesale funding borrowings	14,000,000	3,000,000
Accrued interest payable on whole funding borrowings	70,035	2,467
Total Wholesale funding borrowings	14,070,035	3,002,467
Total Borrowings	**20,065,917**	**8,977,947**

Refer to note Note 28 for information on wholesale funding lines provided by Cuscal and Note 30 for the maturity profile of the borrowings.

NOTE 23: PROVISIONS

	2008	2007
Provision for employee benefits	**570,994**	**468,215**
Number of employees at year end	**47**	**44**

The number of employees includes both full-time employees and part time employees measured on a full-time equivalent basis.

NOTE 24: REDEEMED PREFERENCE SHARE CAPITAL ACCOUNT

	2008	2007
Redeemed member shares	**186,360**	**152,830**
Movement		
Opening balance	152,830	133,250
Transfer from Retained earnings	33,530	19,580
Closing balance	**186,360**	**152,830**

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 transferred.

NOTE 25: RETAINED EARNINGS

	2008 $	2007 $
Opening balance	11,015,496	9,692,520
Net Profit attributable to members	1,599,841	1,113,639
Transfer from Financial Assets Reserve	-	7,075
Transfer to/from Reserve for Credit Losses	29,972	221,842
Transfer to Redeemed Preference Share Capital Account	(33,530)	(19,580)
Closing Balance	**12,611,779**	**11,015,496**

NOTE 26: RESERVES

Asset Revaluation Reserve	961,711	589,594
Reserve for Credit Losses	357,930	387,902
Financial Assets Reserve	-	-
	1,319,641	**977,496**

<u>Asset Revaluation Reserve</u>

Opening balance	589,594	589,594
Revaluation increment on freehold land and buildings	531,595	-
Deferred tax liability on revaluation increment	(159,478)	-
Closing balance	**961,711**	**589,594**

The asset revaluation reserve records revaluations of non-current assets.

<u>Reserve for Credit Losses</u>

Opening balance	387,902	609,744
Transfer to/ from retained earnings	(29,972)	(221,842)
Closing balance	**357,930**	**387,902**

The reserve for credit losses records amounts previously set aside as a General Provision for Impaired Loans and is maintained to comply with the Prudential Standards as set down by APRA.

<u>Financial Assets Reserve</u>

Opening balance	-	5,670
Fair value increment	-	2,007
Deferred tax liability on fair value increment	-	(602)
Transfer to / from Retained earnings	-	(7,075)
Closing balance	**-**	**-**

The financial asset reserve records movements in the fair values of financial assets available for sale.

NOTE 27: COMMITMENTS

(a) Future capital commitments

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

	2008 $	2007 $
Not longer than one year	-	-
Longer than one and not longer than two years	-	-
	-	-

(b) Outstanding Loan Commitments
Loans and credit facilities approved but not funded or drawn at the end of the financial year:

	2008 $	2007 $
Loans approved but not funded	7,132,229	7,454,796
Undrawn overdraft, line of credit, VISA and redraw facilities	21,940,983	22,961,316

(c) Operating Lease Commitments
Non cancellable operating leases contracted for but not capitalised in the accounts payable:

	2008 $	2007 $
Not longer than 1 year	54,327	32,131
Longer than 1 and not longer than 2 years	53,748	3,207
Longer than 2 and not longer than 5 years	152,982	-
Total Operating Lease Commitments	**261,057**	**35,338**

NOTE 28: STAND BY BORROWING FACILITIES

The Credit Union has a gross borrowing facility with CUSCAL:

	Approved Facility $	Current Borrowing $	Net Available $
2008			
Pre-approved loan facility	1,000,000	-	1,000,000
Overdraft facility	2,500,000	-	2,500,000
Wholesale funding facility	20,000,000	14,000,000	6,000,000
	23,500,000	**14,000,000**	**9,500,000**
2007			
Pre-approved loan facility	1,000,000	-	1,000,000
Overdraft facility	2,500,000	-	2,500,000
Wholesale funding facility	10,000,000	3,000,000	7,000,000
	13,500,000	**3,000,000**	**10,500,000**

There are no restrictions in the relation to these loan facilities, except withdrawals of funds under the pre-approved loan facility are subject to availability and are at the discretion of CUSCAL. Stand by lines, credit facilities and borrowings are secured by an equitable mortgage over all assets of the Credit Union.

NOTE 29: CONTINGENT LIABILITIES

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 4 March 1999 between Cuscal Limited (CUSCAL), Credit Union Financial Support System Limited and participating Credit Unions required the society to execute an equitable charge in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of the society and secures any advances that may be made to the Credit Union under the scheme.

The balance of the debt at 30 June 2008 was nil (2007: nil).

NOTE 30: MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

NOTE 30: MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES (cont.)

2008	Within 1 month	1 to 3 months	3 to 12 months	1-5 years	Over 5 years	No Maturity	Total Carrying Amount as per Balance Sheet
Assets							
Cash and cash equivalents	5,019,772	-	-	-	-	914,636	5,934,408
Trade and other receivables	-	-	-	-	-	182,854	182,854
Placements with, and loans and advances, to other ADIs	10,978,607	8,416,635	6,011,277	-	-	-	25,406,519
Derivative financial instruments	-	-	-	-	-	39,144	39,144
Loans and advances to members	663,892	1,163,060	5,781,579	24,610,810	139,453,471	17,253,442	188,926,254
Loans and advances to other entities	-	-	-	-	500,000	-	500,000
Investment securities	-	-	-	-	-	443,735	443,735
Property Plant and Equipment	-	-	-	-	-	2,324,697	2,324,697
Intangibles	-	-	-	-	-	143,163	143,163
Deferred tax assets	-	-	-	-	-	196,655	196,655
Total Assets	16,662,271	9,579,695	11,792,856	24,610,810	139,953,471	21,498,326	224,097,429
Liabilities & Equity							
Amounts owed to member depositors	21,788,869	42,077,526	50,646,341	-	-	73,719,760	188,232,496
Derivative financial instruments						3,260	3,260
Trade and other payables	-	-	-	-	-	402,895	402,895
Income tax payable	-	-	-	-	-	227,197	227,197
Deferred tax liabilities	-	-	-	-	-	476,890	476,890
Borrowings	13,596,885	502,220	-	-	6,100,000	(133,188)	20,065,917
Provisions	-	-	-	-	-	570,994	570,994
Members equity	-	-	-	-	-	14,117,780	14,117,780
Total liabilities and equity	35,385,754	42,579,746	50,646,341	-	6,100,000	89,385,589	224,097,429
2007							
Assets							
Cash and cash equivalents	3,290,161	-	-	-	-	806,379	4,096,540
Trade and other receivables	-	-	-	-	-	102,925	102,925
Placements with, and loans and advances, to other ADIs	11,531,661	8,583,941	2,541,654	-	-	-	22,657,256
Loans and advances to members	490,355	1,447,999	5,987,647	24,652,642	109,929,877	14,552,412	157,060,932
Loans and advances to other entities	-	-	-	-	500,000	-	500,000
Investment securities	-	-	-	-	-	443,735	443,735
Property Plant and Equipment	-	-	-	-	-	1,635,218	1,635,218
Intangibles	-	-	-	-	-	118,214	118,214
Deferred tax assets	-	-	-	-	-	200,305	200,305
Total Assets	15,312,177	10,031,940	8,529,301	24,652,642	110,429,877	17,859,188	186,815,125
Liabilities & Equity							
Amounts owed to member depositors	21,058,089	32,521,577	36,747,104	-	-	74,072,416	164,399,186
Trade and other payables	-	-	-	-	-	373,340	373,340
Income tax payable	-	-	-	-	-	149,764	149,764
Deferred tax liabilities	-	-	-	-	-	300,851	300,851
Borrowings	25,368	3,002,467	-	-	6,100,000	(149,888)	8,977,947
Provisions	-	-	-	-	-	468,215	468,215
Members equity	-	-	-	-	-	12,145,822	12,145,822
Total liabilities and equity	21,083,457	35,524,044	36,747,104	-	6,100,000	87,360,520	186,815,125

NOTE 31: CLASSES OF FINANCIAL ASSETS AND LIABILITIES

The following is a summary of the Credit Union's financial instrument by class.

	2008	2007
	$	$
Loans and receivables – measured at amortised cost		
Cash and cash equivalents	5,934,408	4,096,540
Trade and other receivables	182,854	102,925
Placements with, and loans and advances, to other ADI's	25,406,519	22,657,256
Loans and advances to other entities	500,000	500,000
Total	32,023,781	27,356,721
Available for sale financial assets – measured at amortised cost		
Investment securities	443,735	443,735
Financial assets at fair value through income statement		
Derivative financial instruments	39,144	-
Financial liabilities measured at amortised cost		
Amounts owed to member deposits	188,232,496	164,399,186
Trade and other payable	402,895	373,340
Borrowings	20,065,917	8,977,947
Total	208,701,308	173,750,473
Financial liabilities at fair value through income statement		
Derivative financial instruments	3,260	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

NOTE 32: INTEREST RATE RISK

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

	Repricing Period at 30 June 2008													
	Floating interest rate		Within 1 year		1 to 5 years		Over 5 years		Non Interest Sensitive		Total Carrying Amount as per Balance Sheet		Effective Interest Rate	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Assets														
Cash and cash equivalents	5,019,772	3,290,161	-	-	-	-	-	-	914,636	806,379	5,934,408	4,096,540	3.62%	2.79%
Trade and other receivables	-	-	-	-	-	-	-	-	182,854	102,925	182,854	102,925	N/A	N/A
Placements with, and loans and advances, to other ADIs	-	-	25,269,509	22,500,000	-	-	-	-	137,010	157,256	25,406,519	22,657,256	7.50%	6.42%
Loans and advances to Members	52,566,221	48,105,805	87,805,843	106,327,678	48,583,363	2,722,237	-	-	(29,173)	(94,788)	188,926,254	157,060,932	8.59%	7.75%
Derivative financial instruments	-	-	-	-	-	-	-	-	39,144	-	39,144	-	N/A	N/A
Loans and advances to other entities	-	-	500,000	500,000	-	-	-	-	-	-	500,000	500,000	7.37%	6.57%
Investment securities	-	-	-	-	-	-	-	-	443,735	443,735	443,735	443,735	N/A	N/A
Property Plant and Equipment	-	-	-	-	-	-	-	-	2,324,697	1,635,218	2,324,697	1,635,218	N/A	N/A
Intangibles	-	-	-	-	-	-	-	-	143,163	118,214	143,163	118,214	N/A	N/A
Deferred tax assets	-	-	-	-	-	-	-	-	196,655	200,305	196,655	200,305	N/A	N/A
Total Assets	57,585,993	51,395,966	113,575,352	129,327,678	48,583,363	2,722,237	-	-	4,352,721	3,369,244	224,097,429	186,815,125	N/A	N/A
Liabilities & Equity														
Amounts owed to member depositors	72,705,969	73,018,235	113,121,348	89,605,384	-	-	-	-	2,405,179	1,775,567	188,232,496	164,399,186	5.70%	4.40%
Derivative financial instruments	-	-	-	-	-	-	-	-	3,260	-	3,260	-	N/A	N/A
Trade and other payables	-	-	-	-	-	-	-	-	402,895	373,340	402,895	373,340	N/A	N/A
Income tax payable	-	-	-	-	-	-	-	-	227,197	149,764	227,197	149,764	N/A	N/A
Deferred tax liabilities	-	-	-	-	-	-	-	-	476,890	300,851	476,890	300,851	N/A	N/A
Borrowings	-	-	20,100,000	9,100,000		-		-	(34,083)	(122,053)	20,065,917	8,977,947	8.54%	7.35%
Provisions	-	-	-	-	-	-	-	-	570,994	468,215	570,994	468,215	N/A	N/A
Members equity	-	-	-	-	-	-	-	-	14,117,780	12,145,822	14,117,780	12,145,822	N/A	N/A
Total liabilities and equity	72,705,969	73,018,235	133,221,348	39,930,400	-	-	-	-	18,170,112	15,091,506	224,097,429	186,815,125	N/A	N/A
Off Balance Sheet Items														
Swaps	11,500,000	-	-	-	(11,500,000)	-	-	-	-	-	-	-	N/A	N/A

NOTE 33: EVENTS OCCURRING AFTER BALANCE DATE

The Credit Union is not aware of any significant events that have occurred subsequent to balance date that require disclosure within the financial report.

NOTE 34: CREDIT RISK

(a) Maximum Credit Risk Exposure

The Credit Union's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Balance Sheet.

The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

(b) Concentrations of Credit Risk

The Credit Union minimises concentrations of credit risk in relation to loans and financial assets by undertaking transactions with a large number of customers. Credit risk is currently managed in accordance with the Prudential Standards to reduce the Credit Union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

The following categories represent concentrations of Placements with, and loans and advances, to other ADIs in excess of 10% of capital.

	2008 **$**	**2007** **$**
Cuscal Limited		
HQLA Deposits	-	13,500,000
Term and other Deposits	16,769,509	-
Cash and other liquids	5,019,772	3,290,161
Adelaide Bank		
Term and other Deposits	3,000,000	3,000,000
Arab Bank of Australia		
Term and other Deposits	-	1,000,000
Bank West Ltd		
Term and other Deposits	-	3,500,000
Bendigo Bank		
Term and other Deposits	3,000,000	-
Elders Rural Bank		
Term and other Deposits	-	1,000,000

NOTE 34: CREDIT RISK (Cont'd)

The following categories represent concentrations of loans in excess of 10% of capital.

	Maximum Credit Risk Exposure			
	% of Total Loans		$	
	2008	**2007**	**2008**	**2007**
Geographical Areas				
Cairns	42.22	41.00	79,783,231	64,430,339
Queensland other than Cairns	54.49	57.67	102,961,051	90,636,632
Industry				
Electricity supply	15.32	15.48	28,957,144	24,320,389

Concentrations of credit risk on loans to individual members (including associated members) greater than 10% of capital are detailed as follows:

	2008	**2007**
Number of Loans	1	1
Outstanding Balance	$2,654,753	$2,648,211

NOTE 35: FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Investment securities have their net fair value determined based on quoted market prices or net assets of associates.

Loans and advances

The carrying value of loans, advances and other receivables is net of general and specific provisions for impairment.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of the net fair value. The net fair value of fixed rate loans was calculated by utilising discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June 2008.

NOTE 35: FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

Deposits and amounts due to other financial institutions

The carrying value of payables due to other financial institutions approximate their net fair value as they are short term in nature. The net fair value of non interest bearing, call and variable rate deposits, and fixed rate deposits repriced within twelve months is the carrying value. Discounted cash flow models based upon deposit type and its related maturity were used to calculate the net fair value of other term deposits.

Trade and other Payables

The carrying amount approximates fair value because of their short term to maturity.

Borrowings

The carrying amount approximates fair value as the period for which the interest rate is fixed is short term in nature.

	2008		2007	
	Carrying Value $	Net Fair Value $	Carrying Value $	Net Fair Value $
Assets				
Cash and cash equivalents	5,934,408	5,934,408	4,096,540	4,096,540
Trade and other receivables	182,854	182,854	102,925	102,925
Placements with and loans and advances, to other ADIs	25,406,519	25,406,519	22,657,256	22,657,256
Derivative financial instruments	39,144	39,144	-	-
Loans and advances to members	188,926,254	186,794,499	157,060,932	157,060,932
Loans and advances to other entities	500,000	500,000	500,000	500,000
Investment securities	443,735	443,735	443,735	443,735
Liabilities				
Amounts owed to member depositors	188,232,496	188,232,496	164,399,186	164,399,186
Derivative financial instruments	3,260	3,260	-	-
Trade and other payables	402,895	402,895	373,340	373,340
Tax liabilities	704,087	704,087	450,615	450,615
Borrowings	20,065,917	20,065,917	8,977,947	8,977,947
Provisions	570,944	570,944	468,215	468,215

NOTE 36: SUPERANNUATION COMMITMENTS

The Credit Union makes contributions in respect of employees to the various Superannuation Funds for the purpose of Superannuation Guarantee Legislation payments and payment of other superannuation benefits on behalf of employees in accordance with employment agreements. Except as required under the Superannuation Guarantee Legislation, there is no legally enforceable obligation on the Credit Union to contribute to the superannuation plan.

The superannuation funds are an accumulation fund. Benefits provided under the fund are based on accumulated contributions and earnings for each employee.

The Credit Union is under no obligation to make up any shortfall in the superannuation fund's assets to meet payments due to employees. The Credit Union is also not liable for the performance of the superannuation funds, nor the obligations of the funds.

As the fund is an accumulation fund, the assets of the fund are sufficient to satisfy all benefits that would have been vested under the trust deed in the event of the termination of plan, or the voluntary or compulsory termination of each employee of the Credit Union.

NOTE 37: ECONOMIC DEPENDENCY

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

(a) Cuscal Limited

This entity supplies the Credit Union rights to Visa Card in Australia and provides services in the form of settlement with Bankers for ATM and Visa Card transactions, and the production of Visa and Redicards for use by members.

(b) FDRA Limited

This company operates the switching computer used to link Redicards operated through Reditellers and other approved ATM suppliers to the Credit Unions computer systems.

(c) The System Works Pty. Ltd.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 38: STATEMENT OF CASH FLOWS

(a) Reconciliations of Cash

For the purpose of the statement of cash flows, cash includes cash on hand and 'at call' deposits 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 Balance Sheet as follows:

	2008 $	2007 $
Cash and cash equivalents	5,934,408	4,096,540
	5,934,408	**4,096,540**

(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:

(i) customer deposits in and withdrawals from savings, money market and other deposit accounts;
(ii) sales and purchases of dealing securities
(iii sales and purchases of maturing certificates of deposit; and
(iv) short-term borrowings.

(c) Reconciliation of Net Cash provided by Operating Activities to Profit after Income Tax

	2008 $	2007 $
Profit after income tax	1,599,841	1,113,639
Loss/(Profit) on sale of fixed assets	439	(3,407)
Depreciation and amortisation	204,365	197,229
(Increase)/Decrease in interest receivable – due from ADIs	20,247	96,653
(Increase)/Decrease in interest receivable – loans to other entities	-	737
(Increase)/Decrease in trade and other receivables	(79,929)	2,223
(Increase)/Decrease in deferred tax asset	3,650	(24,226)
(Increase)/Decrease in derivative financial instruments	(35,884)	-
(Increase)/Decrease in placements, loans and advances to ADIs	(2,769,509)	10,000,000
(Increase)/Decrease in loans and advances to members	(31,799,707)	(27,973,690)
(Increase)/Decrease in capitalised issue costs – Borrowings	16,700	16,700
(Decrease)/Increase in interest payable – member deposits	629,612	481,134
(Decrease)/Increase in interest payable – Borrowings	71,271	(3,417)
(Decrease)/Increase in member deposits	23,203,698	15,304,305
(Decrease)/Increase in provision for loan impairment	(65,615)	38,051
(Decrease)/Increase in provision for employee entitlements	102,779	47,991
(Decrease)/Increase in provision for current income tax	77,433	82,162
(Decrease)/Increase in deferred tax liability	16,560	378
(Decrease)/Increase in trade and other payables	(3,638)	75,483
Net cash provided by operating activities	**(8,807,687)**	**(548,055)**

NOTE 39: CREDIT UNION DETAILS

The registered office of the Credit Union is:

Electricity Credit Union Ltd
93 Sheridan Street
Cairns Qld 4870

The principal place of business is:

93 Sheridan Street
Cairns Qld 4870

The Credit Union is an unlisted public company, limited by shares, incorporated and domiciled in Australia.

DIRECTORS' DECLARATION

The Directors of Electricity Credit Union Ltd declare that:

1. The financial statements and notes

   (a) Comply with Accounting Standards and the Corporations Act 2001; and

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

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

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

Signed at Cairns this 26th day of August, 2008

CS Turnbull Chairman	JJ Fitzgerald Deputy Chairman

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ELECTRICITY CREDIT UNION LTD

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

The directors of the 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 control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion the financial report of Electricity Credit Union Ltd is in accordance with the *Corporations Act 2001*, including:

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

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

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

BDO Kendalls (QLD)

P A Gallagher
Partner

Brisbane: 26 August 2008