



**Latvian Australian Credit  
Co-operative Society Limited**

ACN 087 651 545

**Financial Report to Members**

for the year ended 30 June 2010

**Directors**

Eric Cirulis (Chairman)  
Victor Bendrups (Deputy Chairman)  
Peter Delters (Managing Director)  
Igor Dimits  
Edvins Misa  
Karlis Zubeckis

**Secretary**

Gunta Vagars

**Registered Office**

Level 8  
313 Little Collins Street  
Melbourne, Victoria, 3000

**Solicitor**

Darzins Legal

**Bankers**

Commonwealth Bank of Australia  
Westpac Banking Corporation

**Auditor**

Graeme S Day  
MV Anderson & Co.

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# Latvian Australian Credit Co-operative Society Limited

ABN 087 651 545

## Directors' Report

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Your directors present their report and the financial statements of Latvian Australian Credit Co-operative Society Limited for the financial year ended 30 June 2010.

### DIRECTORS

The names and details of the directors of the Credit Union in office at any time during or since the end of the financial year are:

Eric Cirulis B.Bus CA (Chariman)	E. Cirulis joined the Society as a director in 2002. He was appointed Chairman of the Society in 2010 he is also chairman of the Nominations and Remuneration committees and a member of the Audit committee. He is a partner in the accounting firm Stones Sharp.
Viktors Bendrups (Deputy Chairman)	V. Bendrups joined the Society as a director in 2007. He is Deputy Chairman of the Society as well as being Chairman of the Audit Committee and member of the Remuneration Committee. He is a general manager of an engineering company Elsom Emgineering.
Peter Delves, B.Bus (Acc) ASA	P. Delves joined the Society as an employee in 1982, in 1995 he was appointed to the position of Chief Executive Officer, then in 1998 he became a Director of the Society, he is Deputy Chairman of the Loan Committee.
Edvins Misa	E. Misa joined the Society as a director in 1961 and held the position of Chairman of the Society from 1988 till he relinquished the position in 2010. He is member of the Loan Committee and Nominations Committee.
Igor Dimits ASA	I. Dimits joined the Society as a director in 1966, in 1986 he was appointed Chief Executive Officer a position he held till 1995, He is chairman of the Loan Committee and a member of the Audit committee and Nominations committee and Remuneration committee
Karlis Zubeckis B.Com	K. Zubeckis first joined the Society as a director in 1969 a position he held to 1974, he again was a director from 1978 till 1982 and then again became a director in 1989, he is a member of the Loan Committee
Gunars Robergs	G Robergs passed away this year after joining the Society as a director in 1969 and was secretary of the Society, he was also a member of the Loan Committee and Audit Committee.
Roksija Reiters (Alternative Director)	R Reiters was nominated as an alternate director for I. Dimits

The Directors are members of the Credit Union and each holds shares to the value of \$10.

## INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE CREDIT UNION

There have been no interests declared by directors in contracts or proposed contracts with the Credit Union.

## DIRECTORS' BENEFITS

With the exception of the information disclosed in Note 9a, during or since the end of the financial year no director, or a firm of which a director is a member, or an entity in which a director has a substantial financial interest has received, or has become entitled to receive, any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the accounts or the fixed salary of a full-time employee of the Credit Union) by reason of a contract entered into by the Credit Union.

## DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of standing committees of directors) held during the financial year and the number of meetings attended by each director was as follows:

Meetings of:	Directors	Audit Committee	Loan Committee	Nominations Committee
Number of meetings held	11	3	8	1
Number of meetings attended:				
Edvins Misa	11	2	1	1
Eric Cirulis	9	3	0	1
Peter Delters	11	3	8	1
Victor Bendrups	7	0	0	0
Igors Dimits	9	2	7	1
Gunars Robergs	10	3	7	0
Karlis Zubeckis	9	0	6	0
Roxy Reiters (Alternate)	1	0	0	0

## PRINCIPAL ACTIVITY

The principal activity of the Credit Union during the year was the provision of a complete range of retail financial products and lending services to members.

## OPERATING RESULTS

Net profit after income tax for the financial year was \$39,863 (2009 \$113,598).

## REVIEW OF OPERATIONS

The Credit Union has rebounded from the previous year and has made a operating profit before tax of \$43,988, The start of the year was still affected by the Global Financial Crisis but with the improvement in the Australian Economy and increased interest rates has helped the Society recover from the situation in the previous year.

Income was 18.73% lower than in the previous financial year at \$850,868. Interest expense decreased by 33.60% from the previous year at \$455,413. Gross Profit was 6.42% less than for the previous financial year. Expenses for the financial year amounted to \$351,467 which was 2.41% lower than for the previous year. This resulted in a net profit before income tax of \$43,988.

During the year assets reduced by 5.45%. Member deposits fell by 7.08% during the year and Member loans increased by 17.97%. Members equity grew by 6.95% due mainly to the revaluation of the property owned by the Society.

#### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

There was no significant change in the state of affairs of the Credit Union during the financial year.

#### **AFTER BALANCE DATE EVENTS**

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Credit Union, the results of those operations or the state of affairs of the Credit Union in future financial years.

#### **FUTURE DEVELOPMENTS**

With the interest rate market stabilising in the past few months and the likelihood of no or few interest rate changes in the period to the end of the financial year the Society believes that the results for 2010/2011 will show a reasonable return.

#### **ENVIRONMENTAL ISSUES**

The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

#### **DIVIDENDS**

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

#### **OPTIONS**

No options over issued shares or interest in the Credit Union were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

#### **AUDITOR'S DECLARATION**

A copy of the Auditors independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

#### **GOVERNANCE**

The Credit Union's Corporate Governance and Fit and Proper policies regulated by Prudential Standards APS 510 and APS 520 respectively, issued by the Australian Prudential Regulation Authority have been reviewed and amended during the year. A summary of the main components of the Board's Corporate Governance Policy are available from the Credit Unions main office.

**OTHER MATTERS**

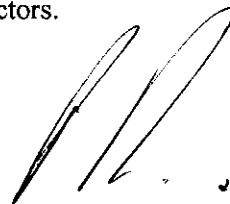
During the year, a premium was paid in respect of a contract insuring directors and officers of the Credit Union against liability. The officers of the Credit Union covered by the insurance contract include the directors, manager and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and nature of liabilities covered, by the insurance contract is prohibited by a confidentiality clause in the contract. No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is or has been an auditor of the Credit Union.

No person has applied for leave of Court to bring proceedings on behalf of the Credit Union or to intervene in any proceeding to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings. The Credit Union was not subject to any such proceedings during the year.

This declaration is made in accordance with a resolution of directors.



**Eric Cirulis**  
Director



**Peter Delters**  
Director

**Signed at Melbourne 28 September 2010.**

**Latvian Australian Credit Co-operative Society Limited**

ABN 087 651 545

**Directors' Declaration**

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The directors of Latvian Australian Credit Co-operative Society Limited declare that:

- 1 The financial statements and notes as set out on pages 9 to 30, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards; and
  - (b) give a true and fair view of the financial position as at 30 June 2010 and of the 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 directors.



**Igors Dimits**  
**Director**

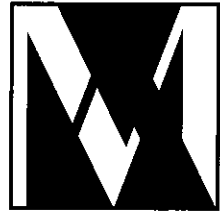


**Karlis Zubeckis**  
**Director**

**Signed at Melbourne 28 September 2010**

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

**TO THE DIRECTORS OF LATVIAN AUSTRALIAN  
CREDIT CO-OPERATIVE SOCIETY LIMITED**



**M V ANDERSON & CO**

Chartered Accountants

mva@mvanderson.com.au

4th Floor  
313 La Trobe Street  
Melbourne, Vic 3000  
Australia

Tel. (03) 9642 8000

Fax. (03) 9642 8222

I declare that, to the best of my knowledge and belief, during the year ended 30 June, 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

*M V Anderson & Co*

**M V ANDERSON & CO**

Chartered Accountants

4th Floor,

313 La Trobe Street,

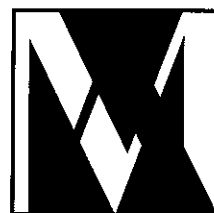
Melbourne Vic 3000

**GRAEME S. DAY**

Partner

Dated: 28<sup>th</sup> September, 2010

**LATVIAN AUSTRALIAN CREDIT  
CO-OPERATIVE SOCIETY LIMITED**  
(ACN 087 651 545)



**M V ANDERSON & CO**

Chartered Accountants

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS  
OF LATVIAN AUSTRALIAN CREDIT CO-OPERATIVE  
SOCIETY LIMITED**

We have audited the accompanying financial report of Latvian Australian Credit Co-operative Society Limited (the credit union), which comprises the statement of financial position as at 30 June, 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

**Directors' Responsibility for the Financial Report**

The directors of the credit union are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 the directors also state, in accordance with Accounting Standard AASB101: Presentation of Financial Statements that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

**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 Australia 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 judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, 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 credit union'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*.

**Auditor's Opinion**

In our opinion,

- a. the financial report of Latvian Australian Credit Co-operative Society Limited is in accordance with the *Corporations Act 2001*, including
  - (i) giving a true and fair view of the credit union's financial position as at 30 June 2010 and of its performance for the year ended on that date, and
  - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*M V Anderson & Co*

**M V ANDERSON & CO**  
Chartered Accountants  
4th Floor,  
313 La Trobe Street,  
Melbourne Vic 3000



**GRAEME S. DAY**  
Partner

Dated: 28<sup>th</sup> September, 2010

**Latvian Australian Credit Co-operative Society Limited**  
 ABN 087 651 545  
**Statement of Comprehensive Income for the Year Ended 30 June 2010**

	Note	2010	2009
<b>Net Interest Income</b>		<b>\$</b>	<b>\$</b>
Interest income	4	847,815	1,044,301
Interest expense	4	(455,413)	(699,409)
Net Interest Income	4	392,402	344,892
<b>Other Operating Income</b>			
Rental income		0	0
Fee income		1,751	1,758
Dividend revenue		1,220	732
Provision for Doubtful Debts		0	75,000
Other Income		82	179
Total Other Operating Income	5	3,053	77,669
<b>Total Income</b>		<b>395,455</b>	<b>422,561</b>
<b>Operating Expenses</b>			
Bad and doubtful debt expenses		0	(2,252)
Employee benefits		180,020	181,952
Depreciation and amortisation		16,267	16,293
Finance costs			
Other expenses from ordinary activities		155,180	164,157
Total Operating Expenses	5	351,467	360,150
<b>Profit (Loss) Before Income Tax Expense</b>		<b>43,988</b>	<b>62,411</b>
Income Tax Expense/(Benefit)	1i, 3	4,125	(51,187)
<b>Net Profit (Loss)</b>	5, 19	<b>39,863</b>	<b>113,598</b>
<b>Other comprehensive income, net of tax</b>		<b>0</b>	<b>0</b>
<b>Revaluation Surplus</b>		<b>106,309</b>	<b>0</b>
<b>Total comprehensive income for the year</b>		<b>146,172</b>	<b>113,598</b>

**Latvian Australian Credit Co-operative Society Limited**

ABN 087 651 545

**Statement of Changes in Member Equity  
For the Year Ended 30 June 2010**

	<b>Retained Profits</b>	<b>Asset Revaluation Reserve</b>	<b>Reserve for Credit Losses</b>	<b>General Reserve</b>	<b>Total</b>
Total at 1 July 2009	98,801	44,862	60,000	1,900,000	2,103,663
Net profit (loss) for period	39,863	0	0	0	39,863
Revaluation	0	106,309	0	0	106,309
Transfers (to) from reserves	(107,000)	0	7,000	100,000	0
<b>Total at 30 June 2010</b>	<b>31,664</b>	<b>151,171</b>	<b>67,000</b>	<b>2,000,000</b>	<b>2,249,835</b>

	<b>Retained Profits</b>	<b>Asset Revaluation Reserve</b>	<b>Reserve for Credit Losses</b>	<b>General Reserve</b>	<b>Total</b>
Total at 1 July 2008	45,203	44,862	0	1,900,000	1,990,065
Net profit (loss) for period	113,598	0	0	0	113,598
Transfers (to) from reserves	(60,000)	0	60,000	0	0
<b>Total at 30 June 2009</b>	<b>98,801</b>	<b>44,862</b>	<b>60,000</b>	<b>1,900,000</b>	<b>2,103,663</b>

**Latvian Australian Credit Co-operative Society Limited**

ABN 087 651 545

**Statement of Financial Position as at 30 June 2010**

	Note	2010 \$	2009 \$
<b>Assets</b>			
Cash and liquid assets	6	1,036,172	611,369
Due from other financial institutions	7	7,486,334	9,877,894
Accrued receivables	8	169,793	232,037
Loans and advances	9, 10	6,684,832	5,666,514
Other Investments	11	10,494	10,494
Property, plant and equipment	12	468,489	372,645
Income tax assets	13	28,184	31,674
Other	14	6,734	7,330
<b>Total Assets</b>		15,891,032	16,809,957
<b>Liabilities</b>			
Deposits	15	13,356,820	14,340,299
Accounts payable and other liabilities	16	173,049	262,697
Income tax liabilities	17	(782)	3,951
Provisions	18	112,110	99,347
<b>Total Liabilities</b>		13,641,197	14,706,294
<b>Net Assets</b>		2,249,835	2,103,663
<b>Equity</b>			
Reserves	19	2,218,171	2,004,862
Retained profits		31,664	98,801
<b>Total Equity</b>		2,249,835	2,103,663

The accompanying notes 1 to 29 are an integral part of these accounts.

**Latvian Australian Credit Co-operative Society Limited**  
**ABN 087 651 545**  
**Statement of Cash Flows for the Year Ended 30 June 2010**

	Note	2010 \$	2009 \$
<b>Operating Activities</b>			
Interest received – loans		380,695	405,663
Interest received – investments		522,666	690,864
Other non-interest income received		2,233	8,377
Dividends received		1,220	732
Interest paid		(543,213)	(690,899)
Tax paid		(5,368)	(18,062)
Cash paid to suppliers and employees		(320,790)	(323,667)
<b>Net Cash From Revenue Activities</b>	20c	<u>37,443</u>	<u>73,008</u>
<b>Cash Flow From Other Operating Activities</b>			
New loans made		(3,404,600)	(2,238,050)
Principal collected on loans		2,392,196	2,709,158
<b>Net Cash From Other Operating Activities</b>		<u>(1,012,404)</u>	<u>471,108</u>
<b>Net Cash From Operating Activities</b>		<u>(974,961)</u>	<u>544,116</u>
<b>Investing Activities</b>			
Net movements in investments		2,391,560	(2,052,662)
Payments for property, plant and equipment		(5,802)	(2,754)
<b>Net Cash From Investing Activities</b>		<u>2,385,758</u>	<u>(2,055,416)</u>
<b>Financing Activities</b>			
Net increase (decrease) in deposits		(985,994)	798,647
<b>Net Cash From Financing Activities</b>		<u>(985,994)</u>	<u>798,647</u>
<b>Net Increase / (Decrease) in Cash</b>		<b>424,803</b>	<b>(712,653)</b>
Cash at Beginning of Financial Year		611,369	1,324,022
<b>Cash at End of Financial Year</b>	20a	<u><u>1,036,172</u></u>	<u><u>611,369</u></u>

**1 Summary of Significant Accounting Policies**

**1a Basis of accounting**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the ASSB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accrual based on historical cost, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**1b Cash and cash equivalents**

For the purposes of the statement of cash flows, cash includes cash on hand and with financial institutions, and money market investments readily convertible to cash within 2 working days, net of outstanding overdrafts.

Cash on hand and with banks and short term deposits are stated at the lower of cost and net realisable value.

Overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

**1c Loans and advances**

Loans and advances are recognised at their recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

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

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below:

- Non-accrual loans - are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.
- Restructured loans - arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required.
- Assets acquired through the enforcement of security - are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.
- Past-due loans - are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If impairment is required, the loan is included in non-accrual loans.

**1d Reserve for credit losses**

In addition to the specific provision, the Board has recognised the need to make an allocation from Retained Earnings to ensure that there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. This reserve is based on estimation of potential risk in the loan portfolio based upon:

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

**1e Property, plant and equipment**

Items of property plant and equipment comprising a class of assets are re-valued at the same date on a consistent basis. Where assets have been re-valued the potential effect on the capital gains tax on disposal has not been taken into account in the determination of the re-valued carrying amount. Where it is expected that a liability for capital gains tax will arise, this expected amount is disclosed by way of a note.

The Credit Unions office was last valued by Jane Saffin AAPI (Certified Practising Valuer) of Egan National Valuers in June 2010. All valuations are estimates of the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date.

Depreciation is based on the straight line method of calculation. It is provided on all property, plant and equipment so as to write off the cost over their estimated economic lives.

Property, plant and equipment are recognised under the cost model. Items of property, plant and equipment are carried at its cost less any accumulated depreciation and any accumulated impairment losses.

**1f Income recognition**

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

Fees and Commissions:

Control of a right to be compensated for services is attained usually evidenced by approval of contract by customer.

Interest:

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

**1g Deposits with other financial institutions**

Term deposits are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the Balance Sheet.

**1h Equity investments in other securities**

Investments in shares where a market value is readily available are revalued to market value, with the gains and losses reflected in equity through the Asset Revaluation Reserve.

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

All investments are in Australian currency.

**1i Income tax**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the accounts and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a deferred tax asset or a provision for deferred income tax. The deferred tax asset relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised. Timing differences are assessed at 30%.

**1j Employee entitlements**

Provision is made for the Credit Union's liability for employee entitlements arising from services rendered by employees to balance date.

Employee entitlements expected to be settled within one year together with entitlements arising from wages, salaries and annual leave, which will be settled within one year, have been measured at their nominal amount.

Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Although there is no legal requirement to provide a provision for personal leave, the directors have made a provision for personal leave which is included in employee entitlements.

**1k Accounts payable and other liabilities**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

**2 Risk Management Objectives and Policies**

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

**2a Market risk and hedging policy**

The Credit Union is not exposed to currency and other price risks. The Credit Union does not trade in the financial instruments it holds on its books.

**2b Interest rate risk**

The Credit Union is exposed to interest rate risk arising from changes in market interest rates. Interest rate risk assessment is measured within the limitations of simulated models which anticipate size and mix of products, growth and market acceptability and the anticipated interest margin target. The Credit Union has modelled the impact of an across-the-board interest rate shock of 200 basis points up and down and determined the impact to be manageable. The amounts of fixed term mortgage loans are limited to further mitigate interest rate risk.

**2c Liquidity risk**

The Credit Union is required to maintain at least 9% of total adjusted liabilities as qualifying High Quality Liquid Assets (HQLA) capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union's policy is to apply a minimum of 12% of funds as HQLA to maintain adequate funds for meeting member withdrawal request. The ratio is checked daily. Should the HQLA ratio fall below a level of 15% the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available. The borrowing facilities as of balance date are detailed in Note 24.

The maturity profiles of the financial assets and financial liabilities, based on contractual repayment terms are detailed in Notes 7 and 29b

**2d Credit risk – liquid investments**

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity. The majority of the Credit Union's investments are placed as HQLA with various Authorised Deposit Taking Institutions. All investments with terms greater than three months must be with financial institutions with a rating of at least BBB.

**2e Credit risk - loans**

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The Credit Union has a concentration in the retail lending for members who comprise persons of Latvian origin or are related to persons of Latvian origin. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the concentration is not exclusive. The details of the geographic and industry concentrations are set out in Note 9c.

**2f Credit risk – equity investments**

All investments in the 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 member chequing, direct entry, debit card, treasury services etc where specialisation demands quality staff which is best secured by one entity. Further details of the investments are set out in Note 11.

**3 Income Tax**

The Credit Union was classified for income tax purposes as a small credit union for the year ended 30 June 2010. (For the year ended 30 June 2009 it was classified a medium credit union and subject to a income tax rate of 45% of assessable income in excess of \$50,000) Credit unions classified as small are subject to income tax at the rate of 30%. The Credit Union is exempt from tax on interest derived from loans to members (s23G of the Income Tax Assessment Act 1936)

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The prima facie tax on operating profit is reconciled to the income tax provided in the accounts as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Operating Profit	43,988	62,411
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2009 - 45%)	13,196	28,085
Deduct Tax effect Members Income	(12,318)	0
Tax Free Threshold	0	(22,500)
Adjustment in relation to permanent differences	3,247	4,912
Adjustment in relation to timing differences	0	(299)
Adjustment to recognise deferred tax benefit at 30%	0	(31,375)
Overprovision of tax prior year	0	(30,010)
Tax Expense/(Benefit)	4,125	(51,187)

Balance of the franking account at year end, adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables and franking credits that may be prevented from distribution in the subsequent financial year.

	69,563	68,406
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**4 Interest Revenue and Interest Expense**

The following table shows the average balance for each of the major categories of interest bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. The averages are month-end averages and are representative of the Credit Union's operations during the year.

	<b>Average balance</b>	<b>Interest</b>	<b>Average interest rate</b>
	<b>\$</b>	<b>\$</b>	<b>%</b>
Interest revenue 2010			
Cash and liquid assets	9,349,205	461,206	4.93
Loans and advances	6,547,467	386,609	5.90
	15,896,672	847,815	5.33
Interest expense 2010			
Members' deposits	13,862,506	455,413	3.29
	13,862,506	455,413	3.29
Net Interest Income 2010	2,034,166	392,402	2.04
Interest revenue 2009			
Cash and liquid assets	10,098,526	647,681	6.41
Loans and advances	5,830,172	396,620	6.80
	15,928,698	1,044,301	6.56
Interest expense 2009			
Members' deposits	14,170,123	699,409	4.94
	14,170,123	699,409	4.94
Net Interest Income 2009	1,758,575	344,892	1.62

**Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2010**

**5 Operating Profit**

Included in the operating profit are the following items of operating revenue:

	<b>2010</b>	<b>2009</b>
	\$	\$
Interest revenue (Note 4)	847,815	1,044,301
Non interest income:		
Bad debts recovered	0	0
Rental income	0	0
Other fee income	1,751	1,759
Dividend revenue	1,220	732
Provision for Doubtful Debts	0	75,000
Other Income	82	170
Non Interest Income	3,053	77,661
Operating Revenue	850,868	1,121,962

Operating profit before income tax is arrived at after charging/(crediting) the following items:

Bad debts written off - unsecured		
Doubtful debts provision	0	(2,252)
Amounts charged for depreciation:		
Plant and equipment	5,966	5,992
Buildings and freehold land	10,301	10,301
Transfers to/(from) provisions for:		
Employee entitlements	12,763	12,027
General administrative expenses:		
Personnel costs	154,660	181,952
Travelling Expenses	10,901	12,759
Information technology	6,710	4,707
Office occupancy	30,768	30,380
Printing and stationery	2,649	3,196
Marketing and advertising	9,802	10,378
Internal audit	1,500	500
Other	85,647	70,630
Auditors remuneration:		
Audit of accounts	18,480	19,582
Other services	1,320	0
The auditors did not receive any other benefits		
Expenses From Ordinary Activities	351,467	360,150

**6 Cash and Liquid Assets**

Cash on hand and at bank	1,036,172	611,369
	1,036,172	611,369

**7 Due from Other Financial Institutions**

Interest earning deposits	7,486,334	9,877,894
	7,486,334	9,877,894
Maturity Analysis:		
At call	0	0
Not longer than 3 months	2,193,595	1,700,000
Longer than 3 months and not longer than 12 months	5,292,739	5,826,060
Longer than 1 year and not longer than 5 years	0	2,351,834
Longer than 5 years	0	0
	7,486,334	9,877,894

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**Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2010**

	2010	2009
	\$	\$
<b>8 Accrued Receivables</b>		
Interest receivable	169,019	230,479
Debtors	0	400
Other	774	1,158
	<u>169,793</u>	<u>232,037</u>
<b>9 Loans and Advances</b>		
Overdrafts	144,405	86,741
Term loans	6,540,427	5,579,773
	<u>6,684,832</u>	<u>5,666,514</u>
Provision for Doubtful Debts	0	0
Total Loans and Advances	<u>6,684,832</u>	<u>5,666,514</u>
<b>9a Aggregate amounts receivable from related parties:</b>		
Director and director related entities	296,707	295,991
General Provision for impairment	0	0
	<u>0</u>	<u>0</u>
<b>9b Maturity analysis</b>		
Up to 3 months	370,084	292,673
From 3 months to 12 months	385,135	36,078
Later than 1 year but not later than 5 years	2,056,222	1,783,669
Later than 5 years	3,873,391	3,554,094
Total Loans	<u>6,684,832</u>	<u>5,666,514</u>
The above dissection is based upon contracted repayment arrangements and will vary if loan interest and repayment conditions are varied.		
<b>9c Concentration of risk</b>		
The Credit Union has exposures to groupings of individual loans that concentrate risk and create exposure to particular segments as follows:		
Victorian residents	6,014,185	5,086,332
New South Wales residents	670,647	481,389
Other	0	98,793
	<u>6,684,832</u>	<u>5,666,514</u>
Loan exposures which individually represent 10% or more of capital	<u>2,123,447</u>	<u>1,299,142</u>
	<u>2,123,447</u>	<u>1,299,142</u>
<b>9d Provision for impairment</b>		
Total provision comprises:		
Specific provision	<u>0</u>	<u>0</u>
The specific loan provision consists of:		
Prescribed provision required under APRA Prudential Standard APS 220	0	0
Additional specific provision	0	0
	<u>0</u>	<u>0</u>

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**Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2010**

	2010	2009
	\$	\$
Movement in specific provision		
Opening balance	0	2,252
Bad and doubtful debts provided for during the year	0	(2,252)
Bad debts		
Closing balance	0	0
Charge to profit and loss for bad and doubtful debts comprises:		
Bad debts recognised directly	0	0
Increase in provision for doubtful debts	0	(2,252)
	0	(2,252)
<b>10 Impairment of Loans and Advances</b>		
The policy covering impaired assets is set out in Note 1c.		
Balances with specific provision for impairment:		
Non accrual loans	0	0
Specific provision for impairment	0	0
Net Non Accrual Loans	0	0
Loans upon which interest is not being accrued		
Loans with provision for impairment	0	0
Less: specific provision	0	0
	0	0
Restructured loans	0	0
Past Due Loans Balance	114,429	120,272
Interest revenue on non accrual and restructured loans	0	0
Interest foregone on non accrual and restructured loans	0	0
<b>11 Other Investments</b>		
Unlisted shares (at cost):		
Indue Ltd Shares	6,100	6,100
Indue Ltd – Subordinated Deposit	3,800	3,800
Other	594	594
	10,494	10,494

The shareholding in Indue Ltd is measured at cost as their fair value could not be measured reliably. These companies were created to supply services to the member credit unions and do not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking – refer to Note 24. The shares are not able to be traded and are not redeemable. The Credit Union is not intending, nor able to dispose of these shares, without a majority of shareholder approval.

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**Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2010**

**12 Property Plant and Equipment**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
EDP equipment at cost	49,352	43,884
Provision for depreciation	(44,448)	(41,105)
	<u>4,904</u>	<u>2,779</u>
Office furniture and fittings at cost	38,593	38,593
Provision for depreciation	(33,214)	(32,247)
	<u>5,379</u>	<u>6,346</u>
Plant and equipment at cost	22,125	21,791
Provision for depreciation	(17,321)	(15,665)
	<u>4,804</u>	<u>6,126</u>
Building and freehold land at valuation	453,402	412,028
Provision for depreciation	0	(54,634)
	<u>453,402</u>	<u>357,394</u>
<b>Total Written Down Amount</b>	<u><u>468,489</u></u>	<u><u>372,645</u></u>

The Society's building was revalued at 30 June 2010 by an independent valuer. The fair value of the building based on the fair value less costs to sell, based on market, was determined to be \$453,402.

The revaluation surplus net of applicable deferred income taxes was credited to the asset revaluation reserve.

**12a Movements in carrying amount**

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	<b>EDP Equipment</b>	<b>Office Furniture and Fittings</b>	<b>Plant and Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2010</b>					
Balance at the beginning of the year	2,779	6,346	6,126	357,394	372,645
Additions/(disposals)	5,468	0	334	0	5,802
Revaluation	0	0	0	106,309	106,309
Depreciation expense	(3,343)	(967)	(1,656)	(10,301)	(16,267)
Carrying amount at end of year	<u>4,904</u>	<u>5,379</u>	<u>4,804</u>	<u>453,402</u>	<u>468,489</u>
<b>2009</b>					
Balance at the beginning of the year	5,627	5,085	7,776	367,695	386,183
Additions/(disposals)	496	2,259	0	0	2,755
Depreciation expense	(3,344)	(998)	(1,650)	(10,301)	(16,293)
Carrying amount at end of year	<u>2,779</u>	<u>6,346</u>	<u>6,126</u>	<u>357,394</u>	<u>372,645</u>

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**Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2010**

		2010	2009
		\$	\$
<b>13</b>	<b>Income Tax Assets</b>		
	Deferred tax asset	28,184	31,674
		<u>28,184</u>	<u>31,674</u>
<b>14</b>	<b>Other Assets</b>		
	Prepayments	6,734	7,330
		6,734	7,330
		<u>6,734</u>	<u>7,330</u>
<b>15</b>	<b>Deposits</b>		
	Member deposits:		
	Withdrawable Shares	14,906	15,760
	At call	3,503,613	3,756,466
	Term	9,838,301	10,568,073
		13,356,820	14,340,299
		<u>13,356,820</u>	<u>14,340,299</u>
<b>15a</b>	<b>Maturity analysis</b>		
	On call	3,518,519	3,772,226
	Not longer than 3 months	5,268,243	6,144,607
	Longer than 3 and not longer than 12 months	4,561,724	4,225,910
	Longer than 1 and not longer than 5 years	8,334	197,556
	Longer than 5 years	0	0
		13,356,820	14,340,299
		<u>13,356,820</u>	<u>14,340,299</u>
<b>15b</b>	<b>Concentration of deposits</b>		
	Victorian residents	9,532,433	10,856,411
	New South Wales residents	2,695,190	2,449,048
	Other	1,129,197	1,034,840
		13,356,820	14,340,299
		<u>13,356,820</u>	<u>14,340,299</u>
<b>15c</b>	There was one exposure relating to individual depositors or groups of associated depositors which represents 5% or more of the Credit Union's total liabilities.		
	Exposure representing 5% or more of liabilities	817,697	0
		817,697	0
		<u>817,697</u>	<u>0</u>
<b>16</b>	<b>Accounts Payable and Other Liabilities</b>		
	Trade and other creditors	43,735	45,584
	Accrued interest payable	129,314	217,113
		173,049	262,697
		<u>173,049</u>	<u>262,697</u>
<b>17</b>	<b>Income Tax Liabilities</b>		
	Income Tax	(782)	3,951
		(782)	3,951
		<u>(782)</u>	<u>3,951</u>
<b>18</b>	<b>Provisions</b>		
	Employee entitlements	112,110	99,347
		<u>112,110</u>	<u>99,347</u>
	Number of employees at year end	5	5
		<u>5</u>	<u>5</u>

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**Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2010**

**19 Reserves**

	2010	2009
	\$	\$
General Reserve	2,000,000	1,900,000
Asset Revaluation Reserve	151,171	44,862
Reserve for Credit Losses	67,000	060,000
	2,218,171	2,004,862
<b>Movements in Reserves</b>		
General Reserve		
Balance at beginning of year	1,900,000	1,900,000
Transfer from retained profits	100,000	0
	2,000,000	1,900,000
Asset Revaluation Reserve		
Balance at beginning of year	44,862	44,862
Revaluation of Property	106,309	0
Adjustment due to sale of property	0	0
	151,171	44,862
Reserve for Credit Losses		
Balance at beginning of year	60,000	0
Transfer from retained profits	7,000	60,000
	67,000	60,000

**20 Cash Flow Information**

**20a Reconciliation of cash**

For the purposes of the statement of cash flows, cash includes cash on hand and deposits with financial institutions which are readily convertible to cash and are used in the cash management function. 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:

Cash on hand and at bank		1,036,172	611,369
Total Cash	Note 6	1,036,172	611,369

**20b 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:

- a) members deposits in and withdrawals from all deposit accounts,
- b) sales and purchases of dealing securities,
- c) sales and purchases of maturing certificates of deposit; and
- d) short term borrowings.

**20c Reconciliation of net cash provided by revenue activities to operating profit after income tax**

Operating profit after income tax	39,863	113,598
Depreciation	16,267	16,293
Provision for income tax	(1,243)	(37,576)
Provision for employee entitlements	12,763	12,027
Income Tax Benefit	0	(51,187)
Decrease in Provision for Doubtful Debts	0	(75,000)
(Increase) / Decrease in accrued income investments	61,460	43,183
(Increase) / Decrease in receivables	0	5,417
(Increase) / Decrease in prepayments	596	(1,532)
(Increase) / Decrease in interest receivable	(5,914)	27,306
Increase / (Decrease) in interest payable	(87,800)	8,510
Increase / (Decrease) in accrued expenses and sundry creditors	1,451	14,221
Bad and doubtful debts	0	(2,252)
Net Cash Provided by Revenue Activities	37,443	73,008

**21 Superannuation Commitment**

The Credit Union contributes to the Australian Super Superannuation Fund for the benefits to employees on retirement, death or disability. Benefits provided under the plans are based on accumulated contributions for each employee. The Credit Union contributes on behalf of its employees various percentages of their gross income adhering at all times to minimum legal requirements. Other than as a contributor the Credit Union has no interest in these plans.

**22 Credit Commitments and Contingent Liabilities**

In the normal course of business the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of members. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

Contingent liabilities		
Guarantees for member Visa Card facilities	99,900	99,900
Outstanding loan commitments:		
Approved but not funded	75,600	94,512
Credit commitments:		
Redraw facilities	302,792	261,554
Approved but undrawn loans and credit limits	126,812	185,902
	429,604	477,456

There are generally no restrictions to withdrawal of funds under undrawn credit commitments. These commitments are however cancellable at the discretion of the Credit Union.

**23 Standby and Borrowing Facilities**

The Credit Union has Standby and Borrowing Facilities with Commonwealth Bank of Australia:

	Approved facility	Current borrowing	Net available
2010	\$	\$	\$
Overdraft	50,000	0	50,000
	50,000	0	50,000
<b>2009</b>			
Overdraft	50,000	0	50,000
	50,000	0	50,000

The borrowing facility is secured by a term deposit held by the Commonwealth Bank of Australia. There are no restrictions in relation to these facilities.

**24 Economic Dependency**

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

- a) Indue Limited is an Approved Deposit Taking Institution registered under the Corporations Act and the Banking Act. This entity:
  - i) supplies the Credit Union with services in the form of settlement with bankers for Member Cheques and provision of direct entry services for use by members.
  - ii) provides treasury and money market facilities to the Credit Union.

The Credit Union has service contracts with Indue Limited.
- b) Gamat Group Pty. Ltd. This company supplies the core banking software and support systems necessary for the processing of data in an electronic form. The Credit Union has service contracts with Gamat Group Pty. Ltd.

- c) Dnister Ukrainian Credit Co-operative Ltd, this entity provides the Society with services in the form of Debit Card facilities which can be used through approved ATM and EFTPOS networks by the Society's members. The Credit Union has a service contract with Dnister Ukrainian Credit Co-operative Limited.

**25 Disclosures on Directors and Other Key Management Personnel**

**Names of directors**

During the course of the financial year the following directors held office:

**Names of other key management persons;**

Eric Cirulis	Chairman
Viktors Bendrups	Director
Peter Delters	Managing Director
Edvins Misa	Director
Igor Dimits	Director
Gunars Robergs	Director
Karlis Zubeckis	Director
Gunta Vagars	Accountant

**26 Remuneration of Key Management Personnel**

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

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

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
(a) short term employee benefits	81,975	87,563
(b) post employment benefits – superannuation contributions	30,417	33,147
(c) other long term benefits – increases in long service leave provision	1,897	(2,354)
	<u>118,356</u>	<u>118,356</u>

**26a Transactions with Key Management Personnel**

Loans made to Key Management Personnel are made in the ordinary course of business and are on the same terms and conditions as those offered to all members of the Credit Union and are within the limits approved by the members at the last general meeting. The terms and conditions of these loans have not been breached.

The aggregate value of loans and credit facilities made and disbursed to key management personnel and related parties amounted to

45,323	111,228
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The aggregate value of repayments against loans and credit facilities to key management personnel and related parties amounted to

91,592	91,423
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**26b Transactions with other related parties**

There were no transactions with other related parties other than those disclosed elsewhere in this note.

**Latvian Australian Credit Co-operative Society Limited**

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**Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2010**

**27 Financial Instruments**

**27a Terms, conditions and accounting policies**

The Credit Union's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:

<b>Recognised Financial Instrument</b>	<b>Balance Sheet Note</b>	<b>Accounting Policy</b>	<b>Terms and Conditions</b>
<b>i) Financial assets:</b>			
Loans and advances	9, 10	The loan interest is calculated on the daily balance outstanding and is charged in arrears to members' loan accounts on the anniversary date of the loan of each month.	All housing and mortgage loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
Receivables - related parties/entities	1c 9a & 27	Amounts receivable from related parties are carried at nominal amounts due.	Details of terms and conditions are set out in Notes 9a & 27.
Short-term deposits	7	Short-term deposits are stated at the lower of cost and net realisable value. Interest is recognised in the profit and loss when earned.	Short term deposits have an average maturity of 424 days and an effective interest rate of 4.30% to 7.75% (2009 – 438 days, 3.10% to 8.35%)
Unlisted shares	11	Unlisted shares are carried at the lower of cost and recoverable amount. Dividend income on Indue Ltd shares are recognised on receipt.	Dividends on Indue Ltd shares are subject to that corporation's profitability.
<b>ii) Financial liabilities:</b>			
Trade creditors and accruals	16	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Credit Union.	Trade liabilities are normally settled on receipt of accounts.
Deposits	15	All deposits are recorded at the principal amount.	Details of maturity terms are set out in Note 15. Interest is calculated on the daily balance outstanding.

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**Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2010**

27b Interest rate risk

The Credit Union's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date are as follows:

Financial Instruments	Floating interest rate		Fixed interest rates maturing:						Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
			in 1 year or less		Over 1 to 5 years									
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
(i) Financial assets	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Cash & liquid assets	1,036,172	611,369	0	0	0	0	0	0	0	0	1,036,172	611,369	1.58	2.97
Due from other financial institutions	0	0	7,486,334	7,526,060	0	2,351,834	0	0	0	0	7,486,334	9,877,894	5.23	6.72
Loans and advances	5,282,226	5,577,190	1,202,766	89,324	199,840	0	0	0	0	0	6,684,832	5,666,514	5.90	6.80
Unlisted shares	0	0	0	0	0	0	0	0	0	0	10,494	10,494	n/a	n/a
Total financial assets	6,318,398	6,188,559	8,689,100	7,615,384	199,840	2,351,834	10,494	10,494	10,494	10,494	15,217,832	16,166,271	n/a	n/a
(ii) Financial liabilities														
Deposits	3,503,613	3,756,46	9,829,967	10,370,517	8,334	197,556	14,906	15,760	14,906	15,760	13,356,820	14,340,299	3.29	4.94
Trade creditors and accruals	0	0	0	0	0	0	173,049	262,697	173,049	262,697	173,049	262,697	n/a	n/a
Total financial liabilities	3,503,613	3,756,466	9,829,967	10,370,517	8,334	197,556	187,955	278,457	187,955	278,457	13,529,869	14,602,996	n/a	n/a

n.a. - not applicable for non-interest bearing financial instruments.

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**Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2010**

27c Net fair values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at the balance date, are as follows.

	Total carrying amount as per the balance sheet		Aggregate net fair value	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>(i) Financial assets</b>				
Cash and liquid assets	1,036,172	611,369	1,036,172	611,369
Due from other financial institutions	7,486,334	9,877,894	7,486,334	9,877,894
Unlisted shares	10,494	10,494	10,494	10,494
Loans and advances	6,684,832	5,666,424	6,684,832	5,666,424
<b>Total financial assets</b>	<b>15,217,832</b>	<b>16,166,181</b>	<b>15,217,832</b>	<b>16,166,181</b>
<b>(ii) Financial liabilities</b>				
Deposits	13,356,820	14,340,299	13,356,820	14,340,299
Trade creditors and accruals	173,048	262,697	173,048	262,697
<b>Total financial liabilities</b>	<b>13,259,868</b>	<b>14,602,996</b>	<b>13,259,868</b>	<b>14,602,996</b>

27d The following methods and assumptions are used to determine the net fair values of financial assets and liabilities. Recognised financial instruments:

Cash and liquid assets and due from other financial institutions:

The carrying amount approximates fair value because of their short term to maturity or are receivable on demand.

Unlisted shares are carried at net market/net fair value.

Loans and advances:

The carrying amount of loans receivable excluding impaired loans approximates fair value. This was estimated after considering discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The net fair value of impaired loans was estimated after considering discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Short-term borrowings:

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

Long-term borrowings:

The fair values of long-term borrowings are estimated after considering discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

Trade creditors and accruals:

The carrying amount approximates fair value as they are short term in nature. This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be reasonable estimate of net fair value. For liabilities which are long term, net fair values have been estimated after considering the rates currently offered for similar liabilities with remaining maturities.

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27e Sensitivity analysis

An analysis of financial assets and financial liabilities for interest rate sensitivity and its impact upon the income statement and equity of the Credit Union was used to assist with the management of financial risk. The analysis assumed an extreme case of a single impact of plus or minus 200 basis points on interest rates in the market and the probable reaction of the Credit Union. The analysis considered the impact upon the carrying amounts in the balance sheet and the contractual maturity of the financial instruments.

	<b>Carrying Amount</b>	<b>Interest</b>	<b>Projected impact 2011</b>	
	<b>\$</b>	<b>\$</b>	<b>Impact +200 basis points</b>	<b>Impact -200 basis points</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Interest revenue 2010</b>				
Cash and liquid assets	9,349,205	461,206	648,190	274,222
Loans and advances	6,547,467	386,609	517,558	255,660
	<u>15,896,672</u>	<u>847,815</u>	<u>1,165,748</u>	<u>529,882</u>
<b>Interest expense 2010</b>				
Members' deposits	13,862,506	455,413	732,663	178,163
	<u>13,862,506</u>	<u>455,413</u>	<u>732,663</u>	<u>178,163</u>
Net Interest Income 2010	<u>2,124,166</u>	<u>392,402</u>	<u>433,085</u>	<u>351,719</u>
<b>After-tax impact upon the Equity of the Credit Union</b>				
Equity	<u>2,249,835</u>		<u>2,306,968</u>	<u>2,250,011</u>

	<b>Carrying Amount</b>	<b>Interest</b>	<b>Projected impact 2010</b>	
	<b>\$</b>	<b>\$</b>	<b>Impact +200 basis points</b>	<b>Impact -200 basis points</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Interest revenue 2009</b>				
Cash and liquid assets	10,098,526	647,681	849,652	445,709
Loans and advances	5,830,172	396,620	513,223	280,017
	<u>15,928,698</u>	<u>1,044,301</u>	<u>1,362,875</u>	<u>725,726</u>
<b>Interest expense 2009</b>				
Members' deposits	14,170,123	699,409	982,811	416,007
	<u>14,170,123</u>	<u>699,409</u>	<u>982,811</u>	<u>416,007</u>
Net Interest Income 2009	<u>1,758,575</u>	<u>344,892</u>	<u>380,064</u>	<u>309,719</u>
<b>After-tax impact upon the Equity of the Credit Union</b>				
Equity	<u>2,103,663</u>		<u>2,128,784</u>	<u>2,079,042</u>

27f Credit risk exposures

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 indicated in the balance sheet.

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27g Concentration of credit risk

The Credit Union minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members within the specified categories. However, the majority of members are concentrated in Victoria. Refer also to Note 9c - Concentration of risk.

Concentrations of credit risk on loans receivable arise in the following categories:

	Percentage of total loans receivable		Carrying amount of total loans receivable	
	2010 %	2009 %	2010 \$	2009 \$
Victorian residents	89.97	89.76	6,014,185	5,086,332
New South Wales residents	10.03	8.50	670,647	481,389
Other	0.00	1.74	0	98,793
	<u>100.00</u>	<u>100.00</u>	<u>6,684,832</u>	<u>5,666,514</u>
Loan exposures which individually represent 10% or more of capital	31.77	22.93	2,123,447	1,299,142
	<u>31.77</u>	<u>22.93</u>	<u>2,123,447</u>	<u>1,299,142</u>

Credit risk in loans receivable is managed with a comprehensive risk assessment process and review. Mortgage protection insurance is obtained for low equity mortgage loans.

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.

**28. Capital Management**

Capital is managed by a monthly analysis by the Board of:

- The 2 year Capital Management plan that contains assessments of trends and future growth plans in key business areas of loans, deposits and investments.
- The Internal Capital Adequacy Assessment which monitors current capital adequacy against potential significant adverse movements in interest rates, the value of Credit Union's investment in real estate, credit risk and operations risk.

Capital Adequacy is derived in accordance with APRA prescribed formulae by risk weighting assets for Credit Risk and applying a charge for Operational Risk.

As at 30 June 2010 Capital Adequacy was 27.22% (2009 - 23.88%). There have been no changes to the strategy adopted by management to control the capital of the entity since previous year.