

## **Mission Statement**

A community driven, family orientated  
and sound financial institution  
providing honest and professional services  
for the benefit of its Members.

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## **DIRECTORS as at 30<sup>th</sup> June 2008**

Barry Edward Pratten (Chairman)	Geoffrey William Harris, JP
John Cooke (Deputy Chairman)	Charles McCarthy
Colin John Bryant	Barry Keith Smith
Robert John Carrington	Robert James Studte CA

### **Chief Executive Officer**

Derek McIntyre, B Com, Grad Cert Int Mktg, M eBus, M Sc, F Fin, GAICD  
(appointed 7<sup>th</sup> July 2008)

Geoffrey William Harris, Dip FS, FIFS, FAIBF (retired 4<sup>th</sup> July 2008)

### **Company Secretary**

Karen Jane McGaffin, BEc, LLB, ACIS.

### **Registered Office**

481 Peel Street

Tamworth NSW 2340

Telephone 1300 65 65 81

### **Solicitors**

Daniels Bengtsson Pty Ltd

Leadpoint Mortgage Services (QLD)

Langes Lawyers

The Law Company

### **Auditors**

**External auditors:** BDO Kendalls (NSW)

**Internal auditors:** Northcorp Accountants

## **JOINT REPORT FROM THE CHAIRMAN OF THE BOARD AND THE CHIEF EXECUTIVE OFFICER**

We are pleased to report that it has been another good year for Northern Inland. Whilst our asset size has grown moderately throughout the year, our financial ratios have strengthened yet again, and has placed Northern Inland in a very sound financial position.

As we had expected, the continuous rise of interest rates engineered by the Reserve Bank of Australia has finally slowed demand for credit as well as goods and services across the country. This has subdued or members' appetite for borrowing, hence the balances of our loan book remained stable during the year. We had budgeted for this outcome and no adverse affects were evident in our trading. We also retained our prudent lending criteria to ensure that we focused on quality lending and have not lowered our credit standards as has been observed by some other market participants. Consequently, we have experienced no issues with non-performing loans or defaults and this is now reaping rewards for us as other lenders are now reporting increasing bad debt expenses. Our level of bad debts is one of the lowest in the industry.

It has certainly been a year of volatility in world financial markets. Whilst no financial institution is immune from global economic conditions, it has been business as usual for Northern Inland. We have noticed a slight increase in funding costs due to the competitive nature of the retail deposit market, which our investing Members have benefited from, however, we have not experienced any other impacts from this volatility. Our policies do not allow us to invest in CDOs (Collateralised Debt Obligations) or CDSs (Credit Default Swaps). Consequently, Northern Inland is well placed to withstand the current market volatility that has negatively impacted some of the unregulated lenders and other financial market participants in recent times.

Northern Inland is a local institution, with a well-developed and sound knowledge of our market, and strong relationships with our Members. We have also implemented conservative and proven business practices to manage the provision of services to our members. The oversight we received from the Australian Prudential Regulatory Authority as a regulated Authorised Deposit Taking Institution has strengthened an already sound business model overseen by our Board of Directors and senior management and we believe this puts us in a firm position relative to some other market participants.

Some of the highlights for the Northern Inland Credit Union Group during the 2007/2008 year were that we experienced a growth rate of 8.27% in assets under management, taking total assets as at the 30 June 2008 to \$201,918,567. The group achieved a profit of \$2.3 million after tax.

Total loans funded to Members during the year was \$42 million, which was an increase of 6.49% over funds advanced in 2006/2007.

The moderate growth in assets combined with retained earnings has strengthened our key ratios considerably. The Reserves to Total Assets Ratio at 11.71% is above the target ratio of 10% as outlined in our Strategic Plan and well above the industry average of 8.40%. Return on Assets was 1.17%. The strengthening balance sheet has improved our ratios well in excess of prudential requirements.

Importantly, during the 2007/2008 financial year, Northern Inland continued to play a strong role in the community. We locally employ over 60 staff and again supported many regional community based organisations through our active sponsorship program including the Tamworth Gymnastics Club and the Tamworth Regional Conservatorium of Music. We believe that being an active corporate citizen is a key part of our social responsibility. This year also saw the completion of some important projects and the start of new initiatives which will assist us in delivering improved services to our Members.

We have now had 20 months of bedding down our new computer system, and whilst this has been a very time consuming activity, we are now looking forward to using the system to its full potential. We would like to thank all staff for their effort during this transition. Benefits to Members will be in the way of new or improved products and services that we have been unable to provide previously. One of the new products that Members will benefit from will be a transactional car loan. This new product will be unique and has the ability to save Members interest expense on their car loan, allowing them to pay off their loan sooner. We look forward to providing other new products to Members as the year moves forward.

During the year we also installed a new ATM at the neighbourhood shopping complex on Goonoo Goonoo Road, Tamworth and we are also finalising the installation of another ATM at the new Centrepoint Shopping Centre in Tamworth.

The Bridges Financial Planning Office will shift into The Credit Union Centre in Peel Street, Tamworth, during the coming year. This will provide Members with better access to the financial planning services offered by Bridges.

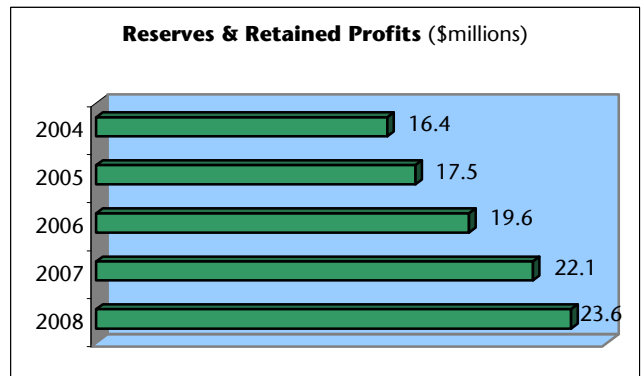
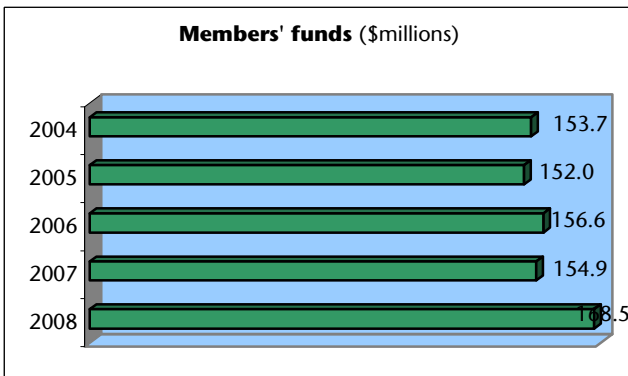
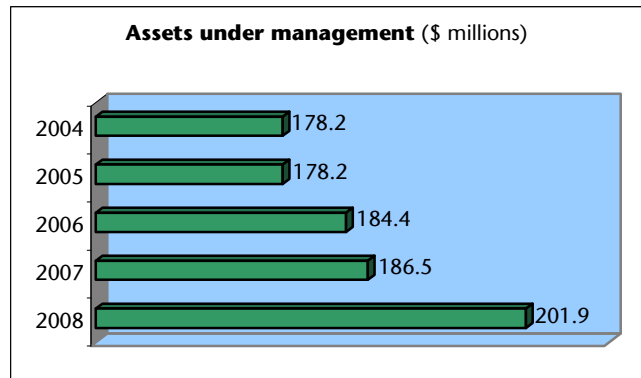
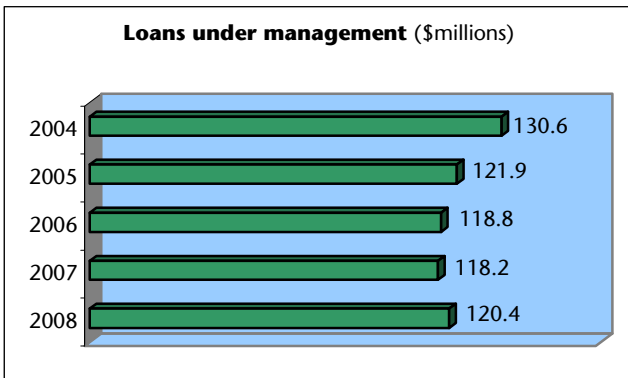
The main regulatory challenges in the next year will be the implementation of systems and processes to comply with the requirements of Anti Money Laundering (AML) and ATM direct charging legislation. The AML project has been a large project and we are working hard to ensure that it is implemented prior to the due date.

At Northern Inland, our staff are our strength. We are fortunate to have a very experienced group of senior staff who hold a variety of qualifications covering a range of disciplines. These senior staff offer guidance and support to the younger staff and such support assists them with their individual career development. Much effort is expended on training and development and our policy is to encourage and financially assist staff to improve their skills. With the ever-changing landscape of financial services, we are in the process of increasing all of our staff skill levels, and whilst this has been our philosophy for many years, we are also stepping this up a level. Many staff within Northern Inland have commenced additional external study. This will be reflected in improved service delivery to Members and ensure that we adopt best practice processes throughout our business.

This year marks the 20<sup>th</sup> Anniversary of the amalgamation of the three other Credit Unions that formed Northern Inland Credit Union Ltd. Also during this year, our long-serving CEO, Geoff Harris, retired on the 4<sup>th</sup> July 2008. Geoff has been instrumental in building a very solid foundation for Northern Inland. Major changes that Geoff has overseen include the construction of the Tamworth Peel Street Branch and Head Office, the relocation of Narrabri and Gunnedah Branches and the establishment of the Boggabri Agency. Geoff also oversaw the establishment of Telephone and Internet Banking services, the installation of another 8 ATMs, the implementation of BPAY and VISA, the conversion to a new core banking system, the relocation of our data processing centre, the implementation of our Member call centre and CRM services to name but a few highlights. Membership has nearly doubled and assets nearly tripled since Geoff commenced with Northern Inland in 1997. We wish Geoff and his partner Jan a happy and healthy retirement. Geoff will continue to be involved with Northern Inland as he has retained his position on the Northern Inland board.

Again we thank the Board for their dedication to Northern Inland during 2007/2008 and acknowledge their contribution to its operational success. Continuous change within the financial services regulatory environment is ongoing and it is necessary for all Board members to continually update their skills and industry knowledge in order to keep abreast of regulatory change and best practice skills and techniques. The last few years especially have been very demanding on our Board, with a large number of regulatory changes requiring them to attend numerous training sessions to ensure that their skill sets remain up-to-date, and to ensure that Northern Inland complies with the vast and ever changing regulations and management best practices. All Board members devote many hours to this responsibility and the results of their diligence in governance are evident from the results published in this report. We congratulate them all for a great years work.

Northern Inland exists simply to service the needs of you, our Members, and your continued support is vital to our ongoing operations. We are very aware such support is contingent upon our quality of service and our guarantee to you is that we will continue to work diligently to ensure the service standard is maintained. Your ongoing patronage is vital to our operations and it makes our hard work worthwhile. As we always say, tell your friends about your experience at Northern Inland, because we would love to have their business also, and remember we are locally owned, managed and controlled and we are here to service the local community.



Barry Pratten  
Chairman of Directors.

Derek McIntyre  
Chief Executive Officer.

## DIRECTORS' REPORT

Your Directors submit their report and financial accounts for the year ended 30 June 2008.

### DIRECTORS

The name of each person who has been a Director of Northern Inland Credit Union Limited at any time during or since the end of the year including the details required under section 300(10) of the Corporations Act are:

#### Names and qualifications:

**Barry Edward Pratten** Director and Chairman of the Board (1/7/07-current), Chairman and member of the Executive Committee (1/7/07-current), Ex officio member of all sub committees (1/7/07-current).

Experience: Member of the Board since 1993  
Member of the Australasian Credit Union Institute.

Occupation: Grazier

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd

**John Cooke** Director (1/7/07-current), Deputy Chair of the Board (1/7/07-current), Member of the Board Executive Committee (1/7/07-current), Member of the Marketing Committee (1/7/07-current), Member of the ALCO Committee (1/7/07-26/5/08).

Experience: Member of the Board since 1998  
Member of the Australasian Credit Union Institute.

Occupation: Retired Builder

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd

**Colin John Bryant** Director (1/7/07-current), Member of the ALCO Committee (1/7/07-26/5/08), Member of the Marketing Committee (1/7/07-current).

Experience: Member of the Board since 1995  
Member of the Australasian Credit Union Institute.

Occupation: Taxi Proprietor

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd

**Robert John Carrington** Director (1/7/07-current), Member of the Audit Committee (1/7/07-current), Member of the ALCO Committee (1/7/07-26/5/08), Member of the Marketing Committee (1/7/07-current), Member of the Board Nomination Committee (1/7/07-current), Member of the Regulation and Governance Committee (1/7/07-current).

Experience: Member of the Board since 2000  
Member of the Australasian Credit Union Institute.

Occupation: Accountant

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd

**Geoffrey William Harris** Director (1/7/07-current), Member of the Board Executive Committee (1/7/07-26/5/08), Member of the ALCO Committee (1/7/07-current). Retired as CEO of Northern Inland Credit Union on 1/7/08.

Experience: Member of the Board since 2004  
Member of the Australasian Credit Union Institute.

Occupation: Chief Executive Officer of Northern Inland Credit Union Ltd

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd

**Charles McCarthy** Director (1/7/07-current), Member of the ALCO Committee (1/7/07-current), Member of the Audit Committee (1/7/07-current), Member of the Regulation and Governance Committee (1/7/07-current).

Experience: Member of the Board since 2006  
Fellow of the Australian Society of Certified Practising Accountants, Associate of the Institute of Chartered Secretaries and Administrators, Associate Fellow of the Australian Institute of Management, Company Director – Company Secretary – Management Accounting Consultant.

Occupation: Accountant

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd

**Barry Keith Smith** Director (1/7/07-current), Member of the ALCO Committee (1/7/07-26/5/08), Member of the Marketing Committee (1/7/07-current), Member of the Board Nomination Committee (1/7/07-current).

Experience: Member of the Board since 2003  
Member of the Australasian Credit Union Institute.

Occupation: Retired Businessman

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd

**Robert James Studte** Director (1/7/07-current), Member of the Audit Committee (1/7/07-current), Chairman of the Audit Committee (1/7/07-current), Member of the ALCO Committee (1/7/07-current), Member of the Board Nomination Committee (1/7/07-29/8/07), Member of the Regulation and Governance Committee (1/7/07-current).

Experience: Member of the Board since 2005  
Member of the Institute of Chartered Accountants in Australia since 12 January 2001, Member of the Australasian Credit Union Institute.

Qualifications: Graduate Certificate in Financial Planning (PS146 Compliant)  
Graduate Diploma in Financial Planning  
Bachelor of Commerce (Accounting)

Occupation: Accountant

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd

No other person has acted as director of Northern Inland Credit Union Limited during or since the end of the financial year.

**COMPANY SECRETARY****Karen Jane McGaffin** Company Secretary (1/7/07 – current)

Appointed: Appointed Company Secretary for Northern Inland Credit Union Limited (30/6/03 – current).

Qualifications: Bachelor of Laws (Australian National University).  
Bachelor of Economics (Australian National University).  
Graduate Diploma in Legal Practice (University of Technology Sydney).  
Graduate Diploma in Company Secretary Practice (Chartered Secretaries Aust).  
Admitted to practice as Solicitor in NSW in December 1991.  
Company Directors Course Diploma 2007.

Experience: Commenced practicing as Solicitor in private practice in 1992.  
In-house solicitor for Northern Inland Credit Union since 1998.  
Company Secretary of Northern Inland Credit Union since 30 June 2003.  
Company Secretary of Northern Inland Investment Group Pty Limited since 30 June 2003.

**MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES**

During the financial year, 45 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Board Meetings		Audit Committee		Marketing Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Barry Pratten	14	13	13	11	11	11
John Cooke	14	14	-	-	11	8
Colin Bryant	14	12	-	-	11	11
Robert Carrington	14	12	13	11	11	11
Geoff Harris	14	13	-	-	-	-
Charles McCarthy	14	13	13	11	-	-
Barry Smith	14	13	-	-	11	8
Robert Studte	14	14	13	13	-	-

	Executive Committee		Board Nomination Committee		Regulation and Governance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Barry Pratten	1	1	1	1	1	1
John Cooke	1	1	-	-	-	-
Colin Bryant	-	-	-	-	-	-
Robert Carrington	-	-	3	3	1	0
Geoff Harris	1	1	1	1	-	-
Charles McCarthy	1	1	-	-	1	1
Barry Smith	-	-	3	3	-	-
Robert Studte	-	-	-	-	1	1

**MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES (continued)**

ALCO Committee		
	Number eligible to attend	Number attended
Barry Pratten	2	2
John Cooke	1	1
Colin Bryant	1	0
Robert Carrington	1	1
Geoff Harris	2	2
Charles McCarthy	2	1
Barry Smith	1	1
Robert Studte	2	2

From 26 May 2008, the composition of the ALCO Committee was changed to include Staff holding the following management positions:- CEO, Deputy CEO, Corporate Risk Manager, Executive Manager Finance and Executive Manager Lending.

**DIRECTORS' BENEFITS**

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a director, a firm of which a Director is a member or an entity in which a director has a substantial financial interest.

**INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

During the year, a premium was paid in respect of a contract insuring Directors and Officers of the company against liability.

The Officers of the company covered by the insurance contract include the Directors, Executive Officers, Secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

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

**PRINCIPAL ACTIVITIES**

Northern Inland's principal activities were:

- To accept funds on deposit from Members
- To apply these funds to make loans to Members, and
- To provide other required services to Members.

Activity of the entities within the consolidated entity during the year was the provision of a complete range of financial products and services to Members.

**REVIEW OF OPERATIONS**

A review of operations of the consolidated entity during the financial year is contained within the Chairman and Chief Executive Officer's joint report.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

The results of Northern Inland's operations during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of the material or unusual nature not already disclosed in the accounts. There were no significant changes in the state of affairs of Northern Inland during the financial year.

**EVENTS OCCURRING AFTER BALANCE DATE**

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

**LIKELY DEVELOPMENTS AND RESULTS**

No other matters, circumstances or likely developments have arisen since the end of the financial year which have significantly affected or may significantly affect in subsequent years:

- (i) The operations of the Credit Union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Credit Union

in the financial years subsequent to this financial year.

**DIVIDENDS**

The Directors do not recommend the payment of a dividend. No dividends were declared or paid to Members during the year.

**PROCEEDINGS ON BEHALF OF COMPANY**

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

## AUDITORS' INDEPENDENCE

### DECLARATION OF INDEPENDENCE BY NEVILLE SINCLAIR TO THE DIRECTORS OF NORTHERN INLAND CREDIT UNION LIMITED

As lead auditor of Northern Inland Credit Union Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) The auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) Any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Northern Inland Credit Union Limited and the entities it controlled during the period.

**Neville Sinclair**

Partner

**BDO Kendalls**

Chartered Accountants

Signed and dated this 8<sup>th</sup> day October 2008

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

\_\_\_\_\_  
B E Pratten  
Chairman

\_\_\_\_\_  
J Cooke  
Deputy Chairman

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2008.

**INDEPENDENT AUDIT REPORT – BDO**



## **DIRECTORS' DECLARATION**

The Directors' of Northern Inland Credit Union Limited declare:

The financial statements comprising Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, accompanying notes and notes related thereto, 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 2008 and of the performance for the year ended on that date of the company and consolidated group.

In the Directors' opinion there are reasonable grounds to believe 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.

\_\_\_\_\_  
B E Pratten  
Chairman

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2008.

**INCOME STATEMENT**  
**For the Year Ended 30 June 2008**

	Note	Economic Entity		Northern Inland Credit Union Ltd	
		2008	2007	2008	2007
Interest Revenue	2	15,382,787	13,649,435	15,213,873	13,622,811
Interest Expense	2	7,297,308	6,136,813	7,296,963	6,136,844
<b>Net Interest Income</b>		<b>8,085,479</b>	<b>7,512,622</b>	<b>7,916,910</b>	<b>7,485,967</b>
Other Income	2	3,522,891	3,586,290	2,066,225	2,055,314
Less:					
<b>Non Interest Expenses</b>					
Impairment Losses on Loans & Advances	2	1,214	(235,568)	1,214	(235,568)
		<b>3,524,105</b>	<b>3,350,722</b>	<b>2,067,439</b>	<b>1,819,746</b>
<u>General Administration</u>					
Employees compensation & benefits	2	3,995,497	3,593,866	3,760,572	3,379,600
Depreciation and amortisation expense	2	372,326	341,180	352,400	331,263
Occupancy expense	2	315,831	320,649	291,624	295,892
Total General Administration		<b>4,683,654</b>	<b>4,255,695</b>	<b>4,404,596</b>	<b>4,006,755</b>
Other Operating Expenses	2	3,589,355	3,419,769	3,540,873	3,342,754
Total Non Interest Expenses		<b>8,273,009</b>	<b>7,675,464</b>	<b>7,945,469</b>	<b>7,349,509</b>
<b>Profit before Income Tax</b>		<b>3,336,575</b>	<b>3,187,880</b>	<b>2,038,880</b>	<b>1,956,204</b>
Income tax expense	3	1,055,209	847,420	592,599	562,311
Profit after Income Tax		<b>2,281,366</b>	<b>2,340,460</b>	<b>1,446,281</b>	<b>1,393,893</b>
Loss attributable to minority equity interest		15,399	10,433	–	–
<b>Profit attributable to members of the parent entity</b>		<b>2,296,765</b>	<b>2,350,893</b>	<b>1,446,281</b>	<b>1,393,893</b>

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

**BALANCE SHEET**  
**As at 30 June 2008**

	Note	Economic Entity		Northern Inland Credit Union Ltd	
		2008	2007	2008	2007
<b>ASSETS</b>					
Cash	4	1,640,368	1,471,214	1,640,168	1,471,014
Advances to other financial institutions	5	74,176,756	59,536,876	71,617,638	58,259,913
Receivables	6	1,408,865	1,128,348	1,332,877	1,371,079
Loans and advances to members	7	120,016,367	117,701,147	120,016,367	117,701,147
Available-for-Sale Investments	9	616,919	2,216,919	616,930	616,930
Property, plant and equipment	10	2,353,030	2,389,816	2,294,735	2,314,619
Taxation assets	11	825,388	787,804	793,327	769,056
Intangible assets	12	733,750	808,906	150,083	238,765
Other assets	13	147,124	451,582	145,732	451,129
<b>TOTAL ASSETS</b>		<b>201,918,567</b>	<b>186,492,612</b>	<b>198,607,857</b>	<b>183,193,652</b>
<b>LIABILITIES</b>					
Deposits from Members	14	168,523,635	154,850,027	168,537,015	154,903,254
Payables and other liabilities	15	3,159,581	2,348,547	3,242,565	2,301,961
Taxation liabilities	17	529,447	1,242,838	530,185	1,244,065
Provisions	18	706,800	571,530	704,349	571,022
Subordinated debt	16	5,000,000	5,000,000	5,000,000	5,000,000
<b>TOTAL LIABILITIES</b>		<b>177,919,463</b>	<b>164,012,942</b>	<b>178,014,114</b>	<b>164,020,302</b>
<b>NET ASSETS</b>		<b>23,999,104</b>	<b>22,479,670</b>	<b>20,593,743</b>	<b>19,173,350</b>
<b>MEMBERS EQUITY</b>					
Reserves	19	23,640,979	22,140,103	20,593,743	19,173,350
Parent Interest		23,640,979	22,140,103	20,593,743	19,173,350
Minority Equity Interest		358,125	339,567	–	–
<b>TOTAL MEMBERS EQUITY</b>		<b>23,999,104</b>	<b>22,479,670</b>	<b>20,593,743</b>	<b>19,173,350</b>

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

**STATEMENT OF CHANGES IN MEMBER EQUITY  
FOR THE YEAR ENDED 30 June 2008**

**Economic Entity**

	<b>Retained Profits</b>	<b>General Reserves</b>	<b>Reserve for Credit Losses</b>	<b>Other Reserves</b>	<b>Total</b>
<b>Balance at 1 July 2006</b>	0	18,233,848	600,000	778,262	19,612,111
Net profit for the year	2,350,893				2,350,893
Transfers to (from) Reserves	(2,350,893)	2,336,526		15,090	723
Movement in value on Available for Sale assets				176,377	176,377
<b>Balance at 30 June 2007</b>	0	20,570,374	600,000	969,729	22,140,103
Net Profit for the year	2,296,765				2,296,765
Transfers to (from) Reserves	(2,296,765)	2,279,087		17,678	
Movement in value on Available for Sale assets				(795,889)	(795,889)
<b>Balance as at June 2008</b>	0	22,849,461	600,000	191,518	23,640,979

**Northern Inland Credit Union**

	<b>Retained Profits</b>	<b>General Reserves</b>	<b>Reserve for Credit Losses</b>	<b>Other Reserves</b>	<b>Total</b>
<b>Balance at 1 July 2006</b>	0	16,994,095	600,000	185,362	17,779,458
Net profit for the year	1,393,893				1,393,893
Transfers to (from) Reserves	(1,393,893)	1,379,526		15,090	723
Movement in value on Available for Sale assets				(723)	(723)
<b>Balance at 30 June 2007</b>	0	18,373,621	600,000	199,729	19,173,350
Net Profit for the year	1,446,281				1,446,281
Transfers to (from) Reserves	(1,446,281)	1,428,604		17,678	
Movement in value on Available for Sale assets				(25,889)	(25,889)
<b>Balance as at June 2008</b>	0	19,802,225	600,000	191,518	20,593,743

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

**CASH FLOW STATEMENTS**  
**For the Year Ended 30 June 2008**

	Note	Economic Entity		Northern Inland Credit Union Ltd	
		2008	2007	2008	2007
<b>CASH FLOWS FROM OPERATING</b>					
Interest received		14,941,853	13,041,688	14,820,671	13,000,261
Dividends received		77,113	114,169	77,113	77,114
Fees, commission and investment income		2,475,871	2,578,000	2,165,561	2,162,799
Interest paid		(6,679,084)	(5,947,712)	(6,678,739)	(5,947,743)
Payments to suppliers and employees		(7,987,350)	(7,255,319)	(7,321,717)	(7,008,075)
Income taxes paid		(1,464,756)	(422,510)	(1,464,018)	(420,105)
Net cash provided by operating activities	34(b)	1,363,647	2,108,316	1,598,871	1,864,251
<b>CASH FLOWS FROM INVESTING</b>					
Net movement in investment securities		(14,316,220)	(3,521,089)	(13,407,528)	(2,304,951)
Net movement in Member loans		(2,276,517)	596,229	(2,276,517)	2,096,229
Payments for property, plant and equipment		(187,157)	(192,454)	(185,820)	(109,275)
Payments for intangible assets		(58,627)	(776,701)	(58,627)	(238,376)
Proceeds from sale of property, plant and equipment		0	0	0	424
Proceeds – sale of investments		1,675,000	2,982,888	0	0
Net cash provided from investing activities		(15,163,521)	(911,127)	(15,928,492)	(555,949)
<b>CASH FLOWS FROM FINANCING</b>					
Proceeds from issue of shares		0	350,000	0	0
Repayment of loan		0	0	521,804	717,286
Net movement in member deposits		13,969,028	(1,877,263)	13,976,971	(2,355,852)
Net cash provided from financing activities		13,969,028	(1,527,263)	14,498,775	(1,638,566)
Total net increase/(decrease) in cash		169,154	(330,074)	169,154	(330,264)
Cash at the beginning of the financial		1,471,214	1,801,288	1,471,014	1,801,278
Cash at the end of the financial year	34(a)	1,640,368	1,471,214	1,640,168	1,471,014

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

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

### **NOTE 1: STATEMENT OF ACCOUNTING POLICIES**

This financial report is prepared for Northern Inland Credit Union Limited (Northern Inland) as a single entity and Northern Inland and its controlled entities as an economic entity, for the year ended 30 June 2008. The report was authorised for issue on the 8<sup>th</sup> October 2008 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures the financial statements and notes comply with the International Financial Reporting Standards (IFRS).

#### **(a) Basis of Measurement**

The financial statements have been prepared on an accruals basis and are based on historical costs, which do not take into account changing money values or current values of non current assets, except where stated. The accounting policies are consistent with the prior year unless otherwise stated.

#### **(b) Loans to Members**

##### **(i) Basis of recognition**

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

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to Northern Inland at balance date, less any allowance or provision against debts considered doubtful.

##### **(ii) Interest earned**

Term Loans – The loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a Member's account on the last day of each month.

VISA – The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a Member's account on the 15<sup>th</sup> day of each month.

Non Accrual Loan Interest – While still legally recoverable, interest is not brought to account as income where Northern Inland is informed that the Member is deceased or where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely.

##### **(iii) Loan origination fees**

Loan establishment fees are initially deferred as part of the loan balance (net of direct related costs) and are brought to account as income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

#### (c) Loan Impairment

##### (i) Specific Provision

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The amount provided for doubtful debts is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions in the calculation are as set out in Note 8.

The APRA Prudential Standards requires a minimum provision to be maintained, 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 used to assess the collective provisions for impairment.

##### (ii) Reserve for Credit Losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from Retained Profits to ensure there is adequate protection for Members against the prospect that some Members will experience loan repayment difficulties. The reserve is based on estimation of potential risk in the loan portfolio based on loan purpose, taking into consideration the history of loan write-offs and assigning a probability of impairment.

#### (d) Bad Debts Written Off

Bad debts are written off from time to time as determined by management and the Board of Directors, when it is reasonable to expect that the recovery of the debt is unlikely. 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.

#### (e) Property, Plant and Equipment

Land, buildings and all plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

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

Class of Fixed Asset	Estimated Useful Life
Buildings	40 years
Leasehold improvements	5 years
Plant and equipment	3 to 5 years

#### (f) 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.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

### **NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

#### **(g) Equity Investments and Other Securities**

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

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 readily 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.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

All investments are in Australian currency.

#### **(h) Members Deposits**

##### **(i) Basis for measurement**

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

##### **(ii) Interest payable**

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

#### **(i) Borrowings**

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

#### **(j) Provision for Employee Entitlements**

Provision is made for the liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to 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.

Present values are discounted using rates for Commonwealth Government guaranteed securities having terms to maturity that match, as closely as possible, the terms of the related liabilities. Future increases in remuneration rates are taken into account in estimating future cash outflows.

Contributions are made by Northern Inland to employee superannuation funds and are charged as expenses when incurred.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

### **NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

#### **(k) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

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

#### **(l) Income Tax**

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

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

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

Northern Inland Credit Union Ltd and its wholly-owned Australian subsidiary and unit trust have been consolidated for tax purposes under the Tax Consolidation System. Northern Inland Credit Union Ltd is responsible for recognising the current and deferred tax assets and liabilities for the consolidated group. The tax consolidated group has a tax sharing agreement whereby each entity in the group contributes to the income tax payable in proportion to their contribution to the taxable profit of the tax consolidated group.

#### **(m) Principles of Consolidation**

A controlled entity is an entity controlled by Northern Inland. Control exists where Northern Inland has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with Northern Inland to achieve the objectives of Northern Inland. A list of controlled entities is contained in Note 30.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profit or losses, have been eliminated on consolidation. Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

#### **(n) Intangible Assets**

##### ***Software***

Items of computer software which are not integral to the computer hardware owned by Northern Inland are classified as Intangible Assets, not as part of Plant and Equipment.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

### **NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(n) Intangible Assets (continued)**

Computer software held as intangible assets is amortised over the expected useful life of the software on a straight-line basis. These lives range from 2 to 5 years.

#### ***Other***

The finance portfolio acquired is stated at cost and are considered to have indefinite useful lives and are not amortised. The useful life is assessed annually to determine whether events or circumstances continue to support an indefinite useful life assessment. The carrying value of the finance portfolio is reviewed annually for impairment, at the same time every year.

#### **(o) Goods and Services Tax (GST)**

As a financial institution, Northern Inland is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to Reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

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

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Balance Sheet.

Cashflows are included in the Statement of Cashflows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

#### **(p) Impairment of Assets**

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

#### **(q) Accounting Estimates and Judgements**

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

The detail of the critical accounting estimates and assumptions is set out in Note 8 for the impairment of provisions for loans.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(r) New or Emerging Standards**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. Northern Inland's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Nature of Change	Application date	Impact on Initial Application
AASB 8 (issued Feb 2007)  Operating Segments	Replaces the disclosure requirements of AASB 114: <i>Segment Reporting</i>	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, disclosures required for the operating segments will be significantly different to what is currently reported (business and geographical segment).
AASB 123 (revised Jun 2007)  Borrowing costs	To the extent that borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, the option of recognising borrowing costs immediately as an expense have been removed. Consequently all borrowing costs for qualifying assets will have to be capitalised.	Periods commencing on or after 1 January 2009	The transitional provisions of this standard only require capitalisation of borrowing costs on qualifying assets where commencement date for capitalisation is on or after 1 January 2009. As such, there will be no impact on prior period financial statements when this standard is adopted.
AASB 101 (Revised Sep 2007)  Presentation of Financial Statements	Amendments to presentation and naming of the financial statements.	Annual reporting periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 2: INCOME STATEMENT****a. Analysis of interest revenue**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
<b>Interest revenue on assets carried at amortised cost</b>				
Cash – deposits at call	22,376	55,155	22,376	55,155
Receivables from financial institutions	4,977,866	3,784,400	4,808,952	3,757,776
Loans to Members	10,382,545	9,809,880	10,382,545	9,809,880
<b>Total Interest Revenue</b>	<b>15,382,787</b>	<b>13,649,435</b>	<b>15,213,873</b>	<b>13,622,811</b>

**b. Fee, commission and other income****Fee and commission revenue**

Loan fee income – other than origination fees	128,329	142,867	128,329	142,867
Other fee income	1,767,159	1,724,946	1,508,154	1,510,916
Insurance commissions	163,010	165,473	163,010	165,473
Other commissions	30,625	82,368	7,964	5,308
<b>Total Fee and Commission Revenue</b>	<b>2,089,123</b>	<b>2,115,654</b>	<b>1,807,457</b>	<b>1,824,564</b>

**Other income**

Dividends received	77,113	114,169	77,113	77,114
Trust and partnership income	0	94,943	0	0
Profit from sale of shares	1,175,000	1,112,988	0	5,100
Bad debts recovered	55,814	34,045	55,814	34,045
Income from property (rents)	56,667	68,000	56,667	68,000
Miscellaneous revenue	69,174	46,491	69,174	46,491
Total Other Income	1,433,768	1,470,636	258,768	230,750
<b>Total Fee Commission and Other Income</b>	<b>3,522,891</b>	<b>3,586,290</b>	<b>2,066,225</b>	<b>2,055,314</b>

**c. Interest expenses****Interest expense on liabilities carried at amortised cost**

Deposits from Members	6,776,210	5,654,805	6,775,865	5,654,890
Overdraft	2,204	4,367	2,204	4,313
Subordinated debt	518,894	477,641	518,894	477,641
<b>Total Interest Expense</b>	<b>7,297,308</b>	<b>6,136,813</b>	<b>7,296,963</b>	<b>6,136,844</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 2: INCOME STATEMENT (continued)****d. Impairment losses**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
<b>Impairment losses on loans &amp; advances</b>				
Increase in provision for impairment	(42,267)	200,490	(42,267)	200,490
Bad debts written off directly against profit	41,053	35,078	41,053	35,078
<b>Total impairment losses on loans &amp; advances</b>	<b>(1,214)</b>	<b>235,568</b>	<b>(1,214)</b>	<b>235,568</b>

**e. Other prescribed disclosures****General Administration**

Employee costs				
- Net movement in provisions for employee annual leave	61,436	20,317	56,434	9,846
- Net movement in provisions for employee LSL	105,699	53,689	103,756	53,181
- Net movement in provisions for employee sick leave	29,571	27,490	29,571	27,490
- Other personnel costs	3,798,791	3,492,370	3,570,811	3,289,083
	<b>3,995,497</b>	<b>3,593,866</b>	<b>3,760,572</b>	<b>3,379,600</b>
Depreciation of property, plant & equipment				
- Buildings	27,424	27,424	27,424	27,424
- Plant and equipment	142,557	154,658	138,692	151,373
Amortisation				
- Leasehold improvements	50,119	41,632	35,744	36,511
- Computer software	152,145	117,466	150,459	115,955
- Other	81	0	81	0
	<b>372,326</b>	<b>341,180</b>	<b>352,400</b>	<b>331,263</b>
Occupancy costs				
- Rental expense on operating leases	177,605	185,358	153,831	163,161
- Other occupancy costs	138,226	135,291	137,793	132,731
	<b>315,831</b>	<b>320,649</b>	<b>291,624</b>	<b>295,892</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 2: INCOME STATEMENT (continued)****e. Other prescribed disclosures (continued)**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
<b>General Administration (continued)</b>				
Other Operating Expenses				
Auditor's remuneration				
- Audit fees	66,750	63,590	66,750	63,590
- Other services	4,800	6,930	3,250	5,530
Loss on disposal of assets				
- Plant and equipment	613	132	613	132
Supervision levy paid to APRA	7,598	9,328	7,598	9,328
Other operating costs	3,509,594	3,339,789	3,462,662	3,264,174
	<u>3,589,355</u>	<u>3,419,769</u>	<u>3,540,873</u>	<u>3,342,754</u>
<b>Total Expenses</b>	<u>8,273,009</u>	<u>7,675,464</u>	<u>7,945,469</u>	<u>7,349,509</u>

**NOTE 3: INCOME TAX EXPENSE**

(a) The income tax expense comprises amounts set aside as:

Provision for income tax – current year	1,401,058	1,134,350	627,606	640,408
Under (over) provision in prior years	78,353	(1,528)	0	(1,528)
Increase (decrease) in the Deferred Tax Liability account	(386,618)	(192,365)	(11,096)	(310)
Decrease (increase) in the Deferred Tax Asset account	(37,584)	(93,037)	(23,911)	(76,259)
Income tax attributable to operating Profit	<u>1,055,209</u>	<u>847,420</u>	<u>592,599</u>	<u>562,311</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 3: INCOME TAX EXPENSE (continued)**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
(b) The Prima facie tax payable on operating profit is reconciled to the income tax expense in the accounts as follows:				
Prima facie tax payable on profit from ordinary activities before income tax at 30%:				
- Economic entity	1,000,973	956,364	0	0
- Parent entity	0	0	611,664	586,861
- Other members of the income tax consolidated group	0	0	397,709	381,034
	<u>1,000,973</u>	<u>956,364</u>	<u>1,009,373</u>	<u>967,895</u>
Add:				
Tax effect of:				
- Other	5,106	1,925	5,106	1,925
- Under provision prior year	78,353	0	78,353	0
	<u>1,084,432</u>	<u>958,289</u>	<u>1,092,832</u>	<u>969,820</u>
Less:				
Tax effect of:				
- Rebatable fully franked dividend	23,133	23,134	23,133	23,134
- Other	6,090	14,247	0	8,160
- Over provision prior year	0	1,528	0	1,528
- Capital profits not taxable	0	71,960	0	71,960
	<u>1,055,209</u>	<u>847,420</u>	<u>1,069,699</u>	<u>865,038</u>
Income tax expense attributable to operating profit				
	<u>0</u>	<u>0</u>	<u>477,100</u>	<u>302,727</u>
Allocation of income tax expense to wholly owned subsidiary and unit trust under tax sharing arrangement				
	<u>1,055,209</u>	<u>847,420</u>	<u>592,599</u>	<u>562,311</u>
Income tax attributable to parent entity				
	<u>7,536,718</u>	<u>6,322,020</u>	<u>7,536,718</u>	<u>6,322,020</u>
Balance of franking account at year end Adjusted for franking credits or debits arising from payment of provision for income tax				
	<u>7,536,718</u>	<u>6,322,020</u>	<u>7,536,718</u>	<u>6,322,020</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 4: CASH**

	Economic Entity		Northern Inland Credit Union Ltd	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Cash on hand	1,640,368	1,471,214	1,640,168	1,471,014
	<u>1,640,368</u>	<u>1,471,214</u>	<u>1,640,168</u>	<u>1,471,014</u>

**NOTE 5: ADVANCES TO OTHER FINANCIAL INSTITUTIONS**

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Deposits with industry bodies – CUSCAL	7,271,131	21,224,201	7,271,130	21,224,201
Deposits with other societies	37,000,000	25,500,000	35,500,000	25,500,000
Deposits with banks	7,559,117	4,312,675	6,500,000	3,035,712
Negotiable Certificates of Deposit	22,346,508	8,500,000	22,346,508	8,500,000
	<u>74,176,756</u>	<u>59,536,876</u>	<u>71,617,638</u>	<u>58,259,913</u>

**NOTE 6: RECEIVABLES**

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Loan to associate	0	0	0	271,699
Interest receivable on deposits	1,359,398	1,080,026	1,309,272	1,077,632
Sundry debtors	49,467	48,322	23,605	21,748
	<u>1,408,865</u>	<u>1,128,348</u>	<u>1,332,877</u>	<u>1,371,079</u>

**NOTE 7: LOANS AND ADVANCES TO MEMBERS****(a) Amount due comprises:**

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Overdrafts	2,693,018	2,593,605	2,693,018	2,593,605
Term Loans	117,739,635	115,603,584	117,739,635	115,603,584
	<u>120,432,653</u>	<u>118,197,189</u>	<u>120,432,653</u>	<u>118,197,189</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 7: LOANS AND ADVANCES TO MEMBERS (continued)**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
Less:				
Specific Provision for Impaired Loans	(187,685)	(229,952)	(187,685)	(229,952)
	<u>120,244,968</u>	<u>117,967,237</u>	<u>120,244,968</u>	<u>117,967,237</u>
Less:				
Unamortised loan origination fees	(228,601)	(266,090)	(228,601)	(266,090)
<b>Net Loans to Members</b>	<u>120,016,367</u>	<u>117,701,147</u>	<u>120,016,367</u>	<u>117,701,147</u>

**(b) Credit quality – Security held against loans**

Secured by mortgage	106,706,173	104,554,044	106,706,173	104,554,044
Partially secured	10,303,123	9,678,570	10,303,123	9,678,570
Wholly unsecured	3,235,672	3,734,623	3,235,672	3,734,623
	<u>120,244,968</u>	<u>117,967,237</u>	<u>120,244,968</u>	<u>117,967,237</u>

It is not practicable 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 or equal to 80%	96,036,970	94,528,486	96,036,970	94,528,486
- loan to valuation ratio of more than 80% but mortgage insured	2,202,541	1,295,266	2,202,541	1,295,266
- loan to valuation ratio of more than 80% and not mortgage insured	8,466,662	8,730,292	8,466,662	8,730,292
	<u>106,706,173</u>	<u>104,554,044</u>	<u>106,706,173</u>	<u>104,554,044</u>

Where the loan value is less than 80% there is a 20% margin to cover the costs of any sale, or potential value reduction.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 7: LOANS AND ADVANCES TO MEMBERS (continued)****(c) Concentration of loans**2008 Economic Entity

<b>Australia</b>	Housing	Personal	Commercial	Overdrafts	Total
- Tamworth	39,447,430	4,434,078	6,688,850	1,730,216	52,300,574
- Narrabri	29,835,181	3,091,429	3,900,273	273,663	37,100,546
- Gunnedah	8,207,802	1,620,186	147,610	125,766	10,101,364
- Other Northern NSW	8,709,356	1,720,450	1,765,166	454,215	12,649,187
- Other NSW	4,824,583	935,602	327,157	35,161	6,122,503
- Other States	1,395,532	501,265	0	73,997	1,970,794
	<u>92,419,884</u>	<u>12,303,010</u>	<u>12,829,056</u>	<u>2,693,018</u>	<u>120,244,968</u>

2007 Economic Entity

<b>Australia</b>	Housing	Personal	Commercial	Overdrafts	Total
- Tamworth	38,185,176	4,895,020	5,951,500	1,737,074	50,768,770
- Narrabri	28,656,167	3,778,032	3,622,615	269,597	36,326,411
- Gunnedah	7,924,289	1,601,272	269,075	107,277	9,901,913
- Other Northern NSW	9,250,205	1,896,468	2,595,346	387,682	14,129,701
- Other NSW	3,591,418	672,500	48,272	42,733	4,354,923
- Other States	1,692,245	576,360	168,716	48,198	2,485,519
	<u>89,299,500</u>	<u>13,419,652</u>	<u>12,655,524</u>	<u>2,592,561</u>	<u>117,967,237</u>

**NOTE 8: PROVISION ON IMPAIRED LOANS**

	Economic Entity		Northern Inland Credit Union Ltd	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
(a) <u>Total provision comprises:</u>				
Collective Provisions	15,864	38,747	15,864	38,747
Individual specific provisions	171,821	191,205	171,821	191,205
Total Provision	<u>187,685</u>	<u>229,952</u>	<u>187,685</u>	<u>229,952</u>
(b) <u>Movement in Specific Provision</u>				
Balance at the beginning of the year	229,952	29,462	229,952	29,462
Transfers from (to) Income Statement	(42,267)	200,490	(42,267)	200,490
Specific Provision at end of year	<u>187,685</u>	<u>229,952</u>	<u>187,685</u>	<u>229,952</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 8: PROVISION ON IMPAIRED LOANS (continued)**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
(c) <u>Impaired Loans Written Off</u>				
Bad debts written off directly	41,053	35,078	41,053	35,078
	<u>41,053</u>	<u>35,078</u>	<u>41,053</u>	<u>35,078</u>
Bad debts recovered in the period	<u>55,814</u>	<u>34,045</u>	<u>55,814</u>	<u>34,045</u>

(d) Analysis of loans that are impaired or potentially impaired by class

	2008 Carrying value	2008 Value of Impaired Loans	2008 Provision for impairment	2007 Carrying value	2007 Value of Impaired Loans	2007 Provision for impairment
Loans to Members						
- Mortgages	92,419,884	0	0	89,352,404	211,618	52,904
- Personal	12,353,840	55,815	50,831	13,458,801	71,788	39,150
- Overdrafts	1,783,515	0	0	1,686,701	0	0
	<u>106,557,239</u>	<u>55,815</u>	<u>50,831</u>	<u>104,497,906</u>	<u>283,406</u>	<u>92,054</u>
Corporate borrowers	13,875,414	313,640	136,854	13,699,283	562,898	137,898
Total	<u>120,432,653</u>	<u>369,455</u>	<u>187,685</u>	<u>118,197,189</u>	<u>846,304</u>	<u>229,952</u>

It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

(e) Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding

	2008 Carrying value	2008 Provision	2007 Carrying value	2007 Provision
Non impaired loans and facilities	120,063,198	0	117,350,885	0
Less than 30 days in arrears	313,640	136,854	561,854	136,854
30 to 90 days in arrears	42,350	37,366	232,219	55,994
90 to 180 days in arrears	319	319	36,604	27,310
180 to 270 days in arrears	0	0	14,583	8,750
270 to 365 days in arrears	13,146	13,146	0	0
Over 365 days in arrears	0	0	0	0
Overlimit facilities over 14 days	0	0	1,044	1,044
	<u>120,432,653</u>	<u>187,685</u>	<u>118,197,189</u>	<u>229,952</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 8: PROVISION ON IMPAIRED LOANS (continued)**(f) Loans with repayments past due but not regarded as impaired

There are loans with a value of \$389,355 past due which are not considered impaired as the value of the related security over residential property is in excess of the loan due. It is not possible to determine the fair value of the collateral as at balance date due to the variety of assets and condition. Loans with repayments past due but not impaired are in arrears as follows:

<b>2008</b>	1 – 3 months	3 – 6 months	6 – 12 months	> 1 year	Total
Mortgage secured	161,371	0	227,984	0	389,355
	161,371	0	227,984	0	389,355

<b>2007</b>	1 – 3 months	3 – 6 months	6 – 12 months	> 1 year	Total
Mortgage secured	311,665	0	0	0	311,665
	311,665	0	0	0	311,665

(g) Renegotiated Loans not impaired

Some loans that were previously past due or impaired have been renegotiated and are no longer regarded as impaired. Details of these loans are:

	Economic Entity		Northern Inland Credit Union Ltd	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Balance	0	134,645	0	134,645
Estimated value of secured loans	0	134,645	0	134,645
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

(h) Key assumptions in determining the provision for impairment

Northern Inland is required to determine a likely impairment loss on loans that have not maintained the loan repayments in accordance with their loan contract and have consequently fallen into arrears, or for some other reason are deemed to be at risk of suffering impairment.

In identifying the likely loss due to impairment, each loan that falls into this category is reviewed for the likelihood of full or partial recovery and the extent of possible loss. Depending on the loan's characteristics, the recoverability of the debt and any special arrangements put in place for repayment, a percentage is then applied to the balance outstanding to ascertain that portion of the loan that is deemed to be at risk of non-recovery. This is aggregated across all loans deemed to be at risk of impairment to arrive at a total likely impairment loss for Northern Inland.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 9: AVAILABLE FOR SALE INVESTMENTS**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
Shares in subsidiaries – at cost	0	0	11	11
Shares in Unlisted trusts – at fair value	0	1,600,000	0	0
<u>Shares in Unlisted companies – at cost</u>				
- Credit Union Services Corporation (Aus) Ltd	616,919	616,919	616,919	616,919
- Unlisted companies	540,000	540,000	0	0
Total Value of Investments	<u>1,156,919</u>	<u>2,756,919</u>	<u>616,930</u>	<u>616,930</u>
<u>Less Provisions for impairment</u>				
- Shares in unlisted companies	(540,000)	(540,000)	0	0
Total investments net of provision	<u>616,919</u>	<u>2,216,919</u>	<u>616,930</u>	<u>616,930</u>

(a) Credit Union Services Corporation (Aus) Limited (CUSCAL)

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

The financial reports of CUSCAL record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of CUSCAL, any fair value determination of these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily. Northern Inland is not intending, nor able to dispose of these shares, without a majority of shareholder approval.

b) Unlisted companies and unlisted trusts

The shares held in the unlisted trust are measured at fair value. The shares held in the unlisted company are measured at cost, as these shares are in a private company where there is no ready market, and as a result, a market value could not be readily determined.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 10: PROPERTY, PLANT AND EQUIPMENT**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
<b>(a) LAND AND BUILDINGS</b>				
Land – at cost	958,428	958,428	958,428	958,428
Total Land	<u>958,428</u>	<u>958,428</u>	<u>958,428</u>	<u>958,428</u>
Buildings – at cost	1,243,384	1,243,384	1,243,384	1,243,384
Less accumulated depreciation	(432,601)	(405,177)	(432,601)	(405,177)
Total Buildings	<u>810,783</u>	<u>838,207</u>	<u>810,783</u>	<u>838,207</u>
Total Land and Buildings	<u>1,769,211</u>	<u>1,796,635</u>	<u>1,769,211</u>	<u>1,796,635</u>
<b>PLANT AND EQUIPMENT</b>				
Plant and equipment:				
At cost	1,782,561	1,687,033	1,762,672	1,668,481
Less accumulated depreciation	(1,262,008)	(1,207,237)	(1,252,718)	(1,201,811)
	<u>520,553</u>	<u>479,796</u>	<u>509,954</u>	<u>466,670</u>
Capitalised leasehold improvement:				
At cost	316,893	316,893	249,701	249,701
Less accumulated amortisation	(253,627)	(203,508)	(234,131)	(198,387)
	<u>63,266</u>	<u>113,385</u>	<u>15,570</u>	<u>51,314</u>
Total Plant and Equipment	<u>583,819</u>	<u>593,181</u>	<u>525,524</u>	<u>517,984</u>
Total Property, Plant and Equipment	<u>2,353,030</u>	<u>2,389,816</u>	<u>2,294,735</u>	<u>2,314,619</u>

**Valuations**

Land and buildings having a cost of \$2,201,812 have been valued at a market value of \$3,000,000 as at September 2006, based upon an independent valuation. The valuation of freehold land and buildings were based on the assessment of their current market value. The independent valuations were performed by B.J. Cole Consulting Valuers.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 10: PROPERTY, PLANT AND EQUIPMENT (continued)****(b) Movements in Carrying Amounts**

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

	<b>Land</b>	<b>Buildings</b>	<b>Plant &amp; Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Economic Entity</b>					
Balance at 1 July 2006	958,428	865,631	509,324	87,825	2,421,208
Additions	0	0	125,262	67,192	192,454
Disposals	0	0	(132)	0	(132)
Depreciation expense	0	(27,424)	(154,658)	(41,632)	(223,714)
Balance at 30 June 2007	<u>958,428</u>	<u>838,207</u>	<u>479,796</u>	<u>113,385</u>	<u>2,389,816</u>
Additions	0	0	187,157	0	187,157
Disposals	0	0	(3,844)	0	(3,844)
Depreciation expense	0	(27,424)	(142,555)	(50,119)	(220,098)
Balance at 30 June 2008	<u>958,428</u>	<u>810,783</u>	<u>520,553</u>	<u>63,266</u>	<u>2,353,030</u>

	<b>Land</b>	<b>Buildings</b>	<b>Plant &amp; Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Northern Inland Credit Union Ltd</b>					
Balance at 1 July 2006	958,428	865,631	509,324	87,825	2,421,208
Additions	0	0	109,275	0	109,275
Disposals	0	0	(556)	0	(556)
Depreciation expense	0	(27,424)	(151,373)	(36,511)	(215,308)
Balance at 30 June 2007	<u>958,428</u>	<u>838,207</u>	<u>466,670</u>	<u>51,314</u>	<u>2,314,619</u>
Additions	0	0	185,820	0	185,820
Disposals	0	0	(3,844)	0	(3,844)
Depreciation expense	0	(27,424)	(138,691)	(35,744)	(201,859)
Balance at 30 June 2008	<u>958,428</u>	<u>810,783</u>	<u>509,955</u>	<u>15,570</u>	<u>2,294,735</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 11: TAXATION ASSETS**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
Deferred Tax Asset	825,388	787,804	793,327	769,056
	<u>825,388</u>	<u>787,804</u>	<u>793,327</u>	<u>769,056</u>
Deferred Tax Asset comprises:				
- Accrued expenses not deductible	24,600	24,935	24,600	24,935
- Provision for impairment on loans	56,306	68,986	56,306	68,986
- Provisions for staff entitlements	345,576	286,564	340,199	283,270
- Depreciation on fixed assets	22,028	27,462	21,546	27,462
- Deferred fees on loan origination	68,580	79,827	68,580	79,827
- Provision loss loan	162,000	162,000	162,000	162,000
- Other	126,095	128,575	120,096	122,576
- Tax losses	20,203	9,455	0	0
	<u>825,388</u>	<u>787,804</u>	<u>793,327</u>	<u>769,056</u>

**NOTE 12: INTANGIBLE ASSETS**

Computer Software	799,128	742,148	794,911	737,931
Less accumulated amortisation	(652,824)	(500,677)	(649,626)	(499,166)
	<u>146,304</u>	<u>241,471</u>	<u>145,285</u>	<u>238,765</u>
Other	587,527	567,435	4,879	0
Less accumulated amortisation	(81)	0	(81)	0
	<u>587,446</u>	<u>567,435</u>	<u>4,798</u>	<u>0</u>
	<u>733,750</u>	<u>808,906</u>	<u>150,083</u>	<u>238,765</u>

**Movement in asset balances during the year were:**

	Software	Other	Total
<b>Economic Entity</b>			
Balance at 1 July 2007	241,471	567,435	808,906
Additions	56,980	20,092	77,072
Disposals	0	0	0
Amortisation expense	(152,147)	(81)	(152,228)
Balance at 30 June 2008	<u>146,304</u>	<u>587,446</u>	<u>733,750</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 12: INTANGIBLE ASSETS (continued)**

<b>Northern Inland Credit Union Ltd</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
Balance at 1 July 2007	238,765	0	238,765
Additions	56,980	4,879	61,859
Disposals	0	0	0
Amortisation expense	(150,460)	(81)	(150,541)
Balance at 30 June 2008	145,285	4,798	150,083

**NOTE 13: OTHER ASSETS**

	Economic Entity		Northern Inland Credit Union Ltd	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Prepayments	92,846	99,695	91,454	99,242
Other	54,278	351,887	54,278	351,887
	147,124	451,582	145,732	451,129

**NOTE 14: DEPOSITS FROM MEMBERS**

Member Call Deposits	81,282,785	81,644,964	81,296,155	81,698,181
Member Term Deposits	87,051,802	73,014,011	87,051,802	73,014,011
Member Withdrawable Shares	189,048	191,052	189,058	191,062
	168,523,635	154,850,027	168,537,015	154,903,254

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Concentration of Deposits

(i) Significant individual member deposits which in aggregate represent more than 10% of the total liabilities.	12,640,829	0	12,640,829	0
(ii) Geographical concentrations				
Tamworth	90,915,568	93,495,066	90,928,948	93,548,293
Narrabri	26,780,435	25,200,965	26,780,435	25,200,965
Gunnedah	10,450,221	10,688,841	10,450,221	10,688,841
Other Northern NSW	34,508,724	19,996,429	34,508,724	19,996,429
Other NSW	3,860,658	3,714,695	3,860,658	3,714,695
Other States	2,008,029	1,754,031	2,008,029	1,754,031
	168,523,635	154,850,027	168,537,015	154,903,254

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 15: PAYABLES AND OTHER LIABILITIES**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
Trade creditors and accrued expenses	771,003	639,629	754,901	603,514
Interest payable on deposits	1,943,459	1,325,235	1,943,459	1,325,235
Annual leave	445,119	383,683	429,646	373,212
Loan from associate	0	0	114,559	0
	<u>3,159,581</u>	<u>2,348,547</u>	<u>3,242,565</u>	<u>2,301,961</u>

**NOTE 16: SUBORDINATED DEBT**

Subordinated Debt	5,000,000	5,000,000	5,000,000	5,000,000
	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>

Issue of Subordinated Capital Notes

Northern Inland issued Subordinated capital notes on 23 December 2003, each with a minimum face value of \$100,000. The notes issued have a total face value of \$5,000,000.

Interest is payable quarterly in accordance with the Conditions of Issue. The interest rate for the first five years is set by reference to the BBSW and a margin of 325 basis points.

The interim maturity date is 23 December 2008 with a final maturity set at 23 December 2013. Northern Inland may, at its option, repay the entire Face value of all notes on 23 December 2008 as set out in the Conditions of Use.

The notes issued by Northern Inland are subordinated to deposit holders of Northern Inland and to the payments of unsubordinated debt to unsubordinated creditors.

No principal or interest is payable in respect of the notes except to the extent that Northern Inland may make payment and still be solvent immediately after doing so.

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 17: TAXATION LIABILITIES**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
Provision for income tax	529,447	856,220	530,185	858,625
Provision for deferred tax liability	0	386,618	0	385,440
	<u>529,447</u>	<u>1,242,838</u>	<u>530,185</u>	<u>1,244,065</u>

Provision for current income tax comprises:

- Balance – previous year	856,220	70,009	858,625	70,009
- Less paid	(934,573)	(68,481)	(936,978)	(68,481)
- Over/understatement in prior year – transferred to profit	78,353	(1,528)	78,353	(1,528)
Residual carried forward from prior year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
- Liability for income tax in current year	1,057,225	1,210,250	1,057,225	1,210,250
- Less instalments paid in current year	(527,778)	(354,030)	(527,040)	(351,625)
	<u>529,447</u>	<u>856,220</u>	<u>530,185</u>	<u>858,625</u>

Provision for deferred tax liability comprises:

- Tax allowances relating to investments	0	44,344	0	44,344
- Fair value gain adjustments	0	11,096	0	11,096
- Revaluation adjustments taken directly to equity	0	330,000	0	330,000
- Depreciation on fixed assets	0	1,178	0	0
	<u>0</u>	<u>386,618</u>	<u>0</u>	<u>385,440</u>

**NOTE 18: PROVISIONS**

Provision for employee long service leave	525,236	419,537	522,785	419,029
Provision for employee sick leave	181,564	151,993	181,564	151,993
	<u>706,800</u>	<u>571,530</u>	<u>704,349</u>	<u>571,022</u>

**NOTE 19: RESERVES**

General Reserve	22,849,461	20,570,374	19,802,225	18,373,621
Members' Share Redemption Reserve	191,518	173,840	191,518	173,840
Available for Sale Revaluation Reserve	0	795,889	0	25,889
General Reserve for Credit Losses	600,000	600,000	600,000	600,000
	<u>23,640,979</u>	<u>22,140,103</u>	<u>20,593,743</u>	<u>19,173,350</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 19: RESERVES (continued)****Movements in Reserves**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
<u>General Reserve</u>				
Balance at beginning of the year	20,570,374	18,233,848	18,373,621	16,994,095
Transfer from Retained Profits	2,279,087	2,336,526	1,428,604	1,379,526
	<u>22,849,461</u>	<u>20,570,374</u>	<u>19,802,225</u>	<u>18,373,621</u>

Members' Share Redemption Reserve

The accounts represent the amount of redeemable preference shares redeemed by Northern Inland since 1 July 1999. The Law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to Members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

Balance at beginning of the year	173,840	158,750	173,840	158,750
Add: share redemption	17,678	15,090	17,678	15,090
	<u>191,518</u>	<u>173,840</u>	<u>191,518</u>	<u>173,840</u>

Available for Sale Revaluation Reserve

The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value.

Balance at beginning of the year	795,889	619,512	25,889	26,612
Add: increase on revaluation of investment	0	770,000	0	0
Less: decrease on devaluation of investment	0	(723)	0	(723)
Less: disposals	(795,889)	(592,900)	(25,889)	0
	<u>0</u>	<u>795,889</u>	<u>0</u>	<u>25,889</u>

General Reserve for Credit Losses

This reserve records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA.

Balance at beginning of the year	600,000	600,000	600,000	600,000
Add: increase transferred from Retained Profits	0	0	0	0
	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 20: RETAINED PROFITS**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
Retained profits at the beginning of the financial year	0	0	0	0
Net Profit attributable to Members	2,296,765	2,350,893	1,446,281	1,393,893
Transfer to Share Redemption Reserve	(17,678)	(15,090)	(17,678)	(15,090)
Transfer to Reserve for Credit Losses	0	0	0	0
Transfer (to)/from Available for Sale Revaluation Reserve	0	723	0	723
Transfer to General Reserves	(2,279,087)	(2,336,526)	(1,428,604)	(1,379,526)
Retained profits at the end of the financial year	0	0	0	0

**NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES****Introduction**

The Board has endorsed a policy of compliance and risk management to suit the risk profile of Northern Inland. Northern Inland'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 Committee, which is integral to the management of risk.

**Board**

This is the primary governing body. It approves the level of risk which Northern Inland is exposed to and the framework for reporting and mitigating those risks.

**Audit committee**

The key role of the Audit Committee in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit Committee receives the internal audit reports on assessment and compliance with the controls.

**Asset & Liability Committee (ALCO) – Credit Risk**

The ALCO Committee comprises of members of the executive management team and a number of directors. This committee meets monthly and has responsibility for managing and reporting credit risk exposures. It scrutinises operational reports and monitors exposures against limits determined by the Board. The ALCO also determines the credit risk of loans in the banking book and ensures that provisioning is accurate.

All loans are managed through the monitoring of the scheduled repayments. In identifying the likely loss due to impairment, each loan that falls into this category is reviewed for the likelihood of full or partial recovery and the extent of possible loss. Depending on the loan's characteristics, the recoverability of the debt and any special arrangements put in place for repayment, a percentage is then applied to the balance outstanding to ascertain that portion of the loan that is deemed to be at risk of non-recovery. This is aggregated across all loans deemed to be at risk of impairment to arrive at a total likely impairment loss for Northern Inland.

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 credit control team, which reports to the Board, implements Northern Inland'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.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

### **NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

#### **ALCO – Market Risk**

The ALCO Committee meets monthly and has the responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the Liquidity Management System.

#### **Risk Officer**

Northern Inland has a Corporate Risk Manager who is responsible for both liaising with the operational function to ensure timely production of information for the ALCO committee and ensuring that instructions passed down from the board via the ALCO committee is implemented.

#### **Internal Audit**

An internal audit function has been established using the services of Northcorp Accountants, a firm of Chartered Accountants that has been servicing regional NSW for over 50 years. Northcorp has provided audit services to Credit Unions for more than 20 years and has a specialised team responsible for the provision of audit services to Financial Institutions. The internal audit function deals with the areas of internal control compliance and regulatory compliance only.

#### **Policies**

The Board has endorsed policies of risk management to suit the risk profile of Northern Inland. The key risk management policies include:

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

#### **A. Market risk and hedging policy**

Market risk refers to the possibility of Northern Inland experiencing a loss as a result of adverse movement in interest rates, foreign exchange rates and other market prices, such as commodity prices or other market risk factors such as liquidity. It also includes the risk that Northern Inland will incur increased interest expense arising from funding requirements during periods of poor market liquidity.

The objective of Northern Inland's management of market risk is to manage and control market risk exposures so as to optimise risk and return.

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

#### **(i) Interest rate risk**

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

Northern Inland does not have treasury operations and does not trade in financial instruments and is therefore not exposed to interest rate risk arising from those activities.

Northern Inland is however exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. This interest rate risk is measured quarterly and reported to the ALCO quarterly and to the Board quarterly via the ALCO Committee.

The most common interest rate risk Northern Inland faces arises from fixed rate assets (such as fixed rate loans to members or investments) and liabilities (such as term deposits held by members). This exposes Northern Inland to the risk of variable sensitivity should interest rates change. This risk is not considered by the Board to be significant to warrant the use of derivatives to mitigate the risk.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Method of managing risk**

Northern Inland manages its interest rate risk by the use of the Value at Risk (VaR) model.

VaR is a technique that estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out in the table below has been calculated using historical simulations, and using movements in market rates and prices over a period of 250 days, with a 99% confidence level and taking into consideration historical correlations between different markets and rates.

The VaR on the Northern Inland book was as follows:

VaR	2008	2007
\$ value	\$637,777	\$655,972
% of Capital	2.65%	2.82%

Northern Inland is therefore 99% confident that, given the risks as at 30 June 2008, it will not incur a one day loss on its non-trading book of more than the amount shown above, based on the VaR model used.

Northern Inland's exposure to banking book interest rate risk is not expected to change materially in the next twelve months, so existing capital requirements are considered to be an accurate measure of capital needed to mitigate interest rate risk.

**B. Liquidity Risk**

Liquidity risk is the risk that Northern Inland 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 that Northern Inland maintains adequate cash reserves and committed credit facilities so as to meet member withdrawal demands when requested.

Northern Inland manages liquidity risk by:

- Continuously monitoring actual daily cashflows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Daily monitoring of the prudential liquidity ratio.

Northern Inland has an arrangement with the industry support Credit Union Financial Support Services (CUFSS) which can access funds to provide support to Northern Inland at short notice should it be necessary.

Northern Inland is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. Northern Inland's policy is to apply a minimum of 12.50% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests and this ratio is checked daily. Should the liquidity ratio fall below this level, management and the Board are required to address the matter and ensure that the liquid funds are obtained from new deposits, redemption of investments or from accessing borrowing facilities available. Note 27 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in Note 23. The ratio of liquid funds over the past year is set out below:

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

APRA	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
HQLA Ratio – 30 June	18.31%	19.38%	17.86%	18.86%
Minimum during the year	16.89%	16.71%	16.42%	16.65%

**C. Credit Risk****(i) Credit risk - Loans**

Credit risk for loans advanced is managed through strict adherence to a set of credit assessment policies before a loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis.

Northern Inland had established policies and procedures that form the basis of the credit risk management framework and that comprise the following:

- Credit assessment and approval of loans and facilities designed to ensure comprehensive risk assessment and security requirements;
- Limits of acceptable exposure to individual borrowers, non mortgage secured loans and commercial lending;
- Reassessment 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 these policies.

The internal audit function includes the review of compliance with credit risk management in its audit scope.

	2008 Carrying value \$	2008 Off balance sheet \$	2008 Max exposure \$	2007 Carrying value \$	2007 Off balance sheet \$	2007 Max exposure \$
Mortgage	92,419,884	8,291,038	100,710,922	89,299,500	8,125,733	97,425,233
Personal	12,303,009	821,023	13,124,032	13,419,651	824,393	14,244,044
Overdrafts	1,783,515	3,289,566	5,073,081	1,686,701	3,292,168	4,978,869
Total loans to households	106,506,408	12,401,627	118,908,035	104,405,852	12,242,294	116,648,146
Loans to corporations	13,738,560	1,462,937	15,201,497	13,561,385	1,011,587	14,572,972
Total	120,244,968	13,864,564	134,109,532	117,967,237	13,253,881	131,221,118

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

### **NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

#### **Past due and impaired**

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with Northern Inland that requires interest and a portion of the principle to be paid every 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 counterparty 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.

Northern Inland is required to determine a likely impairment loss on loans that have not maintained the loan repayments in accordance with their loan contract and have consequently fallen into arrears, or for some other reason are deemed to be at risk of suffering impairment.

In identifying the likely loss due to impairment, each loan that falls into this category is reviewed for the likelihood of full or partial recovery and the extent of possible loss. Depending on the loan's characteristics, the recoverability of the debt and any special arrangements put in place for repayment, a percentage is then applied to the balance outstanding to ascertain that portion of the loan that is deemed to be at risk of non-recovery. This is aggregated across all loans deemed to be at risk of impairment to arrive at a total likely impairment loss for Northern Inland.

Details are set out in Note 8.

#### **Bad debts**

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of 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.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 8.

#### **Collateral securing loans**

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, Northern Inland is exposed to risks in the reduction to the Loan to Value (LVR) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7(b) describes the nature and extent of the security held against the loans held as at the balance date.

#### **Concentration risk – individuals**

Concentration risk is a measurement of Northern Inland's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of Northern Inland's regulatory capital (10 per cent), a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

Northern Inland holds no significant large exposure loans as at balance date (greater than 10 per cent of capital). The aggregate value of large exposure deposits are set out in Note 14. Concentration exposures to counterparties are closely monitored and are reported to the Board on a monthly basis and to APRA on a quarterly basis.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****(ii) Credit risk – Liquid investments**

Credit risk attaching to liquid investments is the risk that the counterparty to a financial instrument will fail to discharge their obligation resulting in Northern Inland incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to Northern Inland.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL. At balance date the quantum of these investments was \$25,617,638. The Board policy is that investments are only made to institutions that are credit worthy and this is determined through a due diligence process performed prior to an investment being placed. The Board has established policies to ensure that a maximum of 25% of capital can be invested with any one financial institution at a time, with the exception of CUSCAL where up to 150% of capital can be invested.

The risk of losses from the liquid investments placed is reduced by applying portfolio diversification and ensuring a large number of counterparties are invested with across a range of investment horizons.

Under the liquidity support scheme, at least 3.2% of Northern Inland's total assets must be invested in CUSCAL, to allow the scheme to have adequate resources to meet its obligations if needed. The Board policy is to maintain at least \$20 million of its investments with CUSAL, a company set up to support the member credit unions and which has an A-1+ rating.

**External Credit Assessment for Institution Investments**

Northern Inland uses the ratings assigned by ratings agencies such as Moody's Investor Services and Standard and Poor's to assess the credit quality of all investment exposures, and where applicable, using the credit quality assessment scale in the APRA Associated Guidance Note to Australian Prudential Standard APS 112.

As at the balance date, the credit quality assessment scale within APS 112 had been complied with.

The exposure values associated with each credit quality step are as follows:

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
Investments with:				
CUSCAL – rated A-1+	25,617,638	21,224,201	25,617,638	21,224,201
Banks – rated AA and above	1,059,118	76,963	1,000,000	0
Banks – rated from BBB- to < AA	10,500,000	12,735,712	9,500,000	11,535,712
Unrated institutions – Credit Unions	37,000,000	25,500,000	35,500,000	25,500,000
Total	74,176,756	59,536,876	71,617,638	58,259,913

**D. Operational Risk**

Operational risk is the risk of loss arising from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market, interest rate and liquidity risks.

Operational risks for Northern Inland can arise from several sources, including but not limited to, legal compliance, business interruption, data infrastructure and security, failure of outsourced services, internal and external fraud and employee errors or oversight.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

Northern Inland's objective is to manage operational risk so as to mitigate the likelihood and or the extent of financial losses through the implementation of controls and systems in balance with the flexibility and innovation needed to deliver service to our members.

Internal control systems are enhanced through:

- Segregation and rotation of duties between employees and functions wherever practical, including approval and processing duties;
- Application of hindsight review for credit risk;
- Implementation of whistleblowing policies to encourage a culture of compliance;
- Effective dispute resolution procedures to respond to member complaints;
- Effective insurance arrangements to reduce the impact of losses; and
- Contingency plans to address the loss of functionality of systems, premises, utilities or staff.

**E. 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 Northern Inland is not engaged in a trading book for financial instruments.

**Capital resources****Tier 1 capital**

The vast majority of Northern Inland's Tier 1 capital comprises:

- General reserves
- Retained earnings.

**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. The vast majority of Northern Inland's Tier 2 capital comprises:

- A general reserve for Credit Losses.
- Term subordinated debt

Capital in Northern Inland and the Economic Entity is made up as follows:

<b>Tier 1</b>	<b>Economic Entity</b>		<b>Northern Inland Credit Union Ltd</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
General reserves	21,010,305	18,714,419	18,813,553	17,474,666
Current years earnings	2,259,193	2,214,288	1,408,709	1,338,886
Less deductions	23,269,498 (1,868,392)	20,928,707 (822,795)	20,222,262 (1,252,664)	18,813,552 (240,601)
Net Tier 1 capital	21,401,106	20,105,912	18,969,598	18,572,951

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

Tier 2	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
Asset revaluation reserve	0	16,643	0	16,643
Investments in subsidiaries	0	495,000	0	0
General reserve for credit losses	420,000	420,000	420,000	420,000
Term subordinated debt	5,000,000	5,000,000	5,000,000	5,000,000
Less deductions	5,420,000 (309,254)	5,931,643 (1,115,601)	5,420,000 (309,254)	5,436,643 (778,218)
Net Tier 2 capital	5,110,746	4,816,042	5,110,746	4,658,425
<b>Total capital</b>	<b>26,511,852</b>	<b>24,921,954</b>	<b>24,080,344</b>	<b>23,231,376</b>

Northern Inland is required to maintain a minimum capital level of 12% as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

Category	% weight	Economic Entity		Northern Inland Credit Union Ltd	
		Carrying value	Risk weighted value	Carrying value	Risk weighted value
Cash	0%	1,640,368	0	1,640,168	0
Deposits in highly rated ADI's	20%	41,631,075	8,326,215	41,571,797	8,314,359
Deposits in less highly rated ADI's	50% - 150%	33,901,408	16,950,702	31,351,443	15,675,720
Standard loans secured against eligible residential mortgages up to 80% LVR	35%	96,036,970	33,612,940	96,036,970	33,612,940
Standard loans secured against eligible residential mortgages over 80% LVR	50% - 75%	10,669,203	6,693,050	10,669,203	6,693,050
Past due claims	100%	416,414	416,414	416,414	416,414
Other assets	100%	15,634,756	15,634,756	15,549,218	15,549,218
Total		199,930,194	81,634,077	197,235,213	80,261,701

The capital ratio as at the end of the financial year over the past 5 years is as follows:

	2008	2007	2006	2005	2004
Economic Entity	26.26%	24.43%	21.60%	18.26%	16.07%
Northern Inland	24.83%	22.67%	20.77%	18.01%	15.66%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

To manage Northern Inland's capital, the credit union reviews the ratio monthly and monitors major movements in asset levels. Policies require that the Board is informed monthly of the capital ratio and APRA is informed on a quarterly basis. The Board has determined that forecasting of the capital ratio is to be performed at least six monthly, for the foregoing six months whenever the capital ratio is at or below 18% for the group.

**Pillar 2 Capital on Operational Risk**

This capital component was introduced as from the 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously, no operational charge was prescribed.

Northern Inland uses the Standardised Approach which is considered to be the most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping Northern Inland's three year average net interest income and net non-interest income to Northern Inland's various business lines.

Based on this approach, Northern Inland's operational risk requirement is as follows:

	Economic Entity	Northern Inland Credit Union Ltd
Operational Risk Capital	\$ 13,573,117	\$ 10,999,386

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 22: CATEGORIES OF FINANCIAL INSTRUMENTS**

The following information classifies the financial instruments into measurement classes.

	Economic Entity		Northern Inland Credit Union Ltd	
<b>Note</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Financial assets</b> – carried at				
amortised cost				
Cash	1,640,368	1,471,214	1,640,168	1,471,014
Receivables	1,408,865	1,128,348	1,332,877	1,371,079
Receivables from financial institutions	74,176,756	59,001,164	71,617,638	57,724,201
Loans to members	120,016,367	117,701,147	120,016,367	117,701,147
	<hr/>	<hr/>	<hr/>	<hr/>
	197,242,356	179,301,873	194,607,050	178,267,441
Available for sale investments, at cost	616,919	616,919	616,930	616,930
Available for sale investments, at fair value	0	2,135,712	0	535,712
	<hr/>	<hr/>	<hr/>	<hr/>
	616,919	2,752,631	616,930	1,152,642
<b>Total Financial Assets</b>	<hr/>	<hr/>	<hr/>	<hr/>
	197,859,275	182,054,504	195,223,980	179,420,083
<b>Financial Liabilities</b> – carried at				
amortised cost				
Creditors	3,159,581	2,348,547	3,242,565	2,301,961
Deposits from members	168,523,635	154,850,027	168,537,015	154,903,254
Long term borrowings	5,000,000	5,000,000	5,000,000	5,000,000
<b>Total Financial Liabilities</b>	<hr/>	<hr/>	<hr/>	<hr/>
	176,683,216	162,198,574	176,779,580	162,205,215

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 23: MATURITY PROFILE OF FINANCIAL LIABILITIES**

Monetary liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal. Financial liabilities are at the undiscounted values (including future interest expected to be paid). Accordingly, these values will not agree to the balance sheet.

<b>2008</b>	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Total
<u>LIABILITIES</u>					
Creditors	3,159,581				3,159,581
Deposits from members – at call	81,475,621				81,475,621
Deposits from members - term	36,630,716	25,769,647	28,001,401		90,401,764
Subordinated debt			5,277,508		5,277,508
On Balance Sheet	121,265,918	25,769,647	33,278,909	0	180,314,474
Undrawn commitments (Note 27)	2,000,000				2,000,000
<b>Total Financial Liabilities</b>	123,265,918	25,769,647	33,278,909	0	182,314,474

<b>2007</b>	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Total
<u>LIABILITIES</u>					
Creditors	3,242,565				3,242,565
Deposits from members – at call	81,839,802				81,839,802
Deposits from members - term	23,623,650	23,009,082	28,812,542	122,446	75,567,720
Subordinated debt				5,719,647	5,719,647
On Balance Sheet	108,706,017	23,009,082	28,812,542	5,842,093	166,369,734
Undrawn commitments (Note 27)	2,000,000				2,000,000
<b>Total Financial Liabilities</b>	110,706,017	23,009,082	28,812,542	5,842,093	168,369,734

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 24: INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES**

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

<b>2008</b>	Weighted average interest	Within 1 month \$,000	1 – 3 months \$,000	3 – 12 months \$,000	1 – 5 years \$,000	Non-interest bearing \$,000	Total \$,000
<b>ASSETS</b>							
Cash & liquid assets	NA					1,640	1,640
Advances to other financial institutions	7.92	28,735	22,753	19,689	3,000		74,177
Loans & advances	8.65	119,125				891	120,016
Investments	NA					617	617
Other assets	NA					5,468	5,468
On Balance Sheet		147,860	22,753	19,689	3,000	8,616	201,918
Undrawn commitments	NA	13,865					13,865
<b>Total Assets</b>		161,725	22,753	19,689	3,000	8,616	215,783
<b>LIABILITIES</b>							
Deposits from members	4.04	68,330	24,914	75,280			168,524
Creditors	NA					3,159	3,159
Tax liabilities	NA					529	529
Provisions	NA					707	707
Subordinated debt	10.38		5,000				5,000
On Balance Sheet		68,330	29,914	75,280	0	4,395	177,919
Undrawn commitments	10.45	2,000					2,000
<b>Total Liabilities</b>		70,330	29,914	75,280	0	4,395	179,919

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 24: INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES  
(continued)**

<b>2007</b>	Weighted average interest	Within 1 month \$ ,000	1 – 3 months \$ ,000	3 – 12 months \$ ,000	1 – 5 years \$ ,000	Non- interest bearing \$ ,000	Total \$ ,000
<b>ASSETS</b>							
Cash & liquid assets	NA					1,471	1,471
Advances to other financial institutions	6.64	12,337	18,200	25,000	4,000		59,537
Loans & advances	8.31	116,903				798	117,701
Investments	NA					2,217	2,217
Other assets	NA					5,567	5,567
On Balance Sheet		129,240	18,200	25,000	4,000	10,053	186,493
Undrawn commitments	NA	13,254					13,254
<b>Total Assets</b>		142,494	18,200	25,000	4,000	10,053	199,747
<b>LIABILITIES</b>							
Deposits from members	3.60	52,520	22,389	79,830	111		154,850
Creditors	NA					2,349	2,349
Tax liabilities	NA					1,243	1,243
Provisions	NA					571	571
Subordinated debt	9.55		5,000				5,000
On Balance Sheet		52,520	27,389	79,830	111	4,163	164,013
Undrawn commitments	9.45	2,000					2,000
<b>Total Liabilities</b>		54,520	27,389	79,830	111	4,163	166,013

**NOTE 25: FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 25: FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)**Liquid assets and receivables from other financial institutions

The carrying values of cash, liquid assets, and receivables due from other financial institutions redeemable within 12 months approximate their net fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans and advances is net of unearned income and specific provisions for doubtful debts. For variable rate loans, (excluding impaired loans), the amount shown in the balance sheet is considered to be a reasonable estimate of fair value.

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

Investments

Shares in ADIs and Unlisted entities are carried at the lower of cost or recoverable amount. Dividend and Trust income is recognised when the dividend or trust distribution is declared by the investee.

Deposits and amounts due to other financial institutions

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 as at 30 June 2008.

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

Payables and other liabilities

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the financial institution. Trade liabilities are normally settled on 30-day terms.

	<b>Fair Value</b>	<b>2008</b>	<b>Variance</b>	<b>Fair Value</b>	<b>2007</b>	<b>Variance</b>
	<b>\$'000</b>	<b>Carrying Value</b>		<b>\$'000</b>	<b>Carrying Value</b>	
		<b>\$'000</b>	<b>\$'000</b>		<b>\$'000</b>	<b>\$'000</b>
<b>FINANCIAL ASSETS</b>						
Cash	1,640	1,640	0	1,471	1,471	0
Receivables	1,409	1,409	0	1,128	1,128	0
Advances to other financial institutions	74,188	74,177	11	59,414	59,537	(123)
Loans and advances to members	120,016	120,016	0	117,701	117,701	0
Investments	617	617	0	2,217	2,217	0
<b>Total financial assets</b>	<b>197,870</b>	<b>197,859</b>	<b>11</b>	<b>181,931</b>	<b>182,054</b>	<b>(123)</b>

<b>FINANCIAL LIABILITIES</b>						
Deposits from members	170,369	168,524	1,845	156,169	154,850	1,319
Creditors	3,159	3,159	0	2,349	2,349	0
Subordinated debt	4,993	5,000	(7)	4,946	5,000	(54)
<b>Total financial liabilities</b>	<b>178,521</b>	<b>176,683</b>	<b>1,838</b>	<b>163,464</b>	<b>162,199</b>	<b>1,265</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 26: FINANCIAL COMMITMENTS**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
(a) <u>Future capital commitments</u> Northern Inland 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:				
Within 1 year	0	23,695	0	23,695
	<u>0</u>	<u>23,695</u>	<u>0</u>	<u>23,695</u>
(b) <u>Operating Lease Commitments</u> Non cancellable operating leases contracted for but not capitalised in the financial statements, payable:				
Not longer than 1 year	211,401	267,162	182,700	238,325
Longer than 1 and not longer than 5 years	242,739	262,510	234,641	226,818
	<u>454,140</u>	<u>529,672</u>	<u>417,341</u>	<u>465,143</u>
(c) <u>Outstanding Loan Commitments</u> Loans and credit facilities approved but not funded or drawn at the end of the financial year:				
Loans approved but not funded	<u>2,361,818</u>	<u>2,990,111</u>	<u>2,361,818</u>	<u>2,990,111</u>
Loan redraw facilities available	<u>7,364,941</u>	<u>6,227,061</u>	<u>7,364,941</u>	<u>6,227,061</u>
Undrawn overdraft, line of credit and VISA:				
Total value of facilities approved	6,830,824	6,629,270	6,830,824	6,629,270
Less: amount advanced	(2,693,019)	(2,592,561)	(2,693,019)	(2,592,561)
Net undrawn value	<u>4,137,805</u>	<u>4,036,709</u>	<u>4,137,805</u>	<u>4,036,709</u>
	<u>13,864,564</u>	<u>13,253,881</u>	<u>13,864,564</u>	<u>13,253,881</u>

These commitments are contingent on Members maintaining credit standards and ongoing repayment terms on amounts drawn.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 26: FINANCIAL COMMITMENTS (continued)**

	Economic Entity		Northern Inland Credit Union Ltd	
	2008	2007	2008	2007
(d) <u>Computer Bureau Expense Commitments</u> Non cancellable expense commitments for the supply of computer support staff and services, not recognised as a liability and payable as follows:				
Within 1 year	184,520	46,359	184,520	46,359
Longer than 1 and not longer than 5 years	415,421	0	415,421	0
	<u>599,941</u>	<u>46,359</u>	<u>599,941</u>	<u>46,359</u>

**NOTE 27: STAND BY BORROWING FACILITIES**

Northern Inland has a gross borrowing facility with CUSCAL of:

	<b>Approved Facility</b>	<b>Current Borrowing</b>	<b>Net Available</b>
<u>2008</u>			
Overdraft facility	2,000,000	0	2,000,000
	<u>2,000,000</u>	<u>0</u>	<u>2,000,000</u>
<u>2007</u>			
Overdraft facility	2,000,000	0	2,000,000
	<u>2,000,000</u>	<u>0</u>	<u>2,000,000</u>

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 Northern Inland.

A fixed and floating charge over the assets and undertaking of the Credit Union has been provided in respect to bank overdrafts and borrowings.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 28: CONTINGENT LIABILITIES****(a) Credit Union Financial Support System**

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

An Industry Support Contract made on the 10 September 1999 between Credit Union Services Corporation (Australia) Limited (CUSCAL), CUFSS and participating credit unions required Northern Inland to execute an equitable charge in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of Northern Inland and secures any advances, which may be made to Northern Inland under the scheme. The balance of the debt at 30 June 2008 was NIL (2007: Nil).

**NOTE 29: DISCLOSURES ON DIRECTORS and other KEY MANAGEMENT PERSONNEL****(a) Remuneration of Directors and Key Management Personnel [KMP]**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Northern Inland, directly or indirectly, including any Director (whether executive or otherwise). Control is the power to govern the financial and operating policies of Northern Inland so as to obtain benefits from its activities.

Key Management Persons (KMP) has been taken to comprise the Directors and the five members of the executive management team responsible for the day-to-day financial and operational management of Northern Inland. The aggregate compensation of Key Management Persons during the year comprising amounts paid or payable or provided for was as follows:

	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>Directors</b>	<b>Other KMP</b>	<b>Directors</b>	<b>Other KMP</b>
(a) Short-term employee benefits	209,388	521,220	256,593	504,814
(b) Post-employment benefits - Superannuation contributions	114,996	138,013	66,891	93,673
(c) Other long-term benefits – net increases in long service leave provisions	13,133	61,199	10,173	16,285
	337,517	720,432	333,657	614,772

In the above table, remuneration shown as short-term benefits means (where applicable) wages, salaries, paid annual leave and paid sick leave, but excludes out of pocket expense reimbursements.

**(b) Loans to Directors and other Key Management Persons**

	<b>2008</b>	<b>2007</b>
Aggregate value of loans at balance date	1,735,481	2,384,869
Aggregate value of loans disbursed - Term loans	81,200	683,790
	81,200	683,790

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 29: DISCLOSURES ON DIRECTORS and other KEY MANAGEMENT PERSONNEL  
(continued)****(b) Loans to Directors and other Key Management Persons (continued)**

	<b>2008</b>	<b>2007</b>
Total value of overdraft facilities at balance date	113,000	183,000
Less: amounts drawn down	(22,328)	(113,975)
Net balance available	90,672	69,025
Aggregate value of overdraft facility limits granted or increased	0	15,000
Interest earned on loans and overdraft facilities	162,925	156,437

Northern Inland's policy for lending to directors and management is that all loans are approved on the same terms and conditions which applied to Members for each class of loan or deposit with the exception of loans to KMP who are not Directors. There are no loans which are impaired in relation to the loan balances with Directors or other KMPs.

KMP who are not Directors receive a concessional rate of interest on their loans and facilities, which is based on the benchmark rate set for fringe benefits tax.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management Persons. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and KMP.

**(c) Other transactions with related parties**

Other transactions between related parties include deposits from Directors, other KMP and their director related entities or close family members.

The policy of Northern Inland for receiving deposits from related parties is that all transactions are approved and accepted on the same terms and conditions which applied to Members for each type of deposit, with the exception of interest on Term Deposits. Memberships in the name of KMP and/or their spouses but excluding Directors memberships, superannuation funds and company memberships are given 0.25% per annum above the applicable standard rate offered on Term Deposits invested with Northern Inland.

	<b>2008</b>	<b>2007</b>
Total value Term and Savings Deposits from KMP	1,279,103	1,084,368
Total interest paid on deposits to KMP	57,717	36,473

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 30: CONTROLLED ENTITIES**

The Parent Entity is Northern Inland Credit Union Ltd. Particulars in relation to controlled entities:

Name	Country of Incorporation	Percentage Owned	
		2008 %	2007 %
Northern Inland Investment Group Pty Ltd	Australia	100	100
Northern Inland Investment Services Pty Ltd	Australia	45	50

Northern Inland Investment Group Pty Ltd is the sole unit holder in the Northern Inland Investment Trust for which Northern Inland Credit Union Ltd is the trustee.

The Northern Inland Investment Trust has a 45% ownership interest in the Northern Inland Investment Services Pty Ltd.

**NOTE 31: ECONOMIC DEPENDENCY**

Northern Inland has an economic dependency on the following suppliers of service:

- (a) Credit Union Services Corporation (Australia) Limited  
This entity supplies Northern Inland rights to VISA Card in Australia and provides services in the form of settlement with Bankers for ATM and VISA Card transactions, cheques and the production of VISA and Redicards for use by Members. This entity also supplies institutional banking services to Northern Inland. Northern Inland has significant liquidity investments with CUSCAL and has also established its borrowing facilities with CUSCAL.
- (b) First Data Resources Australia Limited (FDRA)  
This company operates the switching computer used to link Redicards operated through Reditellers and other approved ATM suppliers to the Credit Union's computer systems.
- (c) The System Works Group  
This company operates the computer facility on behalf of Northern Inland in conjunction with other credit unions. Northern Inland has a management contract with the Bureau to supply computer support staff and services to meet the day-to-day needs of Northern Inland and compliance with relevant Prudential Standards.
- (d) Ultradata Australia Pty Limited  
This company provides and maintains the application software utilised by Northern Inland.

**NOTE 32: SUPERANNUATION LIABILITIES**

Northern Inland contributes to various superannuation plans for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plans are administered by independent corporate trustees.

Northern Inland has no interest in the superannuation plans (other than as a contributor) and is not liable for the performance of the plans, or the obligations of the plans.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 33: SEGMENTAL REPORTING**

The Consolidated Entity operates predominantly in the retail financial services industry within Australia. The operations comprise the acceptance of deposits from and the making of loans to Members.

**NOTE 34: NOTES TO CASH FLOW STATEMENTS****(a) Reconciliation of Cash**

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

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Cash liquid assets	1,640,368	1,471,214	1,640,168	1,471,014
	<u>1,640,368</u>	<u>1,471,214</u>	<u>1,640,168</u>	<u>1,471,014</u>

**(b) Reconciliation of Cash Flow from Operations to Accounting Profit**

	Economic Entity		Northern Inland Credit Union	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Operating Profit after income tax	2,281,366	2,340,460	1,446,281	1,393,892
<u>Non-cash flows in operating profit</u>				
(Gain)/Loss on sale of assets	613	132	613	132
Profit/Loss on disposal of investment	(1,175,000)	(1,109,358)	23,915	(1,470)
Fair value gains	0	0	0	0
Fair value loss	0	1,032	0	1,032
Amortisation	50,119	41,632	35,744	36,511
Depreciation	322,207	299,548	316,656	294,752
Provision for loan impairment	(1,214)	235,568	(1,214)	235,568
Employee entitlements	196,706	101,496	189,761	90,517
Amortised Deferred Loan Fee Income	(37,489)	(55,008)	(37,489)	(55,008)
<u>Changes in assets and liabilities</u>				
Increase (decrease) in interest payable	618,224	189,101	618,224	189,101
(Increase) decrease in interest receivable	(279,372)	(416,102)	(231,640)	(430,905)
(Increase) decrease in prepayments	6,849	(11,723)	7,788	(11,374)
(Increase) decrease in other receivables	239	(27,216)	(183,004)	(388,911)
Increase (decrease) in income taxes payable	(326,773)	786,211	(328,440)	788,616
Increase (decrease) in deferred tax liabilities	(386,618)	(192,365)	(385,440)	(193,543)
(Increase) decrease in deferred tax assets	(37,584)	(93,037)	(24,271)	(74,289)
Increase (decrease) in trade creditors and accrued expenses	131,374	17,945	151,387	(10,370)
Net cash from operating activities	<u>1,363,647</u>	<u>2,108,316</u>	<u>1,598,871</u>	<u>1,864,251</u>

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

### **NOTE 35: CORPORATE INFORMATION**

Northern Inland is a company limited by shares, and is registered under the Corporations Act 2001.

The registered office of the company is:

Northern Inland Credit Union Limited  
481 Peel Street  
Tamworth NSW 2340

The principal place of business is:

481 Peel Street  
Tamworth NSW

The nature of the operations, and its principal activities are the provision of deposit taking facilities and loan facilities to the Members of Northern Inland.

### **GENERAL INFORMATION**

#### **Branches**

481 Peel Street Tamworth  
142 Bridge Street Tamworth  
73 Maitland Street Narrabri  
252 Conadilly Street Gunnedah

#### **Agency**

132 Merton Street Boggabri