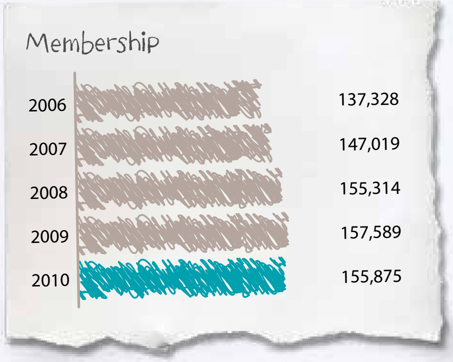
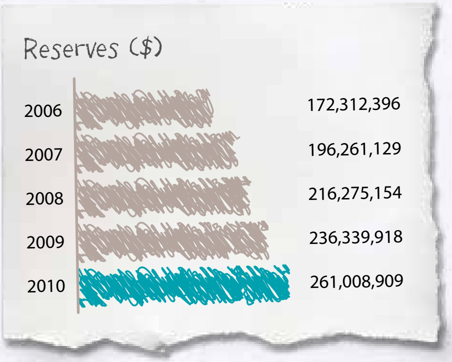
Annual Report
2009-2010

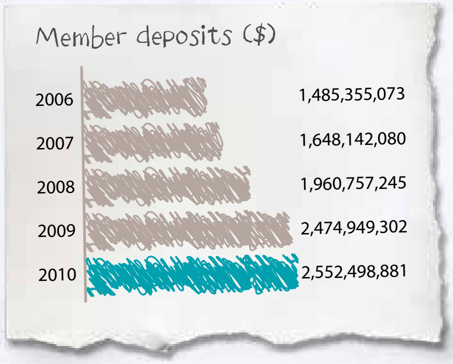
TEACHERS CREDIT UNION

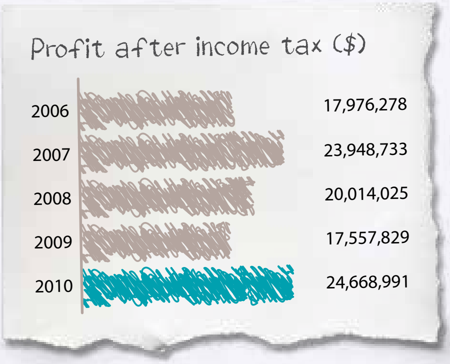
contents

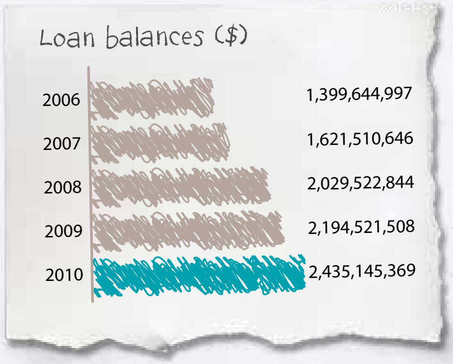
key financial performance

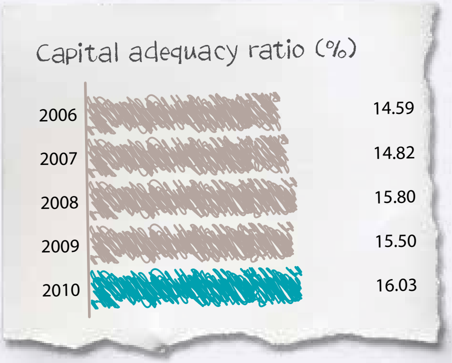


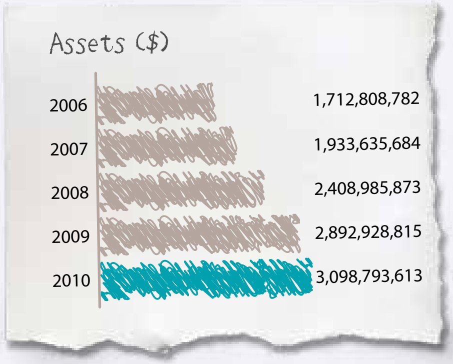












Reserves - Accumulated profits held by us to ensure our ability to safely grow. **Member deposits** - Deposits are made up of savings, investments and shares, excluding interest accrued. **Profit after income tax** - The amount of money we generate from operating our products and services minus the cost of providing those products and services, including all taxes. **Loan balances** - Total amount of money owed to us by our members from personal loans, secured loans, credit or debit cards. **Capital adequacy** - An industry ratio which measures the strengths of a lending institution. We are well above APRA's minimum requirement of 8%. The figures for 2008 - 2010 have been calculated under Basel II. **Assets** - The total of all Teachers Credit Union assets.

Standing (left to right): Graeme Lockwood, Maree O'Halloran, Connuil McEvedy, Tony FitzGerald, John Kouimanos
Seated (left to right): Michelene Collopy, Linda Green, Jennifer Leete

Chairperson and Chief Executive's report

Our report this year is cautiously optimistic. The global financial crisis (GFC) is beginning to recede, and the difficult economic conditions are now easing. The effects of the GFC were certainly felt here, in common with many other financial institutions. As outlined in last year's report, our primary concern was to fortify Teachers Credit Union by prudent financial management and the implementation of some necessary policy changes. As a result, we have maintained our strong financial position and profit has returned to pre GFC levels of $24.5 million.

We also achieved the milestone of an asset base of $3 billion, consolidating our strength and position as the third largest credit union in Australia. This represented a growth in our deposit base of 3.13% and loan growth of 10.96%.

However, we are mindful of the competitive pressures on raising deposits and the consequent effects on the costs of these funds. These same pressures apply to our ability to grow our loan portfolio.

We introduced a $5 account keeping fee last year, to recoup substantial revenues lost through ATM direct charging reforms. Throughout this process, we insisted on being upfront and transparent about the fees being charged to members. Other institutions may offer fee free transaction accounts yet have a raft of hidden exception and other fees. This is proven through the fact that we are still one of the lowest fee and commission charging Credit Unions.

Now with changes in the competitive environment and our own competitive position we have made the decision to review our entire fee structure, and are now able to make some positive adjustments to benefit members. These changes will be implemented by the end of year, and have already been announced to members.

Otherwise, it has been an eventful year. We made the historic decision to change our name, in recognition of our wider presence around Australia. Established as NSW Teachers Credit Union 44 years ago, we now have offices in NSW, WA and ACT, and representation in the Northern Territory. Our name needed to reflect our multi-state status, and so the 2009 AGM saw members vote to change our name to Teachers Credit Union. We now have the distinction of being the only teachers' Credit Union to have a presence in several states.

Our members have always been, and will always remain, at the centre of what we do. Being a mutual, our very culture dictates this. Our commitment to improving our members' financial wellbeing is our driving value.

Our investment in the education community is one of the ways we give back to our community. This year we donated $532,335 through our initiatives such as the Teachers Environment Fund, Future Teacher Scholarships, financial literacy programs and sponsorships of organisations such as Stewart House and the Bush Children's Education Foundation. Find out more about this in the Sustainability Update section of this report.

We highly value the continued positive relationship with our major stakeholders in the education community - the NSW, ACT, WA and NT Departments of Education and Training, NSW Teachers Federation, Australian Education Union ACT, State School Teachers' Union of Western Australia and Teachers Federation Health. We finally thank our members for allowing us to be their partner in continuing to enhance their financial wellbeing.

John Kouimanos · Steve James

sustainability update

As a mutual organisation, our members are our co-owners and shareholders, not just our customers. They expect a lot from us, and we aim to deliver. This includes a commitment to key issues related to sustainability and being an active, responsible member of their community.

This year we've maintained our investment in the education community, donating over $530,000 through various programs and sponsorships. Environmentally, we're steadily taking steps to improve our performance, such as purchasing a minimum of 10% green energy as part of all our office's energy contracts. We're an official Employer of Choice, yet we don't stop trying to engage and satisfy our employees. And our members are always at the centre of what we do.

Our key sustainability focus areas include member service and inclusion, responsible lending and promoting financial literacy. They are regularly reviewed by our Corporate Social Responsibility Committee, and are integrated into the annual strategic planning process undertaken by the Board of Directors and management. The ten key promises that form the foundation of the Mutual Banking Code of Practice also ensure these issues and values are embedded into our decision making.

This year we will again participate in the Corporate Responsibility Index which will allow us to benchmark our approach, performance and strategy in CSR, and determine areas for improvement.

EOWA Employer of Choice for Women

It all comes back to our members

Credit Union and Building Society group

Students from Eden Hill Public School in WA, planting as part of their Teachers Environment Fund supported project

“After working in banks for over ten years, I wanted to work in an organisation that cared about members so I could offer a personal level of service. I wanted to be accessible to people, to be able to get back to them the same day, and be able to get to know them as individuals – something I never found with banks”.

Renae Burdack, Hunter Region Manager, expanded office opened in December 2009

Hilton Donovan, member from Alexandria Park Community School

members

Making it easy for our members

We always aim to ensure we are accessible for our members. We do this through numerous ways – visiting schools, having a team of mobile lenders, and holding mobile offices in remote and regional locations. We also focus on online innovation and embracing online technology and tools for the benefit of our members. Over the reporting period we launched:

- Easy account opening – members can open savings accounts within internet banking and no paper work is required - providing members with both convenience and control in managing their finances
- Our online membership application form - giving new members added convenience when applying for membership
- The first phase of our mobile banking application - providing our members with a mobile interface to manage their accounts on their phone
- A special edition of our quarterly newsletter, Chalkboard, to educate our members on online banking and the tools available to them.

These initiatives provide members with more flexibility and greater choice, as well as assist to reduce operating costs.

Member satisfaction is paramount

The satisfaction of our members is vital to us as a mutual organisation. We continue to have exceptionally high scores for member satisfaction, with our latest survey showing member satisfaction of 87%. Whilst it is a drop on the last survey, it is an excellent result and the envy of other financial institutions.

The survey identified key areas where we can improve and we've built strategies to address issues of concern. Members wanted us to expand our fee exemptions on our transaction account, and they wanted us to provide a competitive , alternative transaction account. We've listened and since announced our new Everyday Direct account which has a fee free option, providing greater choice for our members in how they choose to transact. We've also employed a dedicated staff member to address member complaints and ensure issues are addressed efficiently and comprehensively.

A responsible lender

This year we undertook a complete review of our credit policy to ensure we continue to meet government regulated lending practices. We also developed our Principles of Responsible Lending to make it easy for members and staff to understand our commitment to be transparent, act with integrity, extend the financial knowledge of our members as well as support them when they may be in financial difficulty. Our Credit Assistance service is available for our members who may be experiencing financial difficulty. We assisted 213 members through our Credit Assistance service over the reporting period, and no mortgagee repossessions were completed.

employees

Building a diverse and inclusive workplace

This year we implemented a 'Diversity Policy' to ensure we continue to create and maintain a workplace that realistically reflects Australian society. To achieve this we promote work/life balance, offer flexible working arrangements and will be implementing strategies to address issues such as a maturing workforce, gender imbalances in non-traditional roles and to give indigenous communities an opportunity to be a part of our organisation.

We already have a successful traineeship program that provides young people with an opportunity to be part of our organisation. This program comprises education, experience and coaching which contributes to their success in building a career within the Banking and Finance industry. Our 2009 trainees were all successfully placed into full-time roles in 2010, including specialised roles of Marketing and IT. This year we have also worked closely with local schools to provide Year 10 and 11 students with work placement opportunities.

Our recently negotiated Enterprise Agreement allows for staff to take up to two years of parental leave in order to provide primary care for their child, in addition to our paid parental leave entitlements. We also allow for staff to return to work on a part-time basis following parental leave, and increasingly have staff under formal working from home arrangements under our 'Working from Home Policy'.

Our staff are always learning

A new program was launched in 2009 for all front line sales and service staff called "saleSmart - selling with integrity". The program covers how to sell successfully through service, values and ethics, and teaches staff to convey all the benefits of our products and services in the most effective and meaningful way for our members. Close to 100 staff will have completed the program by the end of 2010 - a positive step in improving our competitiveness whilst maintaining our strong service culture.

Supporting our employee's health and wellbeing

We are proud to have been recognised as a finalist at the 2009 HR Leadership Awards in the category of "Best Health and Well-Being Strategy". Some of our initiatives include subsidised Pilates classes, an annual free health expo with tests such as blood pressure provided, free swine flu and flu shots, and ongoing fresh fruit in the workplace. Our focus for the coming year will be addressing issues related to Mental Health in the workplace. We will work with our long standing partner, IPS, to implement additional initiatives to ensure our employees have the support they need.

Engaging our staff in community and environmental initiatives

It is important that our staff are a part of our community and environmental initiatives. Our Charity Day Committee are a new group this year responsible for engaging staff with our quarterly charity events, and we have a new dedicated section within our intranet for communicating our initiatives and generating feedback from staff. This year we began a new initiative of visiting Stewart House with a group of staff, one of our longstanding community partners, to increase knowledge and engagement with them.

Our 2010 employee satisfaction rating and engagement score is

86%

Our staff participating in the Business Clean Up Australia Day

community

Promoting financial literacy

In 2009 we launched a new community program in WA to assist financial literacy initiatives in public schools, with the aim to assist teachers to empower their students with financial awareness. Through Financial Insight we distributed 10 grants of $2,500 each to projects that promote managing money, saving, budgeting and other financial concepts, the impact of financial decisions, and more .

We have also partnered with the NSW Department of Education and Training Northern Sydney Region to pilot a financial literacy initiative with Year 9 and 10 Commerce students, using the new laptops and associated software. This initiative could be expanded in other regions following this pilot year.

Giving future teachers a helping hand

We have again provided 5 scholarships of $5,000 to students studying education, including 4 undergraduates and 1 postgraduate. The 2010 Future Teacher Scholarships were awarded to:

- Rebecca Sanson-Vandyk, studying at Charles Sturt University in NSW
- Satasha Savea, studying at Australian College of Physical Education in NSW
- Arthur Tonkin, studying at Macquarie University in NSW
- Brooke Brown, studying at University of Canberra in ACT
- Rachel Allen, studying at University of Western Sydney in NSW.

These scholarships will again be offered for 2011.

We have been the major sponsor of the NSW concert series for the past 14 years, as part of our widespread sponsorship of the Arts and Drama in NSW public schools.

This year we've invested

$532,000

in the education community

Creating financially savy students at East Carnarvon Primary School in WA

Thanks to a $2500 Financial Insight grant, students are bidding on Easter eggs, craft materials and dinosaur books! The 'Class Bankbooks and Weekly Auction' program is designed to teach students from an early age to better manage their money. It includes daily monitoring of finances, with students managing their class bank books and entering debits (for e.g. for tardiness) or credits (for e.g. effort, kindness etc.).

A $50 gift voucher is awarded to the student with the highest Bankbook balance at the end of the term. Students have the incentive to save, or they can choose to spend at weekly auctions which allow them to learn the consequences of their purchasing choices. As one student said "I've learnt that I don't have to spend just because I can".

financial insight
supporting financial literacy

"I believe it is paramount that our students learn financial literacy from a young age. Giving my students regular opportunities to engage in practices that grow their financial knowledge is a way of empowering them. I'm already seeing their confidence grow and their desire to earn and manage their own finances effectively."

Jenny Street, East Carnarvon Public School (pictured left)

Crystal Creek Public School students collecting eggs in their chook pen

Since 2008 the Teachers Environment Fund has distributed

$110,000

to 34 public schools and TAFEs across NSW, ACT, NT and WA

Hatching students' interest in sustainable living

A $4,655 grant from the Teachers Environment Fund has allowed Crystal Creek Public School in NSW to construct a vegetable garden and chicken pen. Students have raised baby chicks, even 'chicken-sitting' on the weekends until the birds were old enough to lay eggs. Now responsible for the fully grown chickens, students sell eggs to parents for $4 per dozen. Each class participated in planting vegetables, tending to the crop of corn, pumpkin and herbs. They're now sampling the produce through food from the school canteen.

Teacher Louise Dunn has overseen the program and said the project has helped create a successful learning environment at the school with valuable lessons on sustainability. The project draws links to all curriculum learning areas, especially science, where units on the life cycle of chickens as part of biology class were incorporated.

"Students are seeing and learning where vegetables, chickens and eggs come from, and how easy it is to live in a sustainable environment," Principal Mark Davis said. "This program gives the kids a chance to succeed and it creates a culture of healthy sustainable living."

environment

Helping teachers realise their environmental projects

teachers environment fund

Since 2008 the Teachers Environment Fund has distributed $110,000 to 34 public schools and TAFEs across NSW, ACT, NT and WA . This initiative assists long-term environmental projects that not only benefit the environment, but provide a practical cross-curricula teaching example to embed sustainability into student's thinking. We have supported projects such as sustainable gardens, native tree planting, indigenous creeks and worm farms. Often the benefits have not only been environmental, but have numerous social benefits – for e.g. promoting healthy eating.

Participating in the Blacktown Solar Cities initiative

We've begun a comprehensive review of our energy and water consumption of our second largest office – Rooty Hill - as part of the Blacktown Solar City Business Energy Efficiency Program. To facilitate this, we've employed the expertise of Big Switch Projects – a consultancy specialising in enhancing efficiency of existing buildings. This audit has identified energy and water efficiency measures which will be implemented to ensure we are continually working towards reducing our environmental impact.

Crystal Creek Public School students in their vegetable garden

key results

Key Performance Indicator	2009-10	2008-09	2007-08
Overall			
Corporate Responsibility Index (CRI) overall score	N/A[1]	69%	52%
Members			
Member satisfaction rating	87%	N/A	93%
CANSTAR CANNEX member valuation	$235.63	$229.80	$530
Mobile offices and business centres held	64	54	71
Home loan and investment seminars held	38	40	51
Formal complaints received by external bodies	13	12	8
Members assisted through the Credit Assistance service	213 members	39 members[2]	N/A
Community			
Total community investment	$532,335	$497,787	$465,225
Conferences supported	111	94	92
Employee fundraising	$20,289	$24,765	$21,759
Environment			
Paper recycled	65 tonnes	63 tonnes	42 tonnes
Waste generated	60 tonnes, 153 kg per FTE	54.4 tonnes, 154 kg per FTE	82.7 tonnes, 240kg per FTE
Paper consumed	6,659 sheets per FTE	4,616 sheets per FTE	10,106 sheets per FTE
GHG emissions generated	2168 tonnes, 5.8 tonnes per FTE	1975 tonnes, 5.6 tonnes per FTE	1854 tonnes, 5.4 tonnes per FTE
Toner cartridges recycled	266 kg	323 kg	358 kg
Water consumed	18, 705 litres per FTE	17,663 litres per FTE	11,781 litres per FTE
Employees			
% of females in management	37.5%	49%	37%
Employee satisfaction	86%	N/A[3]	90%
Staff engagement rating	86%[4]	86% (32% above the average)	N/A[5]
Employee turnover rate	5.6%	7.97%	8.02%
Employees currently studying	22%	20%	22%
Study leave days granted	330	185	109
Number of workers compensation claims	6	5	7
Number of accident statistics reported	36	38	37
Number of new OH&S Programs	3	3	N/A
Staff satisfaction with OH&S	92%	N/A	99%
Average lost time incident rate (in days)	6.6	4.6	N/A

[1] We did not participate in the CRI this year. [2] This service was launched in its current format in April 2009. [3] We did not undertake a staff satisfaction survey over this calendar year, instead participating in the 2008 Hewitt Best Employers in Australia and New Zealand Study, which measured our staff engagement rating. [4] This was measured as part of our 2010 staff satisfaction survey. [5] 2008 was the first year we participated in the study to determine our engagement score.

Targets	Progress	Comments
Overall		
Achieve at least a bronze rating in the 2010 CRI	In progress	Results will be published in May 2011
Members		
Achieve member satisfaction ratings at or above 90%	✗	Our 2010 member satisfaction result was 87%
Continue to implement technology for the benefit of members	✓	For example we introduced mobile banking and expanded our online applications
We will increase our presence in regional areas	✓	Over the reporting period we opened an expanded office in Newcastle
We will introduce a set of responsible lending principles to formalise our existing approach and make our policy accessible to our members	✓	These were implemented in April 2010
Community		
Continue to foster effective relationships with our community	✓	Half yearly or quarterly meetings are held with each major community stakeholder
Continue to support the professional development of teachers through support of teacher conferences	✓	We supported 111 conferences over the reporting period
Deliver the Teachers Environment Fund, funding at least 6 projects per year, and Future Teacher Scholarships, at least 4 per year, for the benefit of the education community	✓	We funded 19 Teachers Environment Fund projects, and 5 Future Teacher Scholarships
Maintain our minimum commitment of 3% NPAT on corporate responsibility initiatives	✓	Our commitment was 3.3% based on 08-09 profit figures
Engage in a financial literacy initiative in 2009	✓	We launched our Financial Insight initiative in WA in February 2010, and distributed 10 $2,500 grants in April 2010. We will continue this program in 2010-11
We will investigate implementing a Reconciliation Action Plan (RAP)	✓	We attended a workshop delivered by Reconciliation Australia and have begun to built our RAP strategy. Our revised target is to implement our RAP by June 2011
Employees		
Maintain employee satisfaction rating at or above 85%	✓	Our current employee satisfaction rating is 86%
Maintain employee engagement at or above 80%	✓	Our current employee engagement rating is 86%
Be recognised as an Employer of Choice	✓	For the third year running we achieved the EOWA Employer of Choice for Women citation, one of only 95 other organisations in the country.
Maintain staff turnover at least 5% below industry average	✓	We were 12.26% less than the industry average
Have at least 10% of employees undertaking tertiary study	✓	22% of employees are currently studying
We will continue to develop policy and procedures that reflect best practice in employee relations	✓	This year for example we launched our Diversity Policy
Increase opportunities for work/life balance	✓	We implemented our 'Working from home' policy which allows all staff the opportunity to apply for a working from home arrangement
Meet KPIs in OH&S	✓	These were met and will be reviewed
Environment		
Maintain the green energy component of our energy supply and embed this provision in our Rooty Hill contract	✓	This was embedded, and 25% was also embedded for our Newcastle office
Introduce new technology and processes to reduce paper wastage and improve efficiency, as well as continue to educate staff on paper reduction	✓	We removed 15% of our printer fleet this reporting period
Reduce energy consumption by 5% per FTE employee. For all IT equipment replaced, an item of greater energy efficiency to be purchased	✗	Our energy consumption remains steady despite new premises - attributed to the recent removal of 30% of our data servers
For every new car purchased for our fleet it must achieve at least a 3 star rating in the Green Vehicle Guide	✓	
Reduce waste to landfill by 40% on 2007-08 statistics.	✗	Our waste was reduced by 27% on 07-08 statistics

Directors' report

Your Directors present their report on the credit union for the financial year ended 30th June 2010.

The credit union is a company registered under the Corporations Act (Cth) 2001.

Information on Directors

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

John Kouimanos (Chairperson)

BA, Dip. Ed. Fellow of Australasian Mutuals Institute

John Kouimanos commenced teaching in 1967 and retired as Head Teacher Social Sciences at Greystanes High School in February 2004. He was a member of the Supervisory Committee for six months and has served as a Director since 1974. Mr Kouimanos is a member of the Audit, Risk and Compliance Committee and the Board Remuneration Committee.

Linda Green (Deputy Chairperson)

Dip. Teach, B.Ed (Primary Education), Member of Australasian Mutuals Institute

Linda Green commenced teaching in 1979 and is currently Principal of Robert Townson Primary School. She served as a member of the Supervisory Committee for two years and was elected to the Board in 1997 and as Deputy Chairperson in 2009. Mrs Green is Chairperson of the Marketing, Media and Member Relations Committee and the Nominations Committee, and a member of the Development and Education and Board Remuneration Committees.

Michelene Collopy (Director)

B.Ec, CA (FPS)

Michelene Collopy has over 20 years experience in financial markets and has held senior roles in compliance, funds management, treasury and financial reporting. Michelene is currently a Director of Perpetual Superannuation Limited and is on the Compliance Committee of Antares Investment Ltd (a NabCapital subsidiary), and works as a consultant for Manresa Financial Services Pty Ltd. Ms Collopy is a qualified chartered accountant and financial planning specialist, a registered company auditor, licensed operator on the Australian Stock Exchange, and Justice of the Peace. She is Chairperson of the Audit, Risk and Compliance and Board Reporting Committees, and a member of the Board Remuneration Committee.

Tony FitzGerald (Director)

B.Ec, Fellow of FINSIA and JP

Tony FitzGerald has over 36 years experience in the financial services sector and is currently the non-Executive Chairman of Colonial First State Global Asset Management's Credit Committee, the asset management division of the Commonwealth Bank of Australia. He is also a member of the Board Finance Committee of the Royal Australasian College of Physicians. Tony brings to the Board extensive experience in credit and risk management, having held senior roles in Australia, Europe, Asia and the U.S.

Stuart Jacob (Director)

B.Ec, Dip. Ed. Member of Australasian Mutuals Institute

Stuart Jacob commenced teaching in 1966 and retired in 2005 following 18 years as Deputy Principal of East Hills Boys Technology High. He has served on the Supervisory Committee since 1974. He served 6 years as a Board appointed Director from 1991 - 1997 and was reappointed in 2008. He is a member of the Development and Education, Marketing, Media and Member Relations, and Board Reporting Committees. Mr Jacob is also a Director of Q.T. Travel Pty. Ltd (Diploma Travel).

Jennifer Leete (Director)

BA, Dip. Ed. Member of Australasian Mutuals Institute

Jennifer Leete commenced teaching in 1977. Her last teaching position was as Head Teacher Social Sciences at Narrabeen High School. She became an organiser for the NSW Teachers Federation in 1989 and was the Deputy President of the Federation from 1998 to 2005. Ms Leete was elected as a Director in October 2005 and is currently employed as a Senior Education Officer in the Professional Learning and Leadership Development Directorate of the DET. She is Chairperson of the Development and Education Committee, and a member of the Marketing, Media and Member Relations Committee.

Graeme Lockwood (Director)

Dip. Tech, Grad Dip C.Ed. Member of Australasian Mutuals Institute, Member of Australian Institute of Company Directors

Graeme Lockwood commenced teaching in 1974 and is currently Head Teacher (Administration) at Normanhurst Boys High School. He served on the Supervisory Committee and Members Committee for many years and was elected to the Board in 2004. He is a member of the Audit, Risk and Compliance Committee, and was a member of the Board Remuneration Committee.

Connuil McEvedy (Director)

MBT, Grad Dip Bus (Applied Corporate Governance), Grad Dip Science (Security), Grad Cert Engineering (Risk). Chartered Company Secretary, Certified Compliance Professional, Certified Business Continuity Professional and Justice of the Peace. Member of the Australasian Compliance Institute, the Australian Institute of Management, the Risk Management Institute of Australia, Australasian Mutuals Institute and the Australian Institute of Company Directors.

Connuil McEvedy has over twenty years experience in risk management, compliance, governance and audit and currently is the Executive Manager, Risk Management & Compliance for CFSGAM Property and CFSGAM Infrastructure at Colonial First State Global Asset Management, the consolidated asset management division of Commonwealth Bank of Australia group. Mr McEvedy has worked for state and federal public-sector agencies as well as listed and unlisted private-sector organisations across Australia and around the world in financial services, law, information technology, gaming and telecommunications. He is a member of the Audit, Risk and Compliance Committee, the Nominations Committee, and the Chair of Board Reporting Committee from October 2009.

Maree O'Halloran (Director)

BA, Dip. Ed, BLegS, GradDipLP

Maree O'Halloran is the Director and a solicitor at the Welfare Rights Centre which specialises in Social Security law. She has been a teacher in public schools, TAFE and Corrective Services. She has been an active voice for the teaching community, having served in numerous positions, including president, of the NSW Teachers Federation, and served as a Director of Teachers Federation Health and the SAS Trustee Corporation. She is a member of the Marketing, Media and Member Relations Committee and the Nominations Committee.

Company secretaries

The names of the Company Secretaries in office at the end of the year are:

Steve James (Chief Executive)

Master of Business Administration (UWS), Diploma in Company Directors Course (AICD), Advanced Accounting Certificate (TAFE). Fellow of Australasian Mutuals Institute, Graduate Member of Australian Institute of Company Directors, Associate Fellow of Australian Institute of Management.

Commenced working for Teachers Credit Union in 1979. Has filled a variety of senior management roles in finance, operations and executive management. He became Chief Executive in 2005 and has been an active participant on national credit union committees.

Brad Hedgman (Deputy Chief Executive)

Master of Business (UTS), Graduate Certificate in Business & Technology (UNSW), Diploma in Company Directors Course (AICD). Graduate Member of Australian Institute Company Directors, Member of Australasian Mutuals Institute, a Fellow of Finsia.

Commenced working for Teachers Credit Union in 1982. Has filled various accounting and management roles including Finance Manager, Corporate Information Manager, General Manager – Finance and Administration. Is a member of the ALCO and the Products and Services Group. Attends Board Meetings and Audit and Risk Committee Meetings. Is a Director of Q.T. Travel Pty. Ltd. (Diploma Travel).

Directors' benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the credit union, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 29 of the complete set of financial statements.

Directors' board meetings

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows:

Total board meetings: 18
(eligible number shown in brackets)

Board meetings attended by:	John Kouimanos	18
	Linda Green	18
	Brian Carlin[1]	4 (4)
	Michelene Collopy	17
	Tony FitzGerald[2]	4 (4)
	Stuart Jacob	16
	Jennifer Leete	17
	Graeme Lockwood	17
	Richard McCauley[3]	4 (4)
	Connuil McEvedy	16
	Maree O'Halloran[4]	14 (14)

[1]Brian Carlin was not re-elected and stood down in October 2009.
[2]Tony FitzGerald was appointed to the Board in May 2010.
[3]Richard McCauley retired in October 2009.
[4]Maree O'Halloran was elected to the Board in October 2009.
Leave of absence was granted where Directors were unable to attend Board meetings.

Committees of Directors' meetings

The number of meetings held for the committees of Directors during the year and the number of meetings attended by each Director was as follows:

	Audit, Risk and Compliance	Marketing, Media and Member Relations	Development and Education	Board Reporting	Remuneration Committee
Total meetings (eligible number shown in brackets)	4	3	2	2	2
John Kouimanos	4			2	2
Linda Green		3	2		2
Brian Carlin[1]		1 (1)	1 (1)		
Michelene Collopy	4			2	2
Tony FitzGerald[2]					
Stuart Jacob		2 (2)	1 (1)	1	
Jennifer Leete		3	2		
Graeme Lockwood	4				
Richard McCauley[3]		1 (1)			
Connuil McEvedy	4			2	
Maree O'Halloran[4]		1 (2)			

[1]Brian Carlin was not re-elected and stood down in October 2009.
[2]Tony FitzGerald was appointed to the Board in May 2010.
[3]Richard McCauley retired in October 2009.
[4]Maree O'Halloran was appointed to the Marketing Media and Member Relations Committee in October 2009.
Leave of absence was granted where Directors were unable to attend any of the above meetings.

The Nominations Committee, consisting of Linda Green (Chair), Maree O'Halloran, Connuil McEvedy and an independent member, first met 30th July 2010.

Indemnifying officers or auditors

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

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

Financial performance disclosures

Principal activities

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

No significant changes in the nature of these activities occurred during the year.

Operating results

The net profit of the credit union for the year after providing for income tax was $24.7 million (2009 $17.6 million).

Dividends

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

Review of operations

The results of the credit union's operations from its activities of providing financial services did not change significantly from those of the previous year.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the credit union during the year.

Events occurring after balance date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the credit union in subsequent financial years except that on 4th August 2010, Standard & Poor's Ratings Services[1] announced BBB+/Stable/A-2 counterparty credit ratings[2] on Teachers Credit Union Limited. The Directors believe this will provide better access to wholesale and institutional funds and may reduce the cost of funds from these counterparties.

[1] Standard & Poor's (Australia) Pty. Ltd. holds Australian financial services license number 337565 under the Corporations Act 2001. Standard & Poor's credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

[2] Credit ratings are statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Credit ratings are subject to change. For the latest credit ratings information please refer to www.standardandpoors.com.au

Likely developments and results

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

(i) The operations of the credit union;

(ii) The results of those operations; or

(iii) The state of affairs of the credit union in the financial years subsequent to this financial year.

Auditors' independence

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

Rounding

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Class Order 98/100 (as amended by 06/709). The credit union is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures which are shown in whole dollars.

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

Signed on behalf of the Board by:

John Kouimanos, Chairman

Michelene Collopy, Chairperson of Audit, Risk and Compliance Committee

Signed and dated this 30th August 2010

Declaration of independence

To the best of my knowledge and belief, for the year ended 30th June 2010 that 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.

Wayne Basford, Director

Dated 27th August 2010
BDO Audit (NSW-VIC) Pty Ltd
Chartered Accountants
Level 19, 2 Market Street
Sydney NSW 2000

Directors' declaration

The Directors of Teachers Credit Union Limited declare that:

The financial statements comprising the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows and accompanying notes, are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting Standards and the Corporations Regulations 2001; and

(b) give a true and fair view of the financial position of the credit union as at 30th June 2010 and performance for the year ended on that date.

The credit union has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

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

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

Signed on behalf of the Board by:

John Kouimanos, Chairman

Signed and dated this 30th August 2010

Independent auditor's report

To the members of Teachers Credit Union Limited.

Report on the complete set of financial statements

We have audited the accompanying complete set of financial statements of Teachers Credit Union Limited, which comprises the statement of financial position as at 30th June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration.

Directors' responsibility for the complete set of financial statements

The Directors of the credit union are responsible for the preparation and fair presentation of the complete set of financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the complete set of financial statements that is free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the complete set of financial statements, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the Directors of Teachers Credit Union Limited, would be in the same terms if provided to the Directors at the time that this auditor's report was made.

Auditor's opinion

In our opinion:

a. the complete set of financial statements of Teachers Credit Union Limited is in accordance with the Corporations Act 2001, including:

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

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

b. the complete set of financial statements also complies with International Financial Reporting Standards as disclosed.

Wayne Basford, Director

Dated 30th August 2010
BDO Audit (NSW-VIC) Pty Ltd
Chartered Accountants
Level 19, 2 Market Street
Sydney NSW 2000

financial statements

Contents

Statement of comprehensive income

For the year ended 30th June 2010

		Note	2010 $'000	2009 $'000
Interest revenue		2.a	183,652	196,581
Interest expense		2.c	(103,412)	(131,969)
Net interest income			80,240	64,612
Fee, commission and other income		2.b	20,440	25,233
Sub total			100,680	89,845
Less:	Non interest expenses			
	Impairment losses on loans and advances	2.d	(2,244)	(3,924)
	General administration	2.f		
	- Employees compensation and benefits		(32,427)	(29,759)
	- Depreciation and amortisation		(4,381)	(3,999)
	- Transaction expenses		(10,231)	(11,876)
	- Information technology		(4,181)	(3,449)
	- Office occupancy		(2,170)	(1,943)
	- Other administration		(10,128)	(11,122)
	Total general administration		(63,518)	(62,148)
Total non interest expenses			(65,762)	(66,072)
Profit before income tax			34,918	23,773
Income tax expense		3	(10,249)	(6,215)
Profit after income tax			24,669	17,558
Other comprehensive income				
Non-operating income received on transfer of engagement				
	- The TAFE & Community Credit Union Ltd		-	2,507
Total comprehensive income			24,669	20,065

Statement of changes in member equity

For the year ended 30th June 2010

	Capital reserve $'000	General reserve for credit losses $'000	Retained earnings $'000	Total members' equity $'000
Total at 1st July 2008	148	13,491	202,636	216,275
Movement in value on available for sale assets	-	-	-	-
Sub total	148	13,491	202,636	216,275
Income and expense recognised directly in equity	-	-	-	-
Profit for the year	-	-	17,558	17,558
Total income and expense for year	-		17,558	17,558
Receipts from transfer of engagement	-	-	2,507	2,507
Transfers to (from) reserves	93	1,078	(1,171)	-
Total at 30th June 2009	241	14,569	221,530	236,340
Total at 1st July 2009	241	14,569	221,530	236,340
Movement in value on available for sale assets	-	-	-	-
Sub total	241	14,569	221,530	236,340
Income and expense recognised directly in equity	-	-	-	-
Profit for the year	-	-	24,669	24,669
Total income and expense for year	-	-	24,669	24,669
Receipts from transfer of engagement	-	-	-	-
Transfers to (from) reserves	88	1,810	(1,898)	-
Total at 30th June 2010	329	16,379	244,301	261,009

Statement of financial position

For the year ended 30th June 2010

	Note	2010 $'000	2009 $'000
Assets			
Cash	4	19,351	14,720
Receivables from financial institutions	5	591,000	635,220
Receivables	6	18,103	14,224
Prepayments		1,959	1,295
Loans and advances to members	7 & 8	2,432,591	2,193,395
Available for sale investments	9	4,383	4,383
Property, plant and equipment	10	25,011	23,948
Taxation assets	11	4,543	3,889
Intangible assets	12	1,853	1,855
Total assets		3,098,794	2,892,929
Liabilities			
Borrowings	13	-	-
Financial institution deposits		58,993	-
Wholesale deposits		21,110	24,630
Retail deposits	14	2,728,721	2,608,349
Creditor accruals and settlement accounts	15	14,790	11,643
Taxation liabilities	16	3,265	1,923
Provisions	17	10,906	9,910
Deferred tax liability	18	-	134
Total liabilities		2,837,785	2,656,589
Net assets		261,009	236,340
Members' equity			
Capital reserve account	19	329	241
General reserve for credit losses	20	16,379	14,569
Retained earnings		244,301	221,530
Total members' equity		261,009	236,340

Statement of cash flows

For the year ended 30th June 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Interest received		176,882	194,793
Fees and commissions		18,068	19,307
Dividends received		552	2,554
Other non interest income received		954	2,770
Interest paid on deposits		(106,791)	(125,478)
Borrowing costs		(54)	(663)
Expenses paid to suppliers and staff		(59,783)	(58,901)
Income tax paid		(9,835)	(4,551)
Net increase in loans and advances to members		(240,385)	(155,233)
Net increase in retail deposits		130,096	609,051
Net cash flows from operating activities	34.b	(90,296)	483,649
Cash flows from investing activities			
Acquisition of property, plant and equipment		(4,414)	(3,836)
Acquisition of intangible assets		(986)	(1,487)
Sale of property, plant and equipment		211	293
Increase in deposits with other financial institutions		44,220	(298,896)
Net cash received on transfer of engagement		-	1,016
Net cash flows used in investing activities		39,031	(302,910)
Cash flows from financing activities			
Increase/(decrease) in borrowings		-	(38,000)
Increase/(decrease) in financial institution deposits		58,500	(104,374)
Increase/(decrease) in wholesale deposits		(2,604)	(22,906)
Net cash flows from (used in) financing activities		55,896	(165,280)
Net increase/(decrease) in cash held		4,631	15,459
Add opening cash brought forward		14,720	(739)
Closing cash carried forward	34.a	19,351	14,720

Notes to the financial statements

1. Statement of accounting policies

This complete set of financial statements is prepared for Teachers Credit Union Limited as a single entity, for the year ended the 30th June 2010. The report was authorised for issue on the 30th August 2010, in accordance with a resolution of the Board of Directors. The complete set of financial statements is presented in Australian dollars. The complete set of financial statements is a general purpose complete set of financial statements which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), Interpretations of the Australian Accounting Standards Board, 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 for the treatment of Employee Entitlements stated in Note 1m. and Leasehold make good costs stated in Note 1n. The accounting policies are consistent with the prior year unless otherwise stated.

b. Loans to members

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 statement of comprehensive income 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 the credit union at balance date, less any allowance or provision against debts considered doubtful.

Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Bad debts are written off when identified and are recognised as expenses in the statement of comprehensive income.

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

Non-accrual loans are loans and advances, including savings accounts drawn past their approved credit limit, where the recovery of all interest and principal is considered to be reasonably doubtful. Interest charged and not received on this class of loan is not recognised as revenue. Australian Prudential Regulation Authority (APRA) has made it mandatory that interest is not recognised as revenue after irregularity exceeds 90 days for a loan facility, or 14 days for an over limit overdraft and credit card facility, or 14 days for overdrawn savings account.

Restructured loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities of comparable risk. Loans, where interest has been stopped or is less than the credit union's average cost of funds, are included in non-accrual loans.

Assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

Past-due loans are loans where payments of principal and/or interest are at least 30 days in arrears that are not non-accrual loans or restructured loans. Full recovery of both principal and interest is expected.

Interest earned

Variable and fixed rate loans Loan interest is calculated on the daily balance outstanding and is charged in arrears on the last day of each month. All home loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.

Fixed interest loans Loan interest is calculated at a fixed rate on the daily balance and is charged in arrears on the last day of each month.

Overdrafts Loan interest is calculated on the daily balance outstanding and is charged in arrears on the last day of each month.

Overdrawn savings Loan interest is calculated on the daily balance outstanding and is charged in arrears on the last day of each month.

Credit cards Loan interest is calculated on the outstanding balance, after any interest free period applicable, that has not been paid for by the due date. Interest is charged in arrears on the last day of the statement period.

Balance offset loans Loan interest is calculated on the same basis as variable rate loans but with the daily balance outstanding reduced by 65% of the balance held in the Balance Offset Savings Account for that day.

Green loans Payments received under the Australian Government Green Loans Program are recognised as interest upon receipt.

Loan origination fees

Loan establishment fees are initially deferred as part of the loan balance, 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.

Transaction costs

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

Fees on loans

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

c. Loan impairment

Specific provision

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board of Directors to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8.

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

Reserve for credit losses

In addition to the above specific provision, the board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. The reserve is based on estimation of risks inherent in the business of the credit union but which are not capable of being specifically identified. It is determined at the rate of 0.60% of the aggregate of all drawn on-statement of financial position loans, redraw rights attaching to loans paid in advance and irrevocable credit commitments.

d. Bad debts written off

Loan balances are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are recognised as expenses in the statement of comprehensive income.

e. Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation, less impairment losses.

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

- Buildings - 40 years.
- Leasehold improvements - up to 5 years (term of lease).
- Plant and equipment - 2.5 to 7 years.

f. Intangible assets

Under IFRS, items of computer software which are not integral to the computer hardware owned by the credit union are classified as intangible assets, not as part of plant, property and equipment.

Computer software held as intangible assets is amortised over the expected useful life of the software - 2.5 to 4 years.

g. Receivables from financial institutions

Term deposits, Bank Bills and Negotiable Certificates of Deposit (NCDs) are unsecured and have a carrying amount equal to their purchase price. 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 statement of financial position.

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

i. Retail deposits

Basis for determination

Retail savings and term deposits are quoted at the aggregate amount of money owing to depositors.

Interest payable

Savings Savings account interest is calculated on the daily balance and credited monthly.

S14 and S29 Mortgage Breaker accounts Savings balance is offset against the loan account as described in Balance Offset Loans in Note 1b.

Fixed term deposits Interest on fixed term deposit accounts is calculated on a daily basis at the agreed rate and is paid in accordance with the terms of the deposit. Interest payable is included in the amount of retail deposits in the statement of financial position.

j. Wholesale deposits

Basis for determination

Term deposits are quoted at the aggregate amount of money owing to depositors.

Interest payable

Interest on fixed term deposit accounts is calculated on a daily basis at the agreed rate and is paid in accordance with the terms of the deposit. Interest payable is included in the amount of wholesale deposits in the statement of financial position.

k. Financial institution deposits

Basis for determination

Term deposits are quoted at the aggregate amount of money owing to depositors.

Interest payable

Interest on fixed term deposit accounts is calculated on a daily basis at the agreed rate and is paid in accordance with the terms of the deposit. Interest payable is included in the amount of financial institution deposits in the statement of financial position.

l. Borrowings

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

m. Provision for employee benefits

Provision is made for the company's liability for employee entitlements arising from service rendered by employees to balance date. Employee entitlements expected to be settled within one year, liability for termination of employment contracts and entitlements arising from wages, salaries and annual leave including annual leave loading have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability, are used.

Employee entitlements expenses and revenues arising in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- Other types of employee entitlements are charged against profits on a net basis in their respective categories.

n. Leasehold on premises

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

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted at the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability. Increases in the provision in future years shall be recognised as part of the interest expense.

o. Income tax

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

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

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

p. Goods and services tax (GST)

As a financial institution the credit union 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 purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

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

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

q. Business Combinations

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued, the value of the equity instruments is their market value as at the date of exchange unless, in rare circumstances it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The transaction costs of acquiring the business other than for the issue of equity instruments, such as due diligence costs legal and accounting fees, are to be expensed as incurred by the credit union as part of operating expenses.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised in equity [previously these were recognised in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired].

r. Impairment of assets

At each reporting date the credit union 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 statement of comprehensive income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

s. Accounting estimates and judgements

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

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

t. New standards applicable for the current year

The credit union applies the current revised accounting standards applicable for financial years commencing the 1st January 2009.

AASB 101

Presentation of financial statements which amended the name of some statements such as the balance sheet, income statement and the cash flow statement. The revised standard also requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the credit union had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

AASB 3

Business acquisitions which amended the accounting treatment of the transfer of business – refer note 1q.

AASB 7

Amended disclosures about financial instruments measured at fair value and enhanced the disclosures over liquidity risks.

u. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30th June 2010 reporting periods. The credit union'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 9 Financial Instruments - Issued December 2009.	Amends the requirements for classification and measurement of financial assets.	Periods beginning on or after 1st January 2013.	Due to the recent release of these amendments and that adoption is only mandatory for the 30th June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.

2. Income statement

a. Analysis of interest revenue

	2010 $'000	2009 $'000
Interest revenue on assets carried at amortised cost		
Cash - deposits at call	443	449
Receivables from financial institutions	23,747	29,981
Loans and advances to members	159,462	166,143
Other	-	8
Total interest revenue	183,652	196,581

b. Non-interest revenue comprises

	2010 $'000	2009 $'000
Fee and commission revenue		
Loan fee income - other than loan origination fees	1,987	2,234
Other fee income	8,213	9,918
Insurance commissions	3,142	2,788
Other commissions	4,534	4,396
Total fee and commission revenue	17,876	19,336
Other income		
Dividends received on available for sale assets	552	2,554
Bad debts recovered	1,055	730
Gain on disposal of assets:		
- Property, plant and equipment	230	322
Transfers from provisions:		
- Impairment losses on loans and advances (see also Note 2d)	-	1,633
- Environment fund	2	5
- Director development (see also Note 2f)	2	-
Miscellaneous revenue	723	653
Total non interest revenue	20,440	25,233

c. Interest expenses

	2010 $'000	2009 $'000
Interest expense on liabilities carried at amortised cost		
Overdraft	54	209
Short term borrowing	-	424
Financial institution deposits	881	3,708
Wholesale deposits	1,214	3,032
Retail deposits	101,261	124,596
Other	2	-
Total interest expenses	103,412	131,969

d. Impairment losses

	2010 $'000	2009 $'000
Loans and advances carried at amortised cost		
Increase in provision for impairment (see also Note 2b)	567	-
Bad debts written off directly against profit	1,677	3,924
Total impairment losses	2,244	3,924

e. Individually significant items of expenditure (detail)

There are no items of revenue and expense considered to be significant to the understanding of the credit union's financial performance.

f. Prescribed expense disclosures

		2010 $'000	2009 $'000
Employees costs include			
Personnel costs		29,075	26,443
Superannuation contributions		2,354	2,296
Net movement in provisions for employee annual leave		98	256
Net movement in provisions for employee long service leave		887	758
Net movement in provisions for employee sick leave		13	6
Sub total		32,427	29,759
Depreciation expense comprises			
Buildings		537	535
Plant and equipment		3,445	2,867
Leasehold improvements (incl. Lease make good prov.)		170	119
Written down value of assets disposed		229	478
Sub total		4,381	3,999
Auditor's remuneration (excluding GST)			
Audit fees		128	127
Other services:	- taxation	16	7
	- compliance	-	-
	- other	14	3
Sub total		158	137
Other operating expenses include			
Transaction expenses		10,231	11,876
Information technology		4,181	3,449
Office occupancy		2,170	1,943
Net movement in provisions for Director development (see also Note 2b)		-	91
Other administration		9,970	10,894
Sub total		26,552	28,253
Total non interest expense		63,518	62,148

3. Income tax expense

a. The income tax expense comprises amounts set aside as

	2010 $'000	2009 $'000
Provision for income tax - current year	11,042	6,091
Under (over) provision in prior years	(2)	18
Increase (decrease) in the deferred tax liability	(134)	8
Decrease (increase) in the deferred tax asset	(657)	98
Income tax expense attributable to profit	10,249	6,215

b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:

		2010 $'000	2009 $'000
Profit		35,101	24,867
Prima facie tax payable on operating profit before income tax at 30%		10,530	7,460
Add: - tax effect of expenses not deductible			
Other non-deductible expenses		40	42
Subtotal		10,570	7,502
Add (less):	- Adjustment to recognise deferred tax assets at 30%	575	(309)
Add (less):	- Adjustment to recognise deferred tax liability at 30%	134	(8)
Less:	- Franking rebate	(237)	(1,094)
Current Income tax provision attributable to profit		11,042	6,091

c. Franking credits

	2010 $'000	2009 $'000
Franking credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year	93,748	83,893

4. Cash

	2010 $'000	2009 $'000
Cash on hand and deposits at call	19,351	14,720

5. Receivables from financial institutions

	2010 $'000	2009 $'000
Receivables from financial institutions	591,000	635,220

6. Receivables

	2010 $'000	2009 $'000
Interest receivable on deposits with other financial institutions	10,954	4,146
Sundry debtors and settlement accounts	7,149	10,078
Total receivables	18,103	14,224

7. Loans and advances

a. Amount due comprises

	2010 $'000	2009 $'000
Overdrafts and credit cards	88,031	81,234
Term loans	2,346,575	2,112,845
Overdrawn savings	539	443
Sub total	2,435,145	2,194,522
Add: - Amortised loan origination fees	(413)	447
Subtotal	2,434,732	2,194,969
Less: - Provision for impaired loans (Note 8)	(2,141)	(1,574)
Total loans and advances to members	2,432,591	2,193,395

b. Credit quality - security held against loans

Secured by mortgage over business assets	-	-
Secured by mortgage over real estate	2,109,509	1,858,019
Partly secured by goods mortgage	57,384	41,444
Wholly unsecured	268,252	295,059
Total	2,435,145	2,194,522

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 80%	1,452,370	1,257,889
- Loan to valuation ratio of more than 80% but mortgage insured	404,540	260,013
- Loan to valuation ratio of more than 80% and not mortgage insured	252,599	340,117
Total	2,109,509	1,858,019

c. Concentration of loans

The values discussed below include on statement of financial position values and off statement of financial position undrawn facilities as described in Note 26.

i) There are no members who individually or collectively have loans, which represent 10% or more of members' equity.

ii) Details of classes of loans, which represent in aggregate, 10% or more of members' equity, are set out below.

This information was derived from the credit union's records of Direct Entry receipts.

Balance of loans held by memberships who are receiving payments from		
NSW Department of Education and Training	1,211,474	1,131,014
State Super Financial Services	59,551	56,974
ACT Department of Treasury	44,372	35,303
Catholic Education Office	37,601	32,475
Teachers Credit Union staff	27,578	22,432
Total	1,380,576	1,278,198

	2010 Number	2009 Number
Number of memberships with loans who are receiving payments from		
NSW Department of Education and Training	18,009	17,989
State Super Financial Services	1,603	1,457
ACT Department of Treasury	522	483
Catholic Education Office	378	405
Teachers Credit Union staff	215	216
Total	20,727	20,550

For the purposes of this note, membership includes both shareholding and non-shareholding.
iii) Geographical concentrations - includes loan balances and loan financial commitments in Notes 26a, b and c.

	2010 $'000				2009 $'000			
	Housing	Personal	Business	Total	Housing	Personal	Business	Total
NSW	2,046,314	663,765	81	2,710,160	1,802,125	659,423	79	2,461,627
Victoria	19,096	7,862	-	26,958	15,102	7,145	-	22,247
Queensland	41,375	17,473	-	58,848	37,064	15,527	-	52,591
South Australia	3,232	1,495	-	4,727	3,522	1,379	-	4,901
Western Australia	28,018	8,447	-	36,465	7,676	3,904	-	11,580
Tasmania	4,302	1,053	-	5,355	3,633	1,128	-	4,761
Northern Territory	6,694	3,201	-	9,895	6,443	2,984	-	9,427
ACT	85,011	22,708	-	107,719	65,322	18,808	-	84,130
Other	-	2,970	32	3,002	-	3,606	3	3,609
Total	2,234,042	728,974	113	2,963,129	1,940,887	713,904	82	2,654,873

Loans to natural persons	2010 $'000	2009 $'000
Home loans and facilities	2,234,042	1,940,887
Personal loans and facilities	728,974	713,904
Business loans and facilities	113	82
Total	2,963,129	2,654,873

8. Provision on impaired loans

a. Total provision comprises

	2010 $'000	2009 $'000
Collective provision	2,135	1,528
Individual specific provision	6	46
Total provision	2,141	1,574

b. Movement in the provision for impairment

		2010 $'000	2009 $'000
Balance at the beginning of year		1,574	3,162
Add (deduct)	- Transfers from (to) statement of comprehensive income	567	(1,588)
	- Bad debts written off from provision	-	-
Balance at end of year		2,141	1,574

c. Impaired loans written off

	2010 $'000	2009 $'000
Amounts written off against the provision for impaired loans	-	-
Amounts written off directly to expense	1,677	3,924
Total bad debts	1,677	3,924
Bad debts recovered in the period	1,055	730

d. Analysis of loans that are impaired or potentially impaired by class

In the Note below.

- Carrying value is the amount of the statement of financial position.
- Impaired loans value is the 'on statement of financial position' loan balances and includes non-accrual loans and restructured loans stated in Note 1b.
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.

	2010 $'000			2009 $'000		
Loans to members	Carrying value	Value of impaired loans	Provision for impairment	Carrying value	Value of impaired loans	Provision for impairment
Housing	1,985,560	8,619	135	1,748,030	4,973	160
Personal	361,518	3,240	1,176	365,254	2,316	649
Credit Card	56,162	1,475	601	50,166	1,613	537
RediCredit	31,827	500	203	31,029	649	226
Total-natural persons	2,435,067	13,834	2,115	2,194,479	9,551	1,572
Corporate borrowers	78	35	26	43	3	2
Total	2,435,145	13,869	2,141	2,194,522	9,554	1,574

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

	2010 $'000		2009 $'000	
	Carrying value	Provision	Carrying value	Provision
Less than 30 days	4,306	6	2,892	46
30 to less than 90 days in arrears	1,531	-	2,497	-
90 to less than 182 days in arrears	4,488	395	1,424	297
182 to less than 273 days in arrears	1,347	370	214	128
273 to less than 365 days in arrears	372	216	388	40
365 days and over in arrears	89	89	321	136
Overdrawn savings/overlimit facilities over 14 days	1,736	1,065	1,818	927
Total	13,869	2,141	9,554	1,574

Impaired loans are generally not secured against residential property. Some impaired loans are secured by mortgage over motor vehicles or other assets of varying value. 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.

f. Assets acquired via enforcement of security

	2010 $'000	2009 $'000
Real estate	-	-
Other	-	-
Total	-	-

There are no assets acquired by the credit union. The policy is to sell the assets via auction at the earliest opportunity after measures to assist the members to repay the debts have been exhausted.

g. Loans with repayments past due but not regarded as impaired

There are loans with a value of $0.7 million past due which are not considered to be impaired and where payments of principal and/or interest are at least 30 days in arrears. Full recovery of both principal and interest is expected. 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.

Loans with repayments past due but not impaired are in arrears as follows:

	2010 $'000				2009 $'000			
	>1 to 2 months	>2 to 3 months	>3 to 6 months	Total	>1 to 2 months	>2 to 3 months	>3 to 6 months	Total
Housing	-	-	-	-	852	-	-	852
Personal	413	73	-	486	387	172	-	559
Credit Card	100	16	-	116	111	31	-	142
RediCredit	111	6	-	117	141	6	-	147
Total	624	95	-	719	1,491	209	-	1,700

h. Loans renegotiated

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

	2010 $'000	2009 $'000
Value of renegotiated loans renegotiated during the year and not now regarded as impaired		
Book value of these loans which are well secured	234	952
Book value of these loans which are not well secured	91	500
Book value of the renegotiated loans at balance date	325	1,452

Well secured loans are secured by registered mortgage over real estate.

i. Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report the credit union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the credit union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment as per APRA Guidance Note AGN 220.3 Prescribed Provisioning.

9. Available for sale investments

	2010 $'000	2009 $'000
Shares in unlisted companies, at cost		
- Cuscal Limited (Cuscal)	4,382	4,382
- Q.T. Travel Pty. Ltd.	52	52
Total value of investments	4,434	4,434
Less: provisions for amortisation - Q.T. Travel Pty. Ltd.	(51)	(51)
Total available for sale investments	4,383	4,383

Disclosures on shares held at cost

a. Cuscal 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 the credit union to receive essential banking services. The shares are not readily tradeable and are not redeemable.

The complete set of financial statements 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 on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the type of entities able to own the shares, a market value is not able to be determined readily.

The credit union is not intending to dispose of these shares.

b. Q.T. Travel Pty. Ltd. trading as Diploma World Travel Service

The shareholding in Diploma World Travel Service is measured at cost as its fair value could not be measured reliably. Diploma Travel is operated for credit union members and their families. The original purchase price has been amortised to $1,001 to recognise the shares are held not for their investment value but for the ongoing service to members. The shares are not able to be traded and are not redeemable.

10. Property, plant and equipment

		2010 $'000	2009 $'000
Land, at cost		6,768	6,322
Buildings, at cost		21,601	21,527
Less:	- provision for depreciation	(10,673)	(10,136)
Sub total		10,928	11,391
Total land and buildings		17,696	17,713
Plant and equipment, at cost		22,240	19,493
Less:	- provision for depreciation	(15,404)	(13,701)
Sub total		6,836	5,792
Capitalised leasehold improvements, at cost		835	634
Less:	- provision for amortisation	(356)	(191)
Sub total		479	443
Total property, plant and equipment		25,011	23,948

Movement in the assets balances during the year

2010 $'000		Property	Plant & equipment	Leasehold improvement	Total
Opening balance		17,713	5,792	443	23,948
Purchases		520	3,700	212	4,432
Transfer of engagement		-	-	-	-
Less:	- Assets disposed	-	(229)	-	(229)
Less:	- Depreciation charge	(537)	(2,427)	(176)	(3,140)
Closing balance		17,696	6,836	479	25,011

2009 $'000					
Opening balance		17,761	5,038	130	22,929
Purchases		381	3,206	438	4,025
Transfer of engagement		257	15	-	272
Less:	- Assets disposed	(151)	(478)	-	(629)
Less:	- Depreciation charge	(535)	(1,989)	(125)	(2,649)
Closing balance		17,713	5,792	443	23,948

11. Taxation assets

Deferred tax assets comprise	2010 $'000	2009 $'000
Accrued expenses not deductible until incurred	116	118
Provisions for impairment on loans	689	508
Provisions for employee benefits	3,208	2,909
Provisions for other liabilities	101	97
Depreciation on fixed assets	203	151
Prepaid loan expenses	124	-
Amortisation of intangible assets	41	42
Deferred tax assets	4,482	3,825
GST debtor	61	64
Total taxation assets	4,543	3,889

12. Intangible assets

	2010 $'000	2009 $'000
Computer software, at cost	5,066	4,056
Less: - provision for amortisation	(3,213)	(2,201)
Total intangible assets	1,853	1,855
Movement in the assets balances during the year		
Opening balance	1,855	1,236
Purchases	1,010	1,489
Transfer of engagement	-	3
Less: - amortisation charge	(1,012)	(873)
Balance at the end of the year	1,853	1,855

13. Borrowings

	2010 $'000	2009 $'000
Loan	-	-
Overdraft	-	-
Total borrowings	-	-

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

14. Retail deposits

a. Retail deposits

Retail deposits	2010 $'000	2009 $'000
At call	1,145,061	1,152,217
Term	1,582,101	1,454,556
Member withdrawable shares	1,559	1,576
Total retail deposits	2,728,721	2,608,349

b. Concentration of liabilities

i) There are no depositors who, individually or collectively, have deposits which represent 10% or more of total liabilities.

ii) Details of classes of deposits, which represent in aggregate, 10% or more of total liabilities are set out below. This information was derived from the credit union's records of direct entry receipts.

Balance of accounts held by depositors who are receiving payments from	2010 $'000	2009 $'000
NSW Department of Education and Training	661,520	657,152
State Super Financial Services	487,429	432,140
Total	1,148,949	1,089,292

Number of depositors who are receiving payments from	2010 Number	2009 Number
NSW Department of Education and Training	45,586	43,871
State Super Financial Services	8,801	8,049
Total	54,387	51,920

iii)

Geographical concentrations:	2010 $'000	2009 $'000
NSW	2,554,942	2,444,841
Victoria	22,778	23,509
Queensland	46,938	46,346
South Australia	4,249	6,319
Western Australia	18,830	11,014
Tasmania	6,409	6,224
Northern Territory	4,620	4,654
ACT	48,374	42,896
Other	20,022	20,970
Total	2,727,162	2,606,773

15. Creditors, accruals and settlement accounts

	2010 $'000	2009 $'000
Creditors and accruals	5,351	4,202
Interest payable on borrowings	-	-
Unearned income	566	462
Settlement accounts	8,873	6,979
Total creditor accruals and settlement accounts	14,790	11,643

16. Taxation liabilities

	2010 $'000	2009 $'000
Current income tax liability	2,937	1,732
Accrual for GST payable	-	-
Accrual for other tax liabilities	328	191
Total taxation liabilities	3,265	1,923
Current income tax liability comprises:		
- Balance, previous year	1,732	174
Less: paid	(1,769)	(192)
Over (under) statement in prior year	(37)	(18)
Liability for income tax in current year	11,042	6,091
Less: instalments paid in current year	(8,089)	(4,359)
Refund due for prior year	(16)	-
Current income tax liability	2,937	1,732

17. Provisions

	2010 $'000	2009 $'000
Annual leave	2,783	2,685
Long service leave	7,801	6,913
Sick leave	117	104
Lease make good of premises	38	36
Provisions - other	167	172
Total provisions	10,906	9,910

Movement in other provisions during the year were:	2010 $'000		2009 $'000	
	Environment fund	Director development	Environment fund	Director development
Opening balance	5	167	10	75
Less: paid	(29)	(32)	(48)	(18)
Liability increase	27	30	43	110
Closing balance	3	165	5	167

18. Deferred tax liabilities

	2010 $'000	2009 $'000
Deferred tax liabilities	-	134

Effective interest rate component		
Deferred fees and transaction costs on loan origination	-	134
Net effective interest rate component	-	134

19. Capital reserve account

	2010 $'000	2009 $'000
Opening balance	241	148
Transfer from retained earnings on share redemptions	88	93
Total capital reserve account	329	241

Share redemption

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

20. General reserve for credit losses

	2010 $'000	2009 $'000
General reserve for credit losses	16,379	14,569

General reserve for credit losses

This reserve is maintained to comply with the Prudential Standards set down by APRA.

Balance at beginning of year	14,569	13,491
Increase (decrease) transfer from retained earnings	1,810	1,078
Balance at end of year	16,379	14,569

21. Financial risk management objectives and policies

Overview

The credit union has exposure to the following risks:

- market risk;
- liquidity risk
- credit risk; and
- operational risk.

This note outlines the credit union's management of these risks, including its objectives, policies and processes for measuring and managing those risks, in addition to the credit union's management of its capital.

Governance

The Board of Directors has overall responsibility for the establishment and oversight of the credit union's enterprise risk management framework. This responsibility includes approving the enterprise risk management framework and the policies that comprise that framework and setting the organisation's risk appetite. In order to discharge its duties and responsibilities in an appropriate and effective manner, the Board, using a 3 lines of defence approach to identifying and managing risk, receives reports from the auditors, both external and internal, and risk and compliance staff to monitor the management of risks and compliance with its regulatory and voluntary requirements.

The Board has established an Audit Risk and Compliance Committee, comprising four Directors, to oversee financial reporting, the effectiveness of audits, and the management of risk and the program of compliance. The Committee is able to devote more time and expertise to these areas over and above the time proscribed in scheduled board meetings and provide reasonable assurance to the Board that core business goals and objectives are being achieved in an effective, efficient and economical manner, within an appropriate framework of internal control, governance and risk management.

The Audit, Risk and Compliance Committee assist the Board in:

- appointing the internal and external auditor;
- liaising with auditors on the scope of their work, and experience in conducting effective audits;
- monitoring audit reports and management responses thereto;
- ensuring that external auditors remain independent;
- overseeing compliance with statutory responsibilities relating to financial disclosure;
- assessing the performance of auditors;
- overseeing APRA statutory reporting requirements, as well as other reporting requirements;
- approving the compliance program;
- monitoring compliance reports and management responses thereto;
- reviewing, and if applicable updating, the credit union's risk profile, including the credit union's risk appetite; and
- reviewing, and if applicable updating, the credit union's policies, and system of risk management and internal controls.

In addition to the Board and the Audit Risk and Compliance Committee, the credit union has an executive committee, the Assets and Liabilities Committee, to oversee the financial operations of the credit union. This committee recommends policy, sets strategy and monitors compliance regarding:

- market risk in relation to interest rate risk and liquidity risk;
- credit risk in relation to investment risk;
- profitability;
- capital management; and
- growth.

Market risk

Interest Rate Risk

The credit union is not exposed to currency risk and other price risk. The credit union does not trade in the financial instruments it holds on its books. The credit union is exposed to interest rate risk in the banking book arising from changes in market interest rates.

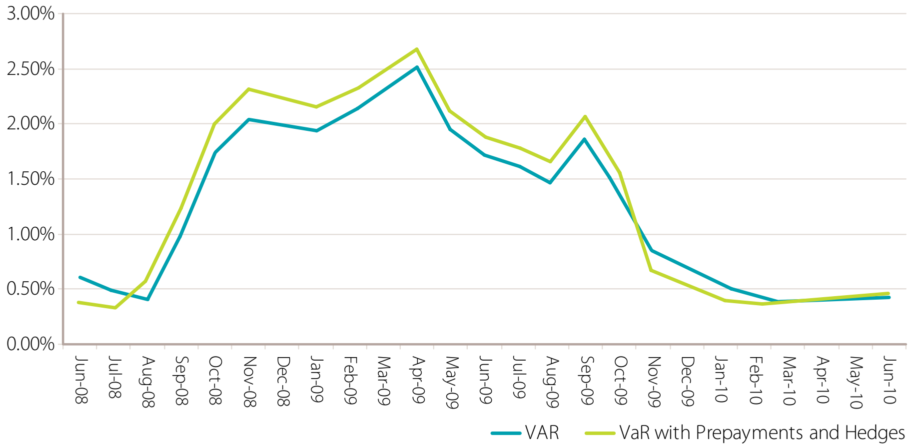
The policy of the credit union is to maintain a balanced "on book" hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. However, acknowledging that member demand and competition in the different products may not always allow the credit union to achieve a balanced "on book" position, the credit union has a hedging policy in place to ensure appropriate use of derivatives such as interest rate swaps when the Board determine their use is required.

The credit union uses a number of techniques to measure and monitor the interest rate risk, these include:

- Short, medium and long term forecasts that are regularly updated
- Monitoring of product totals to targets and the impact on current and future profitability, from likely rate changes
- Monthly Gap analysis
- Monthly Sensitivity analysis (Present Value of a Basis Point or Sensitivity is a measure of the change in the current value of the cash positions on the yield curve by shifting the yield across the curve down 1 basis point)
- Monthly 200 Basis Point Sensitivity as a percentage of Capital
- Monthly Value at Risk (VaR) analysis (VaR is a statistical measure of the maximum loss expected to be incurred due to a change in market conditions, arising from the currently held positions, given a certain confidence level [99%], observation period [250 working days] and holding period [20 working days] expressed in dollars and as a percentage of capital
- Monthly Value at Risk analysis based on a confidence level [99%], observation period [1500 working days] and holding period [250 working days] expressed in dollars and as a percentage of capital
- Quarterly Accrued Income Simulations including projections based on flat rates, yield curve, and upward and downward shock rates
- Annual benchmarking against industry.

The credit union groups cash flows into buckets based on the likely repricing periods given consideration for both

Value at Risk (VaR) as a % of capital
99% confidence interval, 20-day holding period, 250-day observation period



operational and competitive restraints which may differ from the contractual dates as this better reflects the risk in the portfolio. The credit union has set a limit for our Value at Risk as a percentage of Capital. This limit is set with reference to industry benchmarks. The credit union has kept within those limits throughout the entire year.

The above reports are sourced internally and by contracted consultants and are subject to scrutiny by Internal Audit, who also have used independent consultants to review the accuracy and adequacy of the reporting and controls.

The level of mismatch on the banking book is set out in Note 24. The table set out at Note 24 displays the period that each asset and liability will reprice as at the balance date.

Liquidity risk

Liquidity risk is the risk that a financial institution may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands and other creditor commitments when requested.

The credit union manages liquidity risk by:

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

The credit union has set out in Note 23 the maturity profile of the financial liabilities, based on the contractual repayment terms.

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours under the APRA Prudential Standards. The credit union policy is to apply 13.5% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits (either from Authorised Deposit-taking Institutions (ADIs), retail and wholesale depositors), or borrowing facilities available. Note 27 describes the borrowing facilities as at the balance date. The credit union also participates in a loan securitisation scheme. The credit union has a longstanding arrangement under an approved industry support contract with Credit Union Financial Support Scheme Limited (CUFSS) which can access industry funds to provide support to the credit union should it be necessary at short notice.

"Total Adjusted Liabilities", for the purpose of this Liquidity measurement, is defined as total on-statement of financial position liabilities (including equity) and irrevocable commitments, less the capital base defined in accordance with Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.

	2010	2009
Total adjusted liabilities	3,225,051,140	2,978,309,647
As at 30th June	18.93%	21.82%
Average for the year	18.32%	20.23%
Minimum during the year	15.33%	13.44%

Credit risk

The credit risk of a financial institution is the risk that customers (members), financial institutions and other counterparties will be unable to meet their obligations to the institution which may result in financial losses. Credit risk arises principally from the credit union's loan book and investment assets.

Credit risk - loans

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities; overdraft facilities; credit cards limits). The details are shown in Note 26.

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

All loans and facilities are within Australia. The geographic distribution is detailed in Note 7c.

Concentrations are described in Note 7c. The credit union has a concentration in the retail lending for members who comprise employees and family in the education industry. This concentration is considered acceptable on the basis that the credit union was formed to service these members, the industry is an essential and stable industry and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

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

The credit union has established policies over the following:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, and security requirements
- Limits of acceptable exposure over the value to individual borrowers, maximum loan to valuation ratios with/without lenders mortgage insurance dependant on the type and location of the security
- Reassessing and review of the credit exposures on loans and facilities
- Establishing appropriate provisions to recognise the impairment of loans and facilities
- Debt recovery procedures
- Review of compliance with the above policies.

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 the credit union that requires interest and a portion of the principal 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 30 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily monitoring of the loan repayments to detect delays in repayments and recovery action is undertaken. For loans where repayments are doubtful, the exposures to losses arise predominantly in personal loans and revolving credit where facilities are not secured by registered mortgages over real estate.

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

In addition to specific provisions against individually significant financial assets, the credit union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Statement of financial position provisions are maintained at a level that the board deems sufficient to absorb probable incurred losses in the credit union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some capital will not be repaid or recovered.

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the "on statement of financial position" loan balances which are past due by 30 days or more.

Details are as 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 after considering 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.

As the credit union has experienced little loss from mortgage secured debt, we monitor losses as a portion of unsecured debt. The loss ratio remains relatively low.

Collateral securing loans

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

Provision/unsecured debt and Bad debts written off/unsecured debt

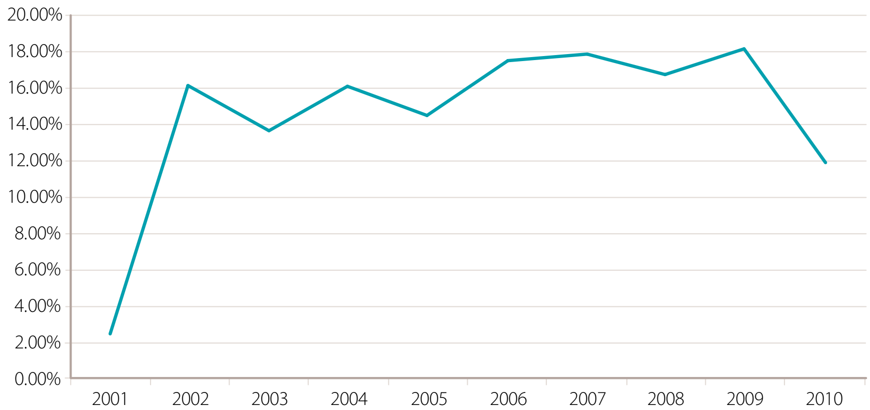
balance date.

A sizeable portion of the loan book is secured on residential property in Australia. Therefore, we are exposed to risks of the reduction the Loan to Value Ratio (LVR) should the property market be subject to a decline. The Board monitors the portion of loans that are secured by residential mortgages which carry a loan to valuation ratio of more than 80% without Lenders Mortgage Insurance.

Credit risk - liquid investments

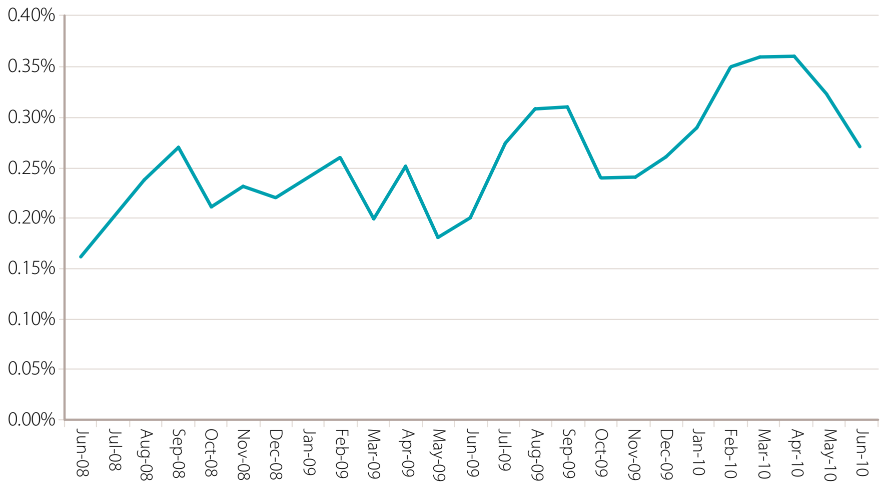
The risk of losses on liquid investments is mitigated through the application of investment limits per counterparty based upon independent ratings of counterparties and by limiting exposure to groups of counterparties within a rating band. All investment must be with financial institutions with a rating in excess of BBB.

Loan to Valuation Ratio of more than 80% without Lenders Mortgage Insurance as a percentage of Mortgage Loans



Performance of the Mortgage Secured portfolio is managed by monitoring the proportion of loan balances in arrears. These ratios remain low compared to published industry benchmarks.

Percentage of mortgage portfolio in arrears



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

				2010
Investments with:	No. of institutions	Carrying value	Past due value	Provision
ADIs-rated A-1+ or A-1 (short-term)	7	377,879,014	-	-
ADIs-rated AA (long-term)		130,000,000	-	-
ADIs-rated A-2 (short-term)	6	101,000,000	-	-
Total	13	608,879,014	-	-

				2009
Investments with:	No. of institutions	Carrying value	Past due value	Provision
Cuscal-rated A-1+ (short-term)	1	401,753,256	-	-
Cuscal-rated AA- (long-term)		120,000,000	-	-
ADIs-rated A-1+ or A-1 (short-term)	5	86,626,000	-	-
ADIs-rated AA (long-term)		10,000,000	-	-
ADIs-rated A-2 (short-term)	2	30,000,000	-	-
Total	8	648,379,256	-	-

Credit risk - equity investments

All investments in the equity instruments are solely for the benefit of service to the credit union. The credit union invests in entities set up for the provision of services such as treasury, transactions processing and settlement, and travel services etc where specialisation demands quality staff and systems which is best secured by one entity. Further details of the investments are set out in Note 9.

Operational risk

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

The credit union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of polices and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- The segregation of duties between employee duties and functions, including approval and processing duties
- Documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behavior
- Implementation of the whistleblowing policies that protect whistleblowers from repercussions to promote a compliant culture and awareness of the duty to report exceptions by staff
- Education of members to review their account statements and report exceptions to the credit union promptly
- Effective dispute resolution procedures to respond to member complaints
- Effective insurance arrangements to reduce the impact of losses
- Contingency plans for dealing with loss of functionality of systems or premises or staff.

Operations risk management The credit union has implemented a risk assessment and monitoring system where the board and senior management identify key risks in a "top down" approach and business units identify risks in a "bottom up" approach. These risks are then ranked by loss effect and likelihood after considering risk mitigators such as controls and insurances. Action plans for control improvements are then prioritised, developed and implemented. Key risk indicators are assigned and monitored. A loss register has also been established to compare experience with the original assessments. Projects are also subject to risk analysis at all stages of the project lifecycle and are actively managed.

Compliance The credit union has implemented a compliance program, requiring regular review of policy, procedures and reporting to ensure compliance with legal requirements, code of ethics and Prudential Standards.

Fraud Fraud in financial institutions can arise from customer (member) card PINS, and phone and internet passwords being compromised where not protected adequately by the customer (member). It can also arise from other systems failures. In common with all retail financial institutions, fraud is a real cost to the credit union. Fraud losses can arise from incidents such as card skimming, internet password theft, and false loan applications.

The credit union has systems in place which are considered to be robust enough to prevent any material fraud. The credit union is committed to the control of fraud and has implemented 7 day a week transaction monitoring, and strengthened internet banking security by the implementation of CAPTCHA, token and SMS multifactor authentication. The credit union is also the first credit union to trial EMV chip technology to reduce credit card fraud. The fraud initiatives also include fraud response plans and continual staff and member awareness education.

IT systems The worst case scenario would be the failure of a financial institutions core banking and IT network system to meet customer obligations and service requirements for an extended period.

The credit union has a business continuity plan to manage software, hardware, network, power and telecommunications systems failures. The plans extend to loss of premises and staff with the objective of recovering systems within predetermined acceptable timeframes. The plans are regularly reviewed and rigorously tested. Stand-in arrangements are in place for transaction processing such as ATM, EFTPOS and Visa.

A further risk is a breach of security of a Financial Institutions IT system.

Protecting Teachers Credit Union's computer systems is critical. We have implemented leading firewall technology to protect all our computer systems and members' information against intrusion from the internet. A firewall controls what information passes between our systems and the internet.

These systems are monitored for suspicious activity by a major security consultancy group. The group we use has considerable experience implementing and designing secure systems for many organisations, including financial institutions and defence organisations. We also subscribe to services that advise on new "threats" and provide patches and upgrades to keep the systems as secure and current as is possible. We employ a technology called Secure Sockets Layer (SSL) to establish a secure connection between members' browsers and our internet banking system. We conduct regular penetration testing. We continue to review our security policies and practices to ensure that systems security management remains aligned with world's best practice.

Capital management

Capital levels are managed to ensure compliance with APRA requirements. Those requirements encompass a framework of three pillars.

Pillar 1 - Minimum capital requirements, including a specific capital charge for operational risk.

Pillar 2 - Enhanced supervision of capital management including the application of an internal capital adequacy assessment process.

Pillar 3 - More extensive disclosure requirements.

Pillar 1

Capital is measured as prescribed by APRA Prudential Standards. These standards act to determine minimum capital requirements in respect of Credit risk, Market risk and Operational risk.

Credit risk

Credit risk is measured using the Standardised Approach defined in Prudential Standard APS112. The capital charge attached to each asset is based on weightings prescribed by APRA as detailed in the table below.

On statement of financial position exposures	Carrying value	Risk weighting	Risk weighted amount
Cash	1,471,946	0%	-
Deposits in highly rated ADIs	603,879,014	20%	120,775,803
Deposits in less highly rated ADIs	5,000,000	50%	2,500,000
Standard loans secured against eligible residential mortgages up to 80% LVR (up to 90% with Lenders Mortgage Insurance)	1,585,803,085	35%	555,031,080
Standard loans secured against eligible residential mortgages over 80% LVR	487,687,463	50-75%	246,812,662
Other standard mortgage loans	10,757,653	100%	10,757,653
Non standard mortgage loans	25,135,665	35-100%	18,922,229
Other loans	323,620,821	100%	323,620,821
Other assets	45,134,203	100%	45,134,203
Total	3,088,489,850		1,323,554,451

Off statement of financial position exposures	Notional principal amount	Credit conversion factor	Credit equivalent amount	Risk weighting	Risk weighted amount
Loans approved and not advanced	76,254,520	100%	76,254,520	35%-100%	39,156,493
Redraws available	218,449,887	50%	109,224,943	35%-100%	44,949,090
Guarantees	100	100%	100	100%	100
Unused revolving credit limits	233,279,436	0%	-		
Possible contribution to CUFSS	98,637,264	0%	-		
Total	626,621,207		185,479,563		84,105,683
Total weighted credit risk exposures					1,407,660,134

Market risk

The credit union is not required to allocate capital against market risk as no trading activity is undertaken and the standardised approach does not result in any allocation against interest rate risk in the banking book.

Operational risk

Operational risk is measured using the Standardised Approach defined in Prudential Standard APS114. The capital charge is based upon portfolio balances and revenue streams with scaling and risk factors applied to reflect APRA's assessment of the particular risk profiles.

Operational risk capital requirement for retail banking

	31-Dec-07	30-Jun-08	31-Dec-08	30-Jun-09	31-Dec-09	30-Jun-10
Total gross outstanding loans and advances for retail banking	1,806,909,058	2,030,435,538	2,147,790,127	2,196,038,725	2,313,217,856	2,436,539,080
- multiplied by 3.5% scaling factor	63,241,817	71,065,244	75,172,654	76,861,355	80,962,625	85,278,868
- multiplied by 12% risk factor	7,589,018	8,527,829	9,020,719	9,223,363	9,715,515	10,233,464
Average of the 6 half year results = Total operational risk capital requirement for retail banking						9,051,651

Operational risk capital requirement for commercial banking

Total gross outstanding loans and advances for commercial banking	324,702,391	337,051,878	664,669,204	648,421,913	490,890,671	608,957,249
- multiplied by 3.5% scaling factor	11,364,584	11,796,816	23,263,422	22,694,767	17,181,173	21,313,504
- multiplied by 15% risk factor	1,704,688	1,769,522	3,489,513	3,404,215	2,577,176	3,197,026
Average of the 6 half year results = Total operational risk capital requirement for commercial banking						2,690,357

Operational risk capital requirement for all other activity

Adjusted gross income	1,960,939	2,093,369	1,667,570	2,398,969	1,921,721	2,808,222
- multiplied by 18% risk factor	352,969	376,806	300,163	431,814	345,910	505,480
Average of the 3 annual results = Total operational risk capital requirement for all other activity						771,048

Total operational risk capital requirement	12,513,055
Risk Weighted Asset (RWA) equivalent amount for operational risk capital requirement = Operational risk capital * 12.50	156,413,194
Total credit and operational risk weighted	1,564,073,328

Capital resources

Tier 1 capital - The majority of Tier 1 capital consists of retained profits.

Tier 2 capital - Consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity.

There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA. Tier 2 capital generally comprises a reserve for credit losses.

Our policy requires reporting to the board and the regulator if the capital ratio falls below 13.70%.

The capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The credit union manages capital through reviewing the ratio monthly and monitoring major movements in asset levels. Further, a 3 year capital projection is maintained to assess how strategic decisions or trends may impact on the level of capital. A stress test based on various asset growth and profitability assumptions is conducted at least annually or whenever significant change occurs.

Pillar 2 risk capital

Pillar 2 of the Prudential Framework relates to any risk factor to which an ADI might be exposed that is not included in Pillar 1.

These risks fall into 3 categories.

- Pillar 1 risks not fully captured by the Pillar 1 process, for example credit concentration risk.
- Inherent risks not covered by Pillar 1, including:
  - interest rate risk in the banking book
  - liquidity risk
  - strategic risk
  - reputation risk
- Risks arising from external factors such as business cycles effects and the macroeconomic environment.

The credit union documents, analyses and sets its own internal capital requirements to meet Pillar 2 risks. The methodologies used to assess the required capital are a combination of quantitative and qualitative assessment reflecting a combination of individual and corporate experience, maturity and independent judgment of senior management and the board, reinforced through increasing maturity of modeling and quantitative analysis.

Risks requiring uplift

The following risks were assessed as being of sufficient significance to require additional capital support over and above the Pillar 1 capital requirement (uplift):

- Counterparty default risk
- Business environment risk
- Economic environment risk
- Lack of diversification of funding sources
- Interest rate risk
- Technology risk.

An additional 4% capital was determined to be adequate to cover these risks.

Internal capital adequacy management

The credit union manages its internal capital levels for both current and future activities by conducting an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis. The outputs are reviewed by the board in its capacity as the primary governing body. The capital required for any change in the credit union's forecasts for asset growth or unforeseen circumstances are assessed by the board. The finance department then updates the forecast capital resources models produced and the impact upon the overall capital position of the credit union is reassessed.

Capital in the credit union is made up as follows:

	2010	2009
Tier 1 Retained earnings	244,629,810	221,770,457
- *Less* prescribed deductions	8,112,598	8,318,631
Net tier 1 capital	236,517,212	213,451,826
Tier 2 Reserve for credit losses	16,379,099	14,569,461
- *Less* prescribed deductions	2,191,166	2,191,166
Net tier 2 capital	14,187,933	12,378,295
Total capital	250,705,145	225,830,121

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

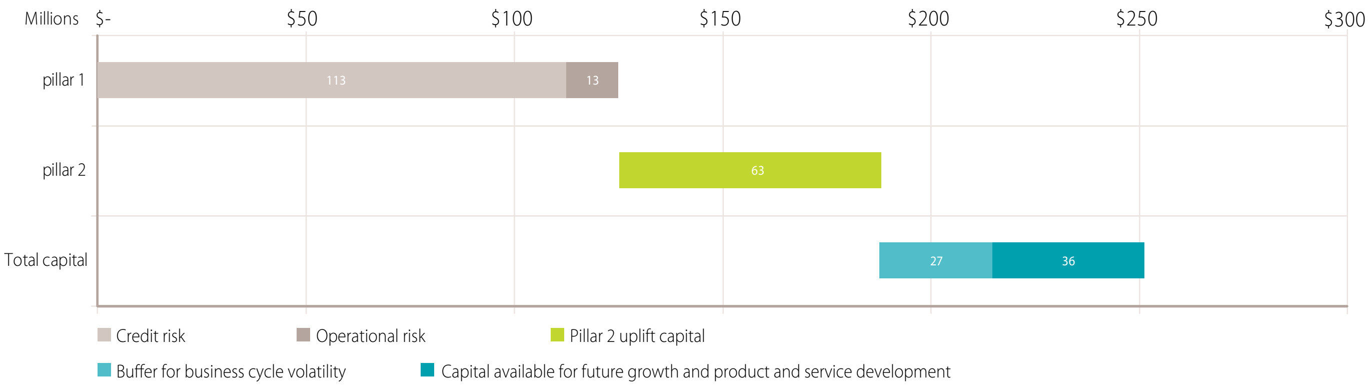
	2010	2009	2008	2007	2006
Basel I				14.82%	14.59%
Basel II	16.03%	15.50%	15.80%		

Contingency buffer

Based on historical fluctuations in capital the credit union incorporates a contingency buffer of 1.70% when targeting minimum levels of capital and when preparing its Capital Management Plan to cover volatility in the risks identified above.

	RWA	Minimum capital required	% Equivalent of RWA
Operational risk	156,413,194	12,513,055	8.00%
Credit risk	1,407,660,134	112,612,811	8.00%
Total	1,564,073,328	125,125,866	8.00%
Pillar 2 uplift capital		62,562,933	4.00%
ICAAP capital required		187,688,799	12.00%
Buffer for business cycle volatility		26,589,247	1.70%
Capital available for future growth and product and service development		36,427,099	2.33%
Risk-based capital ratio		250,705,145	16.03%
Tier 1 capital ratio		236,517,212	15.12%

Categorisation of capital



22. Categories of financial instruments

a. The following information classifies the financial instruments into measurement classes.

Financial assets-carried at amortised cost	Note	2010 $'000	2009 $'000
Cash	4	19,351	14,720
Receivables from financial institutions	5	591,000	635,220
Receivables	6	18,103	14,224
Loans and advances to members	7 & 8	2,432,591	2,193,395
Total carried at amortised cost		3,061,045	2,857,559
Available for sale investments-carried at fair value	9	4,383	4,383
Total financial assets		3,065,428	2,861,942

Financial liabilities-carried at amortised cost			
Borrowings	13	-	
Financial institution deposits		58,993	-
Wholesale deposits		21,110	24,630
Retail deposits	14	2,728,721	2,608,349
Creditor accruals and settlement accounts	15	14,790	11,643
Total carried at amortised cost		2,823,614	2,644,622
Total financial liabilities		2,823,614	2,644,622

b. Assets measured at fair value.

Fair value measurement at end of the reporting period using:

	Balance $'000	Level 1	Level 2	Level 3
The fair value hierarchy has the following levels:	4,383			4,383

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). Due to the lack of publicly available data on the transfer of these shares; the credit union has measured the shares at cost.

23. Maturity profile of financial assets and liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

2010 Assets $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	>5 years	No maturity	Total	Statement of financial position
Cash	19,351						19,351	19,351
Receivables from financial institutions	318,000	138,000	5,000	130,000			591,000	591,000
Receivables	9,348	1,277	146	18,596			29,367	18,103
Loans and advances to members	34,826	69,160	303,293	994,163	3,262,652		4,664,094	2,432,591
Available for sale investments						4,383	4,383	4,383
Total financial assets	381,525	208,437	308,439	1,142,759	3,262,652	4,383	5,308,195	3,065,428
2010 Liabilities $'000								
Borrowings	-						-	-
Financial institutions deposits	32,858	26,390					59,248	58,993
Wholesale deposits	3,078	9,846	6,183	2,370			21,477	21,110
Retail deposits	1,206,274	470,262	893,361	209,871		1,804	2,781,572	2,728,721
Creditors	14,790						14,790	14,790
Total financial liabilities	1,257,000	506,498	899,544	212,241	-	1,804	2,877,087	2,823,614
2009 Assets $'000								
Cash	14,720						14,720	14,720
Receivables from financial institutions	397,475	101,745	6,000	130,000			635,220	635,220
Receivables	11,716	678	160	19,206			31,760	14,224
Loans and advances to members	31,179	61,936	271,211	862,495	2,640,434		3,867,255	2,193,395
Available for sale investments						4,383	4,383	4,383
Total financial assets	455,090	164,359	277,371	1,011,701	2,640,434	4,383	4,553,338	2,861,942
2009 Liabilities $'000								
Borrowings							-	-
Financial institution deposits							-	-
Wholesale deposits	12,403	8,602	3,874				24,879	24,630
Retail deposits	1,389,593	551,524	518,430	184,666		1,950	2,646,163	2,608,349
Creditors	11,643						11,643	11,643
Total financial liabilities	1,413,639	560,126	522,304	184,666	-	1,950	2,682,685	2,644,622

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.

2010 Assets $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	>5 years	Non interest bearing	Total
Cash	17,879					1,472	19,351
Receivables from financial institutions	318,000	138,000	5,000	130,000			591,000
Receivables						18,103	18,103
Loans and advances	2,011,690	30,587	223,317	169,316		235	2,435,145
Investments						4,383	4,383
Total financial assets	2,347,569	168,587	228,317	299,316	-	24,193	3,067,982
2010 Liabilities $'000							
Borrowings							-
Financial institution deposits	32,758	26,235					58,993
Wholesale deposits	3,070	9,781	6,000	2,259			21,110
Retail deposits	1,205,886	466,346	862,669	192,016		1,804	2,728,721
Creditors						14,790	14,790
On statement of financial position	1,241,714	502,362	868,669	194,275	-	16,594	2,823,614
Undrawn loan commitments Note 26a, b, c	527,984						527,984
Total financial liabilities	1,769,698	502,362	868,669	194,275	-	16,594	3,351,598
2009 Assets $'000							
Cash	13,160					1,560	14,720
Receivables from financial institutions	397,475	101,745	6,000	130,000			635,220
Receivables						14,224	14,224
Loans and advances	1,794,282	30,288	103,502	266,315		135	2,194,522
Investments						4,383	4,383
Total financial assets	2,204,917	132,033	109,502	396,315	-	20,302	2,863,069
2009 Liabilities $'000							
Borrowings							-
Financial institution deposits							-
Wholesale deposits	12,333	8,491	3,806				24,630
Retail deposits	842,982	612,044	638,418	512,955		1,950	2,608,349
Creditors						11,643	11,643
On statement of financial position	855,315	620,535	642,224	512,955	-	13,593	2,644,622
Undrawn loan commitments Note 26a, b, c	460,351						460,351
Total financial liabilities	1,315,666	620,535	642,224	512,955	-	13,593	3,104,973

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 the time. No assets are regularly traded by the credit union and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets.

			2010 $'000			2009 $'000
Assets	Fair value	Book value	Variance	Fair value	Book value	Variance
Cash	19,351	19,351	-	14,720	14,720	-
Receivables from financial institutions	590,655	591,000	(345)	635,876	635,220	656
Receivables	18,103	18,103	-	14,224	14,224	-
Loans and advances	2,431,262	2,432,591	(1,329)	2,201,627	2,193,395	8,232
Investments	4,383	4,383	-	4,383	4,383	-
Total financial assets	3,063,754	3,065,428	(1,674)	2,870,830	2,861,942	8,888
Liabilities						
Borrowings	-	-	-	-	-	-
Financial institution deposits	58,984	58,993	(9)	-	-	-
Wholesale deposits	21,070	21,110	(40)	24,716	24,630	86
Retail deposits	2,735,484	2,728,721	6,763	2,628,321	2,608,349	19,972
Creditors	14,790	14,790	-	11,643	11,643	-
Total financial liabilities	2,830,328	2,823,614	6,714	2,664,680	2,644,622	20,058

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

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

Liquid assets and receivables from other financial institutions

The carrying value of cash is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of receivables from other financial institutions. The rates applied to give effect to the discount of cash flows were 4.50%-5.90% (2009 2.95%-5.35%).

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

The rates applied to give effect to the discount of cash flows were 6.40%-11.50% (2009 5.10%-11.50%).

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.

Financial institution, wholesale and retail deposits

The fair value of call and variable rate deposits is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of term deposits, based upon the deposit type and the rate applicable to its related period maturity.

Financial institution deposits: The rates applied to give effect to the discount of cash flows were 5.52%-6.06% (2009 0%).

Wholesale deposits: The rates applied to give effect to the discount of cash flows were 5.84%-6.89% (2009 3.88%-4.57%).

Retail deposits: The rates applied to give effect to the discount of cash flows were 2.41%-6.58% (2009 1.83%-4.03%).

Short term borrowings

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

26. Financial commitments

a. Outstanding loan commitments

	2010 $'000	2009 $'000
The loans approved but not funded	76,255	49,693

b. Loan redraw facilities

The loan redraw facilities available	218,450	184,029

c. Undrawn loan facilities

Loan facilities available to members for overdrafts and credit cards are as follows:

Total value of facilities approved	321,155	307,696
Less: Amount advanced	(87,876)	(81,067)
Net undrawn value	233,279	226,629

d. Future capital commitments

The credit union has entered into a contract to purchase motor vehicles for which the amount is to be paid over the following periods:-

Not later than one year	25	42

e. Lease expenditure commitments

Operating leases on property occupied by the credit union		
Not later than one year	668	535
Later than 1 year but not 2 years	1,308	450
Later than 2 years but not 5 years	189	816
Later than 5 years	-	-
Total	2,165	1,801

The operating leases are in respect of property used for providing office space for staff. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 to 5 years and options for renewal are usually obtained for a further 3 years.

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

27. Standby borrowing facilities

The credit union has borrowing facilities with Cuscal as follows:

2010 $'000	Gross	Current	Net available
Loan facility	30,000	-	30,000
Overdraft facility	20,000	-	20,000
Total standby borrowing facilities	50,000	-	50,000

2009 $'000			
Loan facility	30,000	-	30,000
Overdraft facility	20,000	-	20,000
Total standby borrowing facilities	50,000	-	50,000

Cuscal holds an equitable mortgage charge over all of the assets of the credit union as security against loan and overdraft amounts drawn under the facility arrangements.

28. Contingent liabilities

Liquidity support scheme

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

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.2% of the credit union's total assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating credit unions' irrevocable commitment under the ISC.

29. Disclosures on Directors and other key management persons

a. Remuneration of Key Management Persons (KMP)

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

KMP have been taken to comprise the Directors and the seven members of the executive management (2009-2010) responsible for the day to day financial and operational management of the credit union.

The aggregate compensation of Directors and other KMP during the year comprising amounts paid or payable or provided for was as follows:

	2010 $'000		2009 $'000	
	Directors	Other KMP	Directors	Other KMP
Short-term employee benefits	307	1,996	237	1,589
Post-employment benefits-superannuation contributions	88	210	118	214
Other long-term benefits-net increases in long service leave provision	0	66	0	79
Total	395	2,272	355	1,882

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

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

b. Other transactions with related parties

The disclosures are made in accordance with AASB 124 and include disclosures relating to a financial institution policy for lending to related parties and, in respect of related party transactions, the amount included in:

- Each of loans and advances, deposits and acceptances and promissory notes
- Each of the principal types of income, interest expense and commissions paid
- The amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date
- Irrevocable commitments and contingencies and commitments arising from off statement of financial position items.

c. Loans to Directors and other Key Management Persons

The credit union's policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions, which applied to members for each class of loan or deposit. There are no loans, which are impaired in relation to the loan balances with Directors or other KMP.

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

	2010 $'000			2009 $'000		
	Mortgage term loans	Other term loans	Revolving credit facilities	Mortgage term loans	Other term loans	Revolving credit facilities
Funds available to be drawn	1,432	50	244	617	73	227
Balance	3,220	80	68	3,599	85	62
Amounts disbursed or facilities increased in the year	4,652	130	312	4,216	158	289
Interest and other revenue earned	191	8	11	232	10	13

Other transactions between related parties include deposits from Directors and other KMP are:	2010 $'000	2009 $'000
Total value term and savings deposits from Directors and KMP	4,616	956
Total interest paid on deposits to Directors and KMP	72	34

The credit union's policy for receiving deposits from Directors and KMP is that all transactions are approved and deposits accepted on the same terms and conditions, which applied to members for each type of deposit.

d. Transactions with other related parties

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

The credit union's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions, which applied to members for each type of deposit.

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

There are no service contracts to which Directors and KMP or their close family members are an interested party.

30. Economic dependency

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

Cuscal Limited (CUSCAL) This company is the national services company for the affiliated credit union movement within Australia. It provides central banking facilities to the credit union.

It supplies to the credit union rights to offer/or issue member cheques, Redicards and Visa cards in Australia and provides services in the form of settlement with banks of member cheques, Electronic Funds Transfer (EFT), Direct entry, BPAY and Visa card transactions along with the supply of Visa cards and Redicards for use by members.

First Data Resources Australia Limited This company operates the switching computer used to link Redicards and Visa cards through Reditellers and other ATMS, other approved EFT suppliers and Visa acquirers and merchants to the credit union computer systems.

Ultradata Australia Pty Ltd This company provides and maintains software utilised by the credit union.

31. Segmental reporting

The credit union operates exclusively in the retail financial services industry within Australia.

32. Superannuation liabilities

The credit union contributes to the CUE Super Plan for the purpose of the Superannuation Guarantee and other superannuation benefits provided on behalf of employees.

A corporate trustee is responsible for CUE Super Plan with three Directors appointed by the principal employer (Cuscal) and three Directors elected by members.

The credit union has no interest in the Superannuation Plan (other than as a contributor) and the only possible liability that could arise in respect of those staff where a minimum defined benefit guarantee applies. The minimum benefit guarantee applies to those staff who were members of CUE Super Plan at 30th June 1992, being the date the plan restructured from a defined benefit basis to a defined contribution (accumulation) basis, and who have not elected to transfer to the accumulation basis.

Following the last valuation dated 30th June 2008, the actuary, Julian Hotz of Mercer (Australia) Pty Ltd, confirmed that CUE Super Plan remained in a satisfactory financial position.

33. Securitisation

The credit union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an independent contractor to promote and complete loans on their behalf, for on sale to an investment trust. The credit union also manages the loans portfolio on behalf of the trust. The credit union bears no risk exposure in respect of these loans. The credit union receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

In addition the credit union is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year the credit union assigned no loans (2009 $nil) to Integris. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to the credit union. The credit union receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to members.

	2010 $'000	2009 $'000
The amount of securitised loans under management	1,931	2,712

34. Notes to statement of cash flows

a. Reconciliation of cash

	2010 $'000	2009 $'000
Cash includes cash on hand, and deposits at call with other financial institutions and comprises		
Cash on hand and deposits at call	19,351	14,720
Bank overdraft	-	-
Total cash	19,351	14,720

b. Reconciliation of cash from operations to accounting profit

	2010 $'000	2009 $'000
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax		
Profit after income tax	24,669	17,558
Add (deduct):		
- Provision for impairment and bad debts written off (net)	1,677	3,924
- Depreciation of property, plant and equipment	4,152	3,521
- Provision for employee entitlements	999	1,020
- Other provisions	564	(1,589)
- Loss on disposal of plant and equipment (net)	(1)	156
- Bad debts recovered	(1,055)	(730)
Changes in assets and liabilities:		
- Prepaid expenses and sundry debtors	(664)	(12)
- Accrued expenses and sundry creditors	(748)	270
- Interest receivable	(6,808)	(1,679)
- Interest payable	(3,436)	5,859
- Other income receivable	126	(86)
- Unearned income	104	(45)
- Increases in loans and advances to members	(240,385)	(155,233)
- Increase in retail deposits	130,096	609,051
- Provision for income tax	1,071	1,566
- Deferred tax assets	(657)	98
Net cash from operating activities	(90,296)	483,649

35. Corporate information

The credit union is a company limited by shares, and is registered under the Corporations Act (cth) 2001. The address of the registered office and principal place of business is 28-38 Powell Street, Homebush NSW 2140. The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the credit union.

Registered office

28-38 Powell Street
Homebush NSW 2140

PO Box 7501
Silverwater NSW 2128
Telephone: 13 12 21
Fax: (02) 9704 8205
teacherscreditunion.com.au
enquiry@teacherscreditunion.com.au

Auditors

BDO Audit (NSW-VIC) Pty Ltd
Level 19, 2 Market Street
Sydney NSW 2000

Affiliates

Abacus Australian Mutuals
Asian Confederation of Credit Unions
Credit Union Financial Support Scheme
Credit Union Foundation Australia
Cuscal Ltd.
World Council of Credit Unions

FSC
www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C014642

This Annual Report is completely carbon neutral. Our preferred print supplier Focus Press has accounted for, reduced and offset its total operational greenhouse gas emissions as well as the carbon emissions embodied in this product including all source materials such as paper and ink, transportation of source materials, manufacturing and delivery of the printed item.

Teachers Credit Union Limited
ABN 30 087 650 459 AFSL No 238981