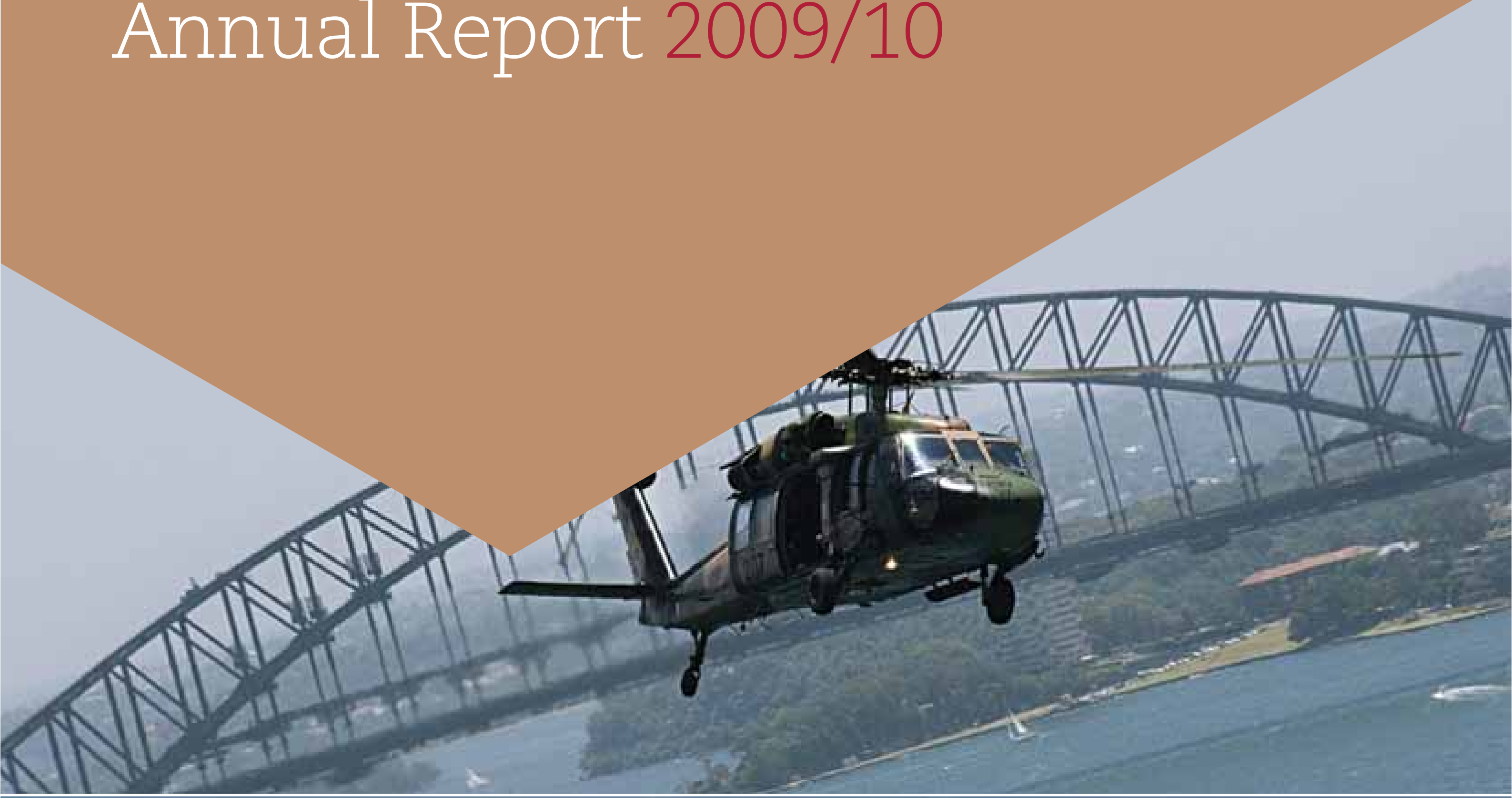
Annual Report

Defcredit
Annual Report 2009/10



Defcredit
Service banking

Contents

Purpose And Mission Statement

Vision

Our vision is to be the preferred provider of financial services for members of the Defence Community.

Mission

Defcredit is committed to helping members of the Defence Community achieve financial security by providing excellent savings, lending and other financial services.

Values

Values provide the framework for ethical behaviour and support sound decision-making and appropriate actions. Together they demonstrate the manner in which Defcredit chooses to achieve its vision and mission. Values are also fundamental to attracting and retaining the right staff and to providing effective service to Defcredit members.

Defcredit values:

> Excellent service for our members;

> Being financially strong, safe and secure;

> Competent leadership, governance and teamwork at all levels;

> Sound management and an efficient organisation, providing competitive financial services in a socially responsible way;

> Ethical, friendly and considerate service;

> Responding to the needs of our members in a consistent, accurate, responsive and courteous manner;

> Professional, equitable, honest and open dealings with members, staff and our Defence hosts;

> Being a preferred employer within the credit union sector through our employees' involvement, empowerment and development within a safe working environment;

> Being an equal opportunity employer; and

> Autonomy within a strong mutually supportive network of credit unions.

Code of Ethics

Ethics are the principles which guide our decisions and actions. They provide the basis on which Defcredit builds our reputation as a good corporate citizen and an organisation whose values and behaviour are consistent with the expectations of Australian society. Ethical standards of behaviour are necessary ingredients of a respected organisation and a fair, safe and fulfilling workplace. They are more than compliance with the laws and policies; they are also about acting with consideration for values, perspective, judgement and consequences.

Within Defcredit, ethical behaviour includes:

- displaying ethical work behaviours and decision-making;
- encouraging these principles in others;
- maintaining the highest levels of honesty and integrity;
- acting with a spirit of justice and equality;
- acting lawfully and within the spirit of the law;
- honouring commitments entered into in good faith;
- placing the interest of members above other interests;
- dealing equitably with members regardless of race, marital status, religion, rank, age, sexual preference, gender or political affiliation;
- respecting the privacy of our members;
- acting in a spirit of co-operation;
- ensuring that Defcredit is directed and managed through the principles of good corporate governance;
- conducting operations effectively and efficiently;
- supporting members in their search for solutions to their financial problems and aspirations;
- encouraging thrift amongst our members and the Defence Community in general;
- educating our members and staff in relevant aspects of financial awareness;
- engendering a climate of mutual respect amongst Defcredit and other financial services sector participants;
- engendering high levels of trust amongst Defcredit, the Defence community and the wider community; and
- playing a role in extending the opportunity for credit union membership to all Australians.

Ethical standards of behaviour are necessary ingredients of a respected organisation and a fair, safe and fulfilling workplace.

Chairman's Report

Welcome to our report to the members - and owners - of Defcredit for the 2009 / 2010 financial year. Against continuing uncertainty in financial markets, Defcredit has yet again achieved a commendably strong result. This is described graphically in the 'Year at a Glance' page, while many of the decisive factors in our success are addressed by the CEO in his report.

Financial strength provides Defcredit with the means to compete in the crowded financial services marketplace to provide outstanding products and service to our members at competitive prices. Strength is essential also to proceeding with confidence when the economic environment is so difficult to predict.

It is pleasing that we have been able to continue our significant philanthropic and sponsorship programs. Our staff have again led the way with an outstanding fundraising effort for the Defence Special Needs Support Group. Significantly in a year with so many ADF operational casualties, we have also determined to support Legacy in their important work.

Members may be assured that the Board remains committed to continuous improvement in the governance of Defcredit. This year, we utilised the services of Jane Jeffreys Consulting in assisting with an assessment and we have adjusted our operation where there was an identified opportunity for improvement. In this and in all other aspects of Defcredit governance, I remain grateful for the support and wisdom of my fellow Directors.

I would also like to thank our management team and the staff whose ongoing commitment to service banking drives your credit union's outstanding performance.

Finally and most importantly, thanks to you, our members, for your continued support and patronage.

Mark Richards
Chairman
11 October 2010

Against continuing uncertainty in financial markets, Defcredit has yet again achieved a commendably strong result.

CEO's Report

In a period of continued economic instability Defcredit has delivered another year of strong performance, whilst maintaining our focus on meeting and improving our service to members. Defcredit has invested strategically to ensure sustainable growth and financial strength over the medium to long term.

Members

Our major emphasis this year continued to be improving our member service. With a combination of well balanced strategies, a competitive product range and excellent member service our service banking program has gone from strength to strength. During the year we launched a new online banking site, service accident insurance for ADF members and their families, new retirement products that cover superannuation, term deposits and pensions as well as the new foreign currency cash passport card.

Our ongoing program of branch refurbishment continues. Major works, relocation and refurbishment have occurred. Additionally a range of minor refurbishments and fit outs were undertaken at a number of branches throughout Australia. Defcredit continues to maintain the largest branch network in the ADF. During the course of the year over 6,700 new members joined Defcredit.

Defence Housing Ownership Assistance Scheme (DHOAS)

Our strong commitment to the Defence community is reflected in our participation in the highly successful DHOAS program. As one of the three approved home loan providers of the scheme, Defcredit continues to assist our members and their families in achieving their goal of home ownership. This program continues to be a major driver behind the solid financial performance of Defcredit.

Prudential Strength

This year we will report an after tax surplus of $9.46m representing a 1.01% return on average assets. Defcredit reinvests this surplus back into the credit union ensuring we continue our strong capital position, whilst offering our members competitive products and services. During this year we grew 22% reaching $1,030m in assets on book.

As an Authorised Deposit-taking Institution (ADI) Defcredit operates under strict prudential supervision by APRA and ASIC. We adhere strictly to prudential requirements and regulations.

Community Support

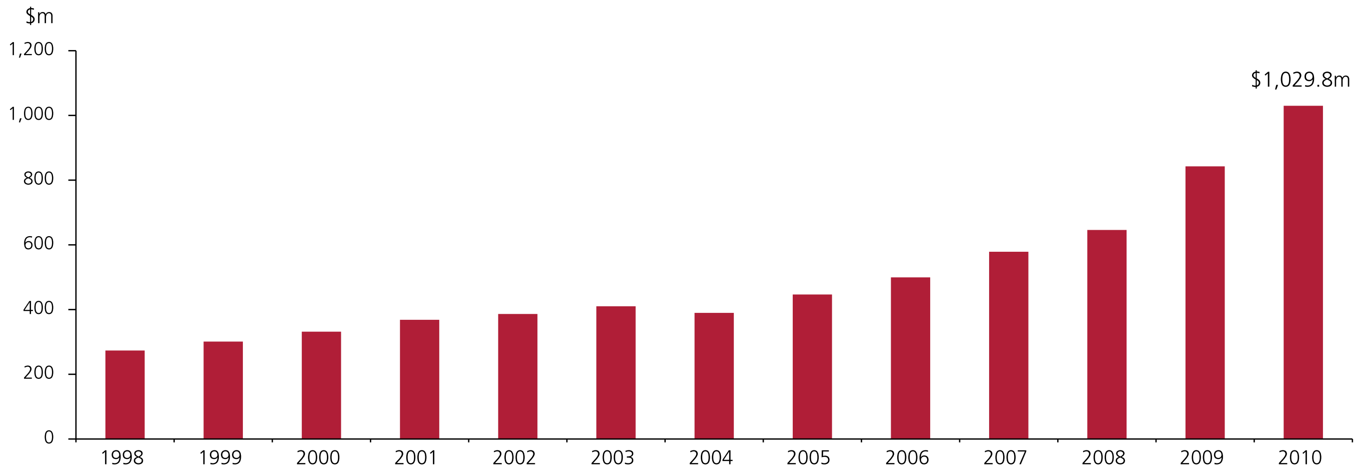
Defcredit continues to support the ADF by sponsoring, making donations and embracing partnerships in the Defence community. Our staff raised over $62,000 which was donated to Defence Special Needs Support Group. Additionally, we introduced significant new sponsorships to Legacy and the Salvation Army Defence Services. Altogether Defcredit contributed over $276,000 in sponsorship monies.

Jon Linehan
Chief Executive Officer
11 October 2010

Year at a Glance

Assets

up by $187.2m (22.22%)

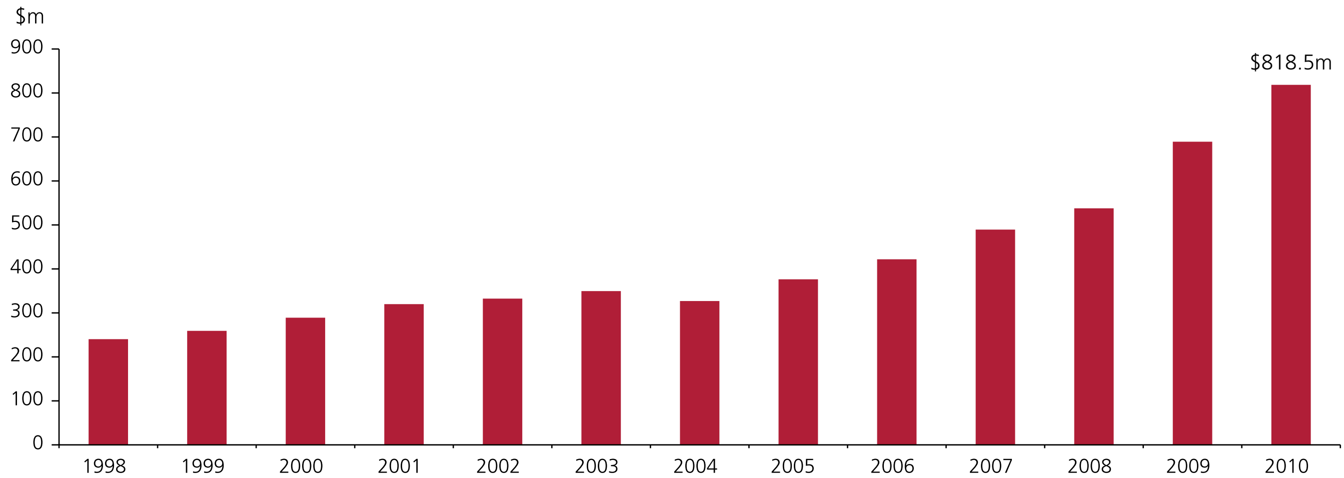


Loans under Management

up by $153.5m (20.00%)

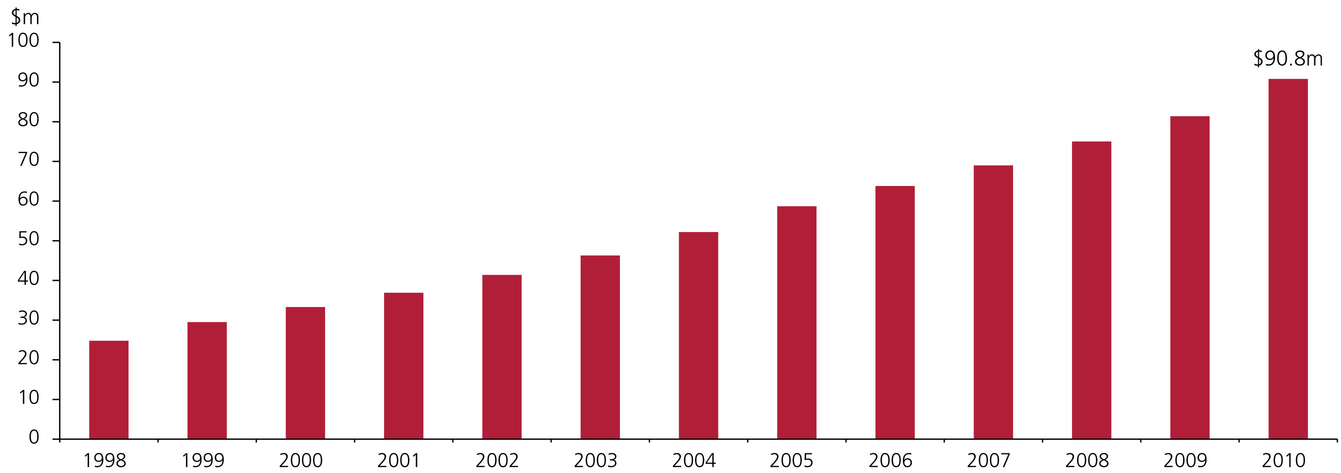
Deposits

up by $129.2m (18.75%)



Total Equity

up by $9.5m (11.62%)



Directors' Report

Directors

The Directors of Defcredit in office at the date of this report are:

Name	**Colonel Mark Derry RICHARDS**	**Wing Commander Callum Soutar BROWN**
Qualifications	DipMgt, M Def Stud, FAICD, AFAIM, MIPAA, MAMI, psc *(Chairman of the Board and Chairman of the Executive Committee)*	BA, MBA, DBA, M Def Stud, FAICD, AFAIM, MAHRI, MAMI, psc *(Deputy Chairman of the Board, Chairman of the Remuneration Committee and Board Representative on the Nominations Committee)*
Appointment Period	Initially elected to the Board on 6 November 2001. Most recently re-elected to the Board on 26 November 2007.	Initially elected to the Board on 25 November 1996. Most recently re-elected to the Board on 23 November 2009.

Mr Alan Ronald HANDS

DipBus (Acct), DipPur/MM,M Bus (LOG), CPA, MAICD, AFAMI

Initially elected to the Board on 22 November 1993. Most recently re-elected to the Board on 26 November 2007.

Lieutenant Colonel Craig Duncan MADDEN

BA, MMgt, Dip Mil Eng, GAICD, MAMI, psc

(Board Proctor)

Initially elected to the Board on 28 November 2005. Most recently re-elected to the Board on 24 November 2008.

Colonel Paul MULRANEY, CSC, Ret'd

BCom, MSc (Def Studies), CPA, MAICD, FAIM, MAMI, psc

(Chairman of the Audit, Risk and Compliance Committee)

Initially elected to the Board on 23 November 1998. Appointed as an Alternate Director on 29 November 2004. Most recently re-elected to the Board on 26 November 2007.

Directors' Report

Directors

The Directors of Defcredit in office at the date of this report are:

Major General
Michael Peter John O'BRIEN, CSC

MDA, BSc (Mil), AdvDipProjMgt, DipMilStud, FAICD, FAMI, psc, qtc, acdss

Initially elected to the Board on 24 June 1985. Most recently re-elected to the Board on 23 November 2009.

Captain
Andrew David ROBINSON, Ret'd

BCom, ASA, GAICD, MAMI, JP (Qual)

Initially elected to the Board on 28 November 2005. Most recently re-elected to the Board on 24 November 2008.

The Directors of Defence Force Credit Union Limited (Defcredit) submit their report for the financial year ended 30 June 2010. Accompanying this report are the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and the Statement of Cash Flows of Defcredit for the same period.

Company Secretaries

During the course of the financial year, the following executive managers held the office of Company Secretary:

Name	**Qualifications**	**Appointment**
Jon Michael Linehan	B.Ec(Hons), M.Com, LLB, FAICD, MAMI, SA Fin	CEO since 18 September 2006
Henry Frederick Pashley	BBus, CA, MAMI	EM – Finance since 13 October 2008

Directors' Meetings

The number of Board and Committee meetings during the year and the number of meetings attended by each Director or Alternate Director were as follows:

Directors	Board Meetings		Committee Meetings							
			Audit, Risk and Compliance		Executive		Nominations		Remuneration	
	A	B	A	B	A	B	A	B	A	B
M D Richards	11	11			4	4			1	1
C S Brown	11	11			4	4	1	1	1	1
A R Hands	11	11	6	6						
C D Madden	11	10	6	4						
P Mulraney	11	10	6	5						
M P J O'Brien	11	8								
A D Robinson	11	11	6	6						

Column A - Indicates the number of meetings the Director was eligible to attend.

Column B - Indicates the number of meetings attended by that Director.

Note: In all situations where a Director was unable to attend a Board or Committee Meeting, leave of absence was granted.

Directors' Report

Principal Activities

Defcredit's principal activities during the financial year remain unchanged and were the raising of funds and the application of those funds in providing financial accommodation to our members.

Operating Results

During the financial year, Defcredit earned a net profit of $9,456,599 ($6,355,818 – 2009) after providing $4,166,571 ($2,278,760 – 2009) for income tax expense.

Dividends

It is not the policy of the Board to recommend a dividend and no dividends were declared or payable during the reporting period.

Significant Changes in the State of Affairs

There was no significant change in the state of affairs of Defcredit during the course of the financial year under review.

Review of Operations

Significant achievements and improvements during the year included a net membership growth of 2,046 from 87,859 to 89,905 together with the following:

a. Growth

	2010	2009	Increase/ (Decrease)	Increase/ (Decrease)
	$	$	$	%
Total Assets	1,029,823,433	842,575,144	187,248,289	22.22
Total Equity	90,834,672	81,378,073	9,456,599	11.62
Members' Deposits	818,454,594	689,220,742	129,233,852	18.75
Members' Loans	827,104,277	665,431,269	161,673,008	24.30
Securitised Housing Loans (Off-Balance Sheet)	93,713,381	101,895,604	(8,182,223)	(8.03)
Total Loans (On- and Off-Balance Sheet)	920,817,658	767,326,873	153,490,785	20.00

b. Branch Refurbishments

Defcredit has continued a rolling programme of branch refurbishments for the benefit of members and staff. During the year, the Campbell Park branch was refurbished.

c. Products and Services

During the year, Defcredit reviewed a number of existing products and services, and their related terms and conditions, to ensure that they were continuing to meet the needs of members. Input from members was an important part of this process and the views of members were gathered through formal surveys, focus groups, correspondence and comments. Additionally, we launched a new Retirement Savings Account with variable and term deposit rates covering both superannuation and pensions. New cash passports were introduced as was the provision of Service Accident Insurance for ADF members and their families.

Defcredit continues to be a proud provider of loan products under the Defence Home Ownership Assistance Scheme (DHOAS), which have been well-received by members and continue to be a great success. Defcredit also undertook a substantial upgrade to its internet banking services, providing enhanced functionality and improved reliability.

d. Planning

Defcredit undertakes a continuing process of planning throughout the year and regularly reviews achievements against our Strategic Plan. The Board of Directors and Executive Managers met in October 2009 and March 2010 to consider the issues critical to the continued growth and development of Defcredit. The Board and Executive Managers are aware of their obligation to ensure that the credit union provides relevant and convenient services and products to our members and that any risks associated with the operations of the business are mitigated as appropriate.

After Balance Date Events

Since the end of the financial year, the Directors have not become aware of any matters or circumstances that may significantly affect the operations, results of those operations, or the state of affairs, of Defcredit.

Likely Developments and Expected Results

Defcredit's objectives over the next financial year and subsequent years will be to continue to improve services to members and to achieve growth in appropriate areas of our operations. In the area of products and services, Management regularly reviews all of our existing and available products, services and delivery mechanisms to ensure that they meet the existing and future needs of our members.

Contracts in which Directors have an Interest

Since 1 July 2009, no Director has received or become entitled to any benefits (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors and shown in the accounts) from a contract between Defcredit and themselves, their firm or a company in which they have a substantial interest.

Auditor Independence

A copy of the external auditor's independence declaration, as required under Section 307c of the *Corporations Act 2001* is provided on page 60.

Directors, Officers and Auditors' Indemnity

Defcredit's Constitution (Clause 17.3) permits Defcredit to indemnify each Officer of the credit union against certain liabilities incurred in the execution and discharge of the officer's duties. The *Corporations Act 2001 (Section 199A)* restricts the credit union from providing indemnity against certain liabilities that officers incur whilst acting in their positions. The indemnity that Defcredit provides for its Officers is consistent with the requirements of the Act. Defcredit's ability to indemnify extends to all Directors, secretaries, executive officers and employees. During the financial year, Defcredit has paid the premium for an insurance policy for Directors and Officers, for the benefit of Defcredit. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium. In the event of there being a claim against this insurance policy, Defcredit would meet the costs and expenses incurred in defending such proceedings, on behalf of the eligible person(s), up to the excess amount specified in the policy where such action was compatible with the requirements of the *Corporations Act 2001*.

Board Resolution

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

M D Richards	**C S Brown**
Director	Director
11 October 2010	

Executive Managers

Jon Linehan
BEc(Hons), M.Com, LLB, FAICD, MAMI, SA Fin
(Chief Executive Officer)

Garry Prout
Dip FS
(Executive Manager – Lending)

Henry Pashley
BBus, CA, MAMI
(Executive Manager – Finance)

Mike Ricketts
BA (Hons)
(Executive Manager – Retail Services)

Michael Smolders
BBus, MBA, AMAMI
(Executive Manager – Marketing)
to 22 July 2010

Tanya Morozov
Ad Dip Bus Mgt
(Executive Manager – Human Resources)

Ian Brown
(Chief Information Officer)

Leanne Kyle
BBus, Grad Dip Bus Admin, DIp FP
(Executive Manager – Marketing)
from 16 August 2010

Executive Managers:

L-R: Ian Brown, Tanya Morozov, Mike Ricketts, Jon Linehan, Henry Pashley, Leanne Kyle, Garry Prout

Corporate Governance

Company Structure and Regulation

Defence Force Credit Union Limited (Defcredit) is a public company limited by shares (members' shares) under the *Corporations Act 2001* administered by the Australian Securities and Investments Commission (ASIC). Defcredit is also an Authorised Deposit-taking Institution regulated under the Federal regime and subject to Prudential Standards issued by the Australian Prudential Regulation Authority (APRA).

Size and Composition of the Board

Defcredit's Board currently consists of seven independent non-executive Directors, all of whom were elected by members. The Chief Executive Officer of Defcredit is Secretary to the Board. This appointment carries no entitlement to a vote on Board matters.

Directors are generally elected for a term of three years, commencing at the end of the Annual General Meeting at which his or her election is announced and ending at the end of the third Annual General Meeting after his or her election. At the end of their term, Directors may offer themselves for re-election.

Experienced and Balanced Board

The Board comprises Directors with a wide range of experience and business backgrounds. All current Directors are serving, or have served, in the Australian Defence Force or were employed in the Department of Defence. All Directors also have extensive academic and commercial qualifications and experience to enable them to undertake their role as Directors. Details of Directors' qualifications are shown at pages 9-11.

In addition, Directors are required to undertake continuing professional development activities to maintain and improve their knowledge and skills necessary for the performance of their duties and responsibilities.

Active Participation

During the year, the Board met on 11 occasions and Directors also attended a number of meetings of Board Committees. Attendance is shown at page 12.

Each year, the Board of Directors, the CEO and Executive Managers meet to review the progress of Defcredit and to consider strategic issues. At appropriate times, Directors meet with staff and visit Defcredit branches.

Effective Committee Structure

The Board conducts its business with the assistance of a well defined and effective committee structure. In the course of this year the Board reviewed its committee structure, increasing the total number of standing committees to four. The establishment of the Remuneration Committee is designed to consider matters relating to the objectives and structure of Defcredit's remuneration arrangements. The four standing committees of the Board are:

- **Executive Committee.** This committee assists the Board in the development of recommendations regarding issues of corporate governance, senior executive management and policy.
- **Audit, Risk and Compliance Committee.** This committee assists the Board in fulfilling its responsibilities relating to Defcredit's accounting, statutory (under APRA, ASIC and AUSTRAC) and financial reporting, external and internal audit activities and overall compliance and risk management practices.

Corporate Governance

> **Nominations Committee.** This committee is established under Defcredit's constitution in order to provide assurance to members that candidates offered for service on the Board are fit, proper and suitable to become Directors.

> **Remuneration Committee.** This committee is established to review and make recommendations to the Board on the remuneration of Directors and Executives, including the amount of their remuneration.

From time to time, committees are established to facilitate Board consideration of a particular issue. During the financial year, no issue arose which prompted the Board to establish a specific issue, limited duration committee of the Board.

Board Performance

As part of its approach to corporate governance, the Board of Defcredit undertook a board performance self-assessment in 2010. The self-assessment process was facilitated by Jane Jeffreys Consulting, and involved feedback surveys providing insight into performance of the Board as a whole and at individual Director level. Reports were provided to all Directors highlighting key areas of strength and areas for further development.

The self-assessment was beneficial and its outcomes will be used to further refine and improve Board performance.

Remuneration of Directors

Directors are remunerated for their services from the aggregate amount approved by members at the Annual General Meeting. All transactions between Directors and Defcredit are on the same terms and conditions that apply to members.

Risk Management

The Board and Management are responsible for ensuring that Defcredit meets its prudential and statutory requirements and has management practices in place to limit risks to prudent levels. The Board has determined the various risks and has established policies and monitoring systems to manage those risks. Specific risk categories include Market, Liquidity, Credit, Data, Operations, Technology and Financial risks.

In 2007-2008, a comprehensive review of Defcredit's risk register and risk mitigation strategies was undertaken using the assistance of external consultants (Ernst and Young). The risk review involved Directors, the CEO, Executive Managers and a number of senior managers. The result is an updated risk register which identifies risks and the risk mitigation strategies that have been established to manage them. The risk register was reviewed and formally monitored during the 2008-2009 and 2009-2010 financial years.

Business Continuity Management remains an important focus of the Board's risk mitigation activities. Progressive testing of Defcredit's Business Continuity Plan has been undertaken throughout the year and this testing regime will continue in the year ahead. This will ensure that Defcredit is able to respond rapidly and effectively to a range of credible business disruption events in a way that will minimise any inconvenience to members.

Statement of Comprehensive Income

for the financial year ended 30 June 2010

	Notes	2010 $	2009 $
Interest Revenue	2	64,766,109	58,216,685
Interest Expense	2	(28,934,184)	(28,392,342)
Net Interest Revenue		**35,831,925**	**29,824,343**
Other Income	3	11,998,596	12,121,300
Expenses from Ordinary Activities			
a. Employee Benefits Expense		(15,240,297)	(14,915,796)
b. Depreciation and Amortisation Expense	3	(926,858)	(774,967)
c. Impairment Losses on Loans and Advances	4	(548,860)	(489,034)
d. Finance Costs Expense		(2,683,292)	(2,127,388)
e. Other Expenses	3	(14,808,044)	(15,003,880)
Profit Before Income Tax		**13,623,170**	**8,634,578**
Income Tax Expense	5	(4,166,571)	(2,278,760)
Profit for the Period		**9,456,599**	**6,355,818**
Other Comprehensive Income		-	-
Total Comprehensive Income		**9,456,599**	**6,355,818**

The accompanying notes form part of these financial statements.

Defcredit staff attend the Defence Charity Ball.

Balance Sheet

as at 30 June 2010

	Notes	2010 $	2009 $
Assets			
Cash and cash equivalents	7	29,451,844	8,887,055
Receivables due from other financial institutions	8	164,638,673	160,750,640
Financial assets available for sale	9	1,625,865	1,625,865
Trade and other receivables	10	2,843,023	1,935,260
Loans and advances	11, 12	827,104,277	665,431,269
Property, plant and equipment	13, 14	1,467,391	1,413,403
Deferred tax assets	15	2,055,806	2,031,876
Intangible assets	16	353,163	200,993
Other assets	17	283,391	298,783
Total Assets		**1,029,823,433**	**842,575,144**
Liabilities			
Short-term borrowings	18	91,390,000	37,505,000
Payables due to other financial institutions	19	13,407,901	22,868,801
Deposits	20	818,454,594	689,220,742
Trade and other payables	21	10,727,008	7,895,521
Income tax payable	22	1,855,537	373,997
Provisions	23	3,153,721	3,333,010
Total Liabilities		**938,988,761**	**761,197,071**
Net Assets		**90,834,672**	**81,378,073**
Equity			
Share capital	24	629,090	581,244
Reserves	25	90,205,582	80,796,829
Retained profits	26	-	-
Total Equity		**90,834,672**	**81,378,073**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

for the financial year ended 30 June 2010

	Notes	2010 $	2009 $
Share Capital			
Balance at start of period		581,244	547,108
Transfer on redemption of redeemable member shares		47,846	34,136
Balance at the end of the period		**629,090**	**581,244**
Reserves			
General Reserve for Credit Losses			
Balance at start of period		2,564,737	2,564,737
Transfers between reserves		-	-
Balance at end of the period		**2,564,737**	**2,564,737**
General Reserve			
Balance at start of period		78,232,092	71,910,410
Transfers between reserves		9,408,753	6,321,682
Balance at end of the period		**87,640,845**	**78,232,092**
Total Reserves		**90,205,582**	**80,796,829**
Retained Earnings			
Balance at start of period		-	-
Profit for period		9,456,599	6,355,818
Transferred to reserves		(9,456,599)	(6,355,818)
Balance at end of the period		**-**	**-**
Total Equity		**90,834,672**	**81,378,073**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for the financial year ended 30 June 2010

	Notes	2010 Inflows/(Outflows) $	2009 Inflows/(Outflows) $
Cash Flows from Operating Activities			
Interest received – loans		56,634,886	49,497,618
Interest and bills discounts – investments		7,544,694	9,153,486
Fees and commissions received		11,480,467	11,570,057
Dividend received		217,338	1,088,201
Recoveries on loans previously written off		288,844	247,886
Interest paid		(29,554,875)	(30,867,189)
Cash paid to suppliers and employees		(29,765,242)	(30,210,837)
Income tax paid		(2,708,962)	(2,714,053)
Net movement in investments		(3,888,033)	(63,716,477)
Net movement in loans		(159,764,315)	(138,927,051)
Net change in overdraft balances (members)		72,098	1,900,896
Net change in credit card balances		(2,529,653)	(804,444)
Net movement in deposits from members		129,233,852	151,516,151
Net Cash Provided by (Used in) Operating Activities	27c	**(22,738,901)**	**(42,265,756)**
Cash Flows from Investing Activities			
Physical assets purchased		(1,156,855)	(867,745)
Physical assets sold		36,446	19,545
Net (increase)/decrease in investments		-	(313)
Net Cash Provided by (Used in) Investing Activities		**(1,120,409)**	**(848,513)**
Cash Flows from Financing Activities			
Net movement in borrowings		44,424,099	39,734,593
Net Cash Provided by (Used in) Financing Activities		**44,424,099**	**39,734,593**
Net increase/(decrease) in cash		20,564,789	(3,379,676)
Cash at beginning of financial year		8,887,055	12,266,731
Cash at End of Financial Year	27a	**29,451,844**	**8,887,055**

The accompanying notes form part of these financial statements.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

In the notes that form part of the Financial Statements, a number of abbreviations are used. These abbreviations mean the following:

> AASB means the Australian Accounting Standards Board.
> ADI means Authorised Deposit-taking Institution.
> APRA means the Australian Prudential Regulation Authority.
> ASX means the Australian Stock Exchange.
> CUFSS means the Credit Union Financial Support Scheme.
> Cuscal means the Credit Union Services Corporation (Australia) Limited.
> Integris means Integris Securitisation Service Pty Ltd.
> KMP means Key Management Personnel as detailed in AASB 124.

1. Statement of Accounting Policies

Defcredit's financial report is a general purpose financial report prepared in accordance with the applicable Accounting Standards, AASB Accounting Interpretations, other mandatory professional reporting and the *Corporations Act 2001*. The financial report complies with all Australian Accounting Standards.

This financial report has been prepared on an accruals basis and is based on historical costs modified for those financial assets and financial liabilities for which the fair value basis of accounting has been applied. Except where specifically stated, the accounting policies have been consistently applied.

a. Property, Plant and Equipment

Property, plant and equipment are brought to account at cost less, where applicable, any accumulated depreciation or amortisation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually by management to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows which will be received from the assets' employment and their subsequent disposal. The depreciable amount of all property, plant and equipment, including buildings and leasehold improvements, is depreciated over their effective life, commencing from the time the asset is held ready for use or over the unexpired period of the lease, whichever is shorter.

b. Depreciation

Depreciation of fixed assets, including buildings, and the amortisation of intangible assets, is calculated on the straight line method and rates are based on the effective life of the asset. The following rates were used:

(1)	Portable Buildings	18%
(2)	Personal Computers	20% - 33.3%
(3)	Printers	33.3%
(4)	Facsimile Machines	33.3%
(5)	General Computers	20% - 40%
(6)	Office Equipment	20% - 33.3%
(7)	IT Software	40%
(8)	Motor Vehicles	20%
(9)	Office Furniture and Fittings	5% - 33.3%

(10) Leasehold improvements are amortised over the unexpired term of the lease.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

c. Amortisation

Software licences, or computer software that is not an integral part of the related hardware, are classified as intangible assets and their costs are amortised over the estimated useful life of the software.

d. Bad and Doubtful Debts

Loan accounts are submitted to the Board for write-off where any of the following circumstances apply:

(1) The member is a bankrupt or has executed an arrangement under Part IX or Part X of the *Bankruptcy Act 1966* and Defcredit is unlikely to receive sufficient funds to satisfy the debt.

(2) The member's whereabouts are unknown and all reasonable efforts to locate the member have been to no avail.

(3) There is reason to believe by virtue of unemployment or adverse credit, on an objective basis, that recovery of the debt is unlikely.

(4) Legal action has been undertaken and, on an objective view, there is little likelihood of the debt being recovered.

e. Impairment - Loans and Advances to Members

All loans are subject to continuous management review to assess whether there is any objective evidence that a loan, or group of loans, is impaired.

The amount provided for the impairment of loans is determined by the Board and management. The Board makes a provision for loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. The Prudential Standards issued by APRA prescribe the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time that payments have been in arrears and the security held.

This approach has been adopted by Defcredit. Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the 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:

(1) Non-Accrual Loans are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.

(2) Restructured Loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in Non-Accrual Loans when impairment provisions are required.

(3) Past-due Loans are loans where payments of principal or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If an impairment is incurred, the loan is included in Non-Accrual Loans.

Interest on term loans and overdrafts is calculated on the daily balance outstanding and is charged in arrears to a member's account on a monthly basis. No interest is brought to revenue on loans where the relevant account is the subject of legal action, or where the borrower is deceased or has filed a petition under the *Bankruptcy Act 1966*.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loans portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

f. Securitisation

Defcredit has an agreement with Integris which is a wholly owned subsidiary of Cuscal, to place securitised home loans with Perpetual Trustee Company Limited. These loans are off-balance sheet mortgage products and are subject to mortgage insurance. The contractual arrangements of the securitisation programme meet the criteria for transferring assets off balance sheet. The only circumstances in which Defcredit could be liable would be in the event of failure by Defcredit to adhere to key terms of the agreement between Integris, Perpetual Trustees and Defcredit.

g. Members' Deposits

Members' deposits are brought to account at the aggregate amount owing to depositors. Interest on deposits is brought to account on an accrual basis in accordance with the interest rate terms and conditions applicable to each account. The amount of the accrual is shown separately in the accounts (refer to Note 21).

h. Employees' Benefits

Provision is made for employees' entitlement benefits accumulated as a result of employees rendering services up to 30 June 2010, in accordance with Accounting Standards AASB 119 Employee Benefits. These benefits include wages and salaries, annual leave, long service leave and sick leave, if applicable. In addition, Defcredit has an employees' retirement scheme, for some employees, based on years of service. The amount charged against profit for the year for the retirement scheme was $24,435 ($28,185 – 2009).

Non-vested sick leave is not expected to exceed current and future sick leave entitlements and, accordingly, no provision is made for the liability.

Employees' benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employees' benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

i. Income Tax

The charge for current income tax expense is based on the operating profit for the year adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in financial statements. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax is credited in the Statement of Comprehensive Income except where it relates to items that may be credited directly into equity, in which case the deferred tax is adjusted directly against equity.

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

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

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

j. Income Recognition

Interest income is recognised as revenue on an accrual basis.

Fee and commission income is generally recognised on an accrual basis. However, commission income for Loan Repayment Insurance (LRI) is deferred and recognised on a straight-line basis over a twelve month period reflecting the average life of a LRI policy. The liability 'Commission received but not yet earned' is detailed in Note 11 to the accounts.

Dividend and distribution revenue are recognised when the right to receive a dividend or distribution has been established.

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

Revenue arising from the disposal of other assets is recognised when the entity and the buyer are both committed to a contract.

k. Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of 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 expense.

l. Risk Management – Policy Objectives

Defcredit has developed a comprehensive range of strategies and policies designed to mitigate the inherent risks arising from financial constraints involved in operating the credit union.

In summary, there are:

(1) Market Risks. Defcredit is not exposed to currency and other price risk and it does not trade in the financial instruments held on its books. However, it is exposed to interest rate risk arising from changes in market interest rates. The policy of Defcredit is not to undertake derivative transactions to match interest rate risk. Additional information in relation to the management of market risk, with respect to financial instruments, is provided at Note 38.

(2) Credit Risk – Loans. The risk of losses from the loans advanced to members is mitigated by the careful application of loan assessment criteria designed to ensure capacity to pay and by the nature and quality of the security taken. In the case of loans secured by registered first mortgage, Defcredit requires borrowers to obtain mortgage insurance to cover the total indebtedness to Defcredit in situations where the loan to valuation ratio is more than 80%. This policy is only relaxed when there are particular mitigating circumstances. The credit union has a concentration in retail lending for members of the Defence community (serving and former serving members of the Australian Defence Force, Defence civilians, contractors and families of this bond). This concentration is considered to be acceptable on the grounds that the credit union was formed to secure the financial needs of these members and the employment concentration is not exclusive. Should members cease employment within the Defence bond, the loans continue and other employment opportunities are available to the members to facilitate the repayment of loans.

(3) **Credit Risk – Liquid Investments.** The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limit of concentration on one entity. Defcredit maintains a higher proportion of its liquid investments with Cuscal and with other major AA-rated Australian banks. Other liquid funds are held on deposit with other ADIs (Note 8 refers).

(4) **Market Risk – Equity Investments.** Defcredit is a shareholder of Cuscal, an umbrella organisation formed to provide a range of key operational and support functions necessary for the operation of the credit unions throughout Australia. The details of this investment are provided in Note 9.

(5) **Liquidity Risk.** The maturity profile of Defcredit's financial assets and financial liabilities, based on the contractual repayment forms, is set out in Notes 11 and 20. Under the APRA Prudential Standards, 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. Defcredit's policy is to apply 14% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is monitored daily. Should the liquidity ratio fall below this level, management and the Board will address the matter and ensure that appropriate action is taken to address the situation. One possible response is to seek additional liquid funds from new deposits and the available borrowing facilities. The pre-approved available borrowing facilities at balance date are detailed in Note 29. As at 30 June 2010, Defcredit's high quality liquid asset ratio was 17.70% (the comparative ratio as at 30 June 2009 was 17.71%).

m. Accounting Standard Changes

This financial report has been prepared in accordance with all Australian Accounting Standards and International Financial Reporting Standards and AASB Accounting Interpretations. The expected impact of Accounting Standards issued but not yet operative at 30 June 2010 are assessed as having no material impact on this financial report.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

2. Interest Revenue and Interest Expense

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are daily averages. Weekly or month-end averages are also used, provided that they are representative of Defcredit's operations during the period.

	Average Balance $	Interest $	Average Interest Rate %
a. 2010			
(1) Interest Revenue			
Receivables from other financial institutions	182,478,609	8,131,574	4.44
Loans and advances (other than commercial loans)	759,866,571	56,572,976	7.43
Commercial loans	779,069	61,559	7.90
Investments	-	-	-
		64,766,109	6.85
(2) Interest Expense			
Payables to other financial institutions	26,870,866	1,316,563	4.99
Members' deposits	769,981,970	27,617,621	3.57
		28,934,184	3.62
(3) Net Interest Revenue		**35,831,925**	
b. 2009			
(1) Interest Revenue			
Receivables from other financial institutions	153,779,416	8,720,991	5.92
Loans and advances (other than commercial loans)	600,484,724	49,442,214	8.29
Commercial loans	619,226	53,480	8.70
Investments	-	-	-
		58,216,685	7.81
(2) Interest Expense			
Payables to other financial institutions	16,672,584	906,846	6.05
Members' deposits	623,521,431	27,485,496	4.47
		28,392,342	4.51
(3) Net Interest Revenue		**29,824,343**	

3. Profit from Ordinary Activities

Included in the profit from ordinary activities are the following items of operating revenue:

	2010	2009
	$	$
a. Revenue from Ordinary Activities		
(1) Interest Revenue	64,766,109	58,216,685
(2) Non Interest Revenues		
Dividends	217,338	1,088,201
Fees and Commissions		
(a) Loan fee income	1,102,507	990,623
(b) Other fee income	6,455,494	6,169,036
(c) Insurance commissions	1,371,637	1,177,339
(d) Other commissions	2,533,659	2,425,553
Gains on disposal of shares		
Gains on disposal of property, plant and equipment	12,607	11,212
Bad debts recovered	288,844	247,886
Other Revenue	16,510	11,450
Total Non Interest Revenues	11,998,596	12,121,300
(3) Total Revenue from Ordinary Activities	76,764,705	70,337,985
b. Expenses		
(1) Employee Benefit Expense		
(a) Personnel costs	14,556,276	14,191,905
(b) Provision for employee benefits	684,021	723,891
(2) Depreciation of property, plant and equipment		
(a) Plant and equipment	648,191	594,219
(b) Buildings and leasehold improvements	32,414	32,910
(3) Amortisation of intangible assets		
(a) Computer software	246,253	147,838
Other Expenses		
(4) Net loss on disposal of property, plant and equipment	-	-
(5) Rental - operating leases	1,102,234	1,092,554
(6) Information Technology expenses	3,118,266	2,620,776
(7) External financial transactions processing fees and charges	4,266,792	5,125,544
(8) Telephone expenses	384,243	366,541
(9) Repairs and maintenance	158,927	258,718
(10) Other expenses from ordinary activities	5,777,582	5,539,747
(11) Total Other Expenses	14,808,044	15,003,880

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

4. Impairment Expense

	2010	2009
	$	$
a. Increase in provision for impairment of loans and advances	548,860	489,034

5. Income Tax

	2010	2009
a. Major components of tax expenses:		
(1) Current tax expense	4,078,665	2,254,822
(2) Deferred tax expense (income) relating to the origination and reversal of temporary differences	(23,929)	(133,335)
(3) Underprovision of prior year tax	111,835	157,273
(4) Tax expense	**4,166,571**	**2,278,760**
b. Aggregate current and deferred tax relating to items charged or credited to equity		
(1) Deferred tax relating to revaluation of financial instruments	-	-
c. Explanation of the relationship between tax expense and accounting profit		
(1) Accounting Profit	**13,623,170**	**8,634,578**
(2) Prima facie tax at the applicable tax rate of 30%	4,086,951	2,590,373
(a) Add tax effect of:		
Non allowable deductions	48,078	17,339
Other assessable income	26,333	139,911
(b) Less tax effect of:		
Capital profits not subject to income tax	-	-
Rebateable fully franked dividends	(87,780)	(466,372)
(3) Investment Incentive Capital Allowance	(18,846)	(159,764)
(4) Underprovision of prior year tax	111,835	157,273
(5) Tax expense	**4,166,571**	**2,278,760**

The applicable tax rate is the Australian company income tax rate of 30% (2009 30%).

6. Franking Credit Balance

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

	2010	2009
	$	$
a. Franking account balance as at the end of the financial year at 30%	33,874,014	31,132,702
b. Franking credits that will arise from the payment of income tax payable as at the end of the financial year	1,855,536	373,997
	35,729,550	**31,506,699**

Since, under corporations and tax laws, Defcredit may only pay a dividend on shares to which a right to participate in dividends attaches, these franking credits are not presently available to members.

7. Cash and Cash Equivalents

a. Cash on Hand	3,729,812	3,809,328
b. Deposits with Cuscal	25,722,032	5,077,727
c. Deposits with Banks	-	-
d. Total	**29,451,844**	**8,887,055**

8. Receivables Due from Other Financial Institutions

	2010	2009
	$	$
a. Deposits with Banks	140,090,545	135,021,870
b. Interest Earning Deposits with Cuscal – at cost	24,548,128	25,728,770
	164,638,673	**160,750,640**
c. Maturity Analysis		
(1) At call	-	-
(2) Not longer than 12 months	164,638,673	160,750,640
(3) Longer than 1 and not longer than 5 years	-	-
(4) Longer than 5 years	-	-
(5) No maturity specified	-	-
	164,638,673	**160,750,640**

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

9. Financial Assets Available for Sale

	2010 $	2009 $
a. Unlisted Cuscal shares		
(1) Commercial Shares with Cuscal at cost	1,625,552	1,625,552
(2) Class B Shares with Cuscal at cost	313	313
b. Balance	**1,625,865**	**1,625,865**

c. There would be no capital gains tax payable if the Cuscal shares were sold at their market value at the reporting date.

d. In the event of liquidation or wind-up of Defcredit, these Commercial Shares with Cuscal will immediately be available for sale to other credit unions at market value. The carrying value is considered to equate to market value as at 30 June 2010.

10. Trade and Other Receivables

	2010 $	2009 $
a. Dividend and Interest Receivable on Deposits with other Financial Institutions	2,061,454	1,468,642
b. Interest Receivable on Members' Overdrafts	533	5,780
c. Trade Debtors	781,036	460,838
d. Total	**2,843,023**	**1,935,260**

East Sale 'Dining In' night which raised funds for Defence Special Needs Support Group.

11. Loans and Advances

		2010	2009
		$	$
a.	Overdrafts	9,744,953	9,817,050
b.	Credit card	13,653,754	11,124,101
c.	Term loans	804,470,112	645,084,397
		827,868,818	**666,025,548**
d.	Specific Provision for impairment	(679,713)	(560,023)
e.	Less commission received but not yet earned	(84,828)	(34,256)
f.	**Net loans and advances**	**827,104,277**	**665,431,269**
g.	**Maturity Analysis**		
	(1) Overdrafts	14,850,437	15,084,754
	(2) Not longer than 12 months	69,503,821	63,706,112
	(3) Longer than 1 and not longer than 5 years	217,349,148	194,864,179
	(4) Longer than 5 years	525,400,871	391,776,224
	(5) No maturity specified	-	-
	(6) Total	**827,104,277**	**665,431,269**

h. Concentration of Credit Risk

There are no loans which represent 10% or more of Total Equity. Furthermore, there is no significant concentration of credit risk due to the nature of operating throughout Australia and the type of membership base and bond.

		2010	2009
i.	**Provision for Impairment**		
	(1) Opening balance	560,023	665,276
	(2) Increase in provision for impairment of loans and advances	548,860	489,034
	(3) Bad debts written off	(429,169)	(594,287)
	(4) Other adjustments	-	-
	(5) Closing balance	**679,713**	**560,023**

12. Impairment of Loans and Advances

	2010 $	2009 $
a. Restructured Loans		
(1) Balance	-	-
(2) Provision for impairment	-	-
(3) Net restructured loans	**-**	**-**
b. Real Estate Assets Acquired Through Security Enforcement and Held at 30 June		
(1) Real estate assets acquired through security enforcement	-	-
(2) Provision for impairment	-	-
(3) Balance	**-**	**-**
c. Other Assets Acquired Through Security Enforcement and Held at 30 June		
(1) Other assets acquired through security enforcement	113,981	33,224
(2) Provision for impairment	(53,681)	(9,473)
(3) Balance	**60,300**	**23,751**
d. Net Fair Value of Assets Acquired		
(1) Net fair value of assets acquired through the enforcement of security during the financial year. These assets included motor vehicles which subsequently have been sold.	119,951	75,877

	2010 Delinquent Amount	2010 Balance	2009 Delinquent Amount	2009 Balance
	$	$	$	$
e. Past Due Loans – Non Impaired				
(1) Mortgage Loans				
Longer than 14 days and not longer than 29 days past due	1,181	880,265	1,361	260,607
Longer than 29 days and not longer than 59 days past due	542	49,882	707	49,928
Longer than 59 days and not longer than 89 days past due	-	-	-	-
(2) Personal Loans				
Longer than 14 days and not longer than 29 days past due	25,652	1,084,639	28,014	1,143,828
Longer than 29 days and not longer than 59 days past due	15,126	327,704	15,273	298,134
Longer than 59 days and not longer than 89 days past due	11,410	109,126	17,012	185,325

(3) Loans that are past due for 90 days or more are classified as being impaired and appropriate provision for impairment is made. The delinquent amount is the total amount overdue for all specified loans that fall within the defined time periods. The balance figure is the total balance of loans outstanding for any loans that were delinquent at balance date, for which impairment has not been recognised.

Defcredit Lavarack Branch Manager Erica Keam at the Geckos Family Day.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

13. Property, Plant and Equipment

	2010 $	2009 $
a. Portable Buildings on Leasehold Land:		
(1) At cost	213,854	213,854
(2) Accumulated depreciation	(213,854)	(213,854)
(3) Total buildings	-	-
b. Leasehold Improvements:		
(1) At cost	337,946	325,628
(2) Accumulated amortisation	(298,777)	(266,363)
(3) Total leasehold improvements	**39,169**	**59,265**
c. Total Buildings and Leasehold improvements	**39,169**	**59,265**
d. Plant and Equipment:		
(1) At cost	7,243,848	6,700,767
(2) Accumulated depreciation	(5,815,626)	(5,346,629)
(3) Total plant and equipment	**1,428,222**	**1,354,138**
e. Total Property, Plant and Equipment:		
(1) At cost	7,795,648	7,240,249
(2) Accumulated depreciation	(6,328,257)	(5,826,846)
(3) Total written down value	**1,467,391**	**1,413,403**

Defcredit Branch Managers, Gwenda Miles and Barbi Howell at the Amberley playgroup.

14. Reconciliation of Property, Plant and Equipment

	Portable Buildings On Leasehold Land	Leasehold Improvements	Plant and Equipment	Total
	$	$	$	$
a. Carrying Amount at 30 June 2010				
(1) Balance at 30 June 2009	-	59,265	1,354,138	1,413,403
(2) Additions	-	12,318	746,114	758,432
(3) Disposals	-	-	(23,839)	(23,839)
(4) Depreciation Expense	-	(32,414)	(648,191)	(680,605)
(5) Impairment Write Downs	-	-	-	-
(6) Carrying Amount at 30 June 2010	**-**	**39,169**	**1,428,222**	**1,467,391**
b. Carrying Amount at 30 June 2009				
(7) Balance at 30 June 2008	-	92,175	1,259,120	1,351,295
(8) Additions	-	-	697,566	697,566
(9) Disposals	-	-	(8,329)	(8,329)
(10) Depreciation Expense	-	(32,910)	(594,219)	(627,129)
(11) Impairment Write Downs	-	-	-	-
(12) Carrying Amount at 30 June 2009	**-**	**59,265**	**1,354,138**	**1,413,403**

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

15. Deferred Tax Assets

	2010	2009
	$	$
a. Deferred income tax at 30 June relates to the following:		
(1) Provision for impairment on loans not yet deductible	203,914	168,006
(2) Prior year bad debts not taxable or deductible	462,422	490,590
(3) Accelerated tax depreciation	373,303	340,181
(4) Accrued income not yet earned	25,449	10,277
(5) Accrued expenses not yet deductible	44,602	22,919
(6) Provisions for employee benefits not yet deductible	946,116	999,903
(7) Net deferred tax asset	2,055,806	2,031,876
b. The movement in deferred tax assets/liabilities for each temporary difference during the year is as follows:		
(1) Provision for impairment on loans not yet deductible		
(a) Opening balance	168,006	199,582
(b) Credited to the income statement	35,908	(31,576)
(c) Credited directly to equity	-	-
(d) Closing balance	203,914	168,006
(2) Prior year bad debts with delayed recovery		
(a) Opening balance	490,590	463,190
(b) Credited to the income statement	(28,168)	27,400
(c) Credited directly to equity	-	-
(d) Closing balance	462,422	490,590
(3) Accelerated tax depreciation		
(a) Opening balance	340,181	318,396
(b) Credited to the income statement	33,122	21,785
(c) Credited directly to equity	-	-
(d) Closing balance	373,303	340,181
(4) Accrued income not yet earned		
(a) Opening balance	10,277	17,455
(b) Credited to the income statement	15,172	(7,178)
(c) Credited directly to equity	-	-
(d) Closing balance	25,449	10,277
(5) Accrued expenses not yet deductible		
(a) Opening balance	25,919	24,144
(b) Credited to the income statement	21,683	(1,225)
(c) Credited directly to equity	-	-
(d) Closing balance	44,602	22,919

	2010	2009
	$	$
(6) Provisions for employee benefits not yet deductible		
(a) Opening balance	999,903	875,774
(b) Credited to the income statement	(53,787)	124,129
(c) Credited directly to equity	-	-
(d) Closing balance	946,116	999,903

16. Intangible Assets

a. Computer Software		
(1) Computer software at cost	1,967,654	1,569,231
(2) Accumulated Amortisation	(1,614,491)	(1,368,238)
(3) Provision for impairment	-	-
(4) Balance at year end	**353,163**	**200,993**
b. Movement in Carrying Value		
(1) Balance at beginning of year	200,993	178,653
(2) Additions	398,423	170,178
(3) Disposals	-	-
(4) Amortisation expense	(246,253)	(147,838)
(5) Carrying value at year end	**353,163**	**200,993**

17. Other Assets

a. Prepayments	**283,391**	**298,783**

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

18. Short Term Borrowings

	2010	2009
	$	$
a. Unsecured loans	36,390,000	37,505,000
b. Secured loans	55,000,000	-
	91,390,000	**37,505,000**

The borrowings above represent secured term loans from Cuscal (refer Note 31) and unsecured term loans from the Total Portfolio Service which is owned by Australian Wealth Management Limited. Loans are at fixed interests rates with a range of maturity dates for periods up to twelve months.

19. Payables Due to Other Financial Institutions

	2010	2009
a. Term Deposits Payable to Other ADIs	13,407,901	22,868,801
b. Overdraft balance with Cuscal	-	-
c. Balance at 30 June	**13,407,901**	**22,868,801**

The loans from Other ADIs are at fixed interest rates for terms for one year or less.

20. Deposits

	2010	2009
a. Members' Redeemable Preference Shares	891,602	869,822
b. Members' Call Deposits	356,384,287	366,756,337
c. Members' Term Deposits	461,178,705	321,594,583
d. Total	**818,454,594**	**689,220,742**
e. Maturity Analysis		
(1) At call	357,275,889	367,626,159
(2) Not longer than 12 months	455,217,867	320,954,764
(3) Longer than 1 and not longer than 5 years	5,960,838	639,819
(4) Longer than 5 years	-	-
(5) No maturity specified	-	-
(6) Total	**818,454,594**	**689,220,742**

f. Concentration of Deposits

There are no depositors whose deposits represent 10% or more of Total Liabilities. Furthermore, there is no significant concentration of deposit risk due to the nature of operating throughout Australia and the type of membership base and bond.

21. Trade and Other Payables

	2010	2009
	$	$
a. Trade Creditors	1,171,186	848,245
b. Accrued Interest Payable	8,179,288	6,115,187
c. Accrued Expenses	1,376,534	932,089
d. Total	10,727,008	7,895,521

22. Income Tax Payable

a. Current Income Taxation Payable	1,855,537	373,997

23. Provisions

a. Employee Benefits		
(1) Current liabilities	2,300,470	2,489,288
(2) Non-current liabilities	853,251	843,722
(3) Total	3,153,721	3,333,010

24. Share Capital

a. Balance at beginning of year	581,244	547,108
b. Transfer on redemption of redeemable preference shares	47,846	34,136
c. Balance at end of year	629,090	581,244

25. Reserves

The General Reserve is an equity account, which comprises the aggregate amount of all retained profits from ordinary activities after income tax since Defcredit's inception, less the aggregate amount relating to the redemption of redeemable preference shares. Its purpose is to illustrate that, in a mutual organisation, these amounts are not available for distribution as dividends and that the reserve clearly represents members' equity in Defcredit.

Additional provision for future losses, general banking risks and contingent impairment of assets, required to be set aside by Prudential Standards, are held in a General Reserve for Credit Losses. Additional information is provided at Note 1e.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

26. Retained Profits

	2010	2009
	$	$
a. Retained Profits at the Beginning of the Financial Year		
(1) Balance at beginning of year	-	-
(2) Profit from ordinary activities after income tax	9,456,599	6,355,818
(3) Aggregate of amounts transferred from reserves	-	-
b. Total Available for Appropriation	**9,456,599**	**6,355,818**
(1) Redemption of redeemable preference shares	(47,846)	(34,136)
(2) Aggregate of amounts transferred to reserves	(9,408,753)	(6,321,682)
c. Retained Profits at the End of the Financial Year	**-**	**-**

27. Note to the Cash Flow Statement

Cash equivalents are highly liquid investments with short periods to maturity, which are readily convertible to cash on hand at the investor's option and are subject to an insignificant risk of changes in value and borrowings, which are integral to the cash management function and which are not subject to a term facility. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

a. Reconciliation of Cash and Cash Equivalents at End of the Financial Year		
(1) Cash on hand	3,729,812	3,809,328
(2) Deposits with Banks	-	-
(3) Deposits with Cuscal	25,722,032	5,077,727
(4) Less Bank Overdraft	-	-
(5) Total	**29,451,844**	**8,887,055**

	2010	2009
	$	$
b. Reconciliation of Net Cash provided by Operating Activities to Net Profit		
(1) Net Profit	9,456,599	6,355,818
(2) Increase/(Decrease) in interest payable	2,062,602	(347,460)
(3) (Increase)/Decrease in interest receivable	(586,529)	434,418
(4) Provision for impairment (net after recoveries)	548,860	489,034
(5) Depreciation and amortisation	926,858	774,966
(6) Increase/(Decrease) in income tax payable	1,481,540	(301,958)
(7) (Increase)/Decrease in deferred tax assets	(23,930)	(133,335)
(8) (Profit)/Loss of sale of equipment	(12,607)	(11,212)
(9) Increase/(Decrease) in provision for employee benefits	(179,289)	413,764
(10) (Increase)/Decrease in accrued receivables	660	2,000
(11) (Increase)/Decrease in prepaid expenses	15,393	16,005
(12) (Increase)/Decrease in sundry debtors	(321,894)	289,096
(13) Increase/(Decrease) in sundry creditors and accruals	768,887	(215,968)
(14) (Increase)/Decrease in investments	(3,888,033)	(63,716,477)
(15) (Increase)/Decrease in loans	(159,764,315)	(138,927,051)
(16) (Increase)/Decrease in overdraft balances (members)	72,098	1,900,896
(17) (Increase)/Decrease in credit card balances	(2,529,653)	(804,444)
(18) Increase/(Decrease) in deposits from members	129,233,852	151,516,151
c. Net Cash Provided by (Used in) Operating Activities	**(22,738,901)**	**(42,265,756)**

Defcredit CEO Jon Linehan presents a cheque to Margaret Fisk OAM, DSNSG National coordinator.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

28. Expenditure Commitments

	2010	2009
	$	$
a. Operating Leases (non-cancellable)		
(1) Rental Expense:		
Amount recognised in the year	1,102,234	1,092,554
(2) Accommodation Rental:		
(a) not later than 1 year	1,018,717	1,053,875
(b) later than 1 and not later than 5 years	824,841	823,183
(c) later than 5 years	-	-
(d) Aggregate expenditure contracted for at balance date	1,843,558	1,877,058
(3) Core Banking, Facility Management and Associated Support Services:		
(a) not later than 1 year	2,080,113	1,692,818
(b) later than 1 and not later than 5 years	4,029,265	4,816,058
(c) later than 5 years	-	-
(d) Aggregate expenditure contracted for at balance date	6,109,378	6,508,876
(4) Other Office Equipment:		
(a) not later than 1 year	83,974	62,614
(b) later than 1 and not later than 5 years	137,672	28,449
(c) later than 5 years	-	-
(d) Aggregate expenditure contracted for at balance date	221,646	91,063

(5) Leasing Arrangements:

(a) Following further negotiations for additional accommodation at Head Office in 2003, the current Head Office property lease now covers the period to 30 June 2011, with rent payable on the first working day of the month. The rent for the term has been agreed and the lease allows for an increase in rent for each year.

(b) Other property leases are generally for periods from three to five years with an option to renew the lease at the end of the term. Rent is either fixed for the period, or subject to agreed escalation clauses and is payable monthly in advance. No significant new lease arrangements for retail or commercial office space were entered into during the financial year. The retail premises lease for the branch at Vincent Village Shopping Centre in Townsville is in the process of being finalised. The lease for the branch at Palm City Oasis Shopping Centre in Palmerston in the Northern Territory was not renewed.

(c) Defcredit's Core Banking, Facilities Management and Associated Support Services lease, which was signed on 27 June 2002, commenced on the conversion to the Phoenix software on 4 August 2003. Under the lease, fees are payable monthly and may be increased annually, based on CPI increases and any increase in the direct cost of supplies from third parties.

(d) HP Financial Services (Australia) Pty Ltd supplies Defcredit with leased computer printers. The agreement with this company expires on 30 June 2012. S.E. Rentals Pty Ltd supplies Defcredit with leased multi-function printer / scanners / copiers. The agreement with this company expires on 30 June 2013. Both devices are widely used in Defcredit's offices throughout Australia.

	2010 $	2009 $
b. Outstanding Loan Commitments		
Loans and credit facilities approved but not funded or drawn to 30 June:		
(1) Loans approved but not funded	71,004,529	95,751,711
(2) Total undrawn balances of all Revolving Credit Facilities	47,754,694	50,172,490

29. Defcredit Standby Facilities

Defcredit has arranged standby facilities with Cuscal as follows:

	2010 $	2009 $
a. Overdraft Facility	5,000,000	5,000,000
(1) Less: overdraft	-	-
(2) Undrawn Overdraft	**5,000,000**	**5,000,000**
b. Confirmed Standby Facility	-	-
(1) Less: drawdown	-	-
(2) Undrawn Standby	**-**	**-**
c. Pre-Committed Loan Facility	20,000,000	15,000,000
(1) Less: drawdown	-	-
(2) Undrawn Loan	**20,000,000**	**15,000,000**
d. Total Undrawn Facilities Available	**25,000,000**	**20,000,000**

There are no restrictions on withdrawal of funds under the Overdraft and Confirmed Standby facilities. Drawdown under the Pre-Committed Loan facility is for a maximum period of 12 months.

Defcredit Chairman Mark Richards at the Legacy Junior Public Speaking awards.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2010

30. Employee Benefits and Superannuation Commitments

	2010	2009
	$	$
a. Employee Benefits		
The aggregate employee benefits liability is:	3,153,721	3,333,010
b. Superannuation Commitments		
(1) The amount contributed to superannuation funds on behalf of Directors and Employees.	1,260,900	1,324,504

(2) The employees of Defcredit nominate the superannuation fund that they want their superannuation contributions directed to. Contributions are directed to a variety of industry and commercial superannuation funds. The default fund that Defcredit uses is Cuesuper.

(3) Under the default fund, employees are entitled to benefits on retirement, disability or death. Benefits provided under the plans are based on contributions for each employee. For award staff, Defcredit contributes the amount required by the *Superannuation Guarantee (Administration) Act 1992*. For other staff, each is offered a total salary package, out of which the employee is to elect an amount at least equal to the percentage required by the *Superannuation Guarantee (Administration) Act 1992*, which Defcredit contributes on behalf of the employee.

(4) Defcredit is not obliged to contribute to these funds other than to meet its liability under the Superannuation Guarantee system. Defcredit is under no legal obligation to make up any shortfall in the funds' assets to meet payments due to employees.

(5) As all funds are accumulation funds, no actuarial assessment of the fund is necessary and consequently no assessment has been undertaken.

(6) Defcredit has no unfunded superannuation liability.

c. Number of Employees

The total number of employees at 30 June 2010 was 246 (239 – 2009). In full time equivalent terms, the total number of employees was 219 at 30 June 2010 (215 – 2009).

31. Registered Charge

Cuscal holds a fixed and floating charge over Defcredit's assets and future undertakings for loan facilities available to Defcredit. The amount outstanding under this charge as at 30 June 2010 is $55 million (Nil – 2009).

32. Contingent Liabilities

a. Credit Union Financial Support

(1) With effect from 1 July 1999, Defcredit is a party to the Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme that all Credit Unions affiliated with Credit Union Services Corporation (Australia) Limited (Cuscal) have agreed to participate in.

(2) CUFSS is a company limited by guarantee, each credit union's guarantee being $100.

(3) As a member of CUFSS, Defcredit:

(a) may be required to advance loans of up to 3% (excluding permanent loans) of total assets to another credit union requiring financial support;

(b) may be required to advance permanent loans of up to 0.2% of total assets per financial year to another credit union requiring financial support; and

(c) agrees, in conjunction with other members, to fund the operating costs of CUFSS.

33. Securitisation Arrangements

Defcredit has off-book (securitisation) arrangements with the following entities:

a. Integris Securitisation Services Pty Ltd. Defcredit has an arrangement with Integris Securitisation Services Pty Ltd whereby it acts as an agent to promote and complete loans on its behalf, for on-sale to an investment trust. Defcredit also manages the loans portfolio on behalf of the trust. Defcredit bears no credit risk exposure in respect of these loans. The balance of securitised loans as at 30 June 2010 was $93,713,381 ($101,895,604 – 2009).

34. Compensation of Directors

	2010	2009
	$	$
No Directors were engaged in full time employment with Defcredit.		
Total amount of compensation (short-term benefits) paid to Directors in respect of the financial year was:	236,715	222,712

Compensation includes all payments and benefits to Directors and Alternate Directors, but excludes reimbursement of out-of-pocket expenses. All remuneration of Directors and Alternate Directors was approved by the members at previous Annual General Meetings of Defcredit. There are no amounts paid in connection with the retirement of a Director or an Alternate Director to a superannuation plan except for amounts payable in accordance with Superannuation Guarantee Legislation, or in situations where a Director chooses to salary sacrifice additional contributions to superannuation, which are included in the total amount paid for compensation to Directors and Alternate Directors. Superannuation payments made are on the same terms and conditions as for employees of Defcredit generally.

35. Remuneration of Auditors

	2010	2009
	$	$
a. Audit or review of accounts	118,800	100,100
b. Other Services - taxation	-	2,475
c. Other Services – related practice	2,695	1,925
d. Total	**121,495**	**104,500**

36. Related Party Disclosures

In accordance with the requirements of the applicable Accounting Standard (AASB – 124), disclosures are required to be made in relation to Defcredit's Key Management Personnel (KMP). The KMP for Defcredit are defined as the Board of Directors, the CEO and members of the Executive Management Team. The people who comprise this group are listed on pages 9 to 11 (Board of Directors) and page 15 (Executive Management Team). The following individuals are also included in disclosure 36 a; Phillip Elliott (former Executive Manager – Marketing), Kristen Bugeja (Executive Manager – Human Resources, on Maternity Leave), Dawn Bennett (former Executive Manager – Retail Services) and Martin Dohnt (former Chief Financial Officer) who were members of the KMP for part of the Financial Year. The disclosure excludes Leanne Kyle (Executive Manager - Marketing), who commenced after year end.

	2010	2009
	$	$
a. Compensation of Key Management Personnel:		
(1) Short-term Employee Benefits	2,216,548	2,129,294
(2) Post-employment Benefits	-	-
(3) Other long-term Benefits	124,376	93,512
(4) Termination Benefits	469,052	75,190

(5) Share-based payment	-	-
(6) Total	**2,809,976**	**2,297,996**

b. Loans to Key Management Personnel and Close Family Members

The Board of Directors declares that Defcredit has instigated a system of internal control and procedures, which provide that any loans or financial instrument transactions of Defcredit which are not entered into on normal terms and conditions are brought to the attention of Directors so that the details can be disclosed in the accounts. All of the loans granted to KMP and their close family members were made on normal terms and conditions.

	2010	2009
c. Included in the Loans and Advances figure is the aggregate of total loans outstanding to KMP and their close family members. The amounts involved were:	$	$
(1) Mortgage Loans	2,074,811	2,324,493
(2) Personal Loans	98,143	138,323
(3) Overdraft Facilities	22,339	20,607
d. During the financial year, new loans advanced to KMP and their close family members amounted to:		
(1) Mortgage Loans	252,000	80,000
(2) Personal Loans	29,000	50,395
(3) Overdraft Facilities	-	17,000
e. Repayments against loans to Key Management Personnel and their close family members amounted to:		
(1) Mortgage Loans	143,434	674,847
(2) Personal Loans	60,440	91,025
(3) Overdraft Facilities	61,774	57,956

f. The terms and conditions in respect to loans to Key Management Personnel and their close family members have not been breached.

g. Deposits and Investments held by Key Management Personnel and their close family members.

The deposit balances as at the end of the financial year attributable to Key Management Personnel and their close family members amounted to:

(1) Total Deposits	1,537,411	1,261,978

h. All deposit transactions between Key Management Personnel and their close family members and Defcredit were conducted on normal commercial terms.

i. The individuals included in disclosures 36b through to 36g inclusive are those people who were members of the KMP at 30 June 2010. They include the Board of Directors as listed on pages 9 to 11. The data for the Executive Management Team includes those people listed at page 15 and Kristen Bugeja (Executive Manager – Human Resources, on Maternity Leave). The data excludes Leanne Kyle (Executive Manager - Marketing), who commenced after year end.

37. Segment Reporting

Defcredit operates predominantly in one business and geographical segment, being the acceptance of deposits and the making of loans to members throughout Australia.

38. Financial Instruments

a. Terms, Conditions and Accounting Policies

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

(1) Financial Assets

Recognised Financial Instruments	Note	Accounting Policies	Terms and Conditions
Cash and Cash Equivalents	7	These financial assets are carried at their nominal amounts.	
Receivables Due from Other Financial Institutions	8	These deposits with other financial institutions are carried at cost. Interest is recognised in the Statement of Comprehensive Income when earned.	These deposits are in the form of term deposits or bank bills. Interest rates are negotiated for each deposit.
Financial Assets Available for Sale	9	This financial asset comprises Cuscal shares. Details are provided at Note 9. The market value of Cuscal shares is considered to equate to the carrying value as at 30 June 2010.	The share holding in the Cuscal shares is subject to annual review and is determined in accordance with the constitution of Cuscal.
Trade and Other Receivables	10	Amounts receivable are carried at their nominal values.	
Loans and Advances	11	Loans and advances are recognised at their carrying amount less any provision for impairment.	All housing loans are secured by registered mortgage. The remaining loans are individually assessed and granted using motor vehicle security or made on an unsecured basis.

(2) Financial Liabilities

Recognised Financial Instruments	Note	Accounting Policies	Terms and Conditions
Short Term Borrowings	18	Short-term borrowings are carried at principal amount. Interest is charged as expense as it accrues.	The interest rate applicable to the borrowing is fixed for the period of the loan.
Payables Due to Other Financial Institutions	19	The payable (deposit) is carried at the principal amount. Interest is charged as expense as it accrues.	The interest rate applicable is agreed before the deposit is accepted. Interest is payable on maturity.
Deposits	20	Deposits, including members' redeemable preference shares, are recorded at the principal amount.	Details of maturity terms are set out in Note 20. Interest is calculated on the daily balance outstanding.
Trade and Other Payables	21	Liabilities are recognised at their nominal amounts. Interest payable is calculated as it accrues.	Trade liabilities are normally settled on 30 day terms.

Defcredit Branch Managers, Rachel Richards and Tara Miles, at the K-Series in Kapooka - sponsored by Defcredit.

b. Interest Rate Risk

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

(1) Financial Assets

Financial Instruments	Floating Interest Rate		Fixed interest rate maturing in: Profitability Sensitivity +1%*		Fixed interest rate maturing in: 0 to 12 months	
	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $
Cash and cash equivalents	25,720,032	5,075,727	257,200	50,757	-	-
Receivables due from other FIs	-	-	-	-	164,638,673	160,750,640
Financial assets available for sale	-	-	-	-	-	-
Trade and other receivables	-	-	-	-	-	-
Loans and advances	796,640,979	632,892,644	7,966,410	6,328,926	13,945,587	16,596,885
Other Investments	-	-	-	-	-	-
Total Financial Assets	**822,361,011**	**637,968,371**	**8,223,610**	**6,379,683**	**178,584,260**	**177,347,525**

(2) Financial Liabilities

Financial Instruments	Floating Interest Rate		Fixed interest rate maturing in: Profitability Sensitivity +1%*		Fixed interest rate maturing in: 0 to 12 months	
	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $
Short-term borrowings	-	-	-	-	91,390,000	37,505,000
Payables due to other FIs	-	-	-	-	13,407,901	22,868,801
Deposits	356,384,287	366,756,337	(3,563,843)	(3,667,563)	455,217,867	320,954,764
Member redeemable preference shares	-	-	-	-	-	-
Trade and other payables	-	-	-	-	-	-
Total Financial Liabilities	**356,384,287**	**366,756,337**	**(3,563,843)**	**(3,667,563)**	**560,015,768**	**381,328,565**

* This column measures the impact on profitability of a 100 basis point parallel increase in interest rates across the yield curve. The impact of a similar decrease in interest rates is equal and opposite.

Fixed interest rate maturing in: Over 1 year up to 5 years 2010 $	2009 $	Fixed interest rate maturing in: More than 5 years 2010 $	2009 $	Non-interest bearing 2010 $	2009 $	Total carrying amount as per the Balance Sheet 2010 $	2009 $	Weighted average effective interest rate 2010 %	2009 %
-	-	-	-	3,731,812	3,811,328	29,451,844	8,887,055	4.09	2.84
-	-	-	-	-	-	164,638,673	160,750,640	5.55	3.84
		-	-	1,625,865	1,625,865	1,625,865	1,625,865	-	-
-	-	-	-	2,843,023	1,935,260	2,843,023	1,935,260	-	-
17,282,252	16,536,019	-	-	-	-	827,868,818	666,025,548	7.98	7.18
-	-	-	-	-	-	-	-	-	-
17,282,252	**16,536,019**	-	-	**8,200,700**	**7,372,453**	**1,026,428,223**	**839,224,368**		

Fixed interest rate maturing in: Over 1 year up to 5 years 2010 $	2009 $	Fixed interest rate maturing in: More than 5 years 2010 $	2009 $	Non-interest bearing 2010 $	2009 $	Total carrying amount as per the Balance Sheet 2010 $	2009 $	Weighted average effective interest rate 2010 %	2009 %
-	-	-	-	-	-	91,390,000	37,505,000	5.76	4.35
-	-	-	-	-	-	13,407,901	22,868,801	6.13	4.97
5,960,838	639,819	-	-	-	-	817,562,992	688,350,920	4.25	3.16
-	-	-	-	891,602	869,822	891,602	869,822	-	-
-	-	-	-	10,727,008	7,895,521	10,727,008	7,895,521	-	-
5,960,838	**639,819**	-	-	**11,618,610**	**8,765,343**	**933,979,503**	**757,490,064**		

c. Net Fair Values

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

(1) Financial Assets

Financial Instruments	Total carrying amount as per the Balance Sheet		Aggregate net fair value	
	2010 $	2009 $	2010 $	2009 $
Cash and cash equivalents	29,451,844	8,887,055	29,451,844	8,887,055
Receivables due from other FIs	164,638,673	160,750,640	164,638,673	160,750,640
Financial assets available for sale	1,625,865	1,625,865	1,625,865	1,625,865
Loans and advances – (net of provision)	827,104,277	665,431,269	827,034,524	665,871,996
Trade and other receivables	2,843,023	1,935,260	2,843,023	1,935,260
Other investments	-	-	-	-
Total Financial Assets	**1,025,663,681**	**838,630,089**	**1,025,593,928**	**839,070,816**

(2) Financial Liabilities

Financial Instruments	Total carrying amount as per the Balance Sheet		Aggregate net fair value	
	2010 $	2009 $	2010 $	2009 $
Payables due to other FIs	13,407,901	22,868,801	13,454,993	22,989,611
Deposits	817,562,992	688,350,920	818,977,149	689,529,128
Member redeemable preference shares	891,602	869,822	891,602	869,822
Trade and other payables	10,727,008	7,895,521	10,727,008	7,895,521
Short-term borrowings	91,390,000	37,505,000	91,390,000	37,505,000
Total Financial Liabilities	**933,979,504**	**757,490,064**	**935,530,920**	**758,789,082**

(3) Recognised Financial Instruments

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

(a) **Cash and liquid assets, due from other financial institutions, and other investments.** The carrying amount approximates fair value because of their short term to maturity or are receivable on demand.

(b) **Trade payables and due to other financial institutions.** The carrying amount approximates fair value as they are short-term in nature.

(c) **Short-term borrowings.** The carrying amount approximates fair value because of their short term to maturity.

(d) **Loans and advances.** The fair values of loans receivable at fixed rates, excluding impaired loans, are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The carrying value of variable loans receivables approximates fair value. Loans to related parties are detailed at Note 36.

(e) **Long-term borrowings.** The fair values of long-term borrowings are estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

(f) **Investments and securities.** For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment or security.

(g) **Other financial liabilities.** This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value. For liabilities which are long-term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

d. Credit Risk Exposures

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

e. Concentrations of Credit Risk

Defcredit minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members within the specified category. However, the majority of members are concentrated in Australia. Furthermore, there is minimal concentration of credit risk due to the nature of operating throughout Australia and the type of membership base and bond.

Credit risk in loans receivable is managed in the following ways:

(1) a risk assessment process is used for all members; and

(2) credit insurance is obtained for high risk members.

f. Financial Risk Management Objectives

Defcredit as part of its daily operations is exposed to a range of risks. The management of these risk exposures involves a number of activities including the identification of particular risks, quantifying the risk exposure, implementing procedures to control and manage these risks and risk reporting. A comprehensive review of risk exposures occurs annually with the process being overseen by the Board's Audit, Risk and Compliance Committee and is supported by a documented risk management plan, risk policies and procedures and a series of internal and external controls.

g. Significant Accounting Policies

Details of significant accounting policies and methods adopted, including the recognition criteria, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Risk management strategies and policies in relation to credit risk (loans and liquid investments), market risk (equity investments) and liquidity risk are summarised in Note 1 to the financial statements with appropriate disclosures being provided in the relevant sections of the Annual Report.

h. Market Risk Management

(1) Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the credit union as part of its normal lending activities. As the credit union does not deal in foreign contracts or commodities, market risk consists solely of interest rate risk.

(2) The Board has in place a comprehensive market risk policy which establishes a methodology for the calculation, examination and reporting of the interest rate risk position on a regular basis. Overall management of interest rate risk is vested in the Asset, Liability and Liquidity Committee. The Committee meets at least monthly and reviews the interest rate risk position and takes decisions to mitigate identified market risks. Action taken by the Committee is reported to the Board of Directors.

(3) Defcredit uses two main methodologies to measure and quantify interest rate risk. Gap analysis is used to ensure that the net interest rate gaps between assets and liabilities are not excessive. Additionally, the credit union produces a periodic Interest Rate Risk Report which considers such measures as interest rate sensitivity and Value at Risk (VaR) calculations. This analysis also considers broader factors that may have an impact on interest rates such as economic issues, likely trends in inflation, movements in consumer sentiment and labour market conditions.

(4) Defcredit has actively constructed a very flexible environment in relation to its loan and deposit portfolio. All personal loan contracts are variable and the great majority of mortgage loans are also on variable loan contracts. As at 30 June 2010, 96.23% of all loans and advances were on variable interest rate contracts (2009 equivalent figure 95.03%). Likewise in relation to the deposit portfolio, Defcredit's exposure to interest rate risk is relatively limited. As at 30 June 2010, 43.65% of the deposit portfolio was held in floating rate deposit products (2009 53.34%). However, interest rate risk exposure is inherent in Defcredit's term deposit portfolio with risk being concentrated in the one to twelve month period. The proportion of the deposit portfolio that is invested for periods beyond one year is 0.73% as at 30 June 2010 (2009 comparable figure 0.04%).

(5) As detailed in Note 38 h (3) Defcredit uses both sensitivity and value at risk modelling to measure the degree of interest rate risk inherent in the deposit and loan portfolios. The movement in interest rates considered is a 100 basis point parallel movement in interest rates across the yield curve. It is judged to be an appropriate figure, probably at the upper end of likely interest rate movements, for the forthcoming year. The sensitivity of Defcredit's profitability to a 100 basis point parallel movement in interest rates across the yield curve is disclosed at Note 38b.

39. Capital

a. Capital Management

APRA Prudential Standards require credit unions to maintain at all times a minimum ratio of capital to risk-weighted assets of 8%. As part of its risk management frame work, the credit union has developed a capital management plan to manage capital in a manner that is consistent with the assessed risk exposure and forecast levels of business activity. Capital is managed in a range comfortably above the 8% minimum required by APRA and incorporates an assessment of appropriate risk exposures for operations, market and credit risk.

b. Capital Adequacy

	2010	**2009**
APRA Requirement (minimum 8.0%)	14.59%	14.47%

Directors' Declaration

We, Mark Derry Richards and Callum Soutar Brown being two of the Directors of Defence Force Credit Union Limited, in accordance with a resolution of the Board of Directors, declare that:

1. The financial statements and associated notes, as set out in pages 18 to 56, are in accordance with the *Corporations Act 2001*, and
   a. comply with the Accounting Standards and the *Corporations Regulations 2001*; and
   b. give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company.
2. In the Directors' opinion there are reasonable grounds to believe that Defcredit will be able to pay its debts as and when they fall due.

M D Richards

Director

C S Brown

Director

11 October 2010

Independent Auditor's Report

To the Members of Defence Force Credit Union Limited

Report on the Financial Report

We have audited the accompanying financial report of Defence Force Credit Union Limited (the company), which comprises the Balance Sheet as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of Defence Force Credit Union Limited for the year ended 30 June 2010 included on Defence Force Credit Union Limited website. The Credit Union's directors are responsible for the integrity of Defence Force Credit Union Limited's website. We have not been engaged to report on the integrity of the Defence Force Credit Union Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

Independent Auditor's Report

To the Members of Defence Force Credit Union Limited

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 Defence Force Credit Union Limited on 8 October 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion:

a. the financial report of Defence Force Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of their 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*.

b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

UHY Haines Norton
Chartered Accountants

A Roberts
Partner

Melbourne

11 October 2010

Liability limited by a scheme approved under Professional Standards Legislation

Auditor's Independence Declaration

To the Board of Directors of Defence Force Credit Union Limited:

As Engagement Partner for the audit of Defence Force Credit Union Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

a. no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

b. no contraventions of any applicable code of professional conduct in relation to the audit.

A Roberts
Partner

UHY Haines Norton

UHY Haines Norton
Chartered Accountants

Melbourne

8 October 2010

Liability limited by a scheme approved under Professional Standards Legislation

General Information

Registration	Defence Force Credit Union Limited is a public company limited by shares (member shares) under the *Corporations Act 2001* administered by the Australian Securities and Investments Commission ABN 57 087 651 385
Registered Business Name	Defcredit
Australian Financial Services Licence	Licence No. 234582
Registered Office	Level 2, 99 King Street MELBOURNE VIC 3000
Mail Address	PO Box 14537 MELBOURNE VIC 8001
Telephone Numbers	(03) 8624 5888 1800 033 139
Fax Number	(03) 8624 5892
Email	info@defcredit.com.au
Website	defcredit.com.au
Interstate Trading	Defcredit is registered to trade in each State and Territory of Australia.
Photographs	Military photographs provided courtesy of the Department of Defence.

Defcredit
Service banking

Defence Force Credit Union Limited
ABN 57 087 651 385 AFSL 234582
Head Office, Level 2, 99 King Street
Melbourne VIC 3000

Defcredit
Service banking