



Queensland

Professional

Credit Union

*boutique banking*

ANNUAL REPORT 2008

# Contents

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## Chairman's Report

### OPERATIONAL PERFORMANCE

I am pleased to report during the last financial year we maintained our hallmark operational efficiency and financial industry standing as one of the most secure and efficient credit unions in Australia. Two important measures of this overall business performance are the regulatory capital adequacy ratio and the cost to income ratio. Our results were:

<b>Capital Adequacy Ratio</b>	30%	<b>Minimum Requirement</b>	8%
<b>Underlying Cost to Income Ratio</b>	64%	<b>Industry Average</b>	75%

Our underlying operational earnings before tax and significant items were \$1.758 million, which is quite sound and consistent with previous years. A disappointment however, was the impairment loss of \$2 million relating to a treasury loan made to Diverseport Fixed Interest Income Ltd for which Receivers and Managers were appointed during the year. This loss is extremely frustrating as our treasury loan placements have performed strongly over many years. We will continue to pursue collection of these amounts owed through available channels.

After taking this impairment into account the credit union produced an after tax loss of \$135,150 for the year.

Whilst we are disappointed with the impact this impairment has had to this year's result, we need to be realistic and remember the prior 40 years consistent performance. Most importantly from an organisational perspective, there will be no adverse impact on our operational efficiency or financial integrity and there are absolutely no implications to the membership in terms of service and products on offer. Our underlying performance is very sound and this augurs well for the new financial year.

### Deposits and Loans

Retail deposits have been volatile but we have experienced sustained growth because of higher interest rates for term deposits and the flexibility of our S50 Internet Cash Management Account. This S50 account was awarded the 2008 Best On-Line Savings Account (non-bank) by Money Magazine. This is the second year in a row that the product has won this award, which further supports the quality of the product offerings available to our members.

During the year we introduced an online pension account which we call our S60. This account produces greater flexibility for retirees when superannuation accounts move into pension mode to maximise new tax provisions. We recommend you consult your financial advisor for the best use of this pension account.

Loan balances have increased steadily. All borrowers should be congratulated on their conduct as no member loans had to be written off during the period. The only write-offs, a total of \$1,850, related to Visa fraud.

We are very proud of the credit union's "Friendly Home Loan" which continues to be very well regarded by members. Industry experts also agree; the product was rated 5 stars (the highest rating) in the recent Cannex Mortgage Star Ratings Report issued during the year.

We commenced the new very flexible and convenient loan "Mortgage Offset Account" during the year. This product is available to all home loan borrowers and can be used to cut years off your home loan term saving you thousands of dollars in repayments. You can then also use these early repayments to fund future new borrowings if required.

### ACKNOWLEDGEMENTS

#### Staff

My thanks to Mr Rutherford and indeed all our staff for their continued diligence in serving us as shareholders. We couldn't progress without dedicated staff.

#### My Fellow Directors

Last year we reduced director numbers from seven to five, and our streamlined board has worked particularly well. I am grateful to all directors for their continued focus throughout the year.

#### You, Our Members.

Thank you for your loyal support. We cannot continue without active members. Both the directors and I, together with our staff, appreciate your continued engagement with the credit union. I encourage you to tell others about your credit union, to use our market leading products and customer service which is second to none.

We all look forward to serving you more comprehensively in this financial year.

JC Strachan  
Chairman

## Directors' Report

The Directors present their report together with the financial statements of Queensland Professional Credit Union Ltd ("the Credit Union") for the year ended 30 June 2008 and the auditors' report thereon.

Directors		
<b>Mr John Strachan</b>	Chairman Age 62 FAICD Director since 1997	
<b>Mr Ralph Donnet</b>	Vice-Chairman Chairman – Risk and Performance Committee Non-Executive Director Age 60 Bachelor of Agricultural Economics Diploma of Financial Management FAICD Director since 1980	<i>Director on the following Committee: Audit Committee</i>
<b>Mr Stephen Barnard</b>	Non-Executive Director Age 43 Bachelor of Business Chartered Accountant Chartered Company Secretary MAICD Director since 2005	<i>Director on the following Committee: Audit Committee</i>
<b>Mr Desmond Boyland</b>	Non-Executive Director Chairman – Audit and Compliance Committee Age 67 Master of Science FAICD Director from 1973 to 1980, and since 1982	<i>Director on the following Committee: Audit Committee</i>
<b>Mr Bryce Beikoff</b>	Non-Executive Director Age 75 Fellow of Mapping Science Institute of Australia Director since 1973 – Retired July 2007	
<b>Mr Gordon Rutherford</b>	Managing Director Age 63 Diploma of Financial Services FAICD Director since 1991	

## Directors Meetings

The number of Directors meetings (including meetings of committees and Directors) and number of meetings attended by each of the Directors of the Credit Union during the financial year are:

Director	Directors Meetings		Audit Committee Meetings	
	A	B	A	B
J C Strachan	12	12	8	2 *
R J Donnet	12	11	8	7
S Barnard	12	12	8	7
D E Boyland	12	10	8	8
G K Rutherford	12	12	8	7 *
V B Beikoff	1	0	0	0

A – number of meetings that the Director was eligible to attend during the time the Director held office

B – number of meetings attended

\* - attended ex-officio as required.

## Principal Activities

The principal activities of the Credit Union during the course of the financial year were:

- a) The raising of funds from Members and in any other way authorised by the APRA legislation;
- b) To apply these funds in making loans to our continuing credit arrangements with Members or in such other ways authorised by the Prudential Standards and the Credit Union Constitution; and
- c) To provide other services to Members.

There were no significant changes in the nature of the activities of the Credit Union during the year.

## Employees

The Queensland Professional Credit Union Ltd employed 16 employees as at 30 June 2008 (2007: 19 employees)

## Result

The operating profit after income tax for the year attributable to the Members of Queensland Professional Credit Union Ltd was:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Operating profit / (loss) after income tax	(135,150)	1,104,624

## Review of Operations

A review of operations of the Credit Union for the financial year, the results of those operations and future developments are set out in this report and/or in the financial statements.

## Dividends

No dividends were paid during the year and no recommendation is made as to dividends.

## State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Credit Union that occurred during the financial year under review not otherwise disclosed in this report or in the financial statements.

## Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Credit Union, to affect significantly the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union, in subsequent financial years.

## Likely Developments

Information as to likely developments in the operations of the Credit Union and the expected results of those operations in subsequent financial years has not been included in this report, because in the opinion of the Directors, it would prejudice the interests of the Credit Union.

## Directors' Indemnification and Insurance

During the year, a premium was paid in respect of a contract insuring Directors and Officers of the company against liability. The Officers of the company covered by in the insurance contract include the Directors, Executive Officers, Secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract. No insurance cover has been provided for the benefit of the auditors of the company.

## Auditors Independence

The Directors have received the Auditor's Independence Declaration from our auditors Ernst & Young. This declaration is included following this report.

Dated at Brisbane this twenty-second day of September 2008

Signed in accordance with a resolution of the Directors:

J C Strachan (Chairman)

D E Boyland (Director)



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Australia

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Waterfront Place  
Brisbane QLD 4001

### **Auditor's Independence Declaration to the Directors of Queensland Professional Credit Union**

In relation to our audit of the financial report of Queensland Professional Credit Union for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Mark Phelps  
Partner  
22 September 2008

## Independent auditor's report to the members of Queensland Professional Credit Union Ltd

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

### **Directors' Responsibility for the Financial Report**

The directors of the credit union are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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.

### **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 our 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, we consider internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### **Independence**

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### **Auditor's Opinion**

In our opinion:

1. the financial report of Queensland Professional Credit Union Ltd is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of Queensland Professional Credit Union Ltd at 30 June 2008 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young  
Mark Phelps  
Partner  
Brisbane  
22 September 2008

## **Directors Declaration**

In accordance with a resolution of the Directors of Queensland Professional Credit Union Ltd, I state that:

In the opinion of the Directors:

- a) the financial statements and notes of the Credit Union are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

On behalf of the Board

**J C Strachan (Chairman)**

Brisbane

22 September 2008

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

	Note	2008 \$	2007 \$
Interest revenue	3,5	11,958,831	11,018,963
Interest expense	5	(7,880,460)	(7,119,836)
Net interest income		4,078,371	3,899,127
Non interest revenues	3	510,552	530,239
Other expenses	4	(4,831,053)	(2,838,961)
Profit / (Loss) before income tax		(242,130)	1,590,405
Income tax (expense)/ benefit	6	106,980	(485,781)
Net profit / (loss) for the period attributable to the members of the Credit Union.		(135,150)	1,104,624

**The accompanying notes form part of these financial statements**

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

	Note	2008 \$	2007 \$
<b>ASSETS</b>			
Cash and liquid assets	7	1,989,369	1,588,553
Loans and advances	8	126,581,669	114,625,659
Held to maturity investments	9	23,436,097	32,901,537
Available for sale investments	10	73,548	73,548
Property, plant and equipment	11	114,708	137,507
Intangible assets	12	117,290	172,033
Current tax asset	6	357,179	0
Deferred tax asset	6	212,243	147,512
Other Assets	13	35,014	52,585
<b>TOTAL ASSETS</b>		<b>152,917,117</b>	<b>149,698,934</b>
<b>LIABILITIES</b>			
Balances due to other banks	14	27,484	595,280
Deposits	15	130,649,101	126,617,240
Current tax liabilities	6	0	147,311
Other liabilities	16	541,288	523,826
Provisions	17	417,026	397,909
<b>TOTAL LIABILITIES</b>		<b>131,634,899</b>	<b>128,281,566</b>
<b>NET ASSETS</b>		<b>21,282,218</b>	<b>21,417,368</b>
<b>MEMBERS' FUNDS</b>			
Redeemed preference share capital account	18 (b)	6,920	3,450
Reserves	18 (a)	21,275,298	21,413,918
<b>TOTAL MEMBERS' FUNDS</b>		<b>21,282,218</b>	<b>21,417,368</b>

The accompanying notes form part of these financial statements

**CASH FLOW STATEMENT**  
**For the year ended 30 June 2008**

	Note	2008 \$	2007 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received - Loans & Advances		9,611,883	8,492,162
Interest received - Investments		2,483,449	2,625,949
Non-interest income received		463,355	570,916
Dividend income		47,196	47,196
Interest paid		(7,961,919)	(7,107,475)
Payments to suppliers and employees (inclusive of GST)		(2,816,945)	(2,741,259)
Income taxes paid		(462,241)	(380,232)
Net cash flows from operating activities	29(c)	1,364,778	1,507,257
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Redemption/(Purchase) of securities and investments		7,479,886	514,990
Net (increase)/ decrease in member loans		(11,956,009)	(6,219,696)
Payments for property, plant and equipment		(42,423)	(24,376)
Gross proceeds from sale of Fixed Assets		10,909	0
Net cash flows used in investing activities		(4,507,637)	(5,729,082)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase in member deposits		4,113,001	3,519,794
Net (payments for)/proceeds from issuance of withdrawable shares		(1,530)	(660)
Net cash flows from financing activities		4,111,471	3,519,134
Net decrease in cash and cash equivalents		968,612	(702,691)
Cash and cash equivalents at the beginning of period		993,273	1,695,964
Cash and cash equivalents at the end of period	29(a)	1,961,885	993,273

**The accompanying notes form part of these financial statements**

## STATEMENT OF CHANGES IN EQUITY

	General Reserve	Redeemed Preference Share Capital Account	Retained Profits	Total
	\$	\$	\$	\$
<b>At 1 July 2006</b>				
Opening Balances	20,312,744	-	-	20,312,744
Net Income for the year			1,104,624	1,104,624
Redemption of Preference Shares		3,450	(3,450)	-
Transfer from Retained Profits	1,101,174	-	(1,101,174)	-
<b>At 30 June 2007</b>	<b>21,413,918</b>	<b>3,450</b>	<b>-</b>	<b>21,417,368</b>
Net Loss for the year			(135,150)	(135,150)
Increase on Redemption of Preference Shares		3,470	(3,470)	-
Transfer from Retained Profits to General Reserve	(138,620)	-	138,620	0
<b>At 30 June 2008</b>	<b>21,275,298</b>	<b>6,920</b>	<b>0</b>	<b>21,282,218</b>

The accompanying notes form part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1: CORPORATE INFORMATION

The financial report of Queensland Professional Credit Union Limited (the Credit Union) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 22 September 2008.

Queensland Professional Credit Union Limited is a mutual organisation limited by shares and incorporated in Australia.

The nature of the operations and principal activities of the Credit Union are described in the Directors' Report.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has also been prepared on a historical costs basis, except for derivative financial instruments and available-for-sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars.

#### (b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

The Credit Union has adopted AASB 7 *Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the equity. Australian Accounting Standards and Interpretations that have recently been issued or amended but not yet effective have not been adopted by the Credit Union for the annual reporting period ending 30 June 2008. These are outlined in the table on the following page:

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2: STATEMENT OF ACCOUNTING POLICIES continued

Reference	Title	Summary	Application date of standard*	Impact on Credit Union financial report	Application date for Credit Union*
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Credit Union's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Credit Union has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
Amendments to International Financial Reporting Standards**	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Credit Union has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. QPCU has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the QPCU's financial report.	1 July 2009

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2: STATEMENT OF ACCOUNTING POLICIES *continued*

#### (c) Significant accounting judgements, estimates and assumptions

In applying the Credit Union's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Credit Union. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

##### *Provision for impairment on loans and advances*

Collective provisions are based on management estimates after assessing historical loss data and current available information for any potential impaired losses. Information analysed included bad debt write-offs in recent years, associated risks to the loan portfolio and other assets within the loan portfolios with similar risk profiles.

#### (d) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are recognised for temporary differences, except where the deferred tax asset/liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, effect neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

##### *Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivable and payables, which are stated with the amount of GST included

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2: STATEMENT OF ACCOUNTING POLICIES *continued*

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### **(e) Investments & other financial assets**

Financial assets in the scope of AASB 139 Financial instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available for sale investments as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. At the date of transition, any changes to carrying amounts were recognised directly in retained earnings.

##### *(i) Held to maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Credit Union has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. Subordinated debt is measured at amortised cost using the effective interest rate method.

##### *(ii) Available for sale investments*

Available for sale investments have been valued at cost as there is no reliable market value available.

##### *(iii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### **(f) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Interest income*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

##### *Fees*

Loan origination fees are recognised as income when received. The results of this recognition have been assessed as being not materially different from the results generated from the use of the effective interest rate method.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2: STATEMENT OF ACCOUNTING POLICIES *continued*

#### (g) Loans to Members

Loans and advances to Members are measured at amortised cost. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Loan impairment is calculated as the difference between the amortised cost of the loan and the recoverable amount.

Specific provisions are raised for losses that may be incurred for loans that are known to be impaired. Estimated losses on these impaired loans are discounted to their present value. All loans are subject to continuous management review to assess whether there is any reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement.

Loans that are not known to be impaired are grouped together according to their risk characteristics and are then assessed for impairment. Based on historical loss data and current available information for assets with similar risk characteristics, the appropriate collective allowance is raised. When estimating potential losses, the security of the loan portfolio is taken into account. Adjustments to the collective provisions are recognised as an expense in the income statement.

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

##### *Cost and Valuation*

Property, plant and equipment are brought to account at cost less, where applicable, any accumulated depreciation or amortisation and impairment losses.

##### *Depreciation*

Depreciation is provided on a straight line basis over the estimated useful life of the assets as follows:

Office Furniture	5 to 11 years	Office Machines	4 to 7 years
Office Equipment	3 to 10 years	Motor Vehicles	5 years
Office Software	2.5 years	ATM	5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate at each financial year end.

##### *Disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

#### (i) Impairment of non financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2: STATEMENT OF ACCOUNTING POLICIES *continued*

#### (j) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Office Software classified as Intangible assets has a life of 2.5 years. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

#### (k) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred on a straight line basis. Lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

#### (l) Members' Deposits

Members' deposits are brought to account at amortised cost of the outstanding balance. Interest on deposits, when charged, is recognised as an expense and is brought to account on an accrual basis. Interest accrued at balance date is shown as part of members' deposits.

#### (m) Balances due to other banks

Payables due to other financial institutions are primarily settlement account balances due to other financial institutions. They are brought to account at amortised cost of the outstanding balance. Interest is taken to net profit when incurred.

Balances due to other banks are classified as current liabilities unless the Credit Union has unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### (n) Employee Benefits

##### (i) *Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

##### (ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2: STATEMENT OF ACCOUNTING POLICIES *continued*

#### **(o) Cash and Cash Equivalents**

For the purpose of the Balance Sheet and the Cash Flow Statement, the Credit Union recognises cash to include cash at bank and in hand and in short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### **(p) Provisions**

Provisions are recognised when the Credit Union has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of managements best estimate of the expenditure required to settle the present obligation at balance sheet date. If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 3: REVENUE

	2008	2007
	\$	\$
<b>Revenue</b>		
Interest Revenue		
Cash and liquid assets	227,010	174,737
Loans and advances	9,370,618	8,337,493
Held to maturity investments	2,270,887	2,418,860
Net loan fee income	90,316	87,873
	<u>11,958,831</u>	<u>11,018,963</u>
<b>Other Income</b>		
Fees and commissions revenue	421,204	474,904
Bad debts recovered	0	4,200
Dividend income	47,196	47,196
Other income	42,152	3,939
	<u>510,552</u>	<u>530,239</u>
<b>Total Revenue</b>	<u><b>12,469,383</b></u>	<u><b>11,549,202</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 4: EXPENSES AND LOSSES/(GAINS)

#### (a) Other Expenses

	2008 \$	2007 \$
Depreciation of non current assets		
Plant and equipment	40,175	48,621
Motor vehicles	12,197	12,068
Amortisation		
Intangibles	54,743	54,901
Total depreciation & amortisation of non current assets	107,115	115,590
Impairment Losses - Loans & Advances	1,850	212
Impairment Losses - Held to maturity	2,000,000	0
Operating lease rental		
- minimum lease payments	290,726	285,203
ATM expenditure	176,134	190,244
Computer Costs	266,455	248,705
Salaries & Wages	1,269,938	1,313,477
Loan and Chequing costs	42,308	48,684
Promotion & Advertising	56,967	30,274
Stationery & Printing	58,746	61,555
Net loss on disposal of property, plant and equipment	1,942	343
Other Expenses	558,872	544,674
<b>Total Other Expenses</b>	<b>4,831,053</b>	<b>2,838,961</b>

#### (b) Significant Items

The following is a significant item included in the profit from ordinary activities before income tax expense which occurred during the financial year and whose disclosure is relevant in explaining the financial performance of the entity.

Impairment Losses – Held to maturity – This relates to the impairment off a treasury loan of \$2 million made to Diverseport Fixed Income Limited which was due to mature on 22 May 2008 and for which Receivers and Managers were appointed on May 7 2008. As a consequence, the credit union believes that repayment of the loan principal and the final interest payment are both unlikely.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5: INTEREST REVENUE AND INTEREST EXPENSE

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

	Average Balance \$	Interest \$	Average Rate %
<u>Interest revenue 2008</u>			
Investment securities	35,757,959	2,497,897	6.99%
Loans and advances	118,139,349	9,460,934	8.01%
	<u>153,897,308</u>	<u>11,958,831</u>	<u>7.77%</u>
<u>Interest revenue 2007</u>			
Investment securities	42,272,368	2,593,597	6.14%
Loans and advances	110,739,341	8,425,366	7.61%
	<u>153,011,709</u>	<u>11,018,963</u>	<u>7.20%</u>
<u>Interest expense 2008</u>			
Member deposits	130,438,691	7,880,460	6.04%
	<u>130,438,691</u>	<u>7,880,460</u>	<u>6.04%</u>
<u>Interest expense 2007</u>			
Member deposits	130,959,263	7,119,836	5.44%
	<u>130,959,263</u>	<u>7,119,836</u>	<u>5.44%</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 6: INCOME TAX

	2008 \$	2007 \$		
(a) A reconciliation between tax expense and the accounting profit before income tax provided by the Credit Union's applicable income tax rate is as follows:				
Accounting profit / (loss) before income tax	(242,130)	1,590,405		
At the Credit Union's statutory income tax rate of 30% (2007:30%)	(72,639)	477,122		
Non-Deductible Expenses - Entertainment	1,840	2,363		
Franking Credits on Dividends received	6,068	6,068		
Adjustments in respect of deferred income tax of previous years	(42,249)	228		
Income tax expense contributable to operating profit	<u>(106,980)</u>	<u>485,781</u>		
<b>Deferred Tax Assets and Liabilities</b>				
Deferred Tax Asset	212,243	147,512		
Current Tax Liabilities / (Assets)	(357,179)	147,311		
(b) The income tax expense comprises amounts set aside as:				
Income tax payable on current year profits		484,559		
Adjustments in respect of deferred income tax of previous years	(42,249)	228		
Deferred Income Tax	(64,731)	994		
	<u>(106,980)</u>	<u>485,781</u>		
(c) Deferred tax assets at 30 June:				
	<u>Balance Sheet</u>		<u>Income Statement</u>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Accelerated depreciation - Accounting	(31,940)	(26,100)	5,840	14,926
Deferred losses (Trade Creditors)	10,890	15,240	4,350	(4,140)
Provision for Long Service Leave	75,261	70,195	(5,066)	(3,267)
Provision for Annual Leave	49,846	49,177	(669)	(6,525)
Collective Provision	39,000	39,000	-	-
Carried forward tax losses	69,186	-	(69,186)	-
	<u>212,243</u>	<u>147,512</u>	<u>(64,731)</u>	<u>994</u>
(d) The amount of franking credits available for the subsequent financial year are: (The franking credits are not available for distribution)				
Franking credits as at the end of financial year at 30% (2007:30%)	4,931,963	4,449,495		
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	130,968	106,332		
	<u>5,062,931</u>	<u>4,555,827</u>		

These franking credits are currently not available for distribution to the members as the Credit Union is a mutual organisation and therefore does not currently have permanent shares.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 7: CASH AND CASH EQUIVALENTS

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Cash on hand	321,861	156,224
Deposits at call	1,155,700	1,432,329
Cash at bank	511,808	-
	<u>1,989,369</u>	<u>1,588,553</u>

### NOTE 8: LOANS AND ADVANCES

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Overdrafts	401,208	351,849
Term loans	<u>126,310,461</u>	<u>114,403,810</u>
Gross Loans and Advances	126,711,669	114,755,659
Less: Provision for impairment		
- Specific provision	(9,752)	(201)
- Collective provision	(120,248)	(129,799)
Net Loans and Advances	<u>126,581,669</u>	<u>114,625,659</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 8: LOANS AND ADVANCES *continued*

	2008 \$	2007 \$
<b>(a) Aggregate amounts receivable from related parties</b>		
Directors and Director-related entities		
- loans to Directors (Note 19(b))	2,464,053	2,714,911
<b>(b) Concentration of Risk</b>		
The loan portfolio of the Credit Union includes loans or groups of related loans which represents 10% or more of member funds. The loan details of these exposures are shown in Note 25(b).		
The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:		
- Queensland	122,432,550	113,398,496
<b>(c) Provision for Impairment</b>		
Change to Income Statement for bad and doubtful debts comprises:		
Opening balance	130,000	130,000
Provisions for Impaired Loans and advances	1,850	212
Loans and advances written off	(1,850)	(212)
Closing balance	<u>130,000</u>	<u>130,000</u>
<b>(d) Impairment of Loans and Advances</b>		
<b>Non Accrual Loans with Specific Provision</b>		
Loan balance	11,738	212
Specific Provision for impairment	(9,752)	(201)
Net non-accrual Loans	<u>1,986</u>	<u>11</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 9: HELD TO MATURITY INVESTMENTS

	2008 \$	2007 \$
Bank receivables	16,706,737	29,302,977
Other ADIs' receivables	1,729,360	1,475,360
Other investments	5,000,000	2,123,200
	<u>23,436,097</u>	<u>32,901,537</u>
 <i>Maturity Analysis</i>		
Not longer than 3 months	23,436,097	23,325,970
Longer than 3 and not longer than 12 months	0	9,575,567
	<u>23,436,097</u>	<u>32,901,537</u>

### NOTE 10: AVAILABLE FOR SALE INVESTMENTS

	2008 \$	2007 \$
Unlisted shares at cost - Indue	73,538	73,538
Qld Country Credit Union	10	10
	<u>73,548</u>	<u>73,548</u>

### NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	2008 \$	2007 \$
<b>(a) Plant, Equipment and Motor Vehicles</b>		
At cost	715,294	711,934
Accumulated depreciation	(600,586)	(574,427)
Total Plant, Equipment and Motor Vehicles	<u>114,708</u>	<u>137,507</u>
 <b>(b) Reconciliations</b>		
<i>Motor Vehicles</i>		
Carrying amount at beginning	40,479	52,547
Additions	26,428	-
Disposals	(12,739)	-
Depreciation expense	(12,197)	(12,068)
	<u>41,971</u>	<u>40,479</u>
 <i>Plant and Equipment</i>		
Carrying amount at beginning	97,028	121,616
Additions	15,996	24,376
Disposals	(112)	(343)
Depreciation expense	(40,175)	(48,621)
	<u>72,737</u>	<u>97,028</u>
	<u>114,708</u>	<u>137,507</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 12: INTANGIBLE ASSETS

	2008	2007
	\$	\$
Intangible Assets		
At cost	316,773	316,773
Accumulated depreciation	(199,483)	(144,740)
Total Intangible Assets	<u>117,290</u>	<u>172,033</u>
<i>Software</i>		
Carrying amount at beginning	172,033	226,934
Additions	0	-
Disposals	0	-
Amortisation expense	(54,743)	(54,901)
	<u>117,290</u>	<u>172,033</u>

### NOTE 13: OTHER ASSETS

	2008	2007
	\$	\$
Sundry Debtors	<u>35,014</u>	<u>52,585</u>

### NOTE 14: BALANCES DUE TO OTHER BANKS

	2008	2007
	\$	\$
Bank Payables	<u>27,484</u>	<u>595,280</u>
Maturity Analysis	<u>27,484</u>	<u>595,280</u>
At call	<u>27,484</u>	<u>595,280</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 15: DEPOSITS

	2008 \$	2007 \$
Member Call Deposits (including withdrawable shares)	106,444,226	103,129,273
Member Term Deposits	24,204,875	23,487,967
	<u>130,649,101</u>	<u>126,617,240</u>

**(a) Maturity analysis**

At call	106,444,226	103,129,273
Not longer than 3 months	11,785,391	11,212,337
Longer than 3 and not longer than 12 months	11,092,912	11,282,151
Longer than 1 and not longer than 5 years	1,326,572	993,479
	<u>130,649,101</u>	<u>126,617,240</u>

**(b) Concentration of Risk**

The deposit portfolio of the Credit Union includes deposits or groups of related deposits which represents 10% or more of capital. The deposit details of these exposures are shown in Note 25.

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments as follows:

- Queensland	<u>123,777,057</u>	<u>115,598,713</u>
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### NOTE 16: OTHER LIABILITIES

	2008 \$	2007 \$
Other Creditors	146,765	221,499
Interest received in advance	394,523	302,327
	<u>541,288</u>	<u>523,826</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 17: PROVISIONS

	2008 \$	2007 \$
Provision for employee benefits	417,026	397,909
	<u>417,026</u>	<u>397,909</u>
<b>Long Service Leave</b>		
Opening Balance	233,985	223,092
Benefits arising during year	24,111	34,537
Benefits utilised	(8,006)	(23,545)
Discount rate adjustment	782	(99)
At 30 June	<u>250,872</u>	<u>233,985</u>
<b>Annual Leave</b>		
Opening Balance	163,924	142,174
Benefits arising during year	88,142	84,869
Benefits utilised	(81,688)	(65,697)
Discount rate adjustment	(4,224)	2,578
At 30 June	<u>166,154</u>	<u>163,924</u>

### NOTE 18: RESERVES

		2008 \$	2007 \$
General Reserves	18 (a)	21,275,298	21,413,918
Redeemed Preference Share Capital Account	18 (b)	6,920	3,450
		<u>21,282,218</u>	<u>21,417,368</u>

#### (a) General Reserves

##### (i) Nature and purpose of reserve

The general reserve contains amounts of retained profits that have been set aside by Directors for the purpose of funding specific projects that are announced from time to time.

##### (ii) Movements in reserve

Balance at the beginning of the year	21,413,918	20,312,744
Transfer from capital profits reserve	-	-
Transfer from accumulated losses	(138,620)	1,101,174
Balance at the end of the year	<u>21,275,298</u>	<u>21,413,918</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 18: RESERVES *continued*

	2008 \$	2007 \$
<b>(b) Redeemed Preference Share Capital Account</b>		
Balance at beginning	3,450	-
Total shares paid out	3,470	3,450
Closing balance	6,920	3,450

Under the Corporations Act 2001 member shares are classified as redeemable preference shares. The redemption of these shares is required under the Act to be made from profits. The value of the shares that have been paid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated.

### (c) Reconciliation of Accumulated Losses

Retained profits at the beginning of year	-	-
Net profit / (loss) attributable to Members of Queensland Professional Credit Union Ltd.	(135,150)	1,104,624
Total available for appropriation	(135,150)	1,104,624
Transfer to Redeemed Preference Share Capital Account	(3,470)	(3,450)
Aggregate of amounts transferred to general reserve 18 (a)	138,620	(1,101,174)
Retained profits at end of year	-	-

## NOTE 19: RELATED PARTIES DISCLOSURES

### Details of Directors

J. Strachan	Chairperson
R. Donnett	Vice-Chairperson (Non-Executive Director)
D. Boyland	Director (Non-Executive)
S. Barnard	Director (Non-Executive)
G. Rutherford	Managing Director
V. Beikoff	Director (Non-Executive) – Retired 31 July 2007

		2008	2007
		\$	\$
<b>(a) Compensation of Directors and Key Management Personnel</b>			
<b>Short Term</b>	Salary & Fees	414,280	389,125
	Cash Bonus	-	-
	Non Monetary Benefits	6,681	7,130
	Other	-	-
<b>Post Employment</b>	Superannuation	31,797	28,654
	Retirement Benefits	-	-
<b>Long Term</b>	Incentive Plans	-	-
<b>Share-based Payment</b>	Options	-	-
	<b>Total</b>	<b>452,758</b>	<b>424,909</b>
<b>Total Performance Related</b>		<b>0%</b>	<b>0%</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 19: RELATED PARTIES DISCLOSURES *continued*

**(b) Transactions with Directors and Key Management Personnel of Queensland Professional Credit Union Ltd**

Loans have been made to Directors and Key Management Personnel and families of Directors and Key Management Personnel on terms and conditions no more favourable than those available on similar transactions to Members of the Credit Union. The amounts disclosed below are for Directors and Key Management Personnel and close family members of Directors and Key Management Personnel.

The terms and conditions in respect of all loans to Directors and Key Management Personnel and Associates have not been breached.

Queensland Professional Credit Union Ltd has provided loans to the following Directors and Key Management Personnel and Associates with the following aggregate amount outstanding at the balance date.

	2008 \$	2007 \$
Aggregate amount outstanding at balance date	2,464,053	2,714,911
Aggregate amount of loans funded during the financial year	1,018,495	2,147,213
Directors and Key Management Personnel Concerned:		
<ul style="list-style-type: none"> <li>- D E Boyland</li> <li>- G K Rutherford</li> <li>- J C Strachan</li> <li>- S T Barnard</li> </ul>		
Aggregate amount of repayments received during the financial year	1,407,168	1,123,144
Aggregate amount of interest received during the financial year	136,055	144,975
Directors and Key Management Personnel Concerned:		
<ul style="list-style-type: none"> <li>- D E Boyland</li> <li>- G K Rutherford</li> <li>- J C Strachan</li> <li>- S T Barnard</li> </ul>		

All loans are secured by first mortgages (Average rate at 30/06/08: 7.09%, 2007: 7.05%). All overdrafts are unsecured (Average rate at 30/06/08: 14.57%, 2007: 13.5%). Overdrafts make up 0.91% (2007: 0.48%) of total loans outstanding to Directors and Key Management Personnel and close family members of Directors and Key Management Personnel.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 19: RELATED PARTIES DISCLOSURES *continued*

#### (c) Transactions with Directors and Key Management Personnel of Queensland Professional Credit Union Ltd

Savings and Term Deposits made by Directors and Key Management Personnel and families of Directors and Key Management Personnel on terms and conditions no more favourable than those available on similar transactions to Members of the Credit Union. The amounts disclosed below are for Directors and Key Management Personnel and close family members of Directors and Key Management Personnel.

The terms and conditions in respect of all savings and term deposits by Directors and Key Management Personnel and Associates have not been breached.

	2008 \$	2007 \$
Aggregate amount at balance date	1,854,048	1,521,040
Directors and Key Management Personnel Concerned:		
- D E Boyland		
- R J Donnet		
- G K Rutherford		
- J C Strachan		
- S T Barnard		
Aggregate amount of interest paid during the financial year	109,817	110,902

Savings & Term Deposits make up 1.42% (2007: 1.20%) of total savings & term deposits balance held by Queensland Professional Credit Union at the end of the year.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 20: EXPENDITURE COMMITMENTS

	2008	2007
	\$	\$
<b>(a) Lease Expenditure Commitments for non-cancellable operating leases</b>		
Minimum lease payments contracted for but not provided for in the financial statements:		
Not longer than 1 year	252,330	283,517
Later than 1 year not longer than 5 years	0	252,330
Aggregate lease expenditure contracted for at balance date	<u>252,330</u>	<u>535,847</u>

Operating Leases have an average lease term of 5 years with the rental linked to market reviews. As which are subject of operating leases include office premises located at 85 George Street Brisbane.

#### (b) Outstanding Loan Commitments

Loans and credit facilities approved but not funded or drawn at the end of the financial year

Loans approved but not funded	3,454,079	1,553,324
Undrawn overdraft, line of credit and VISA	1,278,884	1,426,963
	<u>4,732,963</u>	<u>2,980,287</u>

### NOTE 21: CHARGE OVER ASSETS

A full equitable mortgage over all the assets and undertakings of the Credit Union exists in favour of Credit Union Services Ltd to secure the following:

Standby line facility to the value of \$5,000,000

### NOTE 22: SEGMENTAL REPORTING

The Credit Union operates predominantly in the finance industry within Queensland. The operations comprise the acceptance of deposits and the making of loans to members.

### NOTE 23: DERIVATIVES

The Credit Union does not trade in derivative investments or any related financial transactions.

### NOTE 24: AUDITORS REMUNERATION

	2008	2007
	\$	\$
Amounts received or due and receivable by Ernst & Young, the <b>Auditors of Queensland Professional Credit Union Ltd for:</b>		
Audit of the financial statements of the Credit Union	47,000	43,200
Regulatory audit requirements	16,000	11,800
	<u>63,000</u>	<u>55,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 25: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Credit Union's principal financial instruments comprise loans and advances, deposits held to maturity investments, cash and available for sale investments.

The Credit Union manages its exposure to key financial risk such as interest rate risk in accordance with the Credit Union's financial risk management policies. The objective of the policies is to support the delivery of the Credit Union's financial targets whilst protecting future financial security.

The main risks arising from the Credit Union's financial instruments are interest rate risk, credit risk and liquidity risk. The Credit Union uses different methods to measure and manage different types of risks to which it is exposed. They include monitoring levels of exposure to interest rate risk and assessments of market forecast for interest rate prices. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as outlined below. Primary responsibility for identification and control of financial risks rest with the Audit Committee under the authority of the Board. The Board reviews and agrees policies for managing each or risks identified below, including the setting of limits for interest rate risks, credit allowances, and future cash flow forecast projections.

The financial risk management objectives and policies are consistent with prior year.

#### **Credit risk**

Credit risk arises from the financial assets of the Credit Union, which comprise cash and cash equivalents, Loans and advances, Held to maturity and Available for sale investments. The Credit Union's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

It is the Credit Union's policy that Loans and advances are subject to credit verification procedures including an assessment of their independent credit rating, financial position and past experience. Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored.

#### **Concentrations of Credit Risk**

The following groups represent concentrations of financial assets in excess of 10% of Members Funds.

	2008	2007
	\$	\$
Other ADIs' - Deposits	2,868,497	2,892,118
Banks - Deposits	18,216,563	25,515,571

The Credit Union's membership is made up predominantly of Public Sector employees, their families and other persons as approved by the Board of Directors. The majority of these Members reside in Queensland. (refer to Note 9 (b) and Note 14 (b)).

#### **Loans which represent 10% or more of Members Funds:**

Concentrations of credit risk on loans or groups of related loans to individual Members (including associated Members) greater than 10% of Members Funds are detailed as follows:

	<b>Total of Loans</b>		<b>Number of Loans</b>
2008	\$4,011,042	2008	1
2007	\$3,043,274	2007	1

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 25: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

#### Deposits which represent 10% or more of Members Funds:

Concentrations of deposits or groups of related deposits from individual Members (including associated Members) greater than 10% of Members Funds are detailed as follows:

	<b>Total of Deposits</b>		<b>Number of Deposits</b>
2008	\$2,294,669	2008	1
2007	\$8,711,786	2007	2

The following table shows the credit risk exposure on financial assets:

	<b>2008</b>	<b>2007</b>
Held to maturity investments	23,436,097	32,901,537
Available for sale investments	73,548	73,548

The following loans are past due but not impaired as at balance date.

	<b>2008</b>		<b>2007</b>	
	<b>Outstanding Balance</b>	<b>Collateral Held</b>	<b>Outstanding Balance</b>	<b>Collateral Held</b>
<b>Loans &amp; Advances</b>				
Past due 30-59 days	19,141	-	56,300	16,000
Past due 60-89 days	-	-	123,681	256,800
Past due 90-181 days	124,820	256,800	-	-
Past due 182-364 days	-	-	-	-
Past due 365 days and over	-	-	-	-
<b>TOTAL</b>	<b>143,961</b>	<b>256,800</b>	<b>179,981</b>	<b>272,800</b>

The following were loans impaired as at balance date.

	<b>2008</b>			<b>2007</b>		
	<b>Total</b>	<b>Amount Impaired</b>	<b>Net</b>	<b>Total</b>	<b>Amount Impaired</b>	<b>Net</b>
<b>Impaired Loans</b>						
Past due less than 90 days	96	38	58	19	8	11
Past due 90-182 days	159	78	81	-	-	-
Past due 182-273 days	4,616	2,769	1,847	-	-	-
Past due 273-365 days	-	-	-	-	-	-
Past due over 365 days	6,867	6,867	-	193	193	-
<b>TOTAL</b>	<b>11,738</b>	<b>9,752</b>	<b>1,986</b>	<b>212</b>	<b>201</b>	<b>11</b>

#### Collateral and other credit enhancements

The amount or type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 25: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the Credit Union's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Credit Union does not occupy repossessed properties for business use.

The credit quality of financial assets is managed by the Credit Union via the credit risk policies in place.

#### **Liquidity risk and funding management**

Liquidity risk is the risk that the Credit Union will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Credit Union maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Credit Union also has committed lines of credit that it can access to meet liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Credit Union. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consists of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month.

The table below summarises the maturity profile of the Credit Union's financial liabilities at 30 June 2008.

	On Demand	Less than 3 months	3 to 12 months	12-24 months	Over 24 months	Total
As at 30 June 2008						
<b>Financial liabilities</b>						
Due to other banks	27,484					27,484
Deposits	106,444,226	11,785,391	11,092,912	1,171,572	155,000	130,649,101
<b>TOTAL</b>	<b>106,471,710</b>	<b>11,785,391</b>	<b>11,092,912</b>	<b>1,171,572</b>	<b>155,000</b>	<b>130,676,585</b>
As at 30 June 2007						
<b>Financial liabilities</b>						
Due to other banks	595,280					595,280
Deposits	103,129,273	11,212,337	11,282,151	967,521	25,958	126,617,240
<b>TOTAL</b>	<b>103,724,553</b>	<b>11,212,337</b>	<b>11,282,151</b>	<b>967,521</b>	<b>25,958</b>	<b>127,212,520</b>

#### **Market risk**

The Credit Union is exposed to interest rate risk and operational risk. It is not exposed to equities and currency risk

#### **Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and strategies are used to ensure positions are maintained within the established limits.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 25: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Credit Union's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 30 June 2008. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 30 June 2008 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes. The assumptions and methods in preparing the sensitivity analysis is consistent in prior years.

#### 30 June 2008

	Carrying Amount	+100 bps of AUD IR		-50 bps of AUD IR	
		Profit	Other Equity	Profit	Other Equity
Cash and liquid assets	1,989,369	50,354		(25,175)	
Loans and advances	126,581,669	1,181,403		(590,688)	
Held to maturity investments	23,436,097	307,219		(153,622)	
Deposits	(130,649,101)	(1,304,380)		652,200	
		<u>234,596</u>		<u>(117,285)</u>	
Tax charge of 30%		<u>70,379</u>		<u>(35,186)</u>	
After tax increase / (decrease)		<u>164,217</u>	<u>164,217</u>	<u>(82,099)</u>	<u>(82,099)</u>

	Carrying Amount	+100 bps of AUD IR		-50 bps of AUD IR	
		Profit	Other Equity	Profit	Other Equity
Cash and liquid assets	1,588,553	74,978		(37,491)	
Loans and advances	114,625,659	1,107,364		(553,726)	
Held to maturity investments	32,901,537	347,752		(173,864)	
Deposits	(126,617,240)	(1,309,618)		654,771	
		<u>220,476</u>		<u>(110,310)</u>	
Tax charge of 30%		<u>66,143</u>		<u>(33,093)</u>	
After tax increase / (decrease)		<u>154,333</u>	<u>154,333</u>	<u>(77,217)</u>	<u>(77,217)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 25: FINANCIAL INSTRUMENTS

#### Interest Rate Risk

The Credit Union's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

2008

Financial Instruments	Floating Interest Rate	Fixed Interest Rate maturing in:			Non-interest bearing	Total carrying amount as per Balance Sheet	Weighted average - Effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years			
<b>(i) Financial Assets</b>	\$	\$	\$	\$	\$	\$	%
Cash and liquid assets	1,155,701	-	-	-	833,668	1,989,369	5.88%
Held to maturity investments	-	23,436,097	-	-	-	23,436,097	8.12%
Loans and advances	84,475,209	36,637,506	5,468,954	-	-	126,581,669	7.73%
Available for sale investments	-	-	-	-	73,548	73,548	N/A
<b>TOTAL</b>	<b>85,630,910</b>	<b>60,073,603</b>	<b>5,468,954</b>	<b>-</b>	<b>907,216</b>	<b>152,080,683</b>	
<b>(ii) Financial Liabilities</b>	\$	\$	\$	\$	\$	\$	%
Balances due to other banks	-	-	-	-	27,484	27,484	N/A
Deposits	106,391,186	22,878,303	1,326,572	-	53,040	130,649,101	6.06%
<b>TOTAL</b>	<b>106,391,186</b>	<b>22,878,303</b>	<b>1,326,572</b>	<b>-</b>	<b>80,524</b>	<b>130,676,585</b>	<b>6.06%</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 25: FINANCIAL INSTRUMENTS *continued*

#### Interest Rate Risk

The Credit Union's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

2007

Financial Instruments	Floating Interest Rate	Fixed Interest Rate maturing in:			Non-interest bearing	Total carrying amount as per Balance Sheet	Weighted average - Effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years			
<b>(i) Financial Assets</b>	\$	\$	\$	\$	\$	\$	%
Cash and liquid assets	1,432,329	-	-	-	156,224	1,588,553	4.54%
Held to maturity investments	-	32,901,537	-	-	-	32,901,537	6.36%
Loans and advances	86,195,897	26,412,049	2,017,713	-	-	114,625,659	7.43%
Available for sale investments	-	-	-	-	73,548	73,548	N/A
<b>TOTAL</b>	<b>87,628,226</b>	<b>59,313,586</b>	<b>2,017,713</b>	<b>-</b>	<b>229,772</b>	<b>149,189,297</b>	
<b>(ii) Financial Liabilities</b>	\$	\$	\$	\$	\$	\$	%
Balances due to other banks	-	-	-	-	595,280	595,280	N/A
Deposits	103,074,703	22,494,488	993,479	-	54,570	126,617,240	5.47%
<b>TOTAL</b>	<b>103,074,703</b>	<b>22,494,488</b>	<b>993,479</b>	<b>-</b>	<b>649,850</b>	<b>127,212,520</b>	<b>5.47%</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 25: FINANCIAL INSTRUMENTS *continued*

#### Terms, Conditions and Accounting Policies

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

Recognised Financial Interests	Statement of Balance Sheet Notes	Accounting Policies	Nature
<b>(i) Financial Assets</b>			
Short-term deposits	7,8,9	Short-term deposits are stated at the lower of cost and net realisable value. Interest is recognised when earned.	Short-term deposits have an average maturity of 40 days and effective interest rates of 7.88% to 8.4% (2007: 6.34% to 6.65%)
Loans and Advances - Overdrafts - Credit Cards - Term Loans - Other	10	The loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. Loans and advances are recorded at their recoverable amount. Further details on the classification for loans is in Note 2.	All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
<b>(ii) Financial Liabilities</b>			
Balances due to other banks	14	The borrowings are carried at the principal amount. If interest is charged, it is recognised as an expense as it accrues.	Amounts due to other financial institutions are non-interest bearing.
Deposits	15	Deposits are recorded at the principal amount.	Details of maturity terms are set out in Note 15. Interest is calculated on the daily balance outstanding.
Other Liabilities	16	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Credit Union.	Trade liabilities are normally settled on 30 day terms.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 25: FINANCIAL INSTRUMENTS *continued*

#### **Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Credit Union cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Credit Union is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

#### **Fair Value of Financial Instruments**

Set out below is a comparison by category of carrying amounts and fair values of all of the Credit Union's financial instruments recognised in the financial statements.

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

- The carrying values of cash, liquid assets, accrued receivables, investment securities, loans and advances and other investments approximate their net fair values.
- The net fair value of receivables due from other financial institutions are determined by valuing them at cost and including an interest accrual based on effective interest rates at balancing date.
- The carrying value of payables due to other financial institutions and creditors approximate their net fair value.
- The net fair value of Member deposits represents the carrying value plus the total of interest accrued based on effective interest rates at balance date.

	2008		2007	
	Carrying Value	Net Fair Value	Carrying Value	Net Fair Value
	\$	\$	\$	\$
<b>Assets</b>				
Cash and liquid assets	1,989,369	1,989,369	1,588,553	1,588,553
Held to maturity investments	23,436,097	23,436,097	32,901,537	32,901,537
Available for sale investments	73,548	73,548	73,548	73,548
Loans and advances	126,581,669	126,581,669	114,625,659	114,625,659
<b>Liabilities</b>				
Balances due to other banks	27,484	27,484	595,280	595,280
Deposits	130,649,101	130,649,101	126,617,240	126,617,240

### NOTE 26: SUPERANNUATION COMMITMENTS

As at 30 June for each of the financial periods, there exists superannuation benefit plans in which the Credit Union participates. The principal type of benefit provided is a lump sum benefit. The basis of contribution to the plans is as follows:

- The Credit Union contributes to a multi-industry superannuation fund, the trustee of which is Sunsuper Pty Ltd. The fund provides for accumulation benefits for its members. Employees are not required to contribute to the fund. The Credit Union has a legally enforceable obligation to contribute to the fund at the rate determined by the relevant industrial award or government legislation. As the plan provides for accumulation benefits for its Members, actuarial assessment is not required.
- The Credit Union contributes to employee superannuation funds, by paying an agreed amount of some employees' gross salary to the plan by way of salary sacrifice. All funds to which the Credit Union contributes are "complying funds" in terms of the Superannuation Industry (Supervision) Act 1993. As the funds provide for accumulation benefits, actuarial assessment is not required.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 26: SUPERANNUATION COMMITMENTS *continued*

To the extent of the Credit Union's participation in the plans and to the best knowledge of the Credit Union, funds are available for the purpose of the plans to satisfy all benefits that would have been vested under the plan in the event of:

- termination of the plan; or
- voluntary termination of the employment of each employee of the Credit Union on the initiative of that employee; or
- compulsory termination of the employment of each employee of the Credit Union by the Credit Union.

### NOTE 27: ECONOMIC DEPENDENCY

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

**(a) FDI Ltd**

This company operates the switching computer systems used to link Cuecards operated through Cuecard and other ATM suppliers to the Credit Union's computer systems.

**(b) Indue Limited**

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

**(c) Ultradata Pty Ltd**

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

**(d) Swift Call Pty Ltd**

This company operates the IVR (telephone banking) facility in conjunction with Indue Limited and FDRA Limited, through which members are able to facilitate transactions. The Credit Union has a maintenance contract with Swift Call Pty Ltd.

### NOTE 28: EVENTS AFTER THE BALANCE SHEET DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union, in subsequent financial years.

### NOTE 29: STATEMENT OF CASH FLOWS

**(a) Reconciliations of cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and "at bank" and short term deposits "at call" net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Cash	321,861	156,224
Deposits at Call	1,155,700	1,432,329
Cash Receivables	511,808	-
Bank Payables	(27,484)	(595,280)
	<u>1,961,885</u>	<u>993,273</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 29: STATEMENT OF CASH FLOWS *continued*

#### (b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

1. cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date
2. the placement of deposits with and withdrawal of deposits
3. cash advances and loans made to customers and the repayment of those advances and loans.
4. purchases of and redemptions of investment securities.

#### (c) Reconciliations of operating profit after income tax to net cash provided by operating activities

	2008 \$	2007 \$
Net profit / (loss) after income tax	(135,150)	1,104,624
<i>Adjustments for:</i>		
Depreciation	52,372	60,689
Amortisation	54,743	54,901
<i>Changes in assets and liabilities</i>		
(Decrease)/increase in interest payable	(81,459)	12,362
(Increase)/decrease in interest receivable on held to maturity investments	(14,447)	32,352
Loss on treasury loan write-off	2,000,000	
Increase/(decrease) in interest received in advance	92,196	154,669
Increase/(decrease) in rent abatement	(43,663)	(34,134)
Increase/(decrease) in income taxes payable	(462,241)	104,555
Decrease in previous years tax expense	(42,249)	
Increase/(decrease) in accrued expenses	9,407	16,245
(Increase)/decrease in deferred tax asset	(64,731)	994
Net cash from operating activities	<u>1,364,778</u>	<u>1,507,257</u>

### NOTE 30: CAPITAL

The Credit Union maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Credit Union's capital is monitored using, among other measures, the standards and ratios determined by the Australian Prudential Regulatory Authority (APRA).

During the past year, the Credit Union had complied in full with all its externally exposed capital requirements. This is consistent in the current financial year.

The primary objectives of the Credit Union's capital management is to ensure the Credit Union complies with externally imposed capital requirements and the Credit Union maintains healthy capital ratios in order to support its business and to maximise member value.

Regulatory capital	Actual 2008 \$	Required 2008 \$	Actual 2007 \$	Required 2007 \$
Tier 1 capital	20,879,664	5,564,644	21,133,313	6,146,848
Tier 2 capital	-	-	90,859	-
Total capital	<u>20,879,664</u>	<u>5,564,644</u>	<u>21,224,172</u>	<u>6,146,848</u>
Risk Weighted Assets	<u>69,601,742</u>		<u>76,835,594</u>	
Tier 1 capital ratio	30.00%		27.50%	
Total capital ratio	30.00%		27.62%	

## **CONTACT DETAILS**

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