online printer friendly

# 49th annual report 2008

Dnister Ukrainian Credit Co-operative

*We welcome the members of Hoverla and the Ukrainian Community in Adelaide !*

Over the last three years Dnister has achieved key milestones in its long standing history. 2006 saw the information technology upgrade of the banking system, 2007 embarked the rationalisation and introduction of the new product suite and now in 2008, Hoverla Ukrainian Credit Co-operative of Adelaide, merging into the Dnister family.

Today as we work together, growing the business as well as strengthening our bond with the Ukrainian community in Australia, we also acknowledge and reflect on the history of Hoverla Ukrainian Credit Co-operative and the significant contribution the Adelaide Community, Hoverla Directors and Staff have made. Your commitment and dedication to Hoverla has been significant and very successful story. We thank you and look forward to our combined strength in continuing the delivery of our mission: "Financial Advantage, Prosperity and Wealth to Members and the Ukrainian Community in Australia".

# "Hoverla" brief history

After several years of campaigning for the establishment of a Ukrainian credit co-operative in Adelaide, Taras Czubatyj harnessed the Ukrainian community and on 5th November 1961 the "Ukrainian Credit Co-operative in Adelaide initially called "Our Future" was launched with the motto "To Help Each Other". The first annual general meeting was held on 25th February 1962 during which the new statute was officially accepted and 10 community members stepped forward to be financial backers of the organisation. During this general meeting the first audit committee was elected and a newly the member unanimously voted in the new Board of Directors. J Klish was elected as chairman, who was joined by J Sykala, M Kinal, J Krywowiaza and M Lesiw. The co-operative would go on to have 64 individuals on the board of directors over the next 46 years.

Beginning with 107 members and £85 in deposits within 4 years, the credit co-operative had 200 members and over £11,000 in deposits. By the credit co-operative's 10th anniversary membership was at 290 and the co-operative had almost $100,000 in assets. During the 1977 annual general meeting a new name was agreed upon and the Ukrainian Credit Co-operative of Adelaide became known as "Hoverla Ukrainian Credit Co-operative" and their motto "To the Summit". In the same year Hoverla purchased a property at 269 Port Road, Hindmarsh and in February 1978 relocated from their small office in the Association of Ukrainians in South Australia Hall to more spacious premises. Due to an increase in demand operating hours were also increased from just a few hours in the evenings and on sat afternoons to several hours during the day.

By 1978 Hoverla had over 550 members and $1 million in assets, and by 1980 over 640 members and $2 million in assets. In 1982 at the request of its members the credit co-operative moved to premises (60 Orsmond Rd, Hindmarsh) that was newer and closer to the Ukrainian Community Centre, extended their operating hours and employed two full time staff. An opportunity to purchase the property next door (62 Orsmond Rd) for $28,000 arose in 1984 and Hoverla set about planning and building a brand new two-storey office. A Building Committee was appointed in 1987 and construction began in early 1988. The building was completed by April 1989 at a total cost of $378,000.

Hoverla Ukrainian Credit Co-operative membership grew to over 1,000 members by 1991 and its assets were valued at $ 6.4 million. The Credit Co-operative was in a position to begin donating money to Ukrainian Community Groups and donated over $4,000 in 1991. In the years since Hoverla has continued to be a strong supporter of Ukrainian Community Groups in Adelaide donating thousands of dollars in sponsorship, culminating in a $15,000 donation in 2007 for the renovation of the Adelaide Ukrainian Community Hall. Within the last 10 years Hoverla Ukrainian Credit Co-operative has grown to become a very profitable organisation with over 1,500 members and over $21 million in assets in 2007. Hoverla experienced a phenomenal increase in loans (212%), deposits (113%) and members equity (135%) securing its financial position. From its humble beginnings Hoverla matured into a professional financial institution offering a diverse range of modern products and services.

In recent times, increasing regulatory pressure on small financial institutions has encouraged an undeniable logic of considering a merger to strengthen the co-operative. A decision was made to merge with Dnister Ukrainian Credit Co-operative. After a unanimous decision by both memberships the two organisations officially merged on 1 May 2008. Hoverla now is a fully functional branch of Dnister and our combined strength will enable us to continue our growth, provide better product options for our membership and maintain our financial support through sponsorships to our community.

# contents

# chairmans report

On behalf of the Board of Directors and Staff at Dnister Ukrainian Credit Co-Operative, I am pleased to report a profit before tax of $428,000 to all our members.

Given the global downturn in financial markets and the costs of merger and integration of the Hoverla Ukrainian Credit Co-operative into our operations, the Board is satisfied that the Co-operative has delivered a solid result for the 2007/08 Financial Year.

I would like to take this opportunity to formally welcome and thank all Hoverla members in South Australia who earlier this year voted unanimously at their Special General Meeting to join our Dnister Ukrainian Credit Co-operative family. This has been the result of a long and demanding process and special thanks goes to both merger committees who have worked diligently to achieve this outcome. Notwithstanding this, I want to personally thank all our staff here in Melbourne and Adelaide for their efforts in ensuring that the operational aspects of this merger occurred in a timely manner with a smooth as possible operational transition that was not too disruptive to our Members.

This merger of Dnister and Hoverla is simply another step in our strategic plan to continue to build a Ukrainian Credit Co-operative in Australia that has the capital base, resources and financial stability to ensure its viability and sustainability, not only today, but into the long term future.

Furthermore, as part of our ongoing sponsorship commitment and with the introduction of Adelaide, on this specific occasion, more than 25% of our 2007 Net Profit after tax ($101,000) was allocated to the Ukrainian communities in Australia through the Community Sponsorship Advisory Committees (CSAC's) in various regions. The Board is delighted with the continued progress of this program and strongly applaud all those involved in assisting this process. Once again we congratulate David Hassett and his Melbourne team, Paul Bazalicki and the Geelong team and the new South Australian Chairman, Bohdan Wojewidka and his team for their outstanding job in reviewing, prioritising and recommending the dispersement of funds towards worthwhile Ukrainian community projects.

With community support and growth as part of our strategic agenda, please join me in welcoming the following new people to Dnister's family;

- Peter Berketa has been appointed to the position of General Manager.
- Borys Potiuch (Chairman of Hoverla Ukrainian Credit Co-operative) who joins the Dnister Board as part of the merger process.
- Frank Fursenko (Director of Horvela Ukrainian Credit Co-operative) who joins the Dnister Board as part of the merger process.
- Bill Papas (General Manager Hoverla Ukrainian Credit Co-operative) and his team as the new Hoverla Branch of Dnister in Adelaide.

With regards to the re-election of Directors, all Directors ask that you vote for the two ex-Hoverla Directors because Adelaide needs to have Board representation to ensure, during this transition, their views are heard when issues are being considered at Director level.

In conclusion I would like to wish you all well for the future and I am confident that Dnister will continue to provide our Members and the Ukrainian Community in Australia with outstanding products, services and financial support.

Finally, to you, our Members, and to my fellow Directors, thank you for your continued support and loyalty to Dnister Ukrainian Credit Co-Operative.

Michael Kornitschuk
Chairman

# directors report

The Directors of Dnister Ukrainian Credit Co-operative Limited ("the Co-operative"), submit their report for the year ended 30 June 2008.

Dnister Ukrainian Credit Co-operative Limited is a company limited by ordinary shares and a not for profit organisation incorporated in Australia.

DIRECTORS

The names and details of the Co-operative's Directors in office during the financial year and until the date of this report are as follows :

Directors were in office for this entire period unless otherwise stated

Michael Kornitschuk
B.Sci., Dip.App.Bio
(Non-Executive Chairman)

Mr Kornitschuk combines his work as a General Manager of a leading Australian supplier of medical goods and services with his role as Non-executive Chairman of the Co-operative. Mr Kornitschuk has been a Non-executive Director of the Co-operative for fourteen years, including the last eight as Chairman, and was a member of the Merger Committee. During the past four years he has also served as: - Chairman of the Ukrainian Orthodox Church-Essendon* and is currently Chair of RYKA (Association of Ukrainian Credit Co-operatives in Australia)

Andrew Matiszak
Life. F.A.I.B.S., M.I.E(Aust). C.P.E., Dip.C.E., B.S.C., B.I.C., S.I.C., Grad Cert Fire Safety / BCA Performance, RBP-BS / BI / AD (Non-executive Director)

Mr Matiszak combines his work as Managing Director of a building consulting company with his role as Non-executive Director of the Co-operative. Mr Matiszak has been a Non-executive Director of the Co-operative for nine years and was a member of the Merger Committee this year. During the past four years he has also served on the following organisations:- State Treasurer Australian Institute of Building Surveyors (Vic Chapter)*, Building Practitioners Board Member, Director at Ukrainian Elderly Peoples Home, Director at Overnewton Anglican Community College.*

Richard Horban
AICM (Non-executive Director and Audit Committee Chairman)

Mr Horban semi-retired, combines his work as a Contractor in Credit Management at Carter Holt Harvey Packaging with his role as a Non-executive Director of the Co-operative for six years. He is also Audit Committee Chairman of the Co-operative.

Walentyn Mykytenko
B.E., Post Grad Dip. Eng.Mgt, Dip. Elec.Eng, Dip. Fin. Services
(Non-executive Director)

Mr Mykytenko is a retired General Manager of a multi-national aviation company and is a Non-executive Director of the Co-operative. Mr Mykytenko has been on the Board for four years and was the Chair of the Merger and Human Capital Committees. During the past four years he has also served as a Director at the Ukrainian Orthodox Church Essendon.*

Greg Anolak
B. Sci, Dip.Ed (Non-executive Director and Audit Committee Member)

Mr Anolak is a retired Teacher. Mr Anolak has been a Non-executive Director of the Co-operative for three years and was a member of the Audit and Human Capital Committees. During the past three years he has also served as a Director of the Ukrainian Orthodox Church Essendon.*

John Kotowskyj
B.C.E (civil) M.I.E (Aust)
(Non-executive Director)

Mr Kotowskyj combines his work as Principal and owner of a Structural Engineering and Building consultancy practice with his role as Non-executive Director of the Co-operative. Mr Kotowskyj has been a Non-executive Director of the Co-operative for two years and was a member of the Human Capital Committee.

Theo Alexander
LLB (Melb). Grad Dip Leg Prac, ZDaF (Munich), MAICM (Non-executive Director and Audit Committee Member)

Mr Alexander combines his work as a Barrister of the Supreme Court of Victoria and High Court of Australia, Lecturer in Law at Deakin University, and Chairman of the Essendon Community Legal Centre with his role as Non-executive Director of the Co-operative. Mr Alexander has been a Non-executive Director of the Co-operative for two years and was a member of the Audit and Merger Committees.

Borys Potiuch
FAMI, Cert. Mktng
(Non-executive Director)

Mr Potiuch combines his work as a Registered Conveyancer with his role as Non-executive Director of the Co-operative. Mr Potiuch has been a Non-executive Director of the Co-operative since May 2008, having joined the Board after the successful merger with Hoverla Ukrainian Credit Co-operative Limited (Hoverla). Mr Potiuch was a Non-executive Director of Hoverla for nineteen years, including the last twelve as Chairman.

Frank Fursenko JP
B.Sc., Dip.Comp.Sc., Dip.Ed.
(Non-executive Director)

Mr Fursenko combines his work as a Program Director at the University of SA and Justice of the Peace for the last 5 years with his role as Non-executive Director of the Co-operative. Mr Fursenko has been a Non-executive Director of the Co-operative since May 2008, having joined the Board after the successful merger with Hoverla. Mr Fursenko was a Non-executive Director of Hoverla for nine years.

* denotes current directorship.

COMPANY SECRETARY

Peter Berketa
B.Bus (Acc), B.I.T., CPA, AIM

Mr Berketa was appointed the company secretary of the Co-operative on the 14th April 2008. He has been a Certified Practicing Accountant for 35 years.

# directors report

## Principal Activities

The principal activities of the entity during the financial year were receiving funds on deposits, advancing loans, insurance services and the leasing of the Co-operative's property.

## Review Of Results & Operations

The Co-operative`s net profit after income tax for the year ending 30 June 2008 is $296,000 (2007: $311,000). The net profit includes a fair value gain on the revaluation of investment property of $255,000 (2007:$170,000). The return to members was $730,000 (2007: $631,000). This includes the revaluation of the building $434,000 (2007: $320,000)

The result reflects our further investment in infrastructure and people by merging with Hoverla Ukrainian Credit Co-operative to better position the organisation to take advantage of future growth.

## Dividends

In accordance with the constitution, no dividend is paid in respect of any shares.

## Board Monitoring Of Performance

Management and the Board monitor the Co-operative's overall performance from the implementation of the mission statement and strategic plan through to the performance of the company against budget.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Management monitors KPIs and reviews performance against them monthly. Directors receive KPIs for review prior to each Board meeting allowing all Directors to actively monitor the Co-operative's performance.

## Liquidity And Funding

The Co-operative has a short-term overdraft facility of $350,000 (2007: $350,000) and for longer funding requirements access to a Trinity Securities Program. The Co-operative has sufficient funds to finance its operations and maintains these facilities primarily to allow the Co-operative to take advantage of favorable credit union financing opportunities.

## Risk Management

The Co-operative takes a pro-active approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Co-operative's objectives are aligned with the risks and opportunities identified by the Board.

The Co-operative believes that it is crucial for all Board members to be part of this process and as such, the Board has not established a separate risk management committee. Instead, the Audit Committee and other sub-committees are convened as appropriate in response to issues and risks identified by the Board as a whole, and the sub-committee further examines the issues and reports back to the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of the Strategic Plan, which encompasses the Co-operative's vision, mission and goals, designed to meet members' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against budget, including the establishment and monitoring of KPIs of both a financial and non-financial nature.
- The establishment of committees to report on specific business risks.

## Significant Changes in the State of Affairs

Total Equity increased to $15,481,000 from $12,416,000 an increase of $3,065,000 while Loans and Advances increased to $75,104,000 from $55,204,000 an increase of $19,900,000. Member Deposits increased to $87,874,000 from $61,449,000 an increase of $26,425,000. These movements were largely the result of the acquisition of Hoverla Ukrainian Credit Co-operative.

## Significant Events After Balance Date

There were no subsequent events to be brought to the attention of members for the financial year ended 30 June 2008.

## Likely Developments and Expected Results

The operations of the Co-operative are expected to continue in line with current objectives and strategies.

## Indemnity and Insurance

To the extent permitted by law and that the officer or auditor is not indemnified by Directors` and officer liability insurance (2008:$6,000 in premiums) maintained by the Co-operative, the Co-operative indemnifies every person who has been an officer or auditor of the Co-operative against any liability.

## Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company ASIC CO 98/100. The company is an entity to which the Class Order applies.

## Directors' Meetings

The number of Directors meetings attended by each Director and the number of committee meetings Directors were eligible to attend for the financial year were:

| | Directors Meetings | Audit & Risk Management | Merger Committee | Human Capital Committee | Foundation Committee |
|---|---|---|---|---|---|
| Total meetings held | 18 | 9 | 13 | 12 | 5 |
| **Number attended** | | | | | |
| M Kornitschuk | 14 | - | 9 | - | - |
| T Alexander | 16 | 7 | 11 | - | 5 |
| R Horban | 15 | 9 | - | 3 | - |
| J Kotowskyj | 16 | - | - | 11 | 4 |
| G Anolak | 16 | 8 | - | 10 | 5 |
| A Matiszak | 9 | - | 6 | - | - |
| W Mykytenko | 18 | - | 13 | 12 | 5 |
| B Potiuch | 2/2 | - | 1/1 | - | - |
| F Fursenko | 2/2 | - | - | - | - |

As at the date of this report, the Co-operative had an Audit and Risk Management Committee, a Foundation Committee, a Merger Committee and a Human Capital Committee.

Members of the Board acting on the committees of the Board during the year were:

| Audit & Risk Management | Human Capital |
|---|---|
| R Horban (c)<br>G Anolak<br>T Alexander | W Mykytenko (c)<br>R Horban<br>J Kotowskyj<br>G Anolak |
| **Merger** | **Foundation** |
| W Mykytenko (c)<br>M Kornitschuk<br>T Alexander<br>A Matiszak<br>B Potiuch | W Mykytenko (c)<br>T Alexander<br>J Kotowskyj<br>G Anolak |

Notes

(c) Designates the chairman of the committee

# auditors report

independence and non-audit services

The directors received the following declaration from the auditor of Dnister Ukrainian Credit Co-operative Ltd.

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF DNISTER UKRAINIAN CREDIT CO-OPERATIVE LIMITED

In relation to our audit of the financial report of Dnister Ukrainian Credit Co-operative Limited 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

Denis Thorn
Partner
Melbourne, 19th September 2008

NON-AUDIT SERVICES

The following non-audit services were provided by the entity`s auditor Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services $14,000

The report is signed in accordance with a resolution of the directors of the Co-operative.

Michael Kornitschuk
Chairman of the Board
Melbourne, 19th September 2008

Richard Horban
Chairman of the Audit Committee

# corporate governance
statement

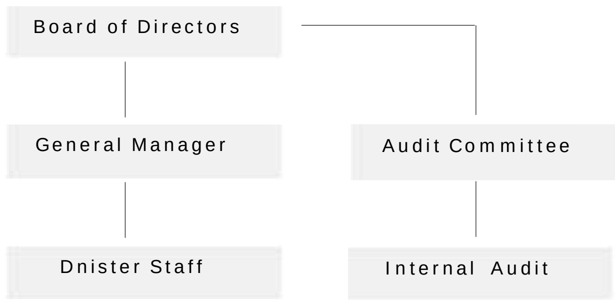
The Board of Directors of Dnister Ukrainian Credit Co-operative Limited is responsible for the corporate governance of the Co-operative. The Board guides and monitors the business and affairs of the Co-operative on behalf of the members by whom they are elected and to whom they are accountable. An important feature of the Board is to ensure compliance with the prudential and solvency requirements of the Australian Prudential Regulatory Authority (APRA) and the Australian Securities & Investment Commission (ASIC).

The key responsibilities of the Board include:

- Approving the strategic direction and related objectives and monitoring management performance in the achievement of these objectives.
- Adopting an annual budget and monitoring the financial performance of the Co-operative.
- Overseeing the establishment and maintenance of internal controls and effective monitoring systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring the Co-operative meets its legal and statutory obligations.

## Structure of the Board

Directors of the Co-operative are considered to be independent and free from any business or other relationship that could interfere with, or could be perceived to materially interfere with the exercise of their unfettered and independent judgement.




The term in office held by each Director at the end of the reporting period is as follows:

| | |
|---|---|
| M Kornitschuk | 14 years |
| A Matiszak | 9 years |
| R Horban | 6 years |
| W Mykytenko | 4 years |
| G Anolak | 3 years |
| J Kotowskyj | 2 years |
| T Alexander | 2 years |
| B Potiuch | 2 months |
| F Fursenko | 2 months |

## Audit Committee

The Board has an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists in the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control to the Audit Committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the Audit Committee during the year were:

R Horban
T Alexander
G Anolak

## Remuneration

It is the Co-operative's objective to provide maximum stakeholder benefit through the retention of an executive team by remunerating key executives fairly and appropriately with reference to employment market conditions. To assist in achieving this objective, the Human Capital Committee links the nature and amount of the executive's emoluments to the company's financial and operational performance.

No Director since the end of the previous financial year, has received or become entitled to receive a benefit (other than a benefit in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the accounts) by reason of a contract made by the company with a Director or with a firm of which he is member or with a company in which he has a substantial financial interest.

The members of the Human Capital Committee during the year were:

W Mykytenko
G Anolak
J Kotowskyj

# directors declaration

for the year ended 30 June 2008

In accordance with a resolution of the Directors of Dnister Ukrainian Credit Co-operative Limited, we state that:

1. In the opinion of the directors:

(a) the financial statements and notes of the Co-operative are in accordance with the Corporation's Act 2001 including:

- giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
- complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made by the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2008.

On behalf of the Board

p.p. Michael Kornitschuk
Chairman of the Board
Melbourne, 19th September 2008

Richard Horban
Chairman of the Audit Committee

# independent audit report

to members of Dnister Ukrainian Credit Co-operative Limited

ERNST & YOUNG

Liability limited by a scheme approved under Professional Standards Legislation.

We have audited the accompanying financial report of Dnister Ukrainian Credit Co-Operative Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of recognised income and expense 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 company 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 a reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditors 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 judgement, 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 co-operative a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditors opinion

*In our opinion*:

1. the financial report of Dnister Ukrainian Credit Co-Operative Limited is in accordance with the *Corporations Act 2001*, including :

    (i) giving a true and fair view of the financial position of Dnister Ukrainian Credit Co-Operative Limited 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

Denis Thorn
Partner
Melbourne
19th September 2008

# income statement

for the year ended 30 June 2008

| | Notes | 2008 | 2007 |
|---|---|---|---|
| | | $'000 | $'000 |
| Interest Income | | | |
| Interest and similar income | 4 | 6,065 | 4,950 |
| Interest and similar expense | 5 | (3,786) | (2,793) |
| Net interest income | | 2,279 | 2,157 |
| Fees and Commission Income | | | |
| Fees and commission income | 6 | 82 | 79 |
| Net fees and commission income | | 82 | 79 |
| Other operating income | 7 | 1,063 | 955 |
| Total operating income | | 3,424 | 3,191 |
| Credit loss expense | 8 | (1) | (33) |
| Net operating income | | 3,423 | 3,158 |
| Salaries and associated costs | | 1,257 | 1,219 |
| Depreciation of property and equipment | 15 | 151 | 145 |
| Sponsorship and financial assistance | | 129 | 124 |
| Other operating expenses | 9 | 1,458 | 1,227 |
| Total operating expenses | | 2,995 | 2,715 |
| Profit before tax | | 428 | 443 |
| Income tax expense | 10 | (132) | (132) |
| Net profit attributable to members | | 296 | 311 |

The above income statement should be read in conjunction with the accompanying notes.

# balance sheet

as at 30 June 2008

| | Notes | 2008 | 2007 |
|---|---|---|---|
| | | $'000 | $'000 |
| Assets | | | |
| Cash and balances with bank | 11 | 3,374 | 724 |
| Financial investments - held to maturity | 12 | 16,247 | 10,705 |
| Loans and advances to customers | 13 | 75,104 | 55,204 |
| Investment properties | 14 | 2,200 | 1,945 |
| Property and equipment | 15 | 8,843 | 7,036 |
| Deferred tax assets | 10 | 154 | 125 |
| Other investments | 16 | 163 | 88 |
| Other assets | 17 | 413 | 375 |
| Total Assets | | 106,498 | 76,202 |
| | | | |
| Liabilities and Equity | | | |
| Customer deposits | 18 | 87,874 | 61,449 |
| Current tax liabilities | | 263 | - |
| Deferred tax liabilities | 10 | 939 | 889 |
| Other liabilities | 19 | 1,694 | 1,290 |
| Provisions | 20 | 247 | 158 |
| Total Liabilities | | 91,017 | 63,786 |
| | | | |
| Retained earnings | 21 | 8,094 | 7,904 |
| Credit loss reserve | 21 | 255 | 149 |
| Foundation reserve | 21 | 10 | 10 |
| Business combination reserve | 21 | 2,335 | - |
| Asset revaluation reserve | 21 | 4,787 | 4,353 |
| Total Equity | | 15,481 | 12,416 |
| Total Liabilities and Equity | | 106,498 | 76,202 |

statement of

# recognised income and expense

for the year ended 30 June 2008

| | Retained Earnings $'000 | Other Reserves (note 21) $'000 | Total $'000 |
|---|---|---|---|
| Total at 1 July 2007 | 7,904 | 4,512 | 12,416 |
| Increase on revaluation of property | - | 434 | 434 |
| Acquisition through merger Hoverla Ukrainian Credit Co-operative Ltd | - | 2,335 | 2,335 |
| Net profit attributable to members | 296 | - | 296 |
| Total recognised Income and Expense for the period | 296 | 2,769 | 3,065 |
| Increases in statutory amount set aside for potential losses on loans and advances | (106) | 106 | - |
| Increase in amount set aside for foundation reserve | - | - | - |
| Total at 30 June 2008 | 8,094 | 7,387 | 15,481 |

| | Retained Earnings $'000 | Other Reserves (note 21) $'000 | Total $'000 |
|---|---|---|---|
| Total at 1 July 2006 | 7,614 | 4,171 | 11,785 |
| Increase on revaluation of property | - | 320 | 320 |
| Net profit attributable to members | 311 | - | 311 |
| Total recognised Income and Expense for the period | 311 | 320 | 631 |
| Increases in statutory amount set aside for potential losses on loans and advances | (11) | 11 | - |
| Increase in amount set aside for foundation reserve | (10) | 10 | - |
| Total at 30 June 2007 | 7,904 | 4,512 | 12,416 |

# cash flow statement

for the year ended 30 June 2008

| | Notes | 2008 | 2007 |
|---|---|---|---|
| Operating activities | | $'000 | $'000 |
| Profit before tax | | 428 | 443 |
| Adjustments for: | | | |
| - Changes in operating assets | 22 | (67) | 207 |
| - Changes in operating liabilities (including tax payable) | 22 | 438 | 264 |
| - Non-cash items included in profit before tax | 22 | (14) | (26) |
| - Income Tax Paid | | (21) | (99) |
| - Net increase in loans and advances | | (19,900) | (5,491) |
| Net cash flows from operating activities | | (19,136) | (4,702) |
| Investing activities | | | |
| Net liquidity investments sold (purchased) | | (5,616) | 3,400 |
| Purchases of property and equipment | | (1,357) | (207) |
| Net cash flows from operating activities | | (6,973) | 3,193 |
| Financing activities | | | |
| Net increase in customer deposits | | 26,425 | 933 |
| Net increase in equity Hoverla | | 2,335 | - |
| Net cash flows from financing activities | | 28,760 | 933 |
| Net increase in cash and cash equivalents | | 2,650 | (531) |
| Cash and cash equivalents at 1 July 2007 | | 724 | 1,255 |
| Cash and cash equivalents at 30 June 2008 | 22 | 3,374 | 724 |
| Operational cash flows from interest and dividends | | | |
| Interest received | | 6,094 | 5,035 |
| Interest and other costs of finance paid | | 3,703 | 2,689 |
| Dividends received | | 26 | 24 |

## 1. Corporate information

Dnister Ukrainian credit Co-operative Limited is a company limited by ordinary shares and a not for profit organisation incorporated in Australia.

Dnister is a member owned Co-operative specialising in serving the financial needs of Australians of Ukrainian descent, heritage or cultural affinity. The nature of the operations and principal activities of the Company are described in the Directors' Report.

The financial report of Dnister Ukrainian Credit Co-operative for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of directors on the 19th September 2008.

## 2. Summary of significant accounting policies

### *2.1 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 2008, Australian Accounting Standards and other authorative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on an historical cost basis, except for investment properties and land and buildings, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

### *2.2 Statement of compliance*

The financial report complies with Australian Accounting Standards, issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Financial Reporting Board (IASB).

### *2.3 New accounting standards and interpretations*

There are certain Australian Accounting Standards that have been issued or amended but are not yet effective or have not been adopted by the Credit Co-operative for the annual reporting period ending 30 June 2008. The assessment of the impact of these new standards and interpretations (to the extent relevant by the Credit Co-operative is set out as follows:

Accounting standards

| Reference | Title | Summary | Application Date Of Standard* | Impact on Co-operative financial report | Application Date for Co-operative* |
|---|---|---|---|---|---|
| AASB Int. 13 | Customer Loyalty Programmes | Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services. | 1 Jul 2008 | The Co-operative does not have any customer loyalty programmes and as such this interpretation is not expected to have any impact on the Co-operative's financial report. | 1 Jul 2008 |
| AASB 8 and AASB 2007-3 | Operating Segments and consequential amendments to other Australian Accounting Standards | New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting. | 1 Jan 2009 | AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Co-operative's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Co-operative's segment disclosures. | 1 Jul 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 Jan 2009 | These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Co-operative has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Co-operative's financial report. | 1 Jul 2009 |
| 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 Jan 2009 | These amendments are only expected to affect the presentation of the Co-operative's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Co-operative has not determined at this stage whether to present a single statement of comprehensive income or two separate statements. | 1 Jul 2009 |

Accounting standards

| Reference | Title | Summary | Application Date Of Standard* | Impact on Co-operative financial report | Application Date for Co-operative* |
|---|---|---|---|---|---|
| AASB 3 (Revised) | Business Combinations | The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into - to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively. | 1 Jul 2009 | The Co-operative may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Co-operative has not yet assessed the impact of early adoption, including which accounting policy to adopt. | 1 Jul 2009 |
| AASB 2008-1 | Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations | The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. | 1 Jan 2009 | The Co-operative does not have share-based payment arrangements that may be affected by these amendments. | 1 Jul 2009 |
| AASB 2008-2 | Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation | The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities. | 1 Jan 2009 | These amendments are not expected to have any impact on the Co-operative's financial report as the Co-operative does not have on issue or expect to issue any puttable financial instruments as defined by the amendments. | 1 Jul 2009 |
| AASB 2008-3 | Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 | Amending standard issued as a consequence of revisions to AASB 3 and AASB 127. | 1 Jan 2009 | Refer to AASB 3 (Revised) and AASB 127 (Revised) above. | 1 Jul 2009 |

*Application date is for the annual reporting periods beginning on or after the date shown in the above table.

The following amendments are not applicable to the Co-operative therefore have no impact.

| AASB Amendment | Title |
|---|---|
| 2007-2 | Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127 AASB 131 & AASB 139] |
| AASB 1004 | Contributions |
| AASB 1049 | Whole of Government and General Government Sector Financial Reporting |
| AASB Amendment | Title |
| AASB 1050 | Administered Items |
| AASB 1051 | Land Under Roads |
| AASB 1052 | Disaggregated Disclosures |
| AASB Int. 4 (Revised) | Determining whether an arrangement contains a Lease |
| AASB Int 129 | Service Concession Arrangements : Disclosures |
| AASB Int 14 | AASB 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements & their interaction |
| AASB 2007-9 | Amendments to Australian Accounting Standards arising from the Review of AASs 27,29 and 31 |
| AASB Int. 1038 (Revised) | Contributions by Owners Made to Wholly-Owned Public Sector Entities |
| Amendments to International Financial Reporting Standards | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| IFRIC 15 | Agreements for the Construction of Real Estate |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation |

The Co-operative 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 entity.

*2.4 Significant accounting judgments and estimates*

In the process of applying the Co-operative's accounting policies, management has used its judgments and made estimates in determining amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Impairment losses on loans and advances

The Co-operative assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

There are three ways that impairment losses on loans and advances are accounted for. They are as follows;

- Prescribed Provisions, which are prescribed collectively according to category of loan and weighted according to days in arrears, and is an APRA requirement.

- Credit Loss Reserve provides for impairment based on 0.3% of the risk weighted adjusted total loans portfolio, and is an APRA requirement

- Specific Provisions are determined by Management together with The Board of Directors where they consider it prudent to put extra provisions aside for a specific loan on an individual basis.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognised in profit and loss.

The Co-operative assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

Property

Some of the Co-operative's property is leased out on a commercial basis. Those buildings that are fully leased are now classified as investment properties. The main 'banking building' is still classified as owner-occupied because a significant section of the property is used by the Co-operative for its banking activities. These judgments are consistent with AASB140 Investment Property classification.

Taxation

The Co-operative's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volume, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

*2.5.1 Financial instruments - initial recognition and subsequent measurement*

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date. i.e. the date that the Co-operative commits to purchase or sell the asset.

(ii) Initial recognition of financial instruments

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics.

(iii) Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Co-operative has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost.

The 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.

(iv) Loans and advances to customers

Assets, such as loans and advances, are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and advances are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

Loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month. All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.

*2.5.2 Derecognition of financial assets and liabilities*

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:-

- the rights to receive cash flows from the asset have expired; or

- the Co-operative has transferred its rights to receive cash flows from the asset or has assumed the obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and

- either (a) the Co-operative has transferred substantially all the risks and rewards of the asset, or (b) the Co-operative has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Securitisation

As part of its operations the Co-operative securitises financial assets, through an arrangement with Trinity Securities Program where it acts as an agent to complete loans on their behalf for on-sale to an investment trust. The Co-operative also manages the securitised loans portfolio on behalf of the trust. The Co-operative is only liable for loan repayments default to the extent of interest foregone by the trust, and for which the Co-operative has mortgage insurance to recoup all such payments. The balance of securitised loans at the end of 2008 was $1.96m (2007: $2.65m).

(iii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

*2.5.3 Impairment of financial assets*

(i) Loans and advances to customers
Loans and advances are measured at amortised cost after assessing required provisions for impairment. Loans are considered bad and written off when all avenues of legal and other action to recover the debt have been exhausted.

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

- Past due or impaired loans are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful and hence provisions for impairment are recognised.

- Restructured Loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms and revised terms are not comparable to new facilities. Loans with revised terms are included in past due or impaired loans.

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

- Past due loans are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected.

*2.5.4 Leasing*

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

(i) Co-operative as a lessor

Leases in which the Co-operative retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the lease asset and recognised as an expense over the lease term on the same basis as rental income.

The Co-operative has entered into commercial property leases on its investment portfolio, consisting of the Co-operative's surplus office buildings. These non-cancellable leases have remaining terms of between 1 and 3 years. All leases include a clause to enable upward revision of the rental charge on an annual basis. Future minimum rentals receivable under non-cancellable operating leases as at 30 Jun 2008 are as follows;

| | 2008<br>$000 | 2007<br>$000 |
|---|---|---|
| Within one year | 599 | 581 |
| Afer one year but not more than three years | 494 | 899 |
| Total minimum lease Payments | 1,093 | 1,480 |

*2.5.5 Recognition of income and expenses*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Co-operative and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:
d party are recognised on the completion of the underlying transaction.

(i) Interest and similar 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.

(ii) Fee and commission income

The Co-operative earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

1) Fee income earned from services that are provided over a certain period of time are accrued over that period

- Fees earned for the provision of services over that period.
- Spread Fees earned for servicing and administrating securitised loans.

2) Fee income from providing transaction services

- Fees arising from negotiating or participating in the negotiation of a transaction or with a third party are recognised on the completion of the underlying transaction.

(iii) Dividend income

Revenue is recognised when the Co-operative's right to receive the payment is established.

(iv) Rental income

Rental income arising from investment and other properties is accounted for on a straight line basis over the lease terms on ongoing leases and is recorded in the income statement in 'other operating income'.

*2.5.6 Cash and cash equivalents - refer notes 11 and 12*

Cash and cash equivalents in the balance sheet compromise cash at bank and in hand and short-term deposits with an original maturity of twelve months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above and net outstanding bank overdrafts.

*2.5.7 Investment properties*

The Co-operative holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in 'other operating income' in the year in which they arise.

The Co-operative engaged Herron Todd White Pty Ltd, an accredited independent valuer, to determine the fair value of its freehold land and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm`s length terms for land and buildings comparable in size and location to those held by the Co-operative, and to market based yields for comparable properties. The effective date of the revaluation was 30th June 2008.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement.

*2.5.8 Property and equipment*

(i) Cost

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Land & Buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of revaluation.

(ii) Impairment

The carrying values of equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying amount may be impaired.

(iii) Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller on an arm's length as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

An annual transfer from the asset revaluation reserve relating to retained earnings is made for the difference between depreciation based on the revalued carrying amounts of the assets and depreciation based on the assets' original costs.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the balance sheet date.

*(iv) Derecognition and disposal*

An item of property 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 profit or loss in the year the asset is derecognised.

*(V) Depreciation*

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows;

| | |
|---|---|
| Land & Buildings - | not depreciated |
| Furniture and equipment | 6.7 years |
| Computer software | 3 years |
| Computer hardware | 4 years |

*2.5.9 Receivables*

Receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

*2.5.10 Payables*

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Co-operative prior to the end of the financial year that are unpaid and arise when the Co-operative becomes obliged to make future payments in respect of these goods and services. The payables are not secured and are generally paid within 30 days of recognition.

Provisions

Provisions are recognised when the Co-operative has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Such provisions include:

(i) Wages, salaries, annual leave & 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 provisions 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. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(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.

*2.5.11 Customer deposits and short-term borrowings*

(i) Member deposits

Member deposits are classified under the categories of: at call and fixed term. The rate of interest offered on member deposits is dependent on the amount, the period invested/availability of funds and the nature of the deposit facility used. Member deposits are available for withdrawal subject to the advertised constraints of the facility.

For example, at call accounts can be accessed at any time, whereas no withdrawals can be made from a standard fixed term deposit without penalties.

(ii) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(iii) Shareholding

Members must purchase shares to the value of $10 in the Co-operative to open their account. Once a member has purchased shares they may open multiple accounts. When a member cancels or resigns their membership they are entitled to be refunded their initial $10 investment. No interest or dividends are payable on the shares issued because they are withdrawn on the closure of membership. They are therefore recorded as a liability in the financial accounts as part of deposits at call, rather than as equity.

*2.5.12 Taxes*

(i) Current tax

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

(ii) Deferred tax

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 income tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from an asset or liability transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

(iii) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:
* Where the GST incurred from the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost acquisition of the asset or part of the expense item as applicable.

*Receivables and payables are stated with the amount of GST included.

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

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 are classified as operating cash flows.

3. Segmental reporting

The Co-operative operates predominantly in the finance industry in Victoria, South Australia and Western Australia. The main operations comprise the acceptance of deposits and making loans to members.

| | Notes | 2008 | 2007 |
|---|---|---|---|
| | | $'000 | $'000 |
| **4. Interest & similar income** | | | |
| Loans & advances to members | | 5,089 | 4,009 |
| Deposits with other financial institutions | | 898 | 856 |
| Regulatory deposits | | 78 | 85 |
| | | 6,065 | 4,950 |
| **5. Interest & similar expense** | | | |
| Member deposits | | 3,784 | 2,791 |
| Other | | 2 | 2 |
| | | 3,786 | 2,793 |
| **6. Net fees & commission income** | | | |
| Brokerage fees | | 7 | - |
| Other fees received | | 75 | 79 |
| | | 82 | 79 |
| **7. Other operating income** | | | |
| Dividend Income | | 26 | 24 |
| Rental Income | | 688 | 664 |
| Change in fair value of investment property | 14 | 255 | 170 |
| Other | | 94 | 97 |
| | | 1,063 | 955 |
| **8. Credit loss expense** | | | |
| Bad & doubtful debts to customers | | 1 | 33 |
| | | 1 | 33 |
| **9. Other operating expenses** | | | |
| Marketing, printing and postage | | 103 | 94 |
| Other tenancy expenses | | 287 | 249 |
| Corporate governance, audit & compliance | | 261 | 186 |
| Subsidised member transaction expense | | 190 | 179 |
| Data & communications | | 345 | 293 |
| Other | | 272 | 226 |
| | | 1,458 | 1,227 |

| | Notes | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **10. Income Tax** | | | |
| (a) Income tax expense | | | |
| The major components of income tax expense are: | | | |
| Income Statement | | | |
| *Current income tax* | | | |
| Current Income tax charge | | 68 | 46 |
| Adjustments in respect of current income tax of previous years | | | - |
| *Deferred income tax* | | | |
| Relating to origination and reversal of temporary differences | | 64 | 86 |
| Income tax expense reported in the income statement | | 132 | 132 |
| (b) Amounts charged or credited directly to equity | | | |
| *Deferred income tax related to items charged or credited directly to equity* | | | |
| Unrealised gain on available for sale investments | | 16 | - |
| Income tax expense reported equity | | 16 | - |

(c) Reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Company's applicable Income tax rate is as follows :

| | | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| Accounting profit before income tax | | 428 | 443 |
| At the company's statutory income tax rate of 30% (2007:30%) | | 128 | 133 |
| Income not assessable for income tax purposes | | - | - |
| Expenditure not allowable for income tax purposes | | 1 | (1) |
| Franking Credit Offset | | (5) | - |
| Other Adjustments | | 8 | - |
| Aggregate income tax expense | | 132 | 132 |
| (d) Recognised deferred tax assets and liabilities | | | |
| Tax expense in income statement | | 132 | 132 |
| Amounts recognised in the balance sheet: | | | |
| Deferred tax asset | | 154 | 125 |
| Deferred tax liability | | (939) | (889) |
| | | (785) | (764) |
| Deferred Income tax | | | |
| Deferred income tax at 30 June relates to the following: | | | |
| *Deferred tax liabilities* | | | |
| Rent Receivable | | (21) | 46 |
| Depreciable Assets | | (5) | - |
| Investment Properties | | (167) | - |
| Land and Buildings | | (729) | 86 |
| Other | | (17) | 86 |
| Deferred tax liabilities | | (939) | (889) |
| *Deferred tax assets* | | | |
| Allowance for doubtful debts | | 46 | 26 |
| Depreciable Assets | | - | 6 |
| Provisions and Accruals | | 108 | 93 |
| Deferred tax assets | | 154 | 125 |

| | Notes | 2008 | 2007 |
|---|---|---|---|
| | | $'000 | $'000 |
| **11. Cash and balances with bank** | | | |
| Cash on hand | | 238 | 139 |
| Current account with Banks | | 936 | 585 |
| Overnight deposits with Banks | | 2,200 | - |
| | | 3,374 | 724 |
| **12. Financial investments held to maturity** | | | |
| Term and negotiable certificates of deposits with banks (Fully redeemable) not longer than 3 months. | | 11,546 | 4,105 |
| Term and negotiable certificates of deposits with banks (fully redeemable) longer than 3 months and not longer than 12 months | | 4,701 | 6,600 |
| | | 16,247 | 10,705 |
| **13. Loans and advances to members** | | | |
| Overdraft and revolving credit | | 4,657 | 3,712 |
| Term Loans | | 69,126 | 50,522 |
| Directors and related parties | | 1,473 | 1,056 |
| Gross loans and advances | | 75,256 | 55,290 |
| Less: Allowance for impairment losses | | (152) | (86) |
| | | 75,104 | 55,204 |
| **Loans by maturity** | | | |
| Overdrafts | | 4,657 | 3,712 |
| Not longer than 3 months | | 156 | 748 |
| Longer than 3 months & less than 12 months | | 1,798 | 8,956 |
| Longer than 12 months & less than 5 years | | 1,319 | 1,655 |
| Longer than 5 years | | 67,174 | 40,219 |
| | | 75,104 | 55,290 |
| **Loans by purpose** | | | |
| Residential mortgages | | 54,484 | 34,450 |
| Consumer lending | | 13,427 | 13,316 |
| Corporate & small business lending | | 7,345 | 7,524 |
| | | 75,256 | 55,290 |
| **Loans by geographic location** | | | |
| Loans in Victoria | | 56,305 | 53,954 |
| Loans in South Australia | | 17,463 | - |
| In other states | | 1,488 | 1,336 |
| | | 75,256 | 55,290 |
| **Loans by security type** | | | |
| Secured by mortgage | | 68,650 | 49,941 |
| Secured by other | | 1,346 | 1,934 |
| Unsecured | | 5,260 | 3,415 |
| | | 75,256 | 55,290 |
| **Impairment allowance for loans and advances to members** | | | |
| A reconciliation of the allowance for impairment losses for loans and advances is as follows : | | | |
| At Start of year | | 86 | 91 |
| Charge for the year (note 8) | | 1 | 33 |
| Amounts written off | | - | (38) |
| Provision for doubtful debts from Hoverla acquisition* | | 65 | - |
| | | 152 | 86 |

| Loans and Advances past due and impaired | | 2008 Past Due $'000 | 2008 Impaired $'000 | 2007 Past Due $'000 | 2007 Impaired $'000 |
|---|---|---|---|---|---|
| Housing Loans | 30 days and less than 60 days | 878 | - | 100 | - |
| | 60 days and less than 90 days | 366 | - | 168 | - |
| | 90 days and less than 182 days | 303 | - | 43 | - |
| | 182 days and less than 273 days | - | - | - | - |
| | 273 days and less than 365 days | - | - | - | - |
| | 365 days and over | 73 | - | 64 | - |
| | | 1,620 | - | 365 | - |
| Personal and Commercial Loans | 30 days and less than 60 days | 21 | - | 35 | - |
| | 60 days and less than 90 days | 44 | - | 9 | - |
| | 90 days and less than 182 days | - | 12 | - | 16 |
| | 182 days and less than 273 days | - | - | - | - |
| | 273 days and less than 365 days | - | 25 | - | 40 |
| | 365 days and over | - | 66 | - | 37 |
| | | 65 | 103 | 44 | 93 |
| Overdrafts | Less than 14 days | 72 | - | 78 | - |
| | 14 days and less than 90 days | - | 2 | - | 9 |
| | 90 days and less than 182 days | - | - | - | 3 |
| | 182 days and over | - | 1 | - | 5 |
| | | 72 | 3 | 78 | 17 |
| Total Loans Past Due or Impaired | | 1,757 | 106 | 497 | 110 |

The Loans and advances are determined to be past due or impaired by the amount of days that they are overdue. Per APRA provisioning a housing loan is determined to be past due at 30 days or greater. Personal and commercial loans are determined to be past due between 30 days and less than 90 days, and impaired after 90 days. Overdrafts are past due at one day to less than 14 days overdue and impaired if greater than 14 days overdue.

The loans and advances past due or impaired are secured by collateral, as described in note 25.2 that exceeds the value of loans and advances outstanding

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| **14. Investment Properties** | | |
| At 1 July | 1,945 | 1,775 |
| Net change from fair value adjustment | 255 | 170 |
| | 2,200 | 1,945 |

| 15. Property and Equipment | Land & Buildings | Computer Hardware & Software | Other Furniture & Equipment | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Cost or Fair value: | | | | |
| At 1 July 2007 | 6,600 | 539 | 1,185 | 8,324 |
| Additions | 1,360 | 45 | 103 | 1,508 |
| Disposals | - | - | - | - |
| Net change from revaluation | 450 | - | - | 450 |
| At 30 June 2008 | 8,410 | 584 | 1,288 | 10,282 |
| Depreciation and impairment: | | | | |
| At 1 July 2007 | - | 274 | 1,014 | 1,288 |
| Disposals | - | - | - | - |
| Depreciation charge for the year | - | 111 | 40 | 151 |
| At 30 June 2008 | - | 385 | 1,054 | 1,439 |
| Net carrying amount: | | | | |
| At 1 July 2007 | 6,600 | 265 | 171 | 7,036 |
| At 30 June 2008 | 8,410 | 199 | 234 | 8,843 |
| | | | | |
| Cost or Fair value: | | | | |
| At 1 July 2006 | 6,280 | 689 | 1,319 | 8,288 |
| Additions | - | 176 | 34 | 210 |
| Disposals | - | (326) | (168) | (494) |
| Net change from fair value increment | 320 | - | - | 320 |
| At 30 June 2007 | 6,600 | 539 | 1,185 | 8,324 |
| Depreciation and impairment: | | | | |
| At 1 July 2006 | - | 492 | 1,144 | 1,636 |
| Disposals | - | (326) | (167) | (493) |
| Depreciation charge for the year | - | 108 | 37 | 145 |
| At 30 June 2007 | - | 274 | 1,014 | 1,288 |
| Net carrying amount: | | | | |
| At 1 July 2006 | 6,280 | 197 | 175 | 6,652 |
| At 30 June 2007 | 6,600 | 265 | 171 | 7,036 |

| | 2008 | 2007 |
|---|---|---|
| | $'000 | $'000 |
| **16. Other investments** | | |
| Cuscal shares | 76 | - |
| Indue class 'a' shares | 56 | 57 |
| Indue Limited SDD | 31 | 31 |
| | 163 | 88 |

The Indue and Cuscal shares above are held as part of the requirements of the service contracts we have with Indue and Cuscal, who facilitate some of our banking services. The shares are stated at cost, are not tradeable and when the contract ceases would be returned to Cuscal or Indue, and the cost price repaid to the Co-operative in return.

| | 2008 | 2007 |
|---|---|---|
| **17. Other assets** | | |
| Accrued interest receivable | 280 | 309 |
| Prepayments | 37 | 50 |
| Other receivables | 96 | 16 |
| | 413 | 375 |

Fair Value and Credit Risk

The maximum exposure to credit risk is the fair value of the receivables. Collateral is not held as security, nor is it policy to transfer (on-sell) receivables to special purpose entities.

| | 2008 | 2007 |
|---|---|---|
| **18. Member Deposits** | | |
| Current accounts | 31,830 | 26,367 |
| Term deposits | 56,044 | 35,082 |
| | 87,874 | 61,449 |
| Deposits by geographic location | | |
| Deposits in Victoria | 64,650 | 58,521 |
| Deposits in South Australia | 20,124 | 154 |
| In other States | 3,100 | 2,774 |
| | 87,874 | 61,449 |
| **19. Other liabilities** | | |
| Interest payable on deposits | 590 | 673 |
| Trade creditors and sundry creditors | 1,104 | 617 |
| | 1,694 | 1,290 |
| **20. Provisions** | | |
| Current provisions for employee entitlements | 155 | 125 |
| Non-current provisions for employee entitlements | 92 | 33 |
| | 247 | 158 |

A reconciliation of the employee provisions is as follows :

| | Annual | Long Service | Total |
|---|---|---|---|
| | $000 | $000 | $000 |
| As at 1 July 2007 | 104 | 54 | 158 |
| Payments made | (74) | - | (74) |
| Additional provisions | 100 | 63 | 163 |
| As at 30 June 2008 | 130 | 117 | 247 |
| | | | |
| As at 1 July 2006 | 122 | 71 | 193 |
| Payments made | (96) | (29) | (125) |
| Additional provisions | 78 | 12 | 90 |
| As at 30 June 2007 | 104 | 54 | 158 |

| 21. Retained earnings and reserves | Retained Earnings $'000 | Credit loss Reserve $'000 | Foundation Reserve $'000 | Business Combination Reserve $'000 | Asset Revaluation Reserve $'000 |
|---|---|---|---|---|---|
| At 1 July 2007 | 7,904 | 149 | 10 | - | 4,353 |
| Increases in statutory amount set aside for potential losses on loans & advances | (106) | 106 | - | - | - |
| Increase in discretionary amount set aside for foundation reserve | - | - | - | - | - |
| Net change from revaluation of property | - | - | - | - | 434 |
| Merger of Hoverla Ukrainian Credit Co-operative | - | - | - | 2,335 | - |
| Net profit attributable to members | 296 | - | - | - | - |
| At 30 June 2008 | 8,094 | 255 | 10 | 2,335 | 4,787 |
| | | | | | |
| At 1 July 2006 | 7,614 | 138 | - | - | 4,033 |
| Increase in statutory amount set aside for potential losses on loans | (11) | 11 | - | - | - |
| Increase in discretionary amount set aside for foundation reserve | (10) | - | 10 | - | - |
| Net change from revaluation of property | - | - | - | - | 320 |
| Net profit attributable to members | 311 | - | - | - | - |
| At 30 June 2007 | 7,904 | 149 | 10 | - | 4,353 |

Credit Loss reserve
The credit loss reserve is used to record the APRA required provisioning for setting aside 0.3% of the risk weighted assets as provision for possible bad debt write off. It is an additional reserve to the provisioning for those loans actually in arrears.

Foundation reserve
The foundation reserve is used to record the retained earnings set aside for the anticpated foundation fund to be setup for the benefit of the Ukrainian community.

Business combination reserve
The business combination reserve is used to record increments and decrements in equity as a result of mergers with other businesses.

Asset revaluation reserve
The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another.

| 22. Additional cash flow information | 2008 | 2007 |
|---|---|---|
| | $'000 | $'000 |
| Cash and cash equivalents | | |
| Cash on hand (note 11) | 238 | 139 |
| Current account with Bank (note 11) | 936 | 585 |
| Overnight deposits with Bank | 2,200 | - |
| | 3,374 | 724 |
| Change in operating assets | | |
| Net change in interest receivable | 29 | 85 |
| Net change in debtors | (80) | 58 |
| Net change in prepayments | 13 | 108 |
| Net change in future income tax benefit | (29) | (44) |
| | (67) | 207 |
| Change in operating liabilities | | |
| Net change in interest payable | (83) | 103 |
| Net change in creditors and accruals | 521 | 161 |
| | 438 | 264 |
| Non-cash items included in profit before tax | | |
| Depreciation of property and equipment | 151 | 145 |
| Impairment losses on financial assets | 1 | 33 |
| Revaluation of investment property | (255) | (170) |
| Provisions | 89 | (34) |
| | (14) | (26) |

| 23. Fair value of financial assets and liabilities | Carrying Value | Fair value |
|---|---|---|
| Assets 2008 | $'000 | $'000 |
| Financial Assets | | |
| Cash & balances with bank | 3,374 | 3,374 |
| Financial investments - held to maturity | 16,246 | 16,246 |
| Loans and advances to customers | 75,104 | 75,104 |
| Other investments | 163 | 163 |
| Accrued Interest receivable | 280 | 280 |
| Other receivables | 96 | 96 |
| Total 2008 | **95,263** | 95,263 |
| Liabilities | | |
| Financial Liabilities | | |
| Member Deposits | 87,874 | 87,874 |
| Total 2008 | **87,874** | 87,874 |
| Assets 2007 | | |
| Financial Assets | | |
| Cash & balances with bank | 724 | 724 |
| Financial investments - held to maturity | 10,705 | 10,705 |
| Loans and advances to customers | 55,204 | 55,204 |
| Other investments | 88 | 88 |
| Accrued Interest receivable | 309 | 309 |
| Other receivables | 16 | 16 |
| Total 2007 | **67,046** | 67,046 |
| Liabilities | | |
| Financial Liabilities | | |
| Member Deposits | 61,449 | 61,449 |
| Total 2007 | **61,449** | 61,449 |

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

**Cash and liquid assets**
The carrying values of cash and liquid assets approximate their net fair value as they are short term in nature or are receivable on demand.

**Deposits with financial institutions**
The carrying values of deposits with financial institutions approximate their net fair value as they are short term in nature or are receivable on demand.

**Loans and advances**
The carrying values of loans and advances is net of the total provision for doubtful debts. Interest rates on loans both fixed and variable equate to comparable products in the market place. The carrying amount is therefore considered to be a reasonable estimate of fair value.

**Member deposits**
The net fair value of at call and fixed rate deposits represents the carrying amount plus the total of interest accrued on effective interest rate at balance date.

**Other Investments**
The carrying amount of other investments is at cost as these shares are bought and sold at the same amount they are held as part of our service contract with Cuscal and Indue, and are not available for sale.

**Accrued Interest Receivable**
The net fair value of accrued interest receivables represents the carrying amount. This represents the interest that has accrued to date on deposits with financial institutions.

**Other Receivables**
The net fair value of other receivables represents the carrying amount. This mainly represented rent owed to the Co-operative from the investment properties.

## 24. Business combination

### Acquisition of Hoverla Ukrainian Credit Co-operative

On 1 May 2008, Dnister Ukrainian Credit Co-operative Limited acquired 100% of Hoverla Ukrainian Credit Co-operative Limited, an unlisted company specialising in serving the Australian Ukrainian community banking needs.

There was no payment made and the merge comprised an issue of shares. Dnister issued one $10 Dnister share to each Hoverla member in return for their five $2 Hoverla shares. Shares in neither company are tradable and are held as part of membership.

ASIC granted Hoverla Ukrainian Credit Co-operative Limited relief from compliance with Part 2M.3 of the Corporations Act. Therefore Hoverla is not required to prepare an annual report for the 2007/08 financial year.

The fair value of net identifiable assets has been accounted for through the creation of a business combination reserve in equity.

The fair value of the identifiable assets and liabilities of Hoverla Ukrainian Credit Co-operative Limited as at the date of acquisition were:

| | Recognised on Acquisition | Carrying value |
|---|---|---|
| | $'000 | $'000 |
| Property, Plant and Equipment | 1,402 | 1,402 |
| Deferred Tax Asset | - | - |
| Cash and cash equivalents | 3,777 | 3,777 |
| Cuscal Shares | 76 | 76 |
| Trade Receivables | 38 | 38 |
| Loans and Advances | 17,717 | 17,717 |
| | 23,010 | 23,010 |
| Trade Payables | 228 | 228 |
| Member Deposits | 20,040 | 20,040 |
| Provision for employee entitlements | 93 | 93 |
| Deferred tax liability | 314 | 314 |
| | 20,675 | 20,675 |
| Fair value of identifiable net assets | 2,335 | |
| The cash inflow on acquisition is as follows: | | |
| Net cash aquired with the subsidiary | 3,777 | |

## 25. Risk Management

### *25.1 Introduction*

Risk is inherent in the Co-operative's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Co-operative's continuing profitability and each individual within the Co-operative is accountable for the risk exposure relating to his or her responsibilities. The Co-operative is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

Risk management structure

The Board of directors is ultimately responsible for identifying and controlling risks; however there is an Audit and Risk Management Committee. This Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Internal audit

Risk management processes throughout the Co-operative are audited annually by the internal audit function, that examines both the adequacy of procedures and the Co-operative's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

### *25.2 Credit Risk*

Credit risk is the risk that the Co-operative will incur a loss because a counterparty failed to discharge their obligations. The Co-operative manages and controls risk by setting limits on the amount it is willing to accept for individuals and loan categories, and by monitoring exposures to such limits.

With respect to credit risk arising from financial assets of the Co-operative, the Co-operative's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Balance Sheet. Future movements in fair value would increase or reduce that exposure.

Credit ratings are those published by Standards and Poors'.

The guidelines for Negotiable Certificates of Deposits are set by APRA. APRA has approved a maximum of 70% of the capital base on large assets exposure to Suncorp, Bank of Queensland and Bendigo and Adelaide Bank. In addition, exposure to Cuscal is set at 500% of capital base for ADI's with total assets under $200 million. Exposures to other banks, credit unions and building societies are limited to the standard 50% of capital base.

The following tables show the credit quality by class of asset:

| | Total<br>2008<br>$'000 | AAA to A-<br>2008<br>$'000 | B+ to BBB+<br>2008<br>$'000 | Other*<br>2008<br>$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Financial Assets | | | | |
| Cash & balances with bank | 3,374 | 1,763 | 1,200 | 412 |
| Financial investments - held to maturity | 16,246 | 7,900 | 7,200 | 1,146 |
| Loans and advances to members | 75,104 | - | - | 75,104 |
| Other Investments | 163 | 75 | - | 88 |
| Accrued Interest receivable | 280 | 103 | 162 | 14 |
| Other receivables | 96 | - | - | 96 |
| Total | 95,263 | 9,841 | 8,562 | 2,335 |
| | | | | |
| Liabilities | | | | |
| Financial Liabilities | | | | |
| Member deposits | 87,874 | - | - | 87,874 |
| Total | 87,874 | - | - | 87,874 |

| | Total 2007 $'000 | AAA to A- 2007 $'000 | B+ to BBB+ 2007 $'000 | Other* 2007 $'000 |
|---|---|---|---|---|
| Assets | | | | |
| Financial Assets | | | | |
| Cash & balances with bank | 724 | - | - | 724 |
| Financial investments - held to maturity | 10,705 | 5,650 | 3,950 | 1,105 |
| Loans and advances to customers | 55,204 | - | - | 55,204 |
| Other Investments | 88 | - | - | 88 |
| Accrued Interest receivable | 309 | 168 | 75 | 66 |
| Other receivables | 16 | - | - | 16 |
| Total | 67,046 | 5,818 | 4,025 | 57,203 |

| | | | | |
|---|---|---|---|---|
| Liabilities | | | | |
| Financial Liabilities | | | | |
| Member deposits | 61,449 | - | - | 61,449 |
| Total | 61,449 | - | - | 61,449 |

*Other consists of assets or liabilities which do not yet have a rating. All interest bearing securities were issued by Australian entities

### 25.3 Contractual Maturities of Assets and liabilities

| 2008 | Less than 30 days | Less than 3 months | 3-12 months | Subtotal less than 12 months | 1-5 years | Over 5 years | Subtotal over 12 months | Total 2008 |
|---|---|---|---|---|---|---|---|---|
| Assets | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Financial assets | | | | | | | | |
| Cash & balances with bank | 3,374 | - | - | 3,374 | - | - | - | 3,374 |
| Financial investments - held to maturity | - | 11,546 | 4,701 | 16,247 | - | - | - | 16,247 |
| Loans and advances to members | - | 156 | 1,798 | 1,954 | 1,319 | 71,831 | 73,150 | 75,104 |
| Undrawn commitments & unused overdrafts | 4,191 | - | - | 4,191 | - | - | - | 4,191 |
| Other investments | - | - | - | - | - | 163 | 163 | 163 |
| Other assets | 15 | 199 | 184 | 399 | 15 | - | 15 | 413 |
| Total | 7,580 | 11,901 | 6,683 | 26,165 | 1,334 | 71,994 | 73,328 | 99,492 |
| Liabilities | | | | | | | | |
| Financial liabilities | | | | | | | | |
| Borrowings | - | - | - | - | - | - | - | - |
| Member Deposits | 31,830 | 31,999 | 23,492 | 87,320 | 553 | - | 553 | 87,874 |
| Non-Financial liabilities | | | | | | | | |
| Current tax liabilities | - | - | 263 | 263 | - | - | - | 263 |
| Other liabilities | - | 1,533 | 158 | 1,691 | 4 | - | 4 | 1,694 |
| Provisions | - | 23 | 132 | 155 | 60 | 32 | 92 | 247 |
| Total | 31,830 | 33,555 | 24,045 | 89,429 | 617 | 32 | 649 | 90,078 |

| 2007 | Less than 30 days | Less than 3 months | 3-12 months | Subtotal less than 12 months | 1-5 years | Over 5 years | Subtotal over 12 months | Total 2008 |
|---|---|---|---|---|---|---|---|---|
| Assets | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Financial assets | | | | | | | | |
| Cash & balances with bank | 724 | - | - | 724 | - | - | - | 724 |
| Financial investments - held to maturity | - | 4,105 | 6,600 | 10,705 | - | - | - | 10,705 |
| Loans and advances to members | - | 748 | 8,956 | 9,704 | 1,655 | 43,845 | 45,500 | 55,204 |
| Undrawn commitments & unused overdrafts | 1,527 | - | - | 1,527 | - | - | - | 1,527 |
| Other investments | - | - | - | - | - | 88 | 88 | 88 |
| Other assets | - | 275 | 26 | 301 | 66 | 8 | 74 | 375 |
| Total | 2,251 | 5,128 | 15,582 | 22,961 | 1,721 | 43,941 | 45,662 | 68,623 |
| Liabilities | | | | | | | | |
| Financial liabilities | | | | | | | | |
| Borrowings | - | - | - | - | - | - | - | - |
| Member Deposits | 26,368 | 16,348 | 18,313 | 61,029 | 422 | - | 422 | 61,451 |
| Non-Financial liabilities | | | | | | | | |
| Current tax liabilities | - | 5 | (5) | - | - | - | - | - |
| Other liabilities | - | 1,085 | 201 | 1,286 | 5 | - | 5 | 1,290 |
| Provisions | - | 19 | 106 | 125 | 22 | 12 | 33 | 158 |
| Total | 26,368 | 17,457 | 18,615 | 62,440 | 449 | 12 | 460 | 62,899 |

*25.4 Market risk*

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates. The Board has set limits on the level of market risk that may be accepted. Co-operative has no significant concentration of market risk.

| Interest Rate Risk | Floating Interest Rate | Fixed interest maturing in | | Non-interest bearing | Total carrying amount as per balance sheet |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| 2008<br>Financial Assets | 2008 | 1 year or less | +1 to 5 years | 2008 | 2008 |
| Cash & balances with bank | 3,136 | - | - | 238 | 3,374 |
| Financial Investments - held to maturity | - | 16,247 | - | - | 16,247 |
| Shares (Cuscal and Indue) | - | - | - | 163 | 163 |
| Other Receivables | - | - | - | 413 | 413 |
| Loans and advances to members | 75,104 | - | - | - | 75,104 |
| Financial Liabilities | | | | | |
| Member deposits | 31,830 | 55,491 | 553 | - | 87,874 |

| | Floating Interest Rate | Fixed interest maturing in | | Non-interest bearing | Total carrying amount as per balance sheet |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| 2007<br>Financial Assets | 2007 | 1 year or less | +1 to 5 years | 2007 | 2007 |
| Cash & balances with bank | 585 | - | - | 139 | 724 |
| Financial Investments - held to maturity | - | 10,705 | - | - | 10,705 |
| Shares (Cuscal and Indue) | - | - | - | 88 | 88 |
| Other Receivables | - | - | - | 375 | 375 |
| Loans and advances to members | 55,204 | - | - | - | 55,204 |
| Financial Liabilities | | | | | |
| Member deposits | 26,368 | 34,660 | 442 | - | 61,450 |

| Judgement of reasonably possible movements | | Post Tax Profit Higher / (Lower) | |
|---|---|---|---|
| 2008 | 2007 | 2008 | 2007 |
| | | .$000 | .$000 |
| .+0.0%(0 Basis Points) | +1.0% (100 Basis Points) | - | (294) |
| .-1.0% (100 Basis Points) | -0.25% (25 Basis Points) | (464) | (74) |

The movements in profit are due to higher/lower net interest earned as a result of maturity variances between loans and deposits. The sensitivity is higher in 2008 than in 2007 because of the greater loans and deposit portfolios as a result of the merger with Hoverla.

| Judgement of reasonably possible movements | | Equity Higher / (Lower) | |
|---|---|---|---|
| 2008 | 2007 | 2008 | 2007 |
| | | .$000 | .$000 |
| .+0.0%(0 Basis Points) | +1.0% (100 Basis Points) | - | (294) |
| .-1.0% (100 Basis Points) | -0.25% (25 Basis Points) | (464) | (74) |

The movements in equity are due to the net interest earned after tax as a result of maturity variances between loans and deposits. The sensitivity is higher in 2008 than in 2007 because of the greater loans and deposit portfolios as a result of the merger with Hoverla.

For 2007 the likelihood was for several rate increases for the year ahead, therefore a 1.0% increase was used for the analysis, while the chance for a rate decrease was minimal, therefore only a 0.25% rate was used. As the chance of a rate increase in the year ahead is unlikely 0% has been used. The chance of a decrease is more likely and the possibility of a 1.0% decrease has been used for 2008.

The above interest rate risk sensitvity is unpresentative of the risks inherent in the financial assets and financial liabilities due to the year-end exposure during the year, as the sensitivity analysis does not reflect the maturing of fixed interest financial assets and financial liabilities within the next 12 months.

*25.5 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 Co-operative cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Co-operative is able to manage risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment of processes, including the use of internal audit.

## 26. Capital

The Co-operative maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Co-operative's capital is monitored using, among other measures, the rules and ratios established by the Australian Prudential Regulatory Authority (APRA). The minimum capital ratio as required by APRA is 8%. The Board minimum capital ratio is 12%. Should capital fall to 14% a 3 year forecast is done to ensure that the capital is monitored closely and starts to trend upwards. The Capital Ratio is reported to the Board at the monthly Board Meetings and more frequently during periods of volatility or when the the capital ratio falls below 14%. During the past the year, the Co-operative has complied in full with all its internally and externally imposed capital requirements.

The capital ratio is derived by dividing the capital base by the risk weighted assets. The Co-operative adheres to the regulations set down by APRA in regard to which capital items can or cannot be included and also the different risk weightings put on the various assets. These risk weightings are set by APRA and are based on the risk associated with each different asset class.

Capital Management

The primary objectives of the Co-operative's capital management are to ensure the Co-operative complies with internally and externally imposed capital requirements and that the Co-operative maintains strong credit and healthy capital ratios in order to support its business and maximize member value.

Regulatory Capital

| | 2007 $'000 | 2008 $'000 |
|---|---|---|
| Capital base | 11,711 | 10,692 |
| Risk weighted assets | 60,675 | 49,696 |
| | % | % |
| Total capital ratio | 19.3 | 21.5 |

27. Related Party Disclosures

| <u>Compensation of key management personnel of the Co-operative</u> | 2008<br>$'000 | 2007<br>$'000 |
|---|---|---|
| Short-term employment benefits | 183 | 174 |
| Post employment | - | 11 |
| Termination payments | 13 | - |
| Total | 196 | 185 |
| Aggregate remuneration of directors included in the figure above | 42 | 26 |

<u>Transactions with key management personnel of the Co-operative</u>

The Co-operative enters into transactions, arrangements and agreements involving directors and the General Manager in the ordinary course of business.

The Co-operative entered into a three year employment contract with a new General Manager that commenced on the 14th April 2008. Under the terms of the contract:

Mr. Berketa after 6 months service may resign from his position and terminate the position by giving 3 months notice.

The Co-operative may terminate the contract at any time without notice if serious misconduct has occurred.

The following table provides the aggregate value of loans to the general manager, directors, spouses and related entities:

| | 2008<br>$'000 | 2007<br>$'000 |
|---|---|---|
| Related party loans | 1,473 | 1,056 |
| Total | 1,473 | 1,056 |
| Interest received on loans to key management personnel | 98 | 22 |

All loans disbursed are approved on the same terms and conditions applied to members generally for each class of their loan. All other transactions between the Key management personnel and the Co-operative were conducted on normal commercial terms and there has been no breach of these terms.

28. Superannuation commitments

The Co-operative contributes to a number of superannuation plans chosen individually by its employees. Members' benefits are fully vested with that member and will be paid out upon termination of employment as preserved or non-preserved benefits spending on the contribution basis. The obligation for the Co-operative is limited to that under the Superannuation Guarantee legislation which for the 2007-08 financial year was 9% of gross income and the total amounted to $89,000 for 2008 (2007: $83,000).

## 29. Contingent liabilities and commitments

To meet the financial needs of Members, the Co-operative does enter into irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Co-operative. The maximum amount of credit exposure risk for guarantees for 2008 of $11,000 (2007: $81,000) is deemed insignificant.

Total outstanding commitments and contingent liabilities are as follows:

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Contingent liabilities | | |
| Financial guarantees | 11 | 81 |
| | 11 | 81 |
| Commitments | | |
| Undrawn commitments to lend | 2,703 | 175 |
| Unused overdraft facilities of members | 1,488 | 1,352 |
| | 4,191 | 1,527 |
| Total | 4,202 | 1,608 |

Contingent liabilities

Letters of credit and guarantees commit the Co-operative to make payments on behalf of Members in the event of a specific act. Guarantees and standby letters of credit carry the same risk as loans.

Undrawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards.

Legal claims

The Co-operative had no unresolved legal claims as at 30 June 2008 (There were also none as at 30 June 2007).

Economic dependency

The Co-operative has service contracts with, and is economically dependent upon the following suppliers:

(a) Indue

This entity supplies the Co-operative with services in the form of settlement with bankers for ATM transactions, member cheques and the provision for direct entry services and the production of debit cards for use by members.

(b) First Data International

This company operates the computer switch used to process transactions from the use of Co-operative's debit cards through approved ATM and EFTPOS networks.

(c) DataAction

This company provides and maintains application software currently utilised by the Co-operative. DataAction is a major supplier of software to credit unions throughout Australia.

(d) The System Works

This company provides the Co-operative's internet banking platform. They complete backups and control monitoring procedures.

## 30. Remuneration of external auditors

During the years the auditors of the Co-operative earned the following remuneration:

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Audit of the Co-operative | 70 | 40 |
| Taxation Services | 20 | 7 |
| | 90 | 47 |

## 31. Subsequent events

There were no subsequent events to be brought to the attention of members for the financial year ended 30 June 2008.

# our mission

Financial Advantage, Prosperity
and Wealth . . .

for Members and the Ukrainian
Community in Australia.

# corporate directory

| | |
|---|---|
| Established | Dnister was incorporated in Victoria under the Co-operative Act on the 21st September 1959 |
| Registered Office | 912 Mt Alexander Road, Essendon VIC 3040 Tel (03) 9375 1222 Fax (03) 9370 5361 |
| Branches | Hoverla, 62 Orsmond St, Hindmarsh SA 5007 Tel (08) 8346 6174 Fax (08) 8346 2262 |
| | 3/29-35 Milton Street, Bell Park VIC 3215 Tel (03) 5278 5950 Fax (03) 5277 9108 |
| | 20 Ferguson Street, Maylands WA 6051 Tel/Fax (03) 9271 5984 |
| External Auditors | Ernst & Young, 8 Exhibition Street, Melbourne VIC 3000 |
| Internal Auditors | WHK Day Neilson 200 Malop Street, Geelong VIC 3220 |
| Solicitors | DKL Lawyers Suite 5 Ground Floor 912 Mt Alexander Road Essendon VIC 3040 |
| | S. Tomyn & Co. 5th Floor 414 Lonsdale Street, Melbourne VIC 3000 |
| Legal Corporate Advisor | Mahonys Lawyers, 400 Collins Street, Melbourne VIC 3000 |
| Bankers | Credit Union Settlement Services Limited, 6 Moorak Street Taringa QLD 4068 |
| | Westpac Banking Corporation, 260 Queen Street, Brisbane QLD 4000 |
| Insurers | CUNA Mutual Group. Level 9 345 George Street, Sydney NSW 2000 |

DNISTER
Ukrainian Credit Co-operative

HEAD OFFICE
912 Mt Alexander Road,
Essendon VIC 3040
Australia
P (03) 9375 1222
F (03) 9370 5361
www.dnister.com.au
info@dnister.com.au

ABN 59 087 651 394   AFSL 240673