

Sydney Credit Union 2006 Annual Report



Directory

BOARD OF DIRECTORS

Chairman	Mr B Nevin
Deputy Chairman	Mrs V J Duncan
Directors	Mr J N Allen
	Ms P Arthur
	Mrs M C Bickley
	Mr G Brooks
	Mr W E Day
	Mr A Lee
	Mr P Macklin
	Mr G Mehrtens
	Mr M Sawyer
	Mr R W Thorn

ADMINISTRATION – HEAD OFFICE

Chief Executive Officer	Mr A Jennings
Deputy Chief Executive Officer	Mr G Marsden
Member & Staff Relations Manager	Mrs J Vella
Retail Services Manager	Mrs A Hanly
Corporate Services & Insurance Manager	Mr B Bennett
Financial Controller	Mr D Callow
Financial Services Manager	Miss P Stanton
Loans Manager	Mr I Carratt
Collections Manager	Mr K Bateman
Marketing Manager	Mr A Milbank
Audit & Risk Manager	Mr P Tough
IT Manager	Mr D Crow

PARKES DISTRICT CREDIT UNION

Manager	Mrs R Kelly
---------	-------------

CU FINANCIAL ADVISORY SERVICES PTY LTD

Manager	Mrs S Tspidis
Planners	Miss P Stanton
	Mr D Lee
	Mr A Das

BANKERS

Cuscal Limited Centralised Banking Scheme with the National Australia Bank.

SOLICITORS

Langes Lawyers

AUDITORS

BDO Kendalls Chartered Accountants

Administration

Sydney Level 7, 447 Kent Street NSW 2000

Phone: (02) 9287 1000 Fax: (02) 9267 9139

www.sydneycu.com.au

Blacktown 19 Second Avenue NSW 2148

Phone: 13 61 91 (02) 9678 2111 (outside NSW) Fax (02) 9678 2181

www.sydneycu.com.au

Offices

Bass Hill Shop 14 Bass Hill Plaza

(Mon–Wed & Fri 9am – 4.30pm, Thur 9am – 5pm)

Baulkham Hills Shop 36, Stockland Mall Olive Street

(Mon–Fri 9am – 5pm, Sat 9am – 11.30am)

Bondi Junction 35 Spring Street

(Mon–Fri 9am – 4.30pm, Sat 9am – 12pm)

Campbelltown

Shop U012, Macarthur Square Gilchrist Drive, Ambervale

(Mon–Fri 9am – 5pm, Sat 9am – 11.30am)

Fairfield 111 Ware Street

(Mon–Fri 9am – 5pm, Sat 9am – 11.30am)

Greenacre 138 Waterloo Road

(Mon–Wed & Fri 9am – 4.30pm, Thur 9am – 5pm)

Leichhardt 7–15 Wetherill Street

(Mon–Fri 9am – 4pm, Sat 9am – 12pm)

Marrickville 296 Marrickville Road

(Mon–Fri 9am – 4.30pm, Sat 9am – 12pm)

Mascot 1197 Botany Road

(Mon–Fri 9am – 4.30pm, Sat 9am – 12pm)

Parkes 189 Clarinda Street

(Mon–Fri 9am – 5pm)

Parramatta Horwood Place (between George & Phillip Streets)

(Mon–Fri 9am – 5pm)

Penrith 23 Riley Street

(Mon–Fri 9am – 5pm, Sat 9am – 11.30am)

Punchbowl 234 The Boulevard

(Mon–Wed & Fri 9am – 4.30pm, Thur 9am – 5pm)

Rockdale 438 Princes Highway

(Mon–Fri 9am – 4.30pm, Sat 9am – 12pm)

St. George Hospital, Cafeteria, Belgrave Street Kogarah

(Mon–Fri 9am – 4pm)

Sydney City 210 Clarence Street

(Mon–Thur 9am – 4.30pm, Fri 9am – 5pm)

Windsor Shop 7-8, 251 George Street

(Mon–Fri 9am – 5pm, Sat 9am – 11.30am)

Chairman's Report



The Credit Union, I am pleased to report on for the year ended 30th June 2006 is vastly different to the one that existed 12 months ago.

The Board of Sydney Credit Union is now made up of former directors of Sydney, Prospect and Pinnacle Credit Union.

I am delighted to advise that although the composition of the Board has changed, we are as one in our desire to ensure our members receive the best of financial services and products.

The amalgamations of Sydney, Prospect and Pinnacle Credit Unions have increased our size both in membership and assets. Members increased from 26,631 to 49,592 and assets from \$179m to \$364m.

The changes were not without difficulty for the CEO and his Management team. There were some hiccups and we are sorry if they inconvenienced you. Management worked hard to iron out the problems and we believe they did an excellent job.

The amalgamations were not just about increasing size. There will be benefits of scale, increased access to larger markets, risk diversification and great access to branches for members. All these things will contribute to a positive financial result.

The ethos of the amalgamated of Sydney Credit Union is about doing what is best for our members. We believe amalgamations carried out with proper care and consideration will benefit our member. We are certainly working towards that goal.

The financial results for the year were of course, substantially influenced by the amalgamation. However as a matter of record they were:

- Operating profit before tax increased from \$841,675 to \$1,682,729
- Members' equity increased from \$18.9m to \$38.4m
- Total assets increased from \$179m to \$364m

My fellow Directors, the Chief Executive Officer, the Management team and our Staff continue to work hard for the benefit of members. They all deserve thanks.

We should all remember the members own Sydney Credit Union. Your support and loyalty will ensure Sydney Credit Union's future

A handwritten signature in black ink that reads "Brian Nevin". The signature is written in a cursive, flowing style.

Brian Nevin
Chairman

Chief Executive Officer's Report



It is my privilege to present to you, our Members, the 43rd Annual Report of Sydney Credit Union Limited.

The year 2005 / 2006 was a watershed year for the credit union as we embarked on a series of amalgamations that doubled the size of the credit union.

In October, 2005 Pinnacle Credit Union transferred their business to Sydney Credit Union. Their members have embraced the opportunity to access a broader range of products and services whilst existing Sydney Credit Union members now enjoy access to Sydney's inner west with branches in Greenacre, Punchbowl and Bass Hill. We welcomed Mark Sawyer and Petroula Arthur to the Board and their insight into the local community is a valuable quality acquired from the transfer.

In December, 2005 Prospect Credit Union transferred their business to Sydney Credit Union. An immediate advantage in merging Sydney and Prospect is the breadth of Sydney which we now cover, opening up Western and South Western Sydney to Sydney Credit Union members, whilst Prospect members now enjoy branches in Eastern and South Eastern Sydney and the CBD. This significant transaction means two culturally aligned organisations merged to form a larger and more diverse credit union laying a firm foundation for the future of the credit union.

I would like to register my sincere appreciation to retiring Sydney Credit Union Directors Jack Coyne, David Lawler, John Clarke, Noeline Ellison and Michael Uzunovski and Directors Michael Wowk, Barry McDowell, Grahame Lambkin and Ted Dobson from Prospect Credit Union. Their long term dedication and boundless energy is contributable to the success we all share today.

I must acknowledge the efforts of staff to amalgamate three credit union cultures, data, procedures, products and services. The work was significant and is testament to their desire to improve the Credit Union. The effort by staff to ensure members had minimal disruption to services during the transitional period was outstanding.

The foundation we have set and opportunities this presents is based on performance, governance, structure and forward thinking. Strategically the Board and Management are focusing on new customers and options are being sought to grow the credit union's membership, assets and revenue whilst retaining the unique philosophy that a member owned organisation like Sydney Credit Union offers.

Within the Directors and Management teams there is an energy ignited by the merger of four credit unions over an 18 month period. The credit union has the resources and desire to succeed in its endeavour to become the largest Sydney centric Credit Union servicing the community.

I am also pleased to report that Parkes District Credit Union continues to grow on its outstanding success of last year. The Manager, Robyn Kelly and her team are working closely with the local community and this is resulting in a fantastic partnership as members continue to support their credit union. The products and services that we develop are shared by all members, realising the value of this wonderful partnership.

Across the year we have continued to see significant legislative changes involving supervision, compliance and reporting requirements and the re-drafting of policies and procedures to meet these changes. The credit union is resilient in its desire to work with our regulators to adopt the legislative changes that ensure we remain at the forefront in protecting members' financial interests.

I would like to offer my sincere thanks to the Prospect Credit Union Chief Executive Officer, Terry Fitzgerald for his inspired leadership and vision. Terry's efforts in bringing both Prospect and Sydney Credit Union together was significant and I am fortunate that Terry continues to assist the Board and his significant support is an asset the credit union values.

Earlier in the report, I congratulated our wonderful staff who work at our Branches, in our Contact Centre and at our Administrative offices on their great achievements for our members during the year. Without this very dedicated and hard working team, we simply could not give our members the confidence of knowing that their financial solutions are provided in such a friendly and professional manner.

The next 12 months offers many opportunities as we reach out to capture new business and seek options to expand the credit union over our broader network. This is one of the major advantages of the recent amalgamations, we all look forward to the challenges ahead.



Ashley Jennings
Chief Executive Officer

Directors' Report

Your Directors present their report on the Credit Union for the financial year ended 30 June 2006.

The Credit Union is a company registered under the Corporations Act 2001.

INFORMATION ON DIRECTORS

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

Mr B Nevin (Chair)	Mr D Lawler, OAM	Ms P Arthur
Mrs V J Duncan (Deputy Chair)	Mr J Clarke	Mr J N Allen
Mr G Brooks	Mr G Mehrtens	Mr W E Day
Mr A Lee	Mrs N Ellison	Mrs M C Bickley
Mr J Coyne	Mr M Uzunovski	Mr R W Thorn
Mr P Macklin	Mr M Sawyer	

Mr B Nevin	- Chair
Qualifications	- Certified Practising Accountant - Justice of the Peace
Experience	- Appointed Chair 1997 - Deputy Chair 1986 - 1997 - Board member 1972 - Current - Audit & Compliance Committee 1993 - 2005 - Risk Management Committee 2005 - Current
Interest in Shares	- 1 Share in the Credit Union
Mr G Brooks	- Director
Qualifications	- Certified Practising Accountant
Experience	- Deputy Chair 1997 - 2005 - Board member 1976 - Current - Audit & Compliance Committee 1993 - Current
Interest in Shares	- 1 Share in the Credit Union
Mr A Lee	- Director
Qualifications	- None
Experience	- Deputy Chair 1997 - 2005 - Board member 1979 - Current - Industrial Relations Committee 1997 - 2004 - Audit & Compliance Committee 2004 - Current
Interest in Shares	- 1 Share in the Credit Union
Mr J Coyne	- Director (Resigned 30 November, 2005)
Qualifications	- None
Experience	- Chair 1985 - 1997 - Deputy Chair 1966 - 1985 - Board member 1966 - 2005 - Audit & Compliance Committee 1993 - 2005
Interest in Shares	- 1 Share in the Credit Union
Mr D Lawler OAM	- Director (Resigned 30 November, 2005)
Qualifications	- Justice of the Peace
Experience	- Deputy Chair 1973 - 1997 - Board member from 1970 - 2003 & 2004 - 2005 - Member Relations Committee 1997 - 2003
Interest in Shares	- 1 Share in the Credit Union

Mr J Clarke	- Director (Resigned 30 November, 2005)
Qualifications	- Justice of the Peace
Experience	- Board member 1980 - 2005 - Member Relations Committee 1997 - 2004 - Corporate Governance Committee 2004 - 2005
Interest in Shares	- 1 Share in the Credit Union
Mr M Uzunovski	- Director (Resigned 30 November, 2005)
Qualifications	- Bachelor of Commerce - Certified Practising Accountant
Experience	- Board member 1999 - 2005 - Member Relations Committee 1999 - 2004 - Executive Committee 2004 - 2005
Interest in Shares	- 1 Share in the Credit Union
Mrs N Ellison	- Director (Resigned 30 November, 2005)
Qualifications	- Justice of the Peace - Member of Australian Institute of Management - Management Certificate
Experience	- Board member 1999 - 2005 - Audit & Compliance Committee 1999 - 2004 - Corporate Governance Committee 2004 - 2005
Interest in Shares	- 1 Share in the Credit Union
Mr G Mehrtens	- Director
Qualifications	- Certificate in Co-Operative Management
Experience	- Board member 2000 - Current - Alternate Director 1998 - 2000 - Member Relations Committee 1998 - 2004 - Corporate Governance Committee 2004 - Current
Interest in Shares	- 1 Share in the Credit Union
Mr P Macklin	- Director
Qualifications	- Associate Diploma in Human Resources Management
Experience	- Alternate Director 2000 - 2005 - Member of Industrial Relations Committee 2000 - 2004 - Corporate Governance Committee 2005 - Current
Interest in Shares	- 1 Share in the Credit Union
Mrs V J Duncan	- Deputy Chair (Appointed 1 December, 2005)
Qualifications	- Bachelor of Business - Master of Business (General Administration) - Certified Practising Accountant - Fellow of the Australian Institute of Company Secretaries - Member of the Institute of Company Directors
Experience	- Director, December 2005 - Current - Deputy Chair, December 2005 - Current - Chair, Risk Management Committee December 2005 - Current - Executive Committee, December 2005 - Current - Director, Prospect Credit Union 2000 - 2006 - Chair, Prospect Credit Union 2003 - 2006
Interest in Shares	- 1 Share in the Credit Union

Mr J N Allen	- Director (Appointed 1 December, 2005)	- Diploma in Therapeutic Massage
Qualifications	- Bachelor of Electrical Engineering	- Member of the Australian Traditional Medicine Society
	- Diploma of Management	- NSW Work Cover Accredited Practitioner
	- Fellow of the Engineers Australia	Experience
Experience	- Director, December 2005 - Current	- Director, October 2005 - Current
	- Risk Management Committee, December 2005	- Audit & Compliance Committee December 2005 - Current
	- Director, Prospect Credit Union 2004 - 2006	- Director, Pinnacle Credit Union 2003 - 2005
Interest in Shares	- 1 Share in the Credit Union	- Former Director of Licensed / Registered Club
		- Former Representative for Total Quality Management
Mrs M C Bickley	- Director (Appointed 1 December, 2005)	Interest in Shares
Qualifications	- Bachelor of Arts	- 1 Share in the Credit Union
	- Master of Commerce (Work Place Relations)	
Experience	- Director, December 2005 - Current	Ms P Arthur
	- Chair, Corporate Governance Committee, December 2005 - Current	Qualifications
	- Director, Prospect Credit Union 1996 - 2006	- Director (Appointed 1 October, 2005)
Interest in Shares	- 1 Share in the Credit Union	- President, Greenacre Chamber of Commerce 1997 - 2004
		- Member of the Bankstown Frail Aged Trust Ltd - Current
Mr W E Day	- Director (Appointed 1 December, 2005)	- Former Vice President, Lions Club
Qualifications	- Commerce Certificate (Sydney TAFE)	- Management TAFE accredited 2003
	- Bachelor of Economics (Economics and Political Science)	- Currently finalising Advanced Diploma, Stage III, Cooking TAFE Accredited
	- Masters in Business Administration	- Member of the Australasian Credit Union Institute
	- Member of the Australian Institute of Company Directors	Experience
Experience	- Director, December 2005 - Current	- Director, October 2005 - Current
	- Corporate Governance Committee, December 2005 - Current	- Corporate Governance Committee 2005 - Current
	- Executive Committee, December 2005 - Current	Interest in Shares
	- Director, Prospect Credit Union 1984 - 1994, and 2004 - 2006	- 1 Share in the Credit Union
	- Chair, Prospect Credit Union 1989 - 1994	
	- Director of Western Sydney Business Connection	The name of the Company Secretary in office at the end of the year is:-
	- Chair, Sydney West Marketing	Mr A J Jennings
	- CEO and Director, Champion Legal	Qualifications
Interest in Shares	- 1 Share in the Credit Union	- Chief Executive Officer and Company Secretary
		- Advanced Diploma in Accounting
Mr R Thorn	- Director (Appointed 1 December, 2005)	- Certificate III Course in Investment and Personal Financial Planning
Qualifications	- Bachelor of Business	- Justice of the Peace
	- Certificate in Electrical Engineering	Experience
Experience	- Director, December 2005 - Current	- 27 years in the Banking Industry
	- Audit & Compliance Committee December 2005 - Current	- Sydney Credit Union CEO and Company Secretary 1998 - Current
	- Director, Prospect Credit Union 2001 - 2006	Other Directorships
Interest in Shares	- 1 Share in the Credit Union	- CU Financial Advisory Services Pty Ltd
		- Transaction Solutions Pty Ltd
Mr M Sawyer	- Director (Appointed 1 October, 2005)	- Australian Institute of Credit Union Management
Qualifications	- Previously Director of a Licensed Club	- Credit Union Foundation Australia
	- Member of the Australian Institute of Management	- BACS Ltd
	- Member of the Australasian Credit Union Institute	- Shared Services Pty Ltd
	- Electrical Trades Certificate (TAFE)	Interest
	- Supervision Certificate (TAFE) majoring in Human Relations and Industrial Supervision	- 1 Share in the Credit Union

DIRECTORS' MEETING ATTENDANCE

H = Held A = Attended

Director	Board		Executive		Audit & Compliance		Risk Management		Corporate Governance		Period of Appointment
	H	A	H	A	H	A	H	A	H	A	
Mr Brian Nevin	8	7	6	6	3	3	2	2			1/7/05 to 30/6/06
Mr Garry Brooks	8	8	6	4	7	7					1/7/05 to 30/6/06
Mr Allan Lee	8	8	3	3	7	7					1/7/05 to 30/6/06
Mr John Coyne	3	3			3	3					1/7/05 to 30/11/05
Mr David Lawler OAM	3	3									1/7/05 to 30/11/05
Mr John Clarke	3	2							2	1	1/7/05 to 30/11/05
Mr Grahame Mehrrens	8	6							4	4	1/7/05 to 30/6/06
Mrs Noeline Ellison	3	3							2	2	1/7/05 to 30/11/05
Mr Michael Uzunovski	3	2									1/7/05 to 30/11/05
Mr Peter Macklin	8	6							2	1	1/7/05 to 30/6/06
Mr Mark Sawyer	7	6			4	4					1/10/05 to 30/6/06
Ms Petroula Arthur	7	6							2	1	1/10/05 to 30/6/06
Mrs Valerie Duncan	5	4	3	3			2	2			1/12/05 to 30/6/06
Mr Jeff Allen	5	4					2	2			1/12/05 to 30/6/06
Mr Warren Day	5	5	3	3					2	2	1/12/05 to 30/6/06
Mrs Christine Bickley	5	4							2	2	1/12/05 to 30/6/06
Mr Ray Thorn	5	5			4	4					1/12/05 to 30/6/06

DIRECTORS' BENEFITS

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 28 of the financial report.

INDEMNIFYING OFFICER OR AUDITOR

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

No insurance cover has been provided for the benefit of the Auditors of the Credit Union.

FINANCIAL PERFORMANCE DISCLOSURES

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

The net profit of the Credit Union for the year after providing for income tax and extraordinary items was \$17,692,981 [2005 \$1,133,196]. The result for the year was significantly impacted by the transfers of engagements received from Pinnacle Credit Union Limited and Prospect Credit Union Limited, which added \$16,831,487 to the result. The result excluding the impact of these transfers was a profit after income tax of \$861,494.

DIVIDENDS

No dividends have been paid or declared since the end of the financial year, and no dividends have been recommended or provided for by the Directors of the Credit Union, from the profits earned during the year ended 30 June 2006.

REVIEW OF OPERATIONS

The results of the Credit Union's operations from its activities of providing financial services to its members did not change significantly from those of the previous year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Credit Union merged with Pinnacle Credit Union Ltd effective the close of business on 30 September, 2005.

The Credit Union merged with Prospect Credit Union Ltd effective the close of business on 30 November, 2005.

The Credit Union issued 20,000 redeemable preference shares with a face value of \$100 each to Australian Mutual T1 Capital Funding Trust. The shares may be redeemable after June 2016. This was approved at the members meeting held on 28 March 2006.

The Credit Union entered into an agreement to issue \$2,000,000 of subordinated debt in the year, which was approved at the members meeting held on 28 March 2006.

Apart from these, there were no other significant changes in the state of affairs of the Credit Union during the year.

EVENTS OCCURRING AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND RESULTS

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

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

in the financial years subsequent to this financial year.

Auditors' Independence

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

I, Neville Sinclair, a partner of BDO Kendalls declare that there have been;

- (i) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit, and
- (ii) no contraventions of any applicable code of professional conduct F1 issued by the Institute of Chartered Accountants in Australia, in relation to the audit.

Signed **Neville Sinclair**
Partner BDO Kendalls

Signed and dated this 10th day of October 2006.

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

B Nevin
Chairman

V J Duncan
Deputy Chairman

Signed and dated this 10th day of October 2006.

Independent Audit Report

To the Members of Sydney Credit Union Ltd

SCOPE

The financial report comprises the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, accompanying notes to the financial statements, and the Directors' Declaration for Sydney Credit Union Ltd, for the year ended 30 June 2006.

The Directors of the Credit Union are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

We have conducted an independent audit in order to express an opinion to the Members of the Credit Union. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Credit Union's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. The declaration set out in the Directors' Report would be in the same terms if it had been given to the relevant Directors at the time that this audit report was made.

AUDIT OPINION

In our opinion, the financial report of Sydney Credit Union Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

Dated this 11th day of October 2006

BDO KENDALLS
Chartered Accountants

Neville Sinclair
(Partner)
2 Market Street
Sydney NSW 2000

Directors' Declaration

The Directors of Sydney Credit Union Ltd declare that:-

The financial statements comprising Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, accompanying notes and notes related thereto, are in accordance with the Corporations Act 2001, and:-

- (a) comply with Accounting Standards and the Corporations Act 2001; and
- (b) give a true and fair view of the financial position of the Credit Union as at 30 June 2006 and performance for the year ended on that date.

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

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

B Nevin
Chairman

V J Duncan
Deputy Chairman

Dated this 10th day of October 2006.

Income Statement

For the year ended 30 June 2006

	Note	2006	2005
		\$	\$
Interest revenue	2.a	20,509,070	11,508,364
Interest expense	2.c	8,538,843	4,665,470
Net Interest income		11,970,227	6,842,894
Other Income	2.b	4,131,768	2,565,613
Sub Total		16,101,995	9,408,507
Less			
Non Interest Expenses			
Impairment Losses on loans and advances	2.d	708,834	180,228
Fee and Commission expenses		3,650,326	2,327,947
		4,359,160	2,508,175
General Administration			
– Employees costs		5,588,065	3,412,774
– Depreciation and Amortisation	2.e	626,402	334,086
– Information technology		569,232	359,084
– Office Occupancy		1,400,578	719,443
– Other administration		1,424,756	882,319
Total General Administration		9,609,033	5,707,706
Other Operating Expenses		451,073	350,951
Total Non Interest Expenses		14,419,266	8,566,832
Profit before Income Tax		1,682,729	841,675
Income Tax Expense	3	821,235	249,712
Profit after Income Tax		861,494	591,963
Other increases in Members equity			
Non-operating Income Received on Transfers of Engagement			
– Parkes District Credit Union Limited		-	541,233
– Pinnacle Credit Union Limited		3,184,851	-
– Prospect Credit Union Limited		13,646,636	-
		16,831,487	541,233
Total increase in Members equity		17,692,981	1,133,196

Statement of Changes in Member Equity

For the year ended 30 June 2006

	General Reserve	Asset Revaluation Reserve	Reserve for Credit Losses	Capital Reserve Account	Retained Profits	Total
	\$	\$	\$	\$	\$	\$
Total at 1 July 2004	3,870,619	503,597	839,686	81,128	12,371,114	17,666,144
Movement in Value on available for sale assets	-	-	-	-	-	-
Sub total	3,870,619	503,597	839,686	81,128	12,371,114	17,666,144
Income and expense recognised directly in equity	-	-	-	-	-	-
Profit for the year	-	-	-	-	591,963	591,963
Total income and expense for year	-	-	-	-	591,963	591,963
Increase from Transferred Credit Union	99,000	85,890	-	9,310	541,233	735,433
Transfers to (from) Reserves	-	-	78,772	13,062	<91,834>	-
Total at 30 June 2005	3,969,619	589,487	918,458	103,500	13,412,476	18,993,540

	General Reserve	Asset Revaluation Reserve	Reserve for Credit Losses	Capital Reserve Account	Retained Profits	Total
	\$	\$	\$	\$	\$	\$
Total at 1 July 2005	3,969,619	589,487	918,458	103,500	13,412,476	18,993,540
Movement in Value on available for sale assets	-	-	-	-	-	-
Sub total	3,969,619	589,487	918,458	103,500	13,412,476	18,993,540
Profit for the year	-	-	-	-	861,494	861,494
Receipts from Transfer of Engagement	-	-	-	-	16,831,487	16,831,487
Transfers to (from) Reserves	1,293,748	425,574	751,946	274,506	<2,745,774>	-
Total at 30 June 2006	5,263,367	1,015,061	1,670,404	378,006	28,359,683	36,686,521

The above statement reports the changes in equity under AIFRS only. For details on variances from previous year's reported results and account balances due to AIFRS changes – refer to note 35.

Balance Sheet

as at 30 June 2006

	Note	2006	2005
		\$	\$
ASSETS			
Cash	4	12,186,966	11,355,701
Advances to other financial institutions	5	75,230,692	36,183,560
Receivables	6	2,546,510	897,915
Loans and advances	7 & 8	262,648,199	126,841,408
Other Investments	9	2,431,331	1,452,809
Property, Plant and Equipment	10	8,030,484	1,796,522
Taxation Assets	11	1,441,633	1,012,172
TOTAL ASSETS		<u>364,515,815</u>	<u>179,540,087</u>
LIABILITIES			
Borrowings	12	-	-
Deposits from Members	13	314,891,909	156,148,687
Payables	14	5,521,279	2,338,964
Taxation liabilities	15	737,964	167,162
Provisions	16	2,991,702	1,891,734
Subordinated Debt	17	1,933,200	-
TOTAL LIABILITIES		<u>326,076,054</u>	<u>160,546,547</u>
NET ASSETS		<u>38,439,761</u>	<u>18,993,540</u>
MEMBERS EQUITY			
Preference Share Capital	18	1,753,240	-
Capital	19	378,006	103,500
Reserves	20	6,278,428	4,559,106
Reserve for Credit Losses	21	1,670,404	918,458
Retained profits	22	28,359,683	13,412,476
TOTAL MEMBERS EQUITY		<u>38,439,761</u>	<u>18,993,540</u>

Cash Flow Statement

for the year ended 30 June 2006

	Note	2006	2005
		\$	\$
OPERATING ACTIVITIES			
Inflows (Outflows)			
Interest received		20,447,112	11,517,957
Fees and commissions		2,996,988	2,328,301
Dividends		119,513	65,114
Other income		254,660	123,757
Interest paid		<8,338,103>	<4,665,470>
Suppliers and employees		<13,378,800>	<7,799,739>
Income taxes paid		<707,752>	<20,408>
Net Cash from Operating Activities	34.c	1,393,618	1,549,512
OTHER OPERATING ACTIVITIES			
Inflows (Outflows)			
Advances to other financial institutions (net movement)		-	-
Decrease in member loans (net movement)		<4,970,601>	<13,619,089>
Increase in member deposits and shares (net movement)		<3,124,249>	14,262,285
Decrease in receivables from other financial institutions (net movement)		<6,347,133>	3,420,076
Net Cash from Other Operating Activities		<14,441,983>	4,063,272
INVESTING ACTIVITIES			
Inflows (Outflows)			
Proceeds on sale of investment in shares		425,569	283,021
Proceeds on sale of property, plant and equipment		39,351	27,168
Net cash received on transfer of engagement		10,239,300	187,560
Purchase of property plant and equipment		<511,030>	<160,864>
Net Cash from Investing Activities		10,193,190	336,885
FINANCING ACTIVITIES			
Inflows (Outflows)			
Issue of preference share capital		1,753,240	-
Proceeds of Subordinated debt issued		1,933,200	-
Net Cash from Financing Activities		3,686,440	-
Total Net Cash increase/ (decrease)		831,265	5,949,669
Cash at Beginning of Year		11,355,701	5,406,032
Cash at End of Year	34.a	12,186,966	11,355,701

Notes to the Financial Statements

for the year ended 30 June 2005

1. Statement of Accounting Policies

This financial report is prepared for Sydney Credit Union Limited as a single entity, for the year ended the 30th June 2006. The report was authorised for issue on 10th October, 2006 in accordance with a resolution of the board of directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

A. BASIS OF MEASUREMENT

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets [except for real property and Available for Sale Assets which are stated at fair value]. The accounting policies are consistent with the prior year unless otherwise stated. The effects of changes in accounting policies arising from the adoption of Australian equivalents to International Financial Reporting Standards (AIFRS) are shown at Note 35. Compliance with AIFRS ensures that the financial report complies with the International Financial Reporting Standards.

B. LOANS TO MEMBERS

(i) Basis of inclusion

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

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

(ii) Interest earned

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

Overdraft – The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Non accrual loan interest – While still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member has deceased, or, where a loan is impaired. A loan is classified as impaired where recovery of the

debt is considered unlikely as determined by the Board of Directors. APRA has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility, or 15 days for an overlimit overdraft facility.

(iii) Loan origination fees and discounts

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

(iv) Transaction costs

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

C. LOAN IMPAIRMENT

(i) Specific Provision

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

The APRA Prudential Standards requires a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears.

(ii) Reserve for Credit Losses (formerly held as a General Provision)

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- the level of security taken as collateral
- the concentration of loans taken by employment type

As a result of changes to Accounting Standards prescribed by AIFRS, the General Provision is no longer eligible for recognition as a provision to be offset against the gross balance of loans. The provision for general credit risk in the loan portfolio is now recognised as the Reserve for Credit Losses.

D. BAD DEBTS WRITTEN OFF

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

E. PROPERTY, PLANT AND EQUIPMENT

Land and buildings are measured at fair value less accumulated depreciation. Revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the income statement. Revaluation decreases are debited to the income statement unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

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

- Buildings – 40 years.
- Leasehold Improvements – lesser of the lease term or 10 years.
- Plant and Equipment – 3 to 7 years.

F. DEPOSITS WITH OTHER FINANCIAL INSTITUTIONS

Term deposits are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the Balance Sheet.

G. EQUITY INVESTMENTS AND OTHER SECURITIES

Investments in shares are classified as available for sale assets.

Investments in shares where a market value is readily available are revalued to market value, with the gains and losses reflected in equity through the asset revaluation reserve.

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

All investments are in Australian currency.

H. MEMBER DEPOSITS

(i) Basis for Determination

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

(ii) Interest Payable

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

I. BORROWINGS

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

J. PROVISION FOR EMPLOYEE BENEFITS

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, together with entitlements arising from wages and salaries, annual leave and sick leave that will be settled after one year, have been measured at their nominal amount.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Credit Union based on the present value of its estimated future cash flows. Annual leave is accrued in respect of all employees on pro-rata entitlement for part year of service and leave entitlement due but not taken at balance date. Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the income statement as incurred.

K. LEASEHOLD ON PREMISES

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

A provision is recognised for the estimated make good costs on the operating leases, based on the Net Present Value of the future expenditure at the conclusion of the lease term discounted at 5%. Increases in the provision in future years shall be recognised as part of the interest expense.

L. INCOME TAX

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

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

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

M. INTANGIBLE ASSETS

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

Computer software held as intangible assets is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

N. GOODS AND SERVICES TAX

As a financial institution the Credit Union is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

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

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

current asset or current liability in the balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

O. BUSINESS COMBINATIONS

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

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

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

P. IMPAIRMENT OF ASSETS

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

Q. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

R. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments

(i) Market risk and Hedging policy

The Credit Union is not exposed to currency risk, and other price risk, as the Credit Union does not trade in the financial Instruments it holds on its books.

The Credit Union is exposed to interest rate risk arising from changes in market interest rates.

The policy of the Credit Union is to maintain a balanced 'on book' hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The Gap is measured monthly to identify any large exposures to the interest rate movements. The Credit Union does not undertake derivatives to match the interest rate risks.

The Board monitors these risks through monthly management reports.

Details of the interest rate risk profile are set out in Note 23.

(ii) Credit risk – loans

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board maintains at least 60% of the loans in well secured residential mortgages which carry an 80% Loan to Valuation ratio or less. Note 7(b) describes the nature of the security held against the loans as at the balance date.

Significant Accounting Judgements

The significant accounting judgements are related to the determination of the provision for impairment of loans are set out in Note 8.

(iii) Credit risk – Liquid Investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the counterparty, and the limits of concentration of investments to any one counterparty.

The Board policy maintains not more than 150% of its capital base in investments in Cuscal Limited, a company set up to support the member credit unions and which has an AA-rating.

The policies of the board limit other investments outside CUSCAL to not more than 50% of the capital base of the Credit Union.

(iv) Credit risk – Equity Investments

All investments in the equity instruments are solely for the benefit of service to the Credit Union. The Credit Union invests in entities set up for the provision of services such as IT solutions, treasury services, e-commerce, etc, where specialisation demands quality staff which is best secured by one entity. Further details of the investments are set out in Note 9.

(v) Liquidity Risk

The Credit Union has set out in Note 23 the interest rate change profile of the financial assets and financial liabilities.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours under the APRA Prudential standards. The Credit Union policy is to apply a minimum of 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and board has established a plan to address the matter, and ensure that the liquid funds are obtained from new deposits or borrowing facilities available. Note 26 describes the borrowing facilities as at the balance date.

2. Income Statement

A. ANALYSIS OF INTEREST REVENUE

2006

Category of interest bearing assets	Interest Revenue	Average Balance	Average Interest Rate
	\$	\$	%
Cash – deposits at call	607,037	11,847,041	5.12
Advances to other financial institutions	3,359,759	56,971,150	5.90
Loans and advances to members	16,542,274	205,101,732	8.07
TOTAL INTEREST REVENUE	20,509,070	273,919,923	7.49

2005

Category of interest bearing assets	Interest Revenue	Average Balance	Average Interest Rate
	\$	\$	%
Cash – deposits at call	224,713	4,711,512	4.77
Advances to other financial institutions	2,210,863	37,198,027	5.94
Loans and advances to members	9,072,788	118,693,290	7.64
TOTAL INTEREST REVENUE	11,508,364	160,602,829	7.17

B. NON-INTEREST REVENUE COMPRISES

	2006	2005
	\$	\$
Fee and commission revenue		
– Loan fee income – other than loan origination fees	252,009	285,805
– Other fee income	2,530,727	1,398,968
– Insurance commissions	368,690	290,903
– Other commissions	606,169	352,625
TOTAL FEE AND COMMISSION REVENUE	3,757,595	2,328,301
Other income		
Dividends received	119,513	65,114
Bad debts recovered	152,144	120,965
Income from property (rental income)	47,151	50,413
Other revenue		
– Profit on Sale of Property, Plant & Equipment	2,801	-
– Profit on Sale of Shares	35,162	-
– Miscellaneous revenue	17,402	820
TOTAL NON INTEREST REVENUE	4,131,768	2,565,613

C. BORROWING EXPENSES

Analysis of interest expense

2006	Interest Expense	Average Balance	Average Interest Rate
Category of interest bearing liabilities	\$	\$	%
Deposits from other financial institutions	-	-	-
Deposits from members	8,516,536	247,648,208	3.44
Overdraft	22,307	241,941	9.22
TOTAL INTEREST EXPENSE	8,538,843	247,890,149	3.44

2005

Category of interest bearing liabilities

Deposits from other financial institutions	-	-	-
Deposits from members	4,650,431	144,172,232	3.23
Overdraft	15,039	158,639	9.48
TOTAL INTEREST EXPENSE	4,665,470	144,330,871	3.23

D. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	2006	2005
	\$	\$
Increase in provision for impairment	708,834	180,228
Bad debts written off directly against profit	-	-
TOTAL IMPAIRMENT LOSSES ON LOANS AND ADVANCES	708,834	180,228

E. OTHER PRESCRIBED EXPENSE DISCLOSURES

General Administration – Depreciation expense comprises

Buildings	135,826	11,518
Plant and Equipment	325,470	186,963
Leasehold Improvements (includes lease make-good provision.)	165,106	135,605
	626,402	334,086

General Administration – Office Occupancy costs include:

Property operating lease payments		
– minimum lease payments	1,082,835	601,981

Other Operating expenses include

Auditors remuneration (GST Exclusive)		
– Audit fees	95,481	77,694
– Other Services – taxation	1,500	2,100
– Other Services – compliance	2,400	-
– Other Services – other	7,961	-
	107,342	79,794

Defined contribution superannuation expenses	58,834	122,595
Loss on disposal of assets		
– Property, Plant, Equipment	4,866	1,117
Net movement in provisions for other liabilities	42,358	46,329
Supervision levy paid to APRA	13,796	16,903

3. Income Tax Expense

Note	2006	2005
	\$	\$
a. The income tax expense comprises amounts set aside as:		
Provision for income tax – current year	762,448	287,511
Under (over) provision in prior years		
Increase (Decrease) in the deferred tax liability account.		
Decrease (Increase) in the deferred tax asset account.	58,787	<37,799>
Income tax expense attributable to operating profit	821,235	249,712
b. The prima facie tax payable on operating profit is reconciled to the income tax expense in the accounts as follows:		
Profit from operations	1,682,729	841,675
Prima facie tax payable on operating profit before income tax at 30%.	504,819	252,503
Add tax effect of expenses not deductible		
– Other non-deductible expenses	71,239	32,839
– Expenses not deductible under S23G		
Less tax effect of:		
– Bad debts recovered (pre 23G)	<1,640>	<1,773>
– expenses deductible under S23G		
Subtotal	574,418	283,569
Add		
– Adjustment to recognise Deferred Tax Asset Reduction	286,406	-
Less		
– Overprovision of tax in prior year	-	<8,005>
– Franking Rebate	<39,589>	<25,852>
Income tax expense attributable to operating profit	821,235	249,712
c. Franking Credits		
Franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	2,715,459	1,896,455

4. Cash

	Note	2006	2005
		\$	\$
Cash on hand		2,118,156	1,009,686
Deposits at call		10,068,810	10,346,015
		12,186,966	11,355,701

5. Advances to Other Financial Institutions

	2006	2005
	\$	\$
Deposits with other Credit Unions	2,000,000	2,000,000
Deposits with other ADIs	33,000,000	19,200,000
Deposits with banks	40,230,692	14,983,560
	75,230,692	36,183,560

6. Receivables

	2006	2005
	\$	\$
Interest receivable on deposits with other financial institutions	613,732	263,689
Sundry debtors and settlement accounts	1,932,778	634,226
	2,546,510	897,915

7. Loans and Advances

	Note	2006	2005
		\$	\$
A. AMOUNT DUE COMPRISES:			
Overdrafts and revolving credit		16,098,071	4,837,576
Term loans		247,546,660	122,539,949
Loans to Capital Investors		200,000	-
Subtotal		263,844,731	127,377,525
Less:			
Unamortised loan origination fees		<148,937>	-
Unearned Income			
Subtotal		263,695,794	127,377,525
Less:			
Provision for impaired loans (Note 8)		<1,047,595>	<536,117>
		262,648,199	126,841,408

The 2005 comparative balances are different to the reported amounts shown in the 2005 annual report. The changes relate to the AIFRS adjustments and are explained in Note 35 with respect to the

- effective interest rate adjustments
- general provisions

B. SECURITY DISSECTION

Secured by mortgage	181,770,731	92,834,865
Partly secured by goods mortgage	33,845,315	24,454,309
Wholly unsecured	48,228,685	10,088,351
TOTAL	263,844,731	127,377,525

C. CONCENTRATION OF LOANS

- (i) There are no individual loans to individual or related groups of members which exceed 10% of member funds in aggregate
- (ii) Loans to members are concentrated solely in Australia, and principally in the Sydney Metropolitan Area
- (iii) Loans by Customer type were

Loans to Natural persons

Residential loans and facilities	92,136,892	57,906,399
Personal loans and facilities	161,463,767	68,551,163
Business loans and facilities	10,244,072	919,963
TOTAL	263,844,731	127,377,525

Loans to Capital Investors

Subordinated loan to Subordinated debt investors	18	200,000	-
		200,000	-

This loans is issued as a subordinated loan to the respective investors and on the following terms and conditions:

- the loan is unsecured
- interest is payable quarterly at 30 September, 31 December, 31 March and 30 June
- interest may be withheld if the credit union fails to pay interest on the respective liability
- no repayments are required until the respective liability is settled in accordance with the agreements

8. Provision on Impaired Loans

	Note	2006	2005
		\$	\$
A. TOTAL PROVISION COMPRISES			
Specific provisions		1,047,595	536,117
General provisions		Nil	Nil
Total Provision		1,047,595	536,117
B. MOVEMENT IN THE SPECIFIC PROVISION			
Balance at the beginning of year		536,117	638,486
Add (deduct):			
Transfers from (to) Income Statement		708,834	83,236
Transfers from Parkes District Credit Union		-	71,988
Transfers from Pinnacle Credit Union		24,980	-
Transfers from Prospect Credit Union		282,818	-
Bad debts written off provision		<505,154>	<257,593>
Specific Provision Balance at end of year		1,047,595	536,117
C. THE SPECIFIC LOANS PROVISION CONSISTS OF :			
(i) Prescribed provision required under the APRA Prudential Standards		1,047,595	536,117
(ii) Additional specific provision		-	-
		1,047,595	536,117
D. IMPAIRED LOAN DISCLOSURES			
Loans upon which interest is not being Accrued			
Loans with provision for impairment		1,569,750	690,106
Less: Specific provision		1,047,595	536,117
		522,155	153,989
Loans with no provision for impairment		-	-
Total Non Accrual Loans		522,155	153,989
Revenue on Impaired Loans (Non Accrual & Restructured)			
Interest and other revenue recognised as revenue earned during the year		190,497	86,979
Interest and other revenue accrued but not recognised as revenue (i.e. foregone) in the year		215,574	84,005

Key assumptions in determining the provision for impairment

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

Period of impairment	% of
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 365 days	80
Over 365 days	100

9. Available for Sale Investments

	Note	2006	2005
		\$	\$
Shares in Listed companies –			
– shares in Baycorp Advantage Ltd		-	-
Shares in Unlisted companies – at cost			
– Cuscal Limited (b)	29	1,374,495	834,713
– Credit Union Technology Development Limited (a)		10,706	5,690
– TransAction Solutions Pty Limited (c)		1,074,001	563,310
– CU Financial Advisory Services Pty Limited (d)		166,000	166,000
– Shared Services Pty Ltd		1	-
Loan to unlisted companies			
Credit Union Technology Development (a)		926,029	492,138
Total Value of investments		3,551,232	2,061,851
Less Provisions for impairment			
– TransAction Solutions Pty Limited (c)		<89,952>	<44,976>
– Credit Union Technology Development Limited (a)		<936,735>	<497,828>
– CU Financial Advisory Services (d)		<93,214>	<66,238>
TOTAL INVESTMENTS net of provision		2,431,331	1,452,809

Disclosures on Shares held at cost

(a) Shares in Credit Union Technology Development Ltd (CUTD)

The Credit Union owns B Class shares in this company which contracted to provide new information technology facilities in accordance with the Credit Union's long term strategy.

Shares at cost	10,706	5,690
Provision for impairment	<10,706>	<5,690>
	-	-

Loan to Credit Union Technology Development Ltd (CUTD)

Loan receivable	926,029	492,138
Provision against loan	<926,029>	<492,138>
Net value	-	-

This loan is an interest free unsecured loan with no fixed maturity date.

(b) Cuscal Limited

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 29. The shares are not able to be traded and are not redeemable.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

The Credit Union is not intending, nor able to dispose of these shares, without a majority of shareholder approval.

c. TransAction Solutions Pty Limited (TAS)

The shareholding in TAS is measured at cost as its fair value could not be measured reliably.

These shares are held to enable the Credit Union to receive essential computer support staff and services to meet the day to day needs of the Credit Union, and compliance with the relevant Prudential Standards. The shares are not able to be traded and are not redeemable.

The financial reports of TAS record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of TAS, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

The Credit Union is not intending, to dispose of these shares.

(d) Interest is held in the following associated companies

Associated companies of the Credit Union are:

Credit Union Financial Advisory Services Pty Ltd

	Note	2006	2005
		%	%
Ownership Interest		33.33	33.33

	Note	2006	2005
		\$	\$
Carrying Amount of Investment		72,786	99,762

10. Property, Plant and Equipment

	Note	2006	2005
		\$	\$
A. FIXED ASSETS			
Land – at cost		1,150,000	340,000
		1,150,000	340,000
Buildings – at cost		5,423,394	640,359
Less: Provision for depreciation		<212,882>	<77,058>
		5,210,512	563,301
Total Land & Buildings		6,360,512	903,301
Plant and equipment – at cost		4,375,900	3,243,791
Less: Provision for depreciation		<3,253,496>	<2,787,342>
		1,122,404	456,449
Capitalised Leasehold Improvements – at cost		2,497,055	2,221,837
Less: Provision for amortisation		<1,969,584>	<1,812,412>
		527,471	409,425
Lease Makegood Asset		149,000	149,000
Less: Provision for amortisation		<128,903>	<121,653>
		20,097	27,347
Total Property, Plant and Equipment		8,030,484	1,796,522

B. LAND AND BUILDINGS – VALUATION

The following properties have been valued on the bases stated:

LOCATION	DATE	BASIS	COST	VALUE AMT	VALUER
Car Park 251-255a Clarence Street Sydney NSW	24/8/05	Market Value	\$23,159	\$85,000	Jeff Millar AAPI/Director Reg No. 2745 (NSW) Reg No. 2393 (QLD)
Land & Buildings 60 Cooper Street Surry Hills NSW	24/8/05	Market Value	\$590,000	\$1,150,000	Jeff Millar AAPI/Director Reg No. 2745 (NSW) Reg No. 2393 (Qld)
Land & Buildings 234 The Boulevarde Punchbowl NSW	22/9/05	Fair Market Value	\$539,731	\$590,000	Stephen J McLaren AAPI Registered Valuer No. 2130
Land & Buildings 138 Waterloo Road Greenacre NSW	22/9/05	Fair Market Value	\$686,931	\$750,000	Stephen J McLaren AAPI Registered Valuer No. 2130
Land & Buildings 19 Second Avenue Blacktown NSW	26/10/05	Fair Market Value	\$4,368,998	\$4,875,000	V.J. Lupton F.A.PI (Val & Econ) Reg No. 1221 Alcorn Lupton & Associates Pty Ltd
Land & Buildings 189 Clarinda Street Parkes NSW	3/11/03	Fair Market Value	\$343,690	\$365,000	E.W. Clarke MBSI, FAIBS E.W. Clarke & Associates Cert No.594

C. MOVEMENT IN THE ASSETS BALANCES DURING THE YEAR WERE:

	2006			2005		
	Property	Plant & equipment	Leasehold	Property	Plant & equipment	Leasehold
	\$	\$	\$	\$	\$	\$
Opening balance	903,301	456,449	409,425	571,030	500,513	536,204
Purchases in the year	-	233,441	4,660	-	228,063	8,826
Transfer from Parkes District Credit Union	-	-	-	367,200	26,545	-
Transfer from Pinnacle Credit Union	1,250,000	-	-	-	-	-
Transfer from Prospect Credit Union	5,234,187	3,167,528	749,857	-	-	-
Less						
Assets Disposed	-	<11,752>	<6,360>	-	<28,285>	-
Depreciation charge	<135,675>	<385,620>	<157,856>	<11,419>	<266,962>	<135,605>
Depreciation Parkes District Credit Union	-	-	-	<23,510>	<3,425>	-
Depreciation Pinnacle Credit Union	<26,111>	-	-	-	-	-
Depreciation Prospect Credit Union	<865,190>	<2,337,642>	<472,255>	-	-	-
Balance at the end of the year	6,360,512	1,122,404	527,471	903,301	456,449	409,425

11. Taxation Assets

	2006	2005
	\$	\$
Deferred Tax Asset	1,342,564	1,012,172
GST Recoverable	99,069	-
Total	1,441,633	1,012,172

Deferred tax asset comprises:

Accrued expenses not deductible until incurred	65,667	272,701
Provisions for impairment on loans	314,279	160,835
Provisions for employee benefits	761,289	455,986
Provisions for other liabilities	91,537	66,834
Depreciation on fixed assets	65,111	55,816
Deferred fees on loan origination	44,681	-
	1,342,564	1,012,172

12. Borrowings

	2006	2005
	\$	\$
Overdraft	-	-
TOTAL BORROWINGS	-	-

13. Deposits from Members

	2006	2005
	\$	\$
Member Deposits		
– at call	177,390,628	87,772,734
– term	137,084,566	68,149,213
Member Withdrawable Shares	416,715	226,740
TOTAL DEPOSITS & SHARES	314,891,909	156,148,687

CONCENTRATION OF MEMBER DEPOSITS

There were no significant individual member deposits which in aggregate represent more than 10% of the total liabilities:

Member deposits at balance date were received from individuals employed in Australia and principally in the Sydney Metropolitan Area

14. Payables

	2006	2005
	\$	\$
Creditors and accruals	556,186	218,055
Interest payable on borrowings	-	-
Interest payable on deposits	2,339,912	999,282
Sundry creditors	2,625,181	1,121,627
TOTAL AMOUNTS PAYABLE	5,521,279	2,338,964

15. Taxation Liabilities

Current income tax liability	737,964	146,251
Accrual for GST payable	-	20,911
TOTAL TAXATION LIABILITIES	737,964	167,162

16. Provisions

Annual leave	682,765	396,720
Long service leave	1,278,735	718,212
Lease make good of premises	149,000	149,000
Provisions – other	881,202	627,802
TOTAL PROVISIONS	2,991,702	1,891,734

Total number of employees at year end	121	62
--	------------	-----------

17. Subordinated Debt Account

	2006	2005
	\$	\$
Balance at the beginning of the year	-	-
Increase due to debt issued		
– Subordinated Debt	2,000,000	-
Less: Debt Raising Discount	<66,800>	-
Balance at the end of year	1,933,200	-

The Credit Union entered into an agreement to issue subordinated debt in the year which was approved at the members meeting held on 28th March 2006. The agreement specified that the Credit Union also place loans equivalent to 10% of the liability with the investors as security for payment of interest.

18. Preference Share Capital

	2006	2005
	\$	\$
Balance at the beginning of the year	-	-
Increase due to shares issued	1,753,240	-
Balance at the end of year	1,753,240	-
The Credit Union entered into an agreement to issue redeemable preference shares in the year which was approved at the members meeting held on 28th March 2006.		
The credit union issued 20,000 redeemable preference shares with a face value of \$100 each to Australian Mutual T1 Capital Funding Trust. The shares may be redeemable after June 2016.	2,000,000	-
Less capital raising costs associated with the issue	<46,760>	-
As part of the capital raising scheme, the credit union was required to provide a limited recourse unsecured subordinated loan to the Trustee for 10% of the face value of shares issued. The loan is repayable upon the redemption of the shares.	<200,000>	-
Net amount received for the issue of shares.	1,753,240	-

Key Assumptions

The structure of the share issue agreement and the T1 Loss Reserve are considered to be effectively one transaction to raise capital. This view is consistent with the way the capital is treated for prudential capital adequacy requirements.

19. Capital Reserve Account

	2006	2005
	\$	\$
Balance at the beginning of the year	103,500	81,128
Transfer from retained earnings on share redemptions	21,246	13,062
Transfer from Parkes District Credit Union	-	9,310
Appropriation from Retained Earnings	253,260	-
Balance at the end of year	378,006	103,500

A. SHARE REDEMPTION

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

20. Asset Revaluation Reserves

Asset revaluation reserve – land & buildings	1,015,061	589,487
General reserve	5,263,367	3,969,619
TOTAL RESERVES	6,278,428	4,559,106

Movements in Reserves

(i) Asset Revaluation Reserve – Land & Buildings

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

Balance at the beginning of the year	589,487	503,597
Add: Transfer from Parkes District Credit Union	-	85,890
Appropriation from Retained Earnings	425,574	-
Balance at the end of year	1,015,061	589,487

(ii) General Reserve

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

Balance at the beginning of the year	3,969,619	3,870,619
Add: Transfer from Parkes District Credit Union	-	99,000
Appropriation from Retained Earnings	1,293,748	-
Balance at the end of year	5,263,367	3,969,619

21. Reserve for Credit Losses

	Note	2006	2005
		\$	\$
Reserve for Credit Losses		918,458	839,686
Add: Appropriation from Retained Earnings		751,946	78,772
TOTAL RESERVE FOR CREDIT LOSSES		1,670,404	918,458

22. Retained Earnings

Retained profits at the beginning of the financial year	35	13,412,476	12,371,114
Add: Operating profit for the year		861,494	591,963
Non-operating Income Received from Transfers of Engagement		16,831,487	541,233
Less Appropriation to Asset Revaluation Reserve		<425,574>	-
Less Appropriation to General Reserve		<1,293,748>	-
Less Appropriation to Reserve for Credit Losses		<751,946>	<78,772>
Less Appropriation to Capital Reserve Account		<253,260>	-
Less Transfer to capital account on redemption of shares		<21,246>	<13,062>
Retained Profits at the end of the Financial Year		28,359,683	13,412,476

The retained earnings opening balances are different to the reported amounts shown in the 2005 annual report. The changes relate to the AIFRS adjustments and are explained in Note 35.

23. Interest Rate Change Profile of Financial Assets and Liabilities

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

2006	Weighted Average Interest Rate	Within 1 month	1-3 months	3-12 months	1-5 years	Non interest bearing	Total
		\$	\$	\$	\$	\$	\$
ASSETS							
Cash	5.12	12,186,966	-	-	-	-	12,186,966
Advances to other financial institutions	5.90	36,109,386	35,613,915	3,507,391	-	-	75,230,692
Receivables		-	-	-	-	2,546,510	2,546,510
Loans & Advances	8.07	247,821,678	2,877,864	5,293,915	7,851,274	-	263,844,731
Provision for Impaired Loans		-	-	-	-	<1,047,595>	<1,047,595>
Unamortised Loan Origination Fees		-	-	-	-	<148,937>	<148,937>
Investments		-	-	-	-	2,431,331	2,431,331
Property, Plant & Equipment		-	-	-	-	8,030,484	8,030,484
Taxation assets		-	-	-	-	1,441,633	1,441,633
Total Assets		296,118,030	38,491,779	8,801,306	7,851,274	13,253,426	364,515,815
LIABILITIES							
Deposits from members	3.44	204,393,875	35,183,339	70,443,999	4,870,696	-	314,891,909
Payables		-	-	-	-	5,521,279	5,521,279
Tax Liabilities		-	-	-	-	737,964	737,964
Provisions		-	-	-	-	2,991,702	2,991,702
Subordinated debt		-	-	-	1,933,200	-	1,933,200
Total Liabilities		204,393,875	35,183,339	70,443,999	6,803,896	9,250,945	326,076,054

23. Interest Rate Change Profile of Financial Assets and Liabilities (continued)

2005	Weighted Average Interest Rate	Within 1 month	1-3 months	3-12 months	1-5 years	Non interest bearing	Total
		\$	\$	\$	\$	\$	\$
ASSETS							
Cash	4.77	11,355,701	-	-	-	-	11,355,701
Advances to other financial institutions	5.94	6,227,161	25,821,616	4,134,783	-	-	36,183,560
Receivables		-	-	-	-	897,915	897,915
Loans & Advances	7.64	120,876,252	697,993	1,831,031	3,972,249	-	127,377,525
Provision for Impaired Loans		-	-	-	-	<536,117>	<536,117>
Investments		-	-	-	-	1,452,809	1,452,809
Property, Plant & Equipment		-	-	-	-	1,796,522	1,796,522
Taxation assets		-	-	-	-	1,012,172	1,012,172
Total Assets		138,459,114	26,519,609	5,965,814	3,972,249	4,623,301	179,540,087
LIABILITIES							
Deposits from members	3.23	97,615,114	19,531,146	35,955,792	3,046,635	-	156,148,687
Payables		-	-	-	-	2,338,964	2,338,964
Tax liabilities		-	-	-	-	167,162	167,162
Provisions		-	-	-	-	1,891,734	1,891,734
Total Liabilities		97,615,114	19,531,146	35,955,792	3,046,635	4,397,860	160,546,547

24. Fair Value of Financial Assets and Liabilities

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

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

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

24. Fair Value of Financial Assets and Liabilities (continued)

	2006			2005		
	Fair Value	Book Value	Variance	Fair Value	Book Value	Variance
	\$	\$	\$	\$	\$	\$
ASSETS						
Cash	12,186,966	12,186,966	-	11,355,701	11,355,701	-
Advances to other financial institutions	75,644,095	75,630,692	13,403	36,805,283	36,183,560	621,723
Receivables	2,546,510	2,546,510	-	897,915	897,915	-
Loans & Advances	262,677,483	262,843,715	<166,232>	126,158,714	126,855,358	<696,644>
Investments	2,431,331	2,431,331	-	1,452,809	1,452,809	-
Total Assets	355,486,385	355,639,214	(152,829)	176,670,422	176,745,343	(74,921)
LIABILITIES						
Borrowings						
Deposits from members	314,892,064	314,891,909	155	156,217,127	156,148,687	68,440
Payables	737,964	737,964	-	167,162	167,162	-
Subordinated debt	1,933,200	1,933,200	-	-	-	-
Total Liabilities	317,563,228	317,563,073	155	156,384,289	156,315,849	68,440

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

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

(i) Liquid Assets and Receivables from other Financial Institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 3 months approximate their fair value as they are short term in nature or are receivable on demand.

(ii) Loans, Advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

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

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

(iii) Deposits From Members

The fair value of non interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, is the amount shown in the Balance Sheet as at June 30. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value of other term deposits.

(iv) Short Term Borrowings

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

25. Financial Commitments

	Note	2006	2005
		\$	\$
a. Outstanding Loan commitments			
The loans approved but not funded		6,766,633	3,811,935
b. Loan Redraw Facilities			
The loan redraw facilities available		13,413,206	4,933,956
c. Undrawn Loan Facilities			
Loan facilities available to members for overdrafts and line of credit loans are as follows:			
Total value of facilities approved		38,334,347	11,375,758
Less: Amount advanced		<16,098,071>	<4,837,576>
Net undrawn value		22,236,276	6,538,182

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

d. Lease expense commitments for operating leases on property occupied by the Credit Union

Not later than one year	1,318,945	542,700
Later than one year but not later than five years	2,107,191	1,184,233
Over five years	-	-

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

There are no restrictions imposed on the Credit Union so as to limit the ability to undertake further leases, borrow funds or issue dividends

3,426,136	1,726,933
-----------	-----------

e. Computer Bureau Expense Commitments

As referred to in Note 29, the Credit Union has a management contract with TransAction Solutions Pty Limited (TAS) to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with the relevant Prudential Standards.

The costs committed under contracts with TAS are as follows:

Not later than one year	549,472	276,276
Later than 1 year but not 2 years	1,098,944	552,552
Later than 2 years but not 5 years	-	276,276
Later than 5 years	-	-
	1,648,416	1,105,104

26. Standby Borrowing Facilities

The Credit Union has a borrowing facility with Cuscal of:

2006

Overdraft Facility

TOTAL STANDBY BORROWING FACILITIES

Gross	Current Borrowing	Net Available
\$	\$	\$
2,000,000	-	2,000,000
2,000,000	-	2,000,000

2005

Overdraft Facility

TOTAL STANDBY BORROWING FACILITIES

Gross	Current Borrowing	Net Available
\$	\$	\$
1,500,000	-	1,500,000
1,500,000	-	1,500,000

Withdrawal of the loan facility is subject to the availability of funds at Cuscal.

Cuscal holds an equitable mortgage charge over all of the assets of the Credit Union as security against loan and overdraft amounts drawn.

27. Contingent Liabilities

LIQUIDITY SUPPORT SCHEME

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

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating CU would be 3.2% of the Credit Union's Total Assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

GUARANTEES

The Credit Union has issued guarantees on behalf of members for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total \$88,251. The guarantee is payable only on the member defaulting on the contractual repayments to the Lessor / supplier. The guarantees are generally fully secured against registered first mortgages or Term Deposit funds lodged.

28. Disclosures on Directors and Other Key Management Personnel

A. REMUNERATION OF KEY MANAGEMENT PERSONNEL [KMP]

Key Management Persons (KMP) has been taken to comprise the directors and the members of the executive management responsible for the day to day financial and operational management of the credit union.

The aggregate compensation of **Key Management Persons** during the year comprising amounts paid or payable or provided for was as follows:

	2006	2005
	Directors & Other KMP	Directors & Other KMP
	\$	\$
(a) short-term employee benefits	304,054	222,032
(b) post-employment benefits – Superannuation contributions	58,670	39,126
(c) other long-term benefits – net increases in Long Service leave provision	31,096	29,462
(d) termination benefits	38,992	0
(e) share-based payment	0	0
Total	432,812	290,620

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

All remuneration to directors was approved by the members at the previous Annual General Meeting of the Credit Union.

B. LOANS TO DIRECTORS AND OTHER KEY MANAGEMENT PERSONS

	2006	2005
	\$	\$
(i) The aggregate value of loans to directors and other Key Management Personnel as at Balance date amounted to	1,010,100	777,360
(ii) The total value of revolving credit facilities to directors and other Key Management Personnel, as at Balance date amounted to	94,000	56,500
Less amounts drawn down and included in (i)	(9,413)	(6,272)
Net balance available	84,587	50,228
(iii) During the year the aggregate value of loans disbursed to directors and other Key Management Personnel amounted to:		
Revolving credit facilities	67,460	46,549
Term Loans	66,837	25,515
	134,297	72,064
(iv) During the year the aggregate value of Revolving Credit Facility limits granted or increased to directors and other Key Management Personnel amounted to:		
	12,000	0
	12,000	0
(v) Interest and other revenue earned on Loans and revolving credit facilities to KMP	71,023	39,435

The credit union's policy for lending to directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit with the exception of loans to KMP who are not directors. There are no loans which are impaired in relation to the loan balances with director's or other KMP's.

KMP who are not directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to Fringe Benefits tax, are included in the remuneration in 28.a. above.

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

C. TRANSACTIONS WITH OTHER RELATED PARTIES

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

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

There are no benefits paid or payable to the close family members of the key management persons.

There are no service contracts to which key management persons or their close family members are an interested party.

	2006	2005
	\$	\$
Total Value Term and Savings		
Deposits from KMP	483,675	285,801
Total Interest paid on deposits to KMP	10,296	12,200

29. Economic Dependency

The Credit Union has an economic dependency on the following suppliers of services.

A. CUSCAL LIMITED

Cuscal is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. This entity:

- (i) provides the license rights to VISA Card in Australia and settlement with Bankers for ATM, VISA card and cheque transactions, as well as the production of VISA and Redicards for use by members;
- (ii) provides treasury and money market facilities to the Credit Union.

B. FIRST DATA INTERNATIONAL LIMITED (FDI)

This entity operates the computer network used to link Redicards and VISA cards operated through Reditellers and other approved ATM suppliers to the Credit Union's EDP Systems.

C. ULTRADATA AUSTRALIA PTY LIMITED

Provides and maintains the application software utilised by the Credit Union.

D. TRANSACTION SOLUTIONS PTY LIMITED

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

30. Segmental Reporting

The Credit Union operates exclusively in the retail financial services industry within Australia.

31. Superannuation Liabilities

The Credit Union contributes to the CUE Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee.

The Credit Union has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

The Credit Union contributes to the State Authorities Superannuation Scheme (SASS) and to the State Authorities Non-Contributory Superannuation Scheme (SANCS) for the purpose of defined benefits superannuation schemes which is only available to a limited number of employees and no new employees are eligible to join these schemes. The plan is administered by an independent corporate trustee.

The Credit Union has no interest in the superannuation plan (other than as a contributor) and is liable for any shortfall in reserves to meet the employees' entitlements. Currently the plan is in surplus and it is anticipated the Credit Union is unlikely to be required to have any further liability to these funds.

32. Securitisation

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union also manages the loans portfolio on behalf of the trust. The Credit Union bears no risk exposure in respect of these loans. The amount of securitised loans under management as at 30 June 2006 is \$63,606,268 (2005 \$60,925,339).

33. Corporate Information

The Credit Union is a company limited by shares registered under the Corporations Act 2001

The address of the registered office is: 7/447 Kent Street, Sydney, NSW 2000

The address of the principal places of business are: 7/447 Kent Street, Sydney, NSW 2000
and 19 Second Avenue, Blacktown, NSW 2148.

The nature of its operations, and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Credit Union.

34. Notes to Statement of Cash Flows

	2006	2005
	\$	\$
a. Reconciliation of Cash		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	2,118,156	1,009,686
Deposits at call	10,068,810	10,346,015
Bank overdraft	-	-
Total Cash	12,186,966	11,355,701
b. Cash unavailable for use		
Cash which is excluded from the above amount of cash since it is not readily available for use by reason of it securing overnight settlement obligations.		
	-	-
c. Reconciliation of Cash from Operations to Accounting Profit		
The net cash increase/(decrease) from operating activities is reconciled to the operating profit after tax.		
Profit after income tax	718,335	536,823
Add (Deduct):		
Provision for Impairment	203,680	259,000
Depreciation expense	626,402	334,085
Loss on sale of assets	-	1,118
Increase in provisions for staff leave	64,734	38,733
Increase in provision for income tax	72,659	205,672
Increase in other provisions	280,747	120,860
Increase in accrued expenses	<322,403>	19,977
Increase in interest payable	200,740	171,168
Decreases in prepayments	258,329	<34,108>
Decreases in sundry receivables	183,983	<75,611>
Decrease in other assets	<831,630>	<37,798>
Decrease in interest receivable	<61,958>	9,593
Net Cash From Operating Activities	1,393,618	1,549,512

35. Transition to Australian equivalents to International Accounting Standards

As stated in Note 1, this is the first time that the financial statements of the Credit Union have been prepared using Australian equivalents to IFRS. The following information summarises the impact of the transition from previous GAAP at transition date (1 July 2004) and at the end of the previous financial year. As a result of adopting the new Standards, there have been some areas where the balances reported in the 2005 financial report have been changed to enable the 2005 comparative figures for this financial report to be calculated on a consistent basis to the 2006 reported balances.

Changes to the 2005 comparative balances have been made as follows:

- (i) Provision for doubtful loans – The portion of this provision identified as a General Provision is not able to be taken up as a provision under AASB 139 Measurement of Financial Instruments, and has been written back and transferred to the Reserve for Credit Losses.
- (ii) Investments – Under the new Standards all investments in equity instruments where a market value can be determined is required to be measured at fair value in the Balance Sheet, with all changes in value being recognised in the Equity.
- (iii) Taxation Assets and Liabilities – this standard requires the recognition of the deferred tax liabilities and tax assets to be related to the reported balance sheet assets and liabilities. The previous standards assessed the deferred tax liabilities and tax assets according to the impact on the taxable Income of the credit union. The impact is related to revaluations of the property and investments which do not impact on the Profit & Loss reported.

- (iv) Revenue – the revisions to the definition of revenue under AASB 118 Revenue require the net profit on sale of fixed assets be reflected as revenue and a loss on sale to be reflected as expenses. Previously these gross proceeds on sale were reflected as revenue and the net book value of assets disposed reflected as expenses. The 2005 comparative figures have been amended to reflect the position under IFRS.
- (v) The make good liability for operating leases has been recognised in accordance with the AASB 137 Provisions.

(a) AASB 1 Transitional Exemptions

The Credit Union has elected to use the following transitional exemptions allowed by AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards*:

Exemption from requirements to restate financial instrument comparatives under AASB 132 and AASB 139

The Credit Union has elected to apply the exemption available in AASB 1 to restate comparatives for financial instruments. This means that the transition date for financial instruments becomes 1 July 2005 instead of 1 July 2004.

Business combinations

AASB 3 *Business Combinations* has not been applied retrospectively to business combinations that were effected prior to transition date.

AIFRS Impact on Balance Sheet Comparative Numbers

as at 30 June 2005

	Balance reported in	Current year's	Changes
	previous year	reported comparative	
	2005	2005	
	\$	\$	\$
ASSETS			
Cash	11,355,701	11,355,701	-
Receivables due from other financial institutions	36,183,560	36,183,560	-
Receivables	897,915	897,915	-
Investment securities	-	-	-
Loans and advances	127,377,525	127,377,525	-
Loans and advances – provision	<1,454,575>	<536,117>	918,458
Other investments	1,452,809	1,452,809	-
Property, plant and equipment	1,769,175	1,796,522	27,347
Taxation assets	1,287,709	1,012,172	<275,537>
TOTAL ASSETS	178,869,819	179,540,087	670,268
LIABILITIES			
Payables to other financial institutions	-	-	-
Deposits and borrowings	156,148,687	156,148,687	-
Payables	2,338,964	2,338,964	-
Taxation liabilities	167,162	167,162	-
Provisions	1,742,734	1,891,734	149,000
Deferred income tax	-	-	-
TOTAL LIABILITIES	160,397,547	160,546,547	149,000
NET ASSETS	18,472,272	18,993,540	521,268
MEMBERS EQUITY			
Capital	103,500	103,500	-
Reserves – asset revaluations	4,559,106	4,559,106	-
Reserve for credit losses	-	918,458	918,458
Specific reserve for credit losses			
Retained profits	13,809,666	13,412,476	<397,190>
TOTAL MEMBERS EQUITY	18,472,272	18,993,540	521,268

Statement of Changes in Comparative Balances

for the year ended 30 June 2005

	Loans & Advances Provision	Property Plant & Equipment	Taxation Assets	Provisions	Reserve for Credit Losses	Retained Profits
	\$	\$	\$	\$	\$	\$
2005 Balance reported in 2005 Accounts	<1,454,575>	1,769,175	1,287,709	<1,742,734>	0	<13,809,666>
Transfer (to)/from 2004 Retained Earnings	839,686	-	-	-	<839,686>	-
Transfer (to)/from 2005 Retained Earnings	78,772	-	-	-	<78,772>	-
2004 Deferred Tax Asset Adjustment for Loan Provision	-	-	<251,905>	-	-	251,905
2005 Deferred Tax Asset Adjustment for Loan Provision	-	-	<23,632>	-	-	23,632
2004 Lease Make-good Asset	-	149,000	-	<149,000>	-	-
2004 Lease Make-good Amortisation Adjustment	-	<121,653>	-	-	-	121,653
2005 Comparative Balance reported in 2006 accounts	<536,117>	1,796,522	1,012,172	<1,891,734>	<918,458>	<13,412,476>
	A1	A3, A4	A2	A3	A1	A2, A4

The above statement reports the changes in Balance Sheet comparative balances under AIFRS.

The details of the changes are as follows:

Note	Explanation
A1	General provision is reallocated to the Reserve for Credit Losses in accordance with AASB 139, and AASB 130.
A2	The Deferred Tax Asset on the General Provision has been written back following the reduction in the provisions for doubtful debts
A3	Operating Lease Make Good provisions have been taken up creating a PPE asset addition.
A4	Amortisation of the Make Good Asset and interest expense for the movement in NPV of the provision.

