



Bankstown City Credit Union 41st Annual Report 2006

Bankstown City Credit Union Limited ABN 40 087 649 769

Board of Directors



Top Left: Gordon Howard,
Raad Richards (Vice Chairman)
Darren Gossling
Linden Evans (Chairman)
Colin Froud

Bottom Left: Brigid Archibald
Margaret Young



Linden Evans
Chairman

REPORT TO MEMBERS 2006



Clinton Blanks
Chief Executive Officer

Bankstown City Credit Union achieved a much stronger financial position in 2005/2006, resulting in added security for members.

Other significant achievements during the year included involvement in an innovative capital-raising venture and the addition of attractive new products to the Credit Union's offerings.

The Board and staff responded well to ongoing legislative change, committing significant time and effort to a variety of new regulatory challenges.

We are proud to be able to say that Bankstown City Credit Union's 2005/2006 performance has further cemented its position as a dynamic financial services institution offering award-winning products.

Strength in numbers

The Credit Union's before-tax trading profit improved by 235% on the previous financial year to just over \$1 million – more in line with regulatory requirements and the credit union average. As a mutual, Bankstown City Credit Union exists for its members, not commercial shareholders. Profit is owned by members and allows us to build security, grow business and offer even better products and pricing. The industry regulator Australian Prudential Regulatory Authority (APRA) requires institutions to achieve a certain profit level and build this in ways other than just retained earnings.

Some key measures of the Credit Union's 2006 financial position include:

- asset growth of approximately \$14 million to \$176 million, an increase of around 8.5%;
- a 14.7% increase in total capital to \$17.5 million
- consistent and improved liquidity – regularly over 18%;
- deposit growth of \$13 million or 9%;
- repayment of \$3 million debt; and
- \$450,000 reduction in operational expenditure.

Innovative capital raising

During the year, the Credit Union teamed up with 20 other credit unions in an historic 'mutual' capital raising of \$100 million. The credit unions effectively pooled their balance sheets to raise funds through a private placement of capital securities to institutional investors. This initiative, which attracted considerable media attention, resulted in a \$3 million injection to Bankstown City Credit Union.

These funds will help the Credit Union address new capital requirements set by the industry regulator as well as help relieve the pressure to make 'super profits'. More capital also helps grow the business and fund innovative product lines, as well as protect depositors' funds.

Expanded lending reach

It was a very tight year in the loans market, with pressures in the general economy and the Reserve Bank increasing interest rates. The Credit Union's loans business tapered off slightly by \$1 million. The Credit Union's decision to join the National Brokers Group during the year has opened new lending opportunities with products never before available through the Credit Union. By accessing a panel of lenders, the Credit Union can now offer a variety of loan products including commercial lending, low-doc loans, reverse mortgages and fixed interest lending. This new business unit, called BCCU Finance Options, offers the flexibility of a mortgage broker with the trustworthy values and dependable service of the Credit Union.

Attractive products & services

Introduction of the 'My Card' credit card offering during the year helped round out the Credit Union's product range. Money Max continued to receive industry acclaim – with a 'Best of the Best' Gold Award 2006 from Money magazine for Best Cash Management Account (\$5K) and a five star gold rating from research organisation CANNEX. The outstanding success of Money Max helped drive overall deposits to over \$154 million. Of the \$13 million growth in deposits, \$8 million came through Money Max.

The Credit Union's ongoing commitment to develop and improve its online application processes and electronic access is expected to result in fee benefits for members going forward.

Rising to new standards

A variety of legislative issues kept the Board and Credit Union staff very busy during the year – and continue to do so.

While reforms to the payment system for plastic cards are costing the Credit Union more money, we've tried to absorb most of these costs as best as we can.

Staff and Board members have injected a lot of hard work and time into developing policies and procedures and generating reports for industry regulators APRA and Australian Securities & Investment Commission (ASIC). Business continuity management requirements have prompted the Credit Union to do further planning for emergencies or adverse situations to be sure we would be able to meet our financial and service obligations to depositors.

New reporting requirements have arisen as a result of new International Financial Reporting Standards. Other issues demanding attention included new 'Fit and Proper' prudential standards for Directors, corporate governance requirements for a Board Charter, and consideration of upcoming changes to the way capital is measured to help with risk mitigation.

Sincere thanks to the Board and staff for steering the Credit Union through a challenging time.

Going forward

While the Credit Union remains firmly committed to Bankstown and the south-west Sydney region, further development of our online capabilities and wider acclaim of the Credit Union's products is expected to also attract members from further a field. More mobile business development staff is being added to the team to offer greater flexibility and personal service to members. New business streams such as BCCU Finance Options are expected to help the Credit Union grow its business and maintain a very strong and secure balance sheet to protect depositors' funds.

Linden Evans

Chairman

Clinton Blanks

Chief Executive Officer

CORPORATE GOVERNANCE

Corporate Governance Disclosures

Board

The Credit Union Board has responsibility for the overall management and strategic direction of the Credit Union. All Board members are independent of management and are elected by members on a rotation of every 3 years.

Each Director must be eligible to act under the constitution as a member of the Credit Union and Corporations Act 2001 criteria. The Directors also need to satisfy the Fit and Proper criteria set down by APRA.

The Board has established policies to govern conduct of the Board meetings, Director conflicts of interest and training to maintain Director competence and satisfy all governance requirements.

Board Remuneration

The Board receives remuneration from the Credit Union in the form of allowances agreed to each year at the AGM plus any out of pocket expenses. There are no other benefits received from the Credit Union by the Directors.

Board Committees

An Audit and Risk Committee and a Corporate Governance Committee have been formed to assist the Board in relevant matters of financial prudence and strategic direction. The Directors form the majority of these committees with CEO participation.

Audit & Risk Committee

The Audit Committee is established to oversight the financial reporting and audit process. Its role includes:

- Monitoring audit reports received from internal and external auditors, and management's responses thereto;
- Liaising with the auditors (internal and external) on the scope of their work, and their experience in conducting an effective audit;
- Ensuring the external and internal auditors remain independent in the areas of work conducted;
- Monitoring the matters of operational risk management and APRA reporting obligations;
- Monitoring the compliance with applicable laws;
- Oversighting policy development to meet legislative and regulatory needs and operational effectiveness;
- Review and recommend financial budgets and performance criteria.

Corporate Governance Committee

The Corporate Governance Committee deals with:

- CEO remuneration benefits
- Senior management remuneration benefits
- Staff remuneration policies
- Approval of CEO expenses
- Approval of large loans or commercial loans
- Approval of interest rate changes
- ALCO meeting minutes/recommendations
- APRA APS510 Corporate Governance requirements
- APRA APS520 Fit & Proper requirements

All management are remunerated by salary packages. Performance bonuses/benefits are available to the staff and management.

Policies

The Board has endorsed a policy of compliance, risk management and ethical guidelines to suit the profile of the Credit Union. These policies are to reinforce the practice of providing efficient service to members with courtesy and recognition of members as owners.

The ethical principles adopted by the Credit Union are:

- Fairness
- Efficiency
- Service

Key Risk Management Policies include:

- Capital adequacy management
- Liquidity management
- Credit risk management
- Data risk management
- Operations risk management
- Market risk management
- Outsourcing risk management
- Business continuity risk management

Compliance

The Credit Union has a compliance manager who is responsible for maintaining the awareness of directors, management and staff to all changes in compliance legislation and responding to staff inquiries on compliance matters. The officer also monitors the FSR License obligations and responds to all member complaints and disputes should they arise.

External Audit

The external audit is performed by BDO Kendalls as part of the BDO International group, a major international accounting body. The firm of Kendalls has been auditing credit unions for 30 years and audits over 30 credit unions in NSW. The firm utilises sophisticated Computer Assisted Audit Software to supplement the compliance testing.

Internal Audit

The internal audit is performed by BDO Kendalls as well as being supplemented by other external compliance review performed by regulatory bodies. For example, APRA, ASIC, Australian Transaction Reports and Analysis Centre, Australian Payments Clearing Association.

Regulation

The Credit Union is regulated by:

APRA for the prudential risk management of the Credit Union.

ASIC for adherence to Corporations Act and FSR requirements. The FSR legislation requires a full disclosure of products and services and complaints handling procedures.

Under the Australian financial services licensing arrangements all staff that deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Both ASIC and APRA conduct periodic inspections and the external auditors report to both annually on compliance with respective requirements.

Occupational Health & Safety (OH&S)

The nature of the finance industry is such that the risk of injury to staff and the public are less apparent than in other high risk industries. Nevertheless, our two most valuable assets are our staff and our members and steps have been taken to maintain their security and safety.

OH&S policies have been established for the protection of both members and staff and are reviewed annually for relevance and effectiveness.

The Credit Union staff is trained in robbery procedures and the office layouts are designed to deter such acts by:

- Little or no cash being held in public accessible areas
- Security cameras installed in all offices to allow identification of persons
- Counter screens installed and advertised to deter counter jumping robbers

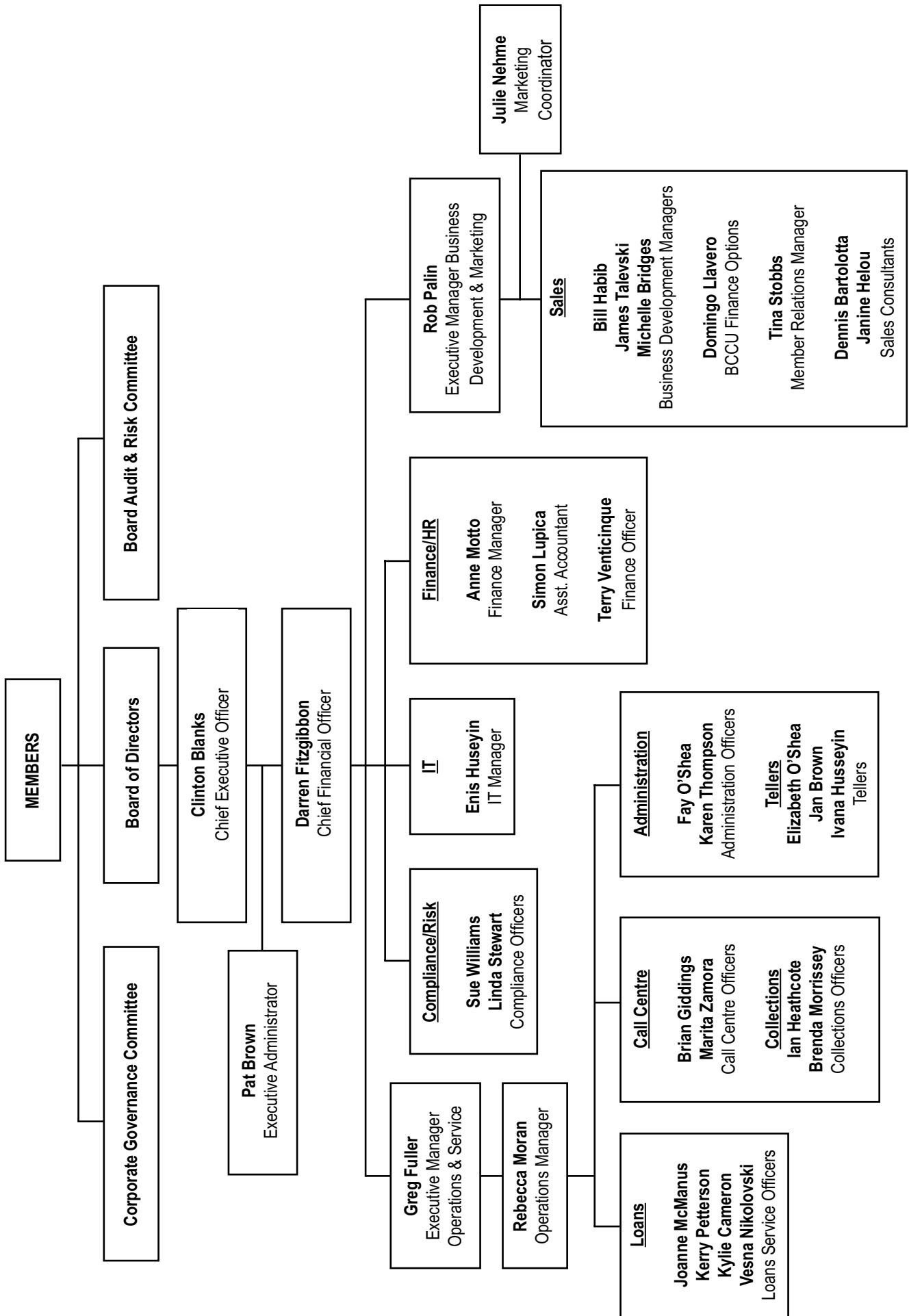
Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs of the public and staff. Independent security consultants report annually on the areas of improvement which are then considered by Board and Management.

The Credit Union has established the OH&S committee of employees which meets monthly to consider any concerns for security or safety raised by the employees and the public. All matters of concern are reported to the CEO for actioning by management. Secure cash handling policies are in place. Injury from lifting heavy weights and repetitive strain injury are minimised by training in proper handling/lifting techniques.

Access to trauma counsellors is available following any incident which may impair their feeling of safety in the work place.

5 YEAR STATISTICAL SUMMARY AS AT 30 JUNE 2006

	2002	2003	2004	2005	2006
Withdrawable Shares	157,772	131,292	116,826	107,416	92,258
Savings					
- On Call	47,601,841	54,351,904	58,652,752	58,599,306	70,260,957
- Fixed Term Deposits	56,532,378	65,817,554	61,686,539	82,757,315	84,162,854
Total Savings	104,291,991	120,300,750	120,456,117	141,464,037	154,516,069
Loans	92,064,884	102,481,884	124,537,294	136,463,416	135,499,397
Loans Approved/Funded	34,610,421	39,697,969	51,710,173	34,124,945	26,356,445
Total Membership	16,546	13,766	12,169	11,124	9,553
Total Liabilities	107,364,303	125,377,426	130,428,791	147,328,699	159,027,391
Members' Equity	12,583,116	12,798,416	12,943,034	15,282,729	17,539,162
Total Assets	119,947,419	138,175,842	143,371,825	162,611,428	176,566,553
Total Income	9,277,360	9,867,169	11,340,330	12,613,570	13,872,552
Operating Surplus	92,324	324,701	208,570	458,958	1,081,138
Income Tax Expense (Credits)	(3,061)	109,401	63,952	107,412	306,093
Expenses Administration	5,592,099	5,556,284	5,715,898	5,485,789	5,031,345
Interest paid on Deposits	3,592,937	3,986,184	5,415,862	6,668,823	7,760,069



Bankstown City Credit Union Ltd ABN 40 087 649 769

Annual Report for the Year Ended 30 June 2006

Contents

DIRECTORS' REPORT	8
AUDITOR'S REPORT	11
DIRECTORS' DECLARATION	12
FINANCIAL STATEMENTS	
Income Statement	13
Statement of Changes in Members' Equity	14
Balance Sheet	15
Cash Flow Statement	16
Notes to the Accounts	17

This represents the 41st Annual Report of
Bankstown City Credit Union Ltd
ABN 40 087 649 769
A Public Company incorporated in Australia
Registered Office:
64 Kitchener Parade
Bankstown NSW 2200

Directors' Report

BANKSTOWN CITY CREDIT UNION LTD ABN 40 087 649 769

Your Directors submit the Financial Accounts of the Credit Union for the year ended 30 June 2006.

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

DIRECTORS

The names of the Directors in office at the date of this report, or held office during the course of the financial year are listed in the table below. Details of Directors meetings attended during the financial year are also shown:

Information on Directors		Directors Meetings					
		Board		Audit & Risk Committee		Executive Committee	
		Attended	Held	Attended	Held	Attended	Held
Mr L. Evans Qualifications Experience	Chairman Diploma of Law (S.A.B.) Board Member since 1995. Deputy Chairman 1996 - 2003 Chairman since November 2003.	11	13			7	7
Mr C Froud Qualifications Experience	Director FCPA, DHA Board Member since 2002. Audit Committee Chairman since Nov 2004.	12	13	6	6		
Mr D Gossling Qualifications Experience	Director MBA (Marketing and Global Strategy). B. Engineering (Computer Systems & Telecommunications). GAICD Board Member since 2002. Executive Committee Member	10	13			7	7
Mr G. Howard Qualifications Experience	Director Management Certificate. Board Member since 1988. Audit Committee member.	11	13	4	6		
Mr R. Richards Qualifications Experience	Deputy Chairman B.Bus., M.H.P., A.F.C.H.S.E., A.A.I.M. Board member since 2000. Deputy Chairman since November 2003	12	13			7	7
Mrs M. Young Qualifications Experience	Director Nil Board Member since 1998. Audit Committee member.	12	13	4	6		
Ms B. Archibald Qualifications Experience	Director MBA, BA (Recreation Administration) Board Member since Nov 2002. Audit Committee member.	11	13	5	6		

The name of the Company Secretary in office at the end of the year is:-

Name	Qualifications	Experience
Mr C. Blanks	FPNA,AIM,AICUM	CEO Bankstown City Credit Union 9/7/01 - present

Directors' Report

BANKSTOWN CITY CREDIT UNION LTD ABN 40 087 649 769

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.

This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors or the fixed salary of a full-time employee of the Credit Union, controlled entity or related body corporate and shown in the Credit Union's Financial Statements presented in the Annual Financial Report, prepared in accordance Division 1 of Part 2M.3 of the Corporations Law, other than that disclosed in Note 31 of the financial report.

The Credit Union's Corporate Solicitor is Mr L Evans of Stockman & Evans. All transactions between Stockman & Evans and the Credit Union are on commercial terms.

INDEMNIFYING AN OFFICER OR AUDITOR

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

There were no significant changes in the principal activities during the year.

SHARE OPTIONS

The Credit Union has not issued any options over shares. All shares issued by the Credit Union are redeemable preference shares.

OPERATING RESULTS

The Operating Profit after Tax for the financial year ended 30 June 2006 was \$775,045 (2005: \$351,546).

DIVIDENDS

No dividends have been paid to members in the year and no dividend is recommended or provided for by the Directors of the Credit Union.

Directors' Report

BANKSTOWN CITY CREDIT UNION LTD ABN 40 087 649 769

REVIEW OF OPERATIONS

The Credit Union did not significantly change the scope of its operations in providing Financial Services to Members during the year.

In relation to financial performance of the operations during the year:

- The Credit Unions Assets grew to \$176,566,553 representing a 8.58% growth over last year.
- Member Deposits grew to \$154,516,069 representing a 9.23% growth over last year.
- Members Equity grew to \$17,539,162 representing a 14.76% growth over last year.
- Loans and Advances declined to \$135,370,815 representing a 0.68% decline from last year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of the affairs of the Credit Union during the year.

AFTER BALANCE DATE EVENTS

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

LIKELY DEVELOPMENTS AND RESULTS

The Directors do not expect any significant changes in the operations or services of the Credit Union, which will affect the results of the Credit Union in the future years.

Auditors' Independence

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

I, Wayne Basford, 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 Wayne Basford
Partner BDO Kendalls

Dated 26 September 2006.

- (a) The declaration is given to the relevant directors before they pass the resolution required under subsection 298(2) or 306(3) of the Act (as relevant) in relation to the directors' report (which must, under subsection 298(1) or 306(2) of the Act, include a copy of the declaration).*
- (b) The directors' report is signed within 7 days after the declaration is given.*

Signed in accordance with a resolution of the Board of Directors by:

Linden Evans

Chairman

Dated this 26th day of September 2006

Independent Audit Report

To the members of Bankstown City 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 Bankstown City 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 company. 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 Bankstown City 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.

BDO KENDALLS

Chartered Accountants

Dated 27 September 2006

Wayne Basford

Partner

2 Market Street Sydney NSW 2001

Directors' Declaration

The Directors' of Bankstown City 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
- 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.

Linden Evans

Chairman

Dated this 26th day of September 2006

Income Statement

FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	2006 \$	2005 \$
Interest Revenue	2 (a)	11,726,374	10,507,615
Interest Expense	2 (c)	7,760,069	6,668,823
Net Interest Income		<u>3,966,305</u>	<u>3,838,792</u>
Other Income	2 (b)	2,146,178	2,105,955
Sub Total		<u>6,112,483</u>	<u>5,944,747</u>
Less			
Non Interest expenses			
Impairment Losses on Loans and Advances	2 (d)	226,392	234,276
Fee and Commission Expense		777,419	850,303
		<u>1,003,811</u>	<u>1,084,579</u>
General Administration Expenses	2 (e)		
- Employees Compensation and Benefits		1,842,742	2,136,826
- Depreciation		359,451	573,745
- Information Technology		501,945	525,225
- Marketing and Promotion Costs		341,257	265,819
- Office Occupancy		210,450	122,079
- Other Administration		501,571	499,676
Total General Administration Expenses		<u>3,757,416</u>	<u>4,123,370</u>
Other Operating Expenses		<u>270,118</u>	<u>277,840</u>
Total Non Interest Expenses		<u>5,031,345</u>	<u>5,485,789</u>
Profit before Income Tax		1,081,138	458,958
Less: Income Tax Expense	3	306,093	107,412
Profit after Income Tax		<u>775,045</u>	<u>351,546</u>

Statement of Changes in Member Equity

FOR THE YEAR ENDED 30 JUNE 2006

	General Reserve	Capital Reserve	Preference Shares	Asset Revaluation Reserve	Reserve for Credit Losses	Retained Profits	Total
	\$	\$		\$	\$	\$	\$
Total at 1 July 2004	602,512	109,182	–	–	433,813	12,101,196	13,246,703
Movement in value on revaluation of land and building	–	–	–	1,896,292	–	–	1,896,292
Sub total	602,512	109,182	–	1,896,292	433,813	12,101,196	15,142,995
Transfer to general reserve for credit losses	–	–	–	–	–	(115,720)	(115,720)
Profit for the year	–	–	–	–	–	351,546	351,546
Transfers to (from) Reserves	–	17,774	–	–	115,720	(17,774)	115,720
Revision to Unearned loan fees due to change in accounting standards	–	–	–	–	–	(211,812)	(211,812)
Total at 30 June 2005	602,512	126,956	–	1,896,292	549,533	12,107,436	15,282,729
Movement in value on revaluation of land and building	–	–	–	181,488	–	–	181,488
Sub total	–	–	–	181,488	–	–	181,488
Redeemable Preference Shares	–	–	1,299,900	–	–	–	1,299,900
Income and expense recognised directly in equity	–	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	775,045	775,045
Total income & expense for year	–	–	–	–	–	–	–
Transfers to (from) Reserves	–	21,610	–	–	73,607	(95,217)	–
Total as at 30 June 2006	602,512	148,566	1,299,900	2,077,780	623,140	12,787,264	17,539,162

The above statement reports the changes in equity under AIFRS only. For details of the variances from previous year's reported results and account balances due to AIFRS changes – refer to Note 39.

Balance Sheet

AS AT 30 JUNE 2006

	NOTE	2006 \$	2005 \$
ASSETS			
Cash	4	6,674,006	1,324,008
Advances to other Financial Institutions	5	28,550,000	18,700,000
Receivables	6	1,061,613	1,000,097
Prepayments	7	117,479	101,063
Loans and Advances to Members	8 & 9	135,370,815	136,293,032
Available for Sale Investments	10	1,034,821	1,171,228
Property, Plant and Equipment	11	3,283,452	3,263,725
Taxation Assets	12	379,363	472,793
Intangible Assets	13	95,004	285,482
TOTAL ASSETS		<u>176,566,553</u>	<u>162,611,428</u>
LIABILITIES			
Borrowings	14	–	3,000,000
Deposits from Members	15	154,516,069	141,464,037
Creditor Accruals and Settlement Accounts	16	2,384,073	2,492,313
Taxation Liabilities	17	232,280	10,460
Provisions	18	445,069	361,889
Subordinated Debt	19	1,449,900	–
TOTAL LIABILITIES		<u>159,027,391</u>	<u>147,328,699</u>
NET ASSETS		<u>17,539,162</u>	<u>15,282,729</u>
MEMBERS EQUITY			
Preference Shares	20	1,299,900	–
Capital Reserve Account	20	148,566	126,956
General Reserve	21	602,512	602,512
Asset Revaluation Reserve	22	2,077,780	1,896,292
General Reserve for Credit Losses	23	623,140	549,533
Retained Earnings	24	12,787,264	12,107,436
TOTAL MEMBERS EQUITY		<u>17,539,162</u>	<u>15,282,729</u>
TOTAL LIABILITIES AND MEMBERS EQUITY		<u>176,566,553</u>	<u>162,611,428</u>

Table of other notes to accounts

25	Maturity Profile Of Financial Assets And Liabilities
26	Interest Rate Change Profile Of Financial Assets And Liabilities
27	Net Fair Value Of Financial Assets And Liabilities
28	Financial Commitments
29	Standby Borrowing Facilities
30	Contingent Liabilities
31	Disclosures On Directors And Other Key Management Personnel
32	Economic Dependency
33	Segmental Reporting
34	Superannuation Liabilities
35	Securitisation
36	Notes To Statement Of Cash Flows
37	Corporate Information
38	Transition To Australian Equivalents To International Accounting Standards
39	AIFRS Impact on Balance Sheet as at 30 June, 2005

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	2006 \$	2005 \$
OPERATING ACTIVITIES			
Revenue Inflows			
Interest Received		11,406,766	10,884,043
Fees and Commissions		1,890,661	1,847,091
Dividends		68,204	50,016
Other Income		181,104	169,959
Income Tax Refund		85,833	–
Revenue Outflows			
Interest Paid		(7,805,781)	(6,252,556)
Suppliers and Employees		(4,393,592)	(4,545,168)
Income Taxes Paid		(83,072)	(129,507)
Net Cash From Revenue Activities	36 (b)	1,350,123	2,023,878
Inflows from other operating activities			
Advances to Other Financial Institutions (net movement)		(9,850,000)	(10,300,000)
Decrease in Member Loans (net movement)		1,148,413	(12,495,840)
Increase in Member Deposits and Shares (net movement)		12,972,552	21,683,233
Decrease in Receivables from Other Financial Institutions (net movement)		–	–
Net cash from operating activities		<u>5,621,088</u>	<u>911,271</u>
INVESTING ACTIVITIES			
Inflows			
Proceeds on Sale of Investments		136,407	227,345
Proceeds on Sale of Property, Plant and Equipment		21,818	33,867
Member Loans (Net of Disbursements & Repayments)		–	–
Less: Outflows			
Purchases of Fixed Assets		(29,115)	(295,332)
Purchase of Investments		–	(2,200)
Net Cash From Investing Activities		<u>129,110</u>	<u>(36,320)</u>
FINANCING ACTIVITIES			
Inflows (Outflows)			
Borrowings (net movement)		(3,000,000)	(4,951,134)
Issue of Preference Share Capital		1,299,900	–
Proceeds of Subordinated Debt Issued		1,299,900	–
Net Cash From Financing Activities		<u>(400,200)</u>	<u>(4,951,134)</u>
Total Net Cash Increase/ (Decrease)		5,349,998	(4,076,183)
Cash at the beginning of the year		1,324,008	5,400,191
Cash at the end of the year	36 (a)	<u>6,674,006</u>	<u>1,324,008</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF ACCOUNTING POLICIES

This financial report is prepared for Bankstown City Credit Union Ltd as a single entity, for the year ended the 30 June 2006. The report was authorised for issue on 26 September 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 39. 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 for provision against debts considered doubtful.

(ii) Interest Earned

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

Overdrafts – The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Non Accrual Loan interest – while still legally recoverable, interest is not brought to account as income when 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. Australian Prudential Regulatory Authority (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.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

(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 9. 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 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.

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) Loan 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 provision for doubtful debts if a provision for impairment had previously been recognised. If no provision had been recognised, the write off is recognised as an expense in the Income Statement.

(e) Property, Plant and Equipment

Land and buildings are measured at fair value less accumulated depreciation. Any 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 if appropriate at each reporting date. Estimated useful lives at the balance date are as follows:

Buildings	40 years
Plant and Equipment	3 to 7 years

Assets less than \$300 are not capitalised.

(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.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

(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 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 moneys owing to depositors.

(ii) Interest Payable

Interest on savings is calculated on the daily balance and posted to the accounts in accordance with the terms of operation of savings plan, or maturity of the term deposit account. Interest on savings is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings plan and term deposit account, as varied from time to time. The amount of the accrual is shown as part of Creditors and Accruals (refer Note 16).

(i) Provision for Employee Entitlements

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

Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

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.

The Credit Union has staff totalling 29 full time equivalents as at 30 June 2006.

(j) 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.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

(k) 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.

(l) 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 ATO are classified as operating cash flows.

(m) 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.

(n) Risk Management Objectives and Policies

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

Market risk and hedging policy

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

The Credit Union is exposed to interest rate risk 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 measured Gap to be maintained is between 2% and 10% of the net assets. The Gap is measured monthly to identify and large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivative to match the interest rate risks.

Details of the interest rate risk profile are set out in Note 26.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

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 policy is to maintain at least 60% of the loans in well secured residential mortgages which carry an 80% Loan to Valuation ratio or less. Note 8(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 9.

Credit risk – liquid investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity.

The board policy is to maintain at least 60% of the investments in Credit Union Services Corporation (Aust) Limited (CUSCAL), a company set up to support the member credit unions and which has an AAB rating. All investment must be with financial institutions with a rating in excess of BBB.

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 etc where specialisation demands quality staff which is best secured by one entity. Further details of the investments are set out in note 10.

Liquidity risk

The Credit Union has set out in Note 25 the maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Credit Union policy is to apply 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 are to address the matter and ensure that the liquid funds are obtained from new deposits, borrowing facilities available. Note 29 describes the borrowing facilities as at the balance date.

(o) Key Accounting Assumption on the Preference Shares

The structure of the share issue agreement and the T1Loss 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.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

2. INCOME STATEMENT

(a) Analysis of Interest Revenue

2006			
Category of Interest bearing Asset	Interest Revenue	Average Balance	Average Interest Rate
	\$	\$	%
Cash – Deposits at call	155,005	3,312,905	4.68
Advances to other Financial Institutions	1,622,081	28,050,000	5.78
Loans and Advances to members	9,949,288	135,213,023	7.36
TOTAL INTEREST REVENUE	11,726,374	166,575,928	7.04

2005			
Category of Interest bearing Asset	Interest Revenue	Average Balance	Average Interest Rate
	\$	\$	%
Cash – Deposits at call	112,464	2,588,116	4.35
Advances to other financial institutions	992,613	17,403,846	5.70
Loans and Advances to members	9,402,538	130,641,086	7.20
TOTAL INTEREST REVENUE	10,507,615	150,633,048	6.98

	2006	2005
	\$	\$
(b) Non Interest Revenue comprises		
Fee and Commission Revenue		
Loan Fee Income – other than loan origination fees	138,523	147,050
Other Fee Income	1,337,606	1,298,124
Insurance Commissions	148,231	175,898
Other Commissions	341,312	255,717
Total Fee and Commission Revenue	1,965,672	1,876,789
Other revenue		
Dividends received	68,204	50,016
Bad Debts Recovered	64,359	138,115
Gain on disposal of assets	2,836	33,867
Miscellaneous revenue	45,107	7,168
Total Other Revenue	180,506	229,166
Total Non Interest Revenue	2,146,178	2,105,955

(c) Analysis of Interest Expense

2006			
Category of Interest bearing Liability	Interest Expense	Average Balance	Average Interest Rate
	\$	\$	%
Deposits from members	7,588,832	151,946,778	4.99
Deposits from other Financial Institutions	171,237	1,923,077	8.90
TOTAL INTEREST EXPENSES	7,760,069	153,869,855	5.05

2005			
Category of Interest bearing Liability	Interest Expense	Average Balance	Average Interest Rate
	\$	\$	%
Deposits from members	6,502,496	137,783,707	4.72
Deposits from other Financial Institutions	166,327	2,317,710	7.18
TOTAL INTEREST EXPENSES	6,668,823	140,101,417	4.76

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

(d) Impairment losses on loans and advances		
	2006	2005
	\$	\$
Increase in provision for impairment	<u>226,392</u>	<u>234,276</u>
(e) Prescribed expense disclosures		
Auditors Remuneration		
Audit Fees	102,862	48,152
Other Services – Taxation	2,563	2,153
Bad and Doubtful Debt Expense, net of recoveries and movements in Provisions	226,392	211,881
Depreciation Expenses		
Buildings	31,487	31,487
Plant and Equipment	65,919	91,524
Information Technology - Hardware & Software	49,413	55,113
Leasehold Improvements	23	69
Amortisation of Software	212,609	395,552
Assets Disposed Written Down Value	21,902	38,826
Loss on Sale of Assets	2,533	4,959
Gain on Sale of Assets	(2,836)	–
Provision for Annual Leave	4,060	(19,554)
Provision for Long Service Leave	24,335	1,848
Provision for Sick Leave	(27,230)	–
Provision for Contract Fee	82,015	–
Supervision Levy	8,370	15,319

3. INCOME TAX

(a) The prima facie tax payable on Operating Profit is reconciled to the Income Tax Expense in the accounts as follows:

Prima facie tax payable on Operating Profit before income tax at 30% (2005: 30%)	324,342	137,687
Add: Prima facie tax payable on Operating Profit before income tax at 45%	–	51,485
Add/(Less): Tax adjustment due to difference in tax rate 45% and FITB 30%	–	(34,492)
Add tax effect of other expenses not deductible	–	3,396
Add: Adjustment to recognize Future Income Tax Benefit at 30%	–	(22,500)
Add: tax effect other – Franked Dividend Payment	–	9,646
Less Over/ Add Under Provision of tax in prior year	742	(16,375)
Imputation Credits	(18,991)	(21,435)
Income tax expense attributable to operating profit	<u>306,093</u>	<u>107,412</u>

(b) The income tax expense comprises amounts set aside as:

Provision for Income Tax attributable to Current Year Taxable Income	276,181	20,087
Adjustment in Prior Years Provision	–	(16,375)
Add: Movement in Future Income Tax Benefit account	29,912	68,984
Less: Prior Year Adjustment to Future Income Tax Benefit	–	34,716
Income tax expense attributable to operating profit	<u>306,093</u>	<u>107,412</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

(c) **Franking Credits**

	2006 \$	2005 \$
The amount of franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment of income tax payable at the end of the financial year is:	1,842,985	1,538,316

4. CASH

Cash on Hand	2,074,006	824,008
Deposits – at call	4,600,000	500,000
Total Cash	<u>6,674,006</u>	<u>1,324,008</u>

5. ADVANCES TO OTHER FINANCIAL INSTITUTIONS

Deposits with CUSCAL	25,900,000	15,700,000
Deposits with BankWest	2,650,000	3,000,000
Total Advances to Other Financial Institutions	<u>28,550,000</u>	<u>18,700,000</u>

6. RECEIVABLES

Interest Receivable from Other Financial Institutions	516,583	209,924
Accrued Income	45,567	40,876
Sundry Debtors	499,463	749,297
Total Accrued Receivables	<u>1,061,613</u>	<u>1,000,097</u>

7. PREPAYMENTS

Prepayments	117,479	101,063
Total Prepayments	<u>117,479</u>	<u>101,063</u>

8. LOANS AND ADVANCES

(a) **Amount Due comprises**

Overdrafts and Revolving Credit	5,117,364	4,624,737
Term Loans	130,382,033	131,838,679
Total	<u>135,499,397</u>	<u>136,463,416</u>
Less: Provision for Impaired Loans	(128,582)	(170,384)
Net Loans and Advances	<u>135,370,815</u>	<u>136,293,032</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

The 2005 comparative balances are different to the reported amounts shown in the 2005 annual report. The changes relate to the AIRFS adjustments and are explained in Note 38 with respect to the

- effective interest rate adjustments
- general provisions

(b) Security Dissection

	2006	2005
	\$	\$
Secured by Mortgage over Real Estate	112,809,026	116,130,581
Partly Secured by Goods Mortgage	6,384,795	7,030,201
Wholly Unsecured	16,305,576	13,302,634
	<u>135,499,397</u>	<u>136,463,416</u>

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. Security held as mortgage against real estate is on the basis of:

- loan to valuation ratio of less than 80%
- loan to valuation ratio of more than 80% but mortgage secured
- loan to valuation ratio of more than 80% but not mortgage insured

(c) Concentration of Loans

(i) There is no loan which represents 10% or more of Shareholders equity of the Credit Union.

(i) Loans to individuals and corporate members are concentrated solely in Australia and principally in the following region:

- NSW 79%
- Other States 21%

(iii) Purpose Dissection

	2006	2005
	\$	\$
Residential Loans	113,613,995	114,189,166
Personal Loans	20,683,939	21,316,799
Commercial Purpose Loans	1,201,463	957,451
Total Loans	<u>135,499,397</u>	<u>136,463,416</u>

9. PROVISION ON IMPAIRED LOANS

(a) Total provision comprises

Specific Provisions	128,582	170,384
Total Loan Provision	<u>128,582</u>	<u>170,384</u>

(b) Movement in the Specific Provision

Balance at the Beginning of year	170,384	203,238
Less: Impaired loans written off against Provision	(268,194)	(267,129)
Add: Increase in Provision	226,392	349,996
Add: Transfer from/(to) General Provision	-	(115,721)
Balance at the end of year	<u>128,582</u>	<u>170,384</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

(c) **The Specific Loan Provision consists of:**

	2006	2005
	\$	\$
Provision required by APRA Prudential Standards	128,582	170,384
Additional Specific Provision	-	-
	<u>128,582</u>	<u>170,384</u>

(d) **Loans written off**

Amounts written off against the provision for impaired loans	268,194	267,130
Amounts written off directly to expense	-	-
Total bad debts	<u>268,194</u>	<u>267,130</u>
Bad debts recovered in the period	64,359	138,115

(e) **Impaired loan disclosures**

Impaired loans as at balance date

Balance of the impaired loans	<u>170,227</u>	<u>180,073</u>
Estimated value of loans which is secured	<u>-</u>	<u>-</u>

Renegotiated Loans not impaired

Balance of the renegotiated loans	<u>-</u>	<u>-</u>
Estimated value of loans which is secured	<u>-</u>	<u>-</u>

(f) **Loans upon which interest is not being accrued**

Loans with provision for impairment	169,410	156,866
Less: specific provision	(116,248)	(113,975)
	<u>53,162</u>	<u>42,891</u>
Loans with no provision for impairment	817	25,207
Total non accrual loans	<u>170,227</u>	<u>182,073</u>

Restructured loans with no provision for impairment

<u>-</u>	<u>-</u>
----------	----------

Loans with repayments past due but not impaired (due to security held)

<u>667,027</u>	<u>433,199</u>
----------------	----------------

Assets acquired via enforcement of security (excluding loans reported)

- Real estate	-	-
- Other	-	-
	<u>-</u>	<u>-</u>

Revenue on impaired loans (non accrual & restructured)

Interest and other revenue recognised as revenue earned during the year	<u>7,000</u>	<u>5,551</u>
Interest and other revenue accrued but not recognised as revenue (i.e. foregone) in the year	<u>29,897</u>	<u>33,618</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

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 balance
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 265 days	80
Over 365 days	100

10. AVAILABLE FOR SALE INVESTMENTS

	2006 \$	2005 \$
Shares		
Shares – Credit Union Services Corporation (Australia) Ltd 10(a)	545,638	682,045
Shares – CU Technology Development Ltd 10(b)	4,450	4,450
Shares – Transaction Solutions Pty Ltd 10(c)	484,733	484,733
Total Other Investments	1,034,821	1,171,228

(a) Credit Union Services Corporation (Australia) Ltd (CUSCAL)

The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 32. 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.

(b) CU Technology Development Ltd (CUTD)

This company has been formed on behalf of a number of credit unions to oversee the continued development and future implementations of the new ICBS computer operating system, which the Credit Union converted to on 13th November 2000.

The Credit Union currently holds 445,000 Class B shares in the company fully paid to 1 cent each.

(c) Transaction Solutions Pty Ltd (TAS)

TAS is a company set up to provide the AS400 computer systems upon which our new financial software package, ICBS is installed. The Credit Union holds \$14,300 in ordinary shares, and \$470,433 in preference shares in the company fully paid.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$	2005 \$
11. PROPERTY PLANT AND EQUIPMENT		
Land at Net Fair Value 10(a)	1,771,964	1,590,477
Buildings at Net Fair Value 10(a)	1,259,523	1,259,523
Less: Provision for Depreciation	(31,487)	-
	<u>1,228,036</u>	<u>1,259,523</u>
Information Technology	751,891	750,308
Less: Provision for Depreciation	(715,427)	(666,013)
	<u>36,464</u>	<u>84,295</u>
Plant and Equipment at Cost	1,346,787	1,378,285
Less: Provision for Depreciation	(1,099,799)	(1,051,411)
	<u>246,988</u>	<u>326,874</u>
Capitalised Leasehold Improvements	77,600	80,358
Less: Provision for Depreciation	(77,600)	(77,802)
	<u>-</u>	<u>2,556</u>
Total Property Plant and Equipment	<u><u>3,283,452</u></u>	<u><u>3,263,725</u></u>

(a) Land and Buildings – Valuation

Land and Buildings have a market valuation of \$3,000,000 as at 29 June 2006. This valuation is to be conducted every year and was performed by Sydney Valuation Services, an independent valuer. The increase in value was brought to account in the Statement of Financial Position. It should be noted the previous valuation conducted as at 30 June 2005 valued Land and Buildings at \$2,850,000.

Details of Valuation: Date 29 June 2006. Basis of Valuation on a fair market value

(b) Movement in Property Plant and Equipment

Item	2006			
	Land & Buildings	Information Technology	Plant & Equipment	Leasehold Improvements
Opening Written Down Value	\$ 2,850,000	\$ 84,295	\$ 326,874	\$ 2,556
Additions at Cost	-	1,583	5,401	-
Revaluation	181,487	-	-	-
Disposals Written Down Value	-	-	(19,369)	(2,533)
Depreciation	(31,487)	(49,414)	(65,918)	(23)
Closing Written Down Value	3,000,000	36,464	246,988	-

Item	2005			
	Land & Buildings	Information Technology	Plant & Equipment	Leasehold Improvements
Opening Written Down Value	\$ 985,195	\$ 87,503	\$ 359,192	\$ 2,625
Additions at Cost	-	51,904	157,203	-
Revaluation	1,896,292	-	-	-
Disposals Written Down Value	-	-	(97,997)	-
Depreciation	(31,487)	(55,112)	(91,524)	(69)
Closing Written Down Value	2,850,000	84,295	326,874	2,556

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$	2005 \$
12. TAXATION ASSETS		
Deferred Tax Asset	350,581	380,492
Tax Refund Receivable	–	66,892
GST Assets	28,782	25,409
Total Taxation Assets	<u>379,363</u>	<u>472,793</u>
Deferred Tax Asset comprise		
Accrued Expenses not deductible until incurred	45,500	23,300
Bad Debt 2005 provision	–	85,375
Provisions for Impairment on Loans	128,582	170,384
Provisions for Employee Benefits	363,969	361,888
Provisions for Other Liabilities	82,015	–
Depreciation on Fixed Assets (net)	307,151	324,770
Capital raising cost	(11,840)	–
Sub Total	<u>915,377</u>	<u>965,717</u>
Effective Interest Rate	312,440	353,023
Less		
Deferred Transaction Costs on Loan Origination	(59,215)	(50,434)
Net Effective Interest Rate	<u>253,225</u>	<u>302,589</u>
	<u>1,168,602</u>	<u>1,268,306</u>
13. INTANGIBLE ASSETS		
Computer Software	2,250,346	2,228,215
Less Provision for amortisation	(2,155,342)	(1,942,733)
Total Intangible Assets	<u>95,004</u>	<u>285,482</u>
Movement in Intangible Assets		
Computer Software		
Opening Written Down Value	285,482	594,810
Additions at Cost	22,131	86,224
Disposals Written Down Value	–	–
Depreciation	(212,609)	(395,552)
Closing Written Down Value	<u>95,004</u>	<u>285,482</u>
14. BORROWINGS		
Overdraft – CUSCAL	–	–
Loan – CUSCAL	–	–
Loan – Questor	–	3,000,000
Total Investments	<u>–</u>	<u>3,000,000</u>
15. DEPOSITS FROM MEMBERS		
Member Deposits – At Call	70,260,957	58,599,306
Member Deposits – Fixed Term	84,162,854	82,757,315
Total Deposits	<u>154,423,811</u>	<u>141,356,621</u>
Withdrawable Shares	<u>92,258</u>	<u>107,416</u>
Total Deposits	<u>154,516,069</u>	<u>141,464,037</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

Concentration of Member Deposits

Member withdrawable shares are included as part of on call amounts.

Concentration of Risk

- There is no deposit which represent 10% or more of the total liabilities of the Credit Union; and
- There is no identifiable industry group which represent 10% or more of total liabilities of the Credit Union.

	2006 \$	2005 \$
16. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS		
Accrued Interest Expense	934,364	1,001,185
Accrued Operating Expenses	274,153	264,619
Sundry Creditors	891,017	1,216,305
Interest Payable on Borrowings	31,314	10,204
Net Unearned Income	253,225	-
Total Creditors and Borrowings	<u>2,384,073</u>	<u>2,492,313</u>
17. TAXATION LIABILITIES		
Provision for Income Tax Expense	212,051	-
GST Liabilities	20,229	10,460
Other Taxes Payable	-	-
Total Taxation Liabilities	<u>232,280</u>	<u>10,460</u>
Current income tax liability comprises:		
Balance – previous year	-	-
Less paid	-	-
Over / under statement in prior year	-	-
Liability for income tax in current year	275,440	-
Less Instalments paid in current year	63,389	-
	<u>212,051</u>	<u>-</u>
18. PROVISIONS		
Provision for Employee Annual & Sick Leave	168,999	192,169
Provision for Employee Long Service Leave	194,055	169,720
Provision for Licence Fee	82,015	-
Total Provisions	<u>445,069</u>	<u>361,889</u>
Total number of employees at year end	<u>29</u>	<u>33</u>
Provisions movements comprises:		
Balance – previous year	-	-
Less paid	-	-
Liability increase in current year	82,015	-
Less Instalments paid in current year	-	-
Closing balance - current year	<u>82,015</u>	<u>-</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$	2005 \$
19. SUBORDINATED DEBT		
Balance at the beginning of the year	-	-
Increase due to debt issued	1,449,900	-
Balance at the end of year	<u>1,449,900</u>	<u>-</u>

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

20.(a) PREFERENCE SHARES

Balance at the beginning of the year	-	-
Increase due to shares issued	1,299,900	-
Balance at the end of year	<u>1,299,900</u>	<u>-</u>

The Credit Union entered into an agreement to issue 15,000 preference shares in the year which was approved at the members meeting held on 10th March, 2006. The agreement specified that the Credit Union also place loans equivalent to 10% of the value of the shares as subordinated debt with the investors as security for payment of dividends and interest respectively.

(i) the number of shares authorised	15,000	-
(ii) the number of shares issued and fully paid,	15,000	-
(iii) the number of shares issued but not fully paid;		-
(iv) par value per share, or that the shares have no par value;	\$100	-
(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;	-	-
(vi) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts;	-	-

Preference Share Issue

Equity Share Capital Account	1,500,000	-
Less Equity Share Capital Discount	(50,100)	-
Less 10% Loan loss reserve	(150,000)	-
Closing Balance	<u>1,299,900</u>	<u>-</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$	2005 \$
20.(b) CAPITAL RESERVE ACCOUNT		
Redeemed Capital Account		
Balance at beginning of the year	126,956	109,182
Transfer from Retained Earnings on Redemptions	21,610	17,774
Closing Balance	<u>148,566</u>	<u>126,956</u>
<p>The accounts represent the amount of redeemable preference shares redeemed by the Credit Union since 1 July 1999. The Corporations Act 2001 (Cwlth) requires that the redemption of the shares be made out of profits. Since the value of the shares have 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.</p>		
21. GENERAL RESERVES		
General Reserve	602,512	602,512
Closing Balance	<u>602,512</u>	<u>602,512</u>
22. ASSET REVALUATION RESERVE		
Asset revaluation reserve – land & buildings	2,077,780	1,896,292
TOTAL RESERVES	<u>2,077,780</u>	<u>1,896,292</u>
Movements in Reserves	181,488	1,896,292
Asset revaluation reserve – land & buildings		
<p>The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value</p>		
Balance at the beginning of the year	1,896,292	–
Add: increase on revaluation of land & buildings	181,488	1,896,292
Less: deferred tax liability	–	–
Balance at the end of year	<u>2,077,780</u>	<u>1,896,292</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$	2005 \$
23. GENERAL RESERVE FOR CREDIT LOSSES		
General reserve for credit losses	623,140	549,533
TOTAL GENERAL RESERVES FOR CREDIT LOSSES	<u>623,140</u>	<u>549,533</u>
General Reserve for Credit Losses		
This reserve records amount previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA		
Balance at 30 June 2005	-	-
Add: balance transferred from general provision for Impaired Loans as an adjustment to opening balance		
Balance at 30 June 2005 - Revised	549,533	433,813
Add: increase (decrease) transferred from retained earnings	73,607	115,720
Balance at end of year	<u>623,140</u>	<u>549,533</u>

24. RETAINED EARNINGS

Retained Earnings at the beginning of the Financial Year	12,107,436	12,101,196
Add: Operating Profit after tax for the year	775,045	351,546
Less: Transfer to reserve for credit losses in year	(73,607)	(115,720)
Less: Transfer of reserves to the Redeemed Capital Account	(21,610)	(17,774)
Unearned Income Loan Fees	-	(211,812)
Total Retained Profits	<u>12,787,264</u>	<u>12,107,436</u>

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 38.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

25. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have differing maturity profiles depending on their contractual term, and in the case of loans, the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities currently held will mature and be eligible for renegotiation or withdrawal. In the case of loans the table shows the period over which the principal outstanding will be repaid.

2006					
Time	ASSETS			LIABILITIES	
	Cash	Receivables from Other Financial Institutions	Loans & Advances (net of Specific Provision)	Payables to Other Financial Institutions	Member Deposits
	\$	\$	\$	\$	\$
At Call	6,674,006	–	–	–	70,445,472
Overdrafts	–	–	5,105,032	–	–
Up to 3 Months	–	16,900,000	350,882	–	32,206,854
3 to 12 Months	–	11,650,000	187,752	–	48,335,048
1 to 5 years	–	–	27,014,589	–	3,528,695
Over 5 Years	–	–	102,712,560	–	–
TOTAL	6,674,006	28,550,000	135,370,815	–	154,516,069

2005					
Time	ASSETS			LIABILITIES	
	Cash	Receivables from Other Financial Institutions	Loans & Advances (net of Specific Provision)	Payables to Other Financial Institutions	Member Deposits
	\$	\$	\$	\$	\$
At Call	1,324,008	–	–	–	58,706,722
Overdrafts	–	–	4,580,005	–	–
Up to 3 Months	–	18,700,000	378,648	1,000,000	34,773,750
3 to 12 Months	–	–	434,551	2,000,000	40,629,385
1 to 5 years	–	–	28,185,399	–	7,354,180
Over 5 Years	–	–	102,714,429	–	–
TOTAL	1,324,008	18,700,000	136,293,032	3,000,000	141,464,037

26. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have conditions which allow interest rates to be amended either on maturity (Term Deposits) 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					
Time band for changing interest rates	ASSETS			LIABILITIES	
	Cash	Receivables from Other Financial Institutions	Loans & Advances (before provision)	Payables to Other Financial Institutions	Member Deposits
	\$	\$	\$	\$	\$
Floating Rate	6,674,006	–	135,095,334	–	70,445,472
Within 1 Month	–	8,300,000	–	–	10,916,700
1 to 3 Months	–	8,600,000	–	–	21,290,154
3 to 12 Months	–	11,650,000	–	–	48,335,048
1 to 5 Years	–	–	275,481	–	3,528,695
Over 5 years	–	–	–	–	–
TOTAL	6,674,006	28,550,000	135,370,815	–	154,516,069
Weighted Average Interest Rate	4.68%	5.78%	7.35%	–	4.99%

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

2005					
Time band for changing interest rates	ASSETS			LIABILITIES	
	Cash	Receivables from Other Financial Institutions	Loans & Advances (before provision)	Payables to Other Financial Institutions	Member Deposits
	\$	\$	\$	\$	\$
Floating Rate	1,324,008	–	135,784,486	–	58,706,722
Within 1 Month	–	13,400,000	–	1,000,000	14,126,940
1 to 3 Months	–	5,300,000	230,605	–	20,646,810
3 to 12 Months	–	–	–	2,000,000	40,629,385
1 to 5 Years	–	–	277,941	–	7,354,180
Over 5 years	–	–	–	–	–
TOTAL	1,324,008	18,700,000	136,293,032	3,000,000	141,464,037
Weighted Average Interest Rate	4.35%	5.70%	7.20%	7.18%	4.72%

27. NET 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 the 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 held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities.

2006				
	ASSETS		LIABILITIES	
	Receivables from Other Financial Institutions	Loans & Advances (net of provision)	Payables to Other Financial Institutions	Member Deposits
	\$	\$	\$	\$
Net Fair Value	28,566,289	135,371,129	–	152,522,226
Book Value	28,550,000	135,370,815	–	154,516,069
Variance	16,289	314	–	(1,993,843)

2005				
	ASSETS		LIABILITIES	
	Receivables from Other Financial Institutions	Loans & Advances (net of provision)	Payables to Other Financial Institutions	Member Deposits
	\$	\$	\$	\$
Net Fair Value	18,700,840	136,082,087	3,020,122	139,510,348
Book Value	18,700,000	136,293,032	3,000,000	141,464,037
Variance	840	(210,945)	20,122	(1,953,689)

Assets where the net 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:

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 net fair value as they are short term in nature or are receivable on demand.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

27. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

Loans and Advances

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

For variable rate loans, excluding impaired loans, the carrying amount is considered to be a reasonable estimate of net fair value. The net 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 net 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.

Deposits from Members

The net fair value of non interest bearing, call and variable rate deposits, and fixed rate deposits repricing within 6 months, is the carrying value as at 30 June. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the net fair value of other term deposits.

Short Term Borrowings

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

28. FINANCIAL COMMITMENTS

(a) Outstanding Loan Commitments

The loans approved by the Board but not funded as at 30 June 2006 amount to \$370,000 (2005: \$1,883,184).

The payment of these funds at the time of draw down is at the discretion of the board subject to available liquid funds.

(b) Undrawn Loan Facilities

Loan facilities available to members for Overdrafts and Line of Credit Loans are as follows:

Total Value of Facilities approved	9,694,285	9,093,347
Less: Amount Advanced	(5,117,364)	(4,624,737)
Net Undrawn	<u>4,576,921</u>	<u>4,468,610</u>

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

(c) Redraw Available on Loans

The balances of funds available to members with a loan redraw facility amounts to \$8,718,764 (2005: \$7,951,439)

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

(d) **Future Capital Commitments**

There are no future capital commitments.

(e) **Operating Lease**

The Credit Union has an operating lease for the ATM premises it occupies at the Bankstown Hospital. The lease is for a period of 36 months to 1 January 2008. Total payments to be made up to the next renewal date amount to \$18,897.

The Credit Union also has operating leases for three photocopiers – the first requiring a monthly payment of \$325.60 until 18 July 2008, the second a monthly payment of \$401.50 plus a printer module of \$91.30 until 22 December 2008 and the third monthly payment of \$690.80 until 6 April 2011.

(f) **Computer Bureau Charges (TAS)**

In the event that 12 months notice of intention to terminate the service contract is not supplied in accordance with the agreement between the parties, the Credit Union would be liable to pay annual the equivalent of the transaction charges incurred in the preceding 12 months \$153,410 (2005: \$154,238).

29. **STANDBY BORROWING FACILITIES**

The Credit Union has a borrowing facility with Credit Union Services Corporation (Australia) Limited (CUSCAL) of:

2006			
	Gross	Borrowing	Net Available
	\$	\$	\$
Overdraft Facility	6,000,000	–	6,000,000
Total	6,000,000	–	6,000,000

2005			
	Gross	Borrowing	Net Available
	\$	\$	\$
Overdraft Facility	6,000,000	–	6,000,000
Total	6,000,000	–	6,000,000

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

30. **CONTINGENT LIABILITIES**

(a) **Liquidity Support Scheme**

The Credit Union is a member of Credit Union Financial Support System 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 Credit Union Services Corporation (Australia) Limited (CUSCAL).

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

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

31. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

(a) Names of Directors

During the course of the financial year the following Directors held office:

Ms Brigid Archibald
 Mr Linden Evans
 Mr Colin Froud
 Mr Darren Gossling
 Mr Gordon Howard
 Mr Raad Richards
 Mrs Margaret Young

(b) Remuneration of key management persons (KMP)

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

Key management persons (KMP) has been taken to comprise the directors and the 4 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:

Note the AASB 124 standard does not specifically require the separation of the directors and executive remuneration.

	2006 \$	2005 \$
(a) short-term employee benefits	586,994	578,190
(b) post-employment benefits - superannuation contributions	32,713	31,052
(c) other long-term benefits – net increases in long service leave provision	–	–
(d) termination benefits	–	–
(e) share-based payment	–	–
Total	619,707	609,242

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.

Other Transactions with Related Parties

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

- (a) each of loans and advances, deposits and acceptances and promissory notes; [disclosures may include the aggregate amounts outstanding at the beginning and end of the period, as well as advances, deposits, repayments and other changes during the period];
- (b) each of the principal types of income, interest expense and commissions paid;

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

- (c) the amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date; and
- (d) irrevocable commitments and contingencies and commitments arising from off balance sheet items.

	2006 \$	2005 \$
(c) Loans to Directors and other Key Management Persons		
(i) The aggregate value of loans to directors and other key management persons as at balance date amounted to	2,636,559	2,270,950
(ii) The total value of revolving credit facilities to directors and other key management persons, as at balance date amounted to	67,000	67,000
Less amounts drawn down and included in (i)	23,379	24,246
Net balance available	43,621	42,754
(iii) During the year the aggregate value of loans disbursed to directors and other key management persons amounted to:		
Revolving credit facilities	-	-
Personal loans	-	-
Term loans	1,038,168	778,183
	1,038,168	778,183
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to directors and other key management persons amounted to:	-	-
	-	-
(v) Interest and other revenue earned on Loans and revolving credit facilities to KMP	133,122	126,417

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 KMPs.

There are no benefits or concessional terms and conditions applicable to the close family members of the key management persons (KMP). There are no loans which are impaired in relation to the loan balances with close family relatives of directors and other KMP.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

Other transactions between related parties include deposits from directors, and other KMP are -

	2006 \$	2005 \$
Total value term and savings deposits from KMP	<u>438,908</u>	<u>349,990</u>
Total Interest paid on deposits to KMP	<u>17,945</u>	<u>15,379</u>

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

(d) Transactions with other Related Parties

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

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

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

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

32. ECONOMIC DEPENDENCY

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

(a) Credit Union Services Corporation (Australia) Limited (CUSCAL)

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 provides services in the form of settlement with Bankers for ATM and 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. The Credit Union has invested all of its liquid assets with the entity to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

(b) First Data Resources Australia Limited (FDRA)

This company 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) Transaction Solutions Ltd

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

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

33. SEGMENTAL REPORTING

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

34. SUPERANNUATION LIABILITIES

The Credit Union contributes to the CUE Super Plan and any other superannuation funds nominated by the employee as mandated under the Superannuation Choice legislation 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, nor the obligations of the Plan.

35. 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 \$ 0 (2005: \$0)

36. 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	2,074,006	824,008
Deposits at Call	4,600,000	500,000
Total Cash On Hand	<u>6,674,006</u>	<u>1,324,008</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$	2005 \$
(b) Reconciliation of Cash from Operations to Accounting Profit		
The net Cash increase (decrease) from Operating Activities is reconciled to the Operating Profit after tax.		
Operating Profit after Tax	775,045	270,542
Add (Deduct):		
Depreciation	359,451	573,745
Depreciation WIP	–	59,170
Loss On Sale of Assets	2,533	4,959
Increase in Provision for Staff Leave	1,165	(17,706)
Increase in Provision for Income Tax	278,943	(58,903)
Increase in Other Provision	82,015	–
Increase in Accrued Operating Expenses	19,926	59,176
Increase in Provision for Doubtful Debts	226,392	349,996
Increase in Deferred Tax Assets	29,911	68,984
Gain on Sale of Assets	(2,449)	–
Decrease in Interest Payable	(45,712)	416,267
Decrease in Unearned Income	(16,046)	–
Decrease in Loan Transaction Costs	(33,318)	–
Decrease in Prepayments	(16,416)	1,157
Decrease in Accrued Income	(3,761)	(5,022)
Decrease in Other Taxes Payable	(3,994)	(8,022)
Decrease in Provision of ICBS	–	(1)
Decrease in Interest Receivable	(303,562)	376,428
Decrease in Taxation Refund Receivable	–	(66,892)
Net Cash from Revenue Activities	<u>1,350,123</u>	<u>2,023,878</u>
Add (Deduct) non revenue operations		
Increase in deposit balances	(9,850,000)	(10,300,000)
Reduction in member loans	1,148,413	(12,495,840)
Increase in member deposits and shares	12,972,552	21,683,233
Net cash from operating activities	<u>5,621,088</u>	<u>911,271</u>

37. CORPORATE INFORMATION

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

The address of the registered office is

64 Kitchener Parade Bankstown NSW 2200

The address the principal place of business is

64 Kitchener Parade Bankstown NSW 2200

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

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

38. 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 are 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 require 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 AAAB 118 Revenue require the net profit on sale of fixed assets to 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. Under previous GAAP, non-current investments were previously recognised at their cost.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

39. AIFRS IMPACT ON STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2005

	Note	Balance reported in previous year 2005 \$	Current year's reported comparative 2005 \$	Changes
ASSETS				
Cash		1,324,008	1,324,008	–
Receivables due from other Financial Institutions		18,700,000	18,700,000	–
Receivables		1,101,160	1,101,160	–
Investment Securities		–	–	–
Loans and Advances	A1	136,766,005	136,463,416	302,589
Loans and Advances Provision	A2,A6,A8,A9	(719,917)	(170,384)	(549,533)
Other Investments	A3	1,171,228	1,171,228	–
Property, Plant and Equipment	A4	3,549,207	3,549,207	–
Taxation Assets	A5	546,876	472,793	74,083
Intangible Assets	A4	–	–	–
TOTAL ASSETS		162,438,567	162,611,428	(172,861)
LIABILITIES				
Payables to other Financial Institutions		3,000,000	3,000,000	–
Deposits and Borrowings		141,464,037	141,464,037	–
Payables		2,492,313	2,492,313	–
Taxation Liabilities		10,460	10,460	–
Provisions	A8, A9	361,889	361,889	–
TOTAL LIABILITIES		147,328,699	147,328,699	–
NET ASSETS		15,109,868	15,282,729	(172,861)
MEMBERS EQUITY				
Capital		729,468	729,468	–
Reserves – Asset Revaluations	A7	1,896,292	1,896,292	–
General Reserve for Credit Losses	A2,A3	–	549,533	(549,533)
Retained Profits	A1,A2,A5	12,484,108	12,107,436	376,672
TOTAL MEMBERS EQUITY		15,109,868	15,282,729	(172,861)

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

Changes to Equity

	Note	\$
Opening balances as at 1 July 2004 under AGAAP		15,109,868
Aggregate net loan origination fee deferred up to 1 July 2004		
Aggregate net transaction costs deferred up to 1 July 2004		
Net Effective Interest rate adjustment	A1	<u>(302,589)</u>
Deferred tax asset adjustment on loan effective interest rate adjustment	A5	90,777
		(211,812)
Loan provision for impairment - excess written back	A6	549,533
Deferred Tax Asset adjustment on loan provision written back	A5	(164,860)
		<u>384,673</u>
		<u>172,861</u>
Opening adjusted equity balances as at 1 July 2004		
Aggregate net loan origination fee deferred for 2005		(353,023)
Aggregate net transaction costs deferred for 2005		50,434
Net Effective Interest rate adjustment	A1	<u>(302,589)</u>
Deferred tax asset adjustment on loan effective interest rate adjustment	A5	90,777
		(211,812)
Loan – provision for impairment – additional excess written back for 2005		549,533
Deferred tax asset adjustment on loan provision written back	A5	(164,860)
		<u>172,861</u>
Restated equity amount for 30 June 2005 under AIFRS in Balance Sheet.		<u><u>15,282,729</u></u>

General Reserve for Credit Losses

	Note	\$
Balance - 1 July 2004 under AGAAP	A2	0
Transfer from retained earnings as at 1 July 2004		549,533
Opening adjusted balances as at 1 July 2004		<u>549,533</u>
Transfer from retained earnings in 2005	A3	
Balance – 30 June 2005		<u><u>549,533</u></u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2006

Changes to Comparative Operating Profit

	Note	\$
Profit after income tax as at 30 June 2005 under AGAAP		351,546
Loan – provision for impairment - excess written back not taken to general reserve for credit losses	A6	-
Deferred tax asset adjustment on loan provision adjustment	A5	-
Interest expense on lease make good provision	A9	-
Depreciation of leasehold improvements	A9	-
Deferred tax asset adjustment on makegood adjustment		-
Total changes to comparative net profit		-
Restated profit for 30 June 2005 under AIFRS		351,546

The details of the changes are as follows -

Note	Explanation
A1	The deferral of the fees and transaction costs under the effective interest rate method has resulted in a deferral of the income to subsequent years. Refer Note 1b (iii) and (iv).
A2	General provision is reallocated to the Reserve for Credit Losses in accordance with AASB 139, and AASB 130.
A3	Shares in the IDPC, and the CUSCAL Shares have not been revalued to fair value.
A4	Software license and installation costs have been transferred from Fixed assets to Intangible assets
A5	The Deferred Tax Asset on the General Provision has been written back following the reduction in the provisions for doubtful debts
A6	Specific Provision has been increased to reflect the revised provisioning requirements of AASB 139 .
A7	A deferred tax liability has been provided on the asset revaluation reserve for the Available For Sale assets (and the revalued Property).
A8	Operating Lease Make Good provisions have been taken up creating a PPE asset addition.
A9	Amortisation of the Make Good Asset and interest expense for the movement in NPV of the provision.

NOTES

This page has been left blank intentionally

Products and Services

Loan Accounts

Home Manager
Home Equity Manager
Property Manager
New Car Manager
Car Manager
Credit Manager

Savings Accounts

Money Manager
Money Max Gold

Term Investments

6 months
12 months
24 months

Financial Planning

Retirement Planning
Stockbroking
Superannuation/Rollovers
Wealth Creation
Social Security Strategies
Taxation Planning

Websites

www.bccu.com.au
www.homemanager.com.au
www.moneymax.com.au
www.bccufinanceoptions.com.au

Insurance

Home and Contents

- Personal effects, valuables
- Domestic Workers Comp

Caravan & Trailer
Pleasure Craft
Motor Vehicle
Comprehensive

- Third Party Property
- Fire, Theft & Third Party Property
- Compulsory Third Party Property (green slip)

Mortgage Protection Insurance (with loan only)
Consumer Credit Insurance (with loan only)

Finance Broking

Commercial and Construction Finance
Motor Vehicle & Equipment Finance
Full range of mortgage products from over 20 lenders

And much more.....

Personalised Cheque Books
Personalised Deposit Books
Corporate Chequing
ATM/EFTPOS

- Redicard
- Visa
- Mastercard

Periodical Payments
Direct Debits & Cheque
Travellers Cheques
Bank Drafts
Foreign Currencies
Telegraphic Transfers

24hr Phonenumber (02) 9707 6000
24hr NetTeller www.bccu.com.au

Executive Management Team



Clinton Blanks
Chief Executive Officer



Greg Fuller
Executive Manager
Operations & Service



Darren Fitzgibbon
Chief Financial Officer



Robert Palin
Executive Manager
Business Marketing &
Development

Bankstown City Credit Union Limited

ABN 40 087 649 769 AFSL 238355

Registered Office and Administration

64 Kitchener Parade
Bankstown NSW 2200

Correspondence

PO Box 3216
Bankstown Square NSW 2200

24hr Phonenumber: 02 9707 6000

Fax: 02 9707 6060

BSB: 802 - 155

Website: www.bccu.com.au

Email: info@bccu.com.au