

2011



Bankstown City Credit Union 46th Annual Report 2011

Bankstown City Credit Union Limited ABN 40 087 649 769

Board of Directors



Back Row: Gordon Howard
Raad Richards (Chairman)
Darren Gossling (Deputy Chairman)
Colin Froud

Front Row: Linden Evans
Brigid Archibald
Margaret Young



Raad Richards
Chairman



Clinton Blanks
Chief Executive Officer

2011 Message From the Chairman and Chief Executive Officer

The financial year ending 30 June 2011 was a year from which Bankstown City Credit Union emerged a far stronger organisation. During this period we continued to achieve our objectives of meeting our member's savings and loans requirements whilst stabilising the Credit Unions capital.

Serving our mutual interests: 6,362 members, represented by 7 directors, serviced by 28 managers and staff

During the financial year, the cost of funding (attracting deposits) for all banks and financial institutions continued to be challenging. This led to many banks and financial institutions changing interest rates over and above the changes made by the Reserve Bank of Australia.

Strong governance and prudent management has ensured preservation of the solid base of members' funds. Being a mutual organisation, Bankstown City Credit Union exists because of the support of our members, who are our only shareholders. This member support, through the take up of our savings and loan products and other financial services, has enabled the Credit Union to be in a stronger position at the end of the financial year.

Strong Profit = strong capital: At 24.22%, 3 times the regulatory requirements

Our members benefit from the profitable operations of the Credit Union, and the value of belonging continually flows back to the members and our community. Personalised and caring service and competitive pricing of our products are part of this value flow.

Our operating revenue for the year was \$13,110,137, up from \$12,082,465 in 2009-2010. Equally important is to report that our non-interest expenses reduced from \$5,140,894 in 2009-2010 to \$4,721,948. Our forward target is to reduce costs even further.

Bankstown City Credit Union is regulated primarily by the Australian Prudential Regulation Authority (APRA) and the Australian Security & Investments Commission (ASIC). Your Credit Union continues to operate well within the requirements of APRA with regard to capital adequacy (financial strength) and liquidity (operating cash flow). In relation to ASIC, the Credit Union continues to readily meet and operate within its Australian Financial Services Licence requirements.

A 5 Star Credit Union

Our MoneyMAX eMiser account was rated by Cannex with their highest 5 Star rating. Our deposits and therefore our total assets are lower due to a deliberate reduction in the amount of corporate deposits held by the Credit Union. We are pleased that we have continued to attract members' term deposits and savings. Interest paid on deposits grew by nearly 21% to \$7,263,212.

Our focus on the needs of borrowing and investing members has attracted an average of ten new members per month. Many of these new members are being referred to BCCU by satisfied current members and through our web site. Overall membership numbers have reduced as we continue to follow up and close down accounts of dormant members.

Becoming even more local: Congratulating 26 Business Award Winners

We have stepped up our work with Bankstown City Council to support local community priorities including events, business networks, mentoring programs, charities and community/sporting organisations. In addition we have again become the major sponsor of the Bankstown Small Business Awards and were pleased to open our doors to host a reception.

Successfully launching our new strategy and business model

Our revised strategic plan is being implemented including necessary consolidation of staff, processes, systems and resources occurred during the first half of 2011.

Our focus is clearly on:

- ✓ excellence in lending and managing savings and investments
- ✓ actively engaging with our members and anticipating their needs
- ✓ earning the right to be the 'local bank' for the Bankstown and surrounding communities
- ✓ bringing the Credit Union to you, personally and over the net
- ✓ recognising, with advantageous pricing and fees, loyal members using their credit union for their investments and/or loans

Our Future: Home Loans up by \$10m – Giving more members home ownership

Securing a new home or investment property for our members will be our focus over the next year. Our investing member's funds are immediately converted in loan funding for home buyers, renovation loans, home upgrades and investment properties.

"We don't do problems, we do solutions".....has become the mantra for our management team and staff. Your elected directors and our management and staff do not take our member's support for granted. We live by the mutuality principles and assist members to make greater use of their Credit Union so that they contribute to growing a stronger and a more mutually beneficial member owned credit union.

Our member research, mystery shopping and member feedback confirms that they value BCCU because of its competitive and honest pricing as well as the professional and supportive service that all our staff is known for. During the year we have seen an increased number of members using our popular redraw facility. Improvements in loans processing will make loan approval and funding even easier and quicker for qualifying members.

The Board, and the Management team are always happy to listen to good ideas and respond to our members. We will place member needs and the long-term sustainability of Bankstown City Credit Union at the centre of every decision.

Your Credit Union will continue to apply prudent risk management policies and procedures to ensure it continues to minimise risk and maximise opportunities to attract deposits and make loans.

During the year, we welcomed new team members and new managers. Their enthusiasm and skill has made an immediate contribution to our service delivery. We recognise, and thank the Directors, management and the team for their dedication to our members and local community that we serve.

Today, Bankstown City Credit Union is a strong organisation committed to its members and well positioned for a strong future.



Raad Richards
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 3 year rotating basis.

Each Director must meet the eligibility requirements of the Credit Union's Constitution and Corporations Act 2001 criteria. The Directors also need to satisfy the Fit and Proper criteria set down by the Australian Prudential Regulation Authority (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 an Executive and Governance Committee have been formed to assist the Board in relevant matters of financial and risk oversight and strategic direction. The Directors form these committees with Executive Management participation.

Audit and Risk Committee

The Audit and Risk Committee is established to oversight the financial reporting, audit and risk management processes. 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/internal auditors remain independent in the areas of work conducted;
- Monitoring matters of risk management and APRA reporting obligations;
- Monitoring compliance with applicable laws including Occupational Health and Safety;
- Over sighting policy development to meet legislative and regulatory needs and operational effectiveness;
- Reviewing and recommending financial budgets and performance criteria.

Executive and Governance Committee

The Executive and Governance Committee deals with:

- Chief Executive Officer (CEO) remuneration benefits;
- Senior management remuneration benefits;
- Staff remuneration policies;
- Approval of executive management expenses;
- Approval of loans to CEO and immediate family;
- APRA Corporate Governance requirements; and
- APRA Fit & Proper requirements:
- Director remuneration

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
Operational risk management
Market risk management
Outsourcing risk management
Business continuity risk management

Compliance and Risk

The Credit Union has a Compliance and Risk 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 and risk matters. The officer also monitors the Financial Services Reform (FSR) License obligations. The Credit Union has also appointed a Dispute Officer to deal with any member complaints and disputes.

External Audit

The external audit is performed by BDO Audit (NSW-VIC) Pty Ltd as part of the BDO International group, a major international accounting body.

Internal Audit

The internal audit is performed by BDO Audit (NSW-VIC) Pty Ltd.

Regulation

The Credit Union is regulated by:

APRA for the prudential risk management of the Credit Union.

Australian Securities & Investment Commission (ASIC) for adherence to Corporations Act and FSR requirements. The FSR regime requires members be provided with adequate product information and that the Credit Union ensure its staff are appropriately trained in addition to complaints handling procedures.

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

Occupational Health and 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 through:

Little or no cash being held in public accessible areas; and
Security cameras installed in and around the branch to allow identification of persons;

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.

The Credit Union has established the OH&S group of employees which meets regularly 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 action 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 2011

	2007	2008	2009	2010	2011
Withdrawable Shares	87,086	83,310	77,598	69,618	61,812
Savings					
- On Call	73,878,579	74,940,756	77,271,051	69,008,998	70,963,204
- Fixed Term Deposits	67,089,496	76,887,808	84,221,414	85,050,146	76,862,616
Total Savings	141,055,161	151,911,874	162,570,062	154,128,762	147,887,632
Loans	128,725,059	138,629,608	144,152,059	131,621,828	141,265,683
Loans Approved/Funded	27,703,903	32,000,055	33,444,328	16,680,086	29,204,182
Total Membership	8,999	8,579	7,979	7,161	6,362
Total Liabilities	147,023,631	158,083,680	169,788,651	160,104,008	155,919,158
Members' Equity	17,391,841	17,848,764	18,377,165	19,048,149	19,963,374
Total Assets	164,415,472	175,932,444	188,165,816	179,152,157	175,882,532
Total Income	14,175,002	14,791,738	14,638,913	12,082,465	13,110,137
Operating Surplus	1,464,417	870,892	600,911	920,433	1,124,979
Income Tax Expense (Credits)	453,325	235,456	164,551	280,936	301,795
Expenses Administration	4,776,876	5,146,384	5,251,472	5,140,894	4,721,946
Interest paid on Deposits	7,933,709	8,774,462	8,786,530	6,021,138	7,263,212

Bankstown City Credit Union Ltd ABN 40 087 649 769

Annual Report for the Year Ended 30 June 2011

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This represents the 46th 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 2011.

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

INFORMATION ON 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 & Governance Committee	
		Attended	Held	Attended	Held	Attended	Held
Brigid Archibald Director Qualifications Experience	Director MBA, BA (Recreation Administration) Board Member since Nov 2002. Audit Committee Member	10	12	7	8		
Linden Evans Director Qualifications Experience	Director Diploma of Law (S.A.B.) Board Member since 1995. Deputy Chairman 1996 - 2003 Chairman since November 2003 - March 2010 Executive Committee Member	12	12			9	12
Colin Froud Director Qualifications Experience	Director FCPA, DHA Board Member since 2002. Audit Committee Chairman since Nov 2004	11	12	8	8		
Darren Gossling Deputy Chairman Qualifications Experience	Deputy Chairman MBA (Marketing and Global Strategy). B. Engineering (Computer Systems & Telecommunications). GAICD Board Member since 2001. Deputy Chairman since March 2010	10	12			10	12
Gordon Howard Director Qualifications Experience	Director Management Certificate. Board Member since 1988. Audit Committee Member	12	12	8	8		
Raad Richards Chairman Qualifications Experience	Chairman B.Bus, MHP, AFCHSM, AAIM, MAICD Board Member since 2000. Deputy Chairman since November 2003 - March 2010 Chairman since March 2010	12	12			10	12
Margaret Young Director Qualifications Experience	Director Nil Board Member since 1998. Audit Committee Member	10	12	7	8		

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

Name	Qualifications	Experience
Clinton Blanks	BAppMgt, FPNA	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 credit union, or a related body corporate with a Director, a firm of which a Director is a member or a credit union in which a Director has a substantial financial interest.

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

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

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

FINANCIAL PERFORMANCE DISCLOSURES

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

The Operating Profit after Tax for the financial year ended 30 June 2011 was \$823,184 (2010: \$639,497).

DIVIDENDS

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the Credit Union.

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 Union's Assets fell to \$175,882,532 representing a 1.83% drop over last year.
- Member Deposits fell to \$147,887,832 representing a 4.05% drop over last year.
- Members Equity grew to \$19,963,374 representing a 4.80% growth over last year.
- Loans and Advances grew to \$141,092,267 representing a 7.37% growth over last year.

Directors' Report

BANKSTOWN CITY CREDIT UNION LTD ABN 40 087 649 769

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

EVENTS OCCURRING AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND RESULTS

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

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

in the financial years subsequent to this financial year.

AUDITOR'S INDEPENDENCE

The auditors have provided the declaration of independence to the Board as prescribed by the Corporations Act 2001 as set out on page 10.

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



Raad Richards
Chairman

Signed and dated this 27th day of September 2011



Colin Froud
Audit and Risk Committee Chairman



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GPO Box 2551 Sydney NSW 2001
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**DECLARATION OF INDEPENDENCE BY WAYNE BASFORD
TO THE DIRECTORS OF BANKSTOWN CITY CREDIT UNION LIMITED**

As lead auditor of Bankstown City Credit Union Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of;

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Wayne Basford', written over a horizontal line.

Wayne Basford

Director

BDO Audit (NSW-VIC) Pty Ltd

Signed in Sydney this 22nd day of September 2011



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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BANKSTOWN CITY CREDIT UNION LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Bankstown City Credit Union Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Bankstown City Credit Union Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Auditor's Opinion

In our opinion:

- a. the financial report of Bankstown City Credit Union Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

A handwritten signature in black ink that reads 'BDO'.

BDO Audit (NSW-VIC) Pty Ltd

A handwritten signature in black ink that reads 'Wayne Basford'.

Wayne Basford

Director

Signed in Sydney this 28th day of September 2011

Directors' Declaration

The Directors' of Bankstown City Credit Union Ltd declare that:-

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001, and :-
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position of the Credit Union as at 30 June 2011 and of its performance for the year ended on that date.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the Directors' opinion there are reasonable grounds to believe that the company 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 and is signed for and on behalf of the directors by:



Raad Richards
Chairman

Dated this 27th day of September 2011

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011 \$	2010 \$
Interest revenue	2 (a)	11,823,945	10,722,434
Interest expense	2 (c)	7,263,212	6,021,138
Net interest income		4,560,733	4,701,296
Fee commission and other income	2 (b)	1,286,192	1,360,031
Sub total		5,846,925	6,061,327
Less			
Non interest expenses			
Impairment losses on loans receivable from members	2 (d)	46,644	220,583
Fee and commission expenses		418,204	441,535
		464,848	662,118
General administration expenses	2 (e)		
- Employees compensation and benefits		2,429,931	2,613,685
- Depreciation and amortisation		152,097	126,929
- Information technology		564,785	526,313
- Marketing and promotion costs		171,902	228,591
- Office occupancy		141,102	147,984
- Other administration		480,765	493,349
Total general administration expenses		3,940,582	4,136,851
Other operating expenses		316,516	341,925
		316,516	341,925
Total non interest expenses		4,721,946	5,140,894
Profit before income tax		1,124,979	920,433
Less: Income tax expense	3	301,795	280,936
Profit after income tax		823,184	639,497
Other comprehensive income			
Gain on revaluation of land and buildings		92,041	31,487
Total comprehensive income for the period		915,225	670,984

The above statement should be read in conjunction with the attached notes

Statement of Changes in Members' Equity

FOR THE YEAR ENDED 30 JUNE 2011

	General Reserve	Capital Reserve	Asset Revaluation Reserve	Reserve for Credit Losses	Retained Profits	Total
	\$	\$	\$	\$	\$	\$
Total at 1 July 2009	602,512	176,132	2,132,795	623,140	14,842,586	18,377,165
Movement in value on revaluation of land and building	-	-	31,487	-	-	31,487
Sub total	602,512	176,132	2,164,282	623,140	14,842,586	18,408,652
Redeemable preference shares	-	-	-	-	-	-
Income and expense recognised directly in equity	-	-	-	-	-	-
Profit for the year	-	-	-	-	639,497	639,497
Total income & expense for year	-	-	-	-	639,497	639,497
Transfers to (from) reserves	-	-	-	-	-	-
Transfer to capital account on redemption of shares	-	9,792	-	-	(9,792)	-
Total as at 30 June 2010	602,512	185,924	2,164,282	623,140	15,472,291	19,048,149
Total at 1 July 2010	602,512	185,924	2,164,282	623,140	15,472,291	19,048,149
Movement in value on revaluation of land and building	-	-	92,041	-	-	92,041
Sub total	602,512	185,924	2,256,323	623,140	15,472,291	19,140,190
Redeemable preference shares	-	-	-	-	-	-
Income and expense recognised directly in equity	-	-	-	-	-	-
Profit for the year	-	-	-	-	823,184	823,184
Total income & expense for year	-	-	-	-	823,184	823,184
Transfers to (from) reserves	-	-	-	-	-	-
Transfer to capital account on redemption of shares	-	9,660	-	-	(9,660)	-
Total as at 30 June 2011	602,512	195,584	2,256,323	623,140	16,285,815	19,963,374

Statement of Financial Position

AS AT 30 JUNE 2011

	NOTE	2011 \$	2010 \$
ASSETS			
Cash	4	2,681,668	7,255,756
Advances to other financial institutions	5	25,500,000	33,541,316
Receivables	6	1,179,683	1,546,359
Prepayments	7	169,781	179,492
Loans to members	8 (a)	141,092,267	131,412,688
Available for sale investments	10	831,828	956,169
Property, plant and equipment	11	3,807,381	3,654,309
Taxation assets	12	290,516	269,860
Loan to capital investors	13	300,000	300,000
Intangible assets	14	29,408	36,208
TOTAL ASSETS		<u>175,882,532</u>	<u>179,152,157</u>
LIABILITIES			
Borrowings		2,000,000	–
Deposits from members	15	147,887,632	154,128,762
Creditor accruals and settlement accounts	16	2,442,506	2,618,807
Taxation liabilities	17	168,964	11,441
Provisions	18	141,364	105,752
Deferred tax liabilities	19	378,892	339,446
Subordinated debt	20	1,449,900	1,449,900
Preference shares	21	1,449,900	1,449,900
TOTAL LIABILITIES		<u>155,919,158</u>	<u>160,104,008</u>
NET ASSETS		<u>19,963,374</u>	<u>19,048,149</u>
MEMBERS' EQUITY			
Capital reserve account	22	195,584	185,924
General reserve	23	602,512	602,512
Asset revaluation reserve	24	2,256,323	2,164,282
General reserve for credit losses	25	623,140	623,140
Retained earnings		16,285,815	15,472,291
TOTAL MEMBERS' EQUITY		<u>19,963,374</u>	<u>19,048,149</u>
TOTAL LIABILITIES AND MEMBERS EQUITY		<u>175,882,532</u>	<u>179,152,157</u>

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

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Statement of Cash Flow

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011 \$	2010 \$
OPERATING ACTIVITIES			
Revenue Inflows			
Interest received		11,740,037	10,810,882
Fees and commissions		1,060,484	1,271,973
Dividends		137,311	68,204
Other income		97,002	81,989
Income tax refund		-	226,063
Revenue Outflows			
Interest paid		(7,191,353)	(5,803,779)
Suppliers and employees		(4,590,838)	(4,289,976)
Income taxes paid		(167,945)	(208,821)
Net cash from revenue activities	38 (c)	1,084,698	2,156,535
Inflows from other operating activities			
Decrease/(increase) in deposits to other financial institutions (net movement)		8,041,316	(5,341,316)
(Increase)/decrease in member loans (net movement)		(9,724,668)	12,213,773
(Decrease) in member deposits and shares (net movement)		(5,916,966)	(9,970,656)
Net cash from operating activities	38 (c)	<u>(6,515,620)</u>	<u>(941,664)</u>
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of investments		100,747	113,520
Proceeds on sale of property, plant and equipment		27,410	56,361
Member loans (net of disbursements & repayments)		-	-
Less: Outflows			
Purchases of fixed assets		(186,625)	(188,818)
Purchase of investments		-	-
Net cash from investing activities		<u>(58,468)</u>	<u>(18,937)</u>
FINANCING ACTIVITIES			
Inflows (Outflows)			
Borrowings(net movement)		2,000,000	-
Net cash from financing activities		<u>2,000,000</u>	<u>-</u>
Total net cash increase/ (decrease)		(4,574,088)	(960,601)
Cash at the beginning of the year		<u>7,255,756</u>	<u>8,216,357</u>
Cash at the end of the year	38 (a)	<u>2,681,668</u>	<u>7,255,756</u>

The above statement should be read in conjunction with the attached notes

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

1. STATEMENT OF ACCOUNTING POLICIES

This set of financial statements is prepared for Bankstown City Credit Union Ltd as a single entity, for the year ended the 30 June 2011. The report was authorised for issue on 27 September 2011 in accordance with a resolution of the Board of Directors. The financial statement is presented in Australian dollars. The financial statements 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 Boards and the Corporations Act 2001. Compliance with the Australian equivalents to International Financial Reporting Standards (AIFRS) ensures that the financial statements, comprising the financial statements and notes, complies with International Financial Reporting Standards (IFRS)

(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.

(b) Loans to Members

(i) Basis of recognition

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

(ii) Interest Earned

Term loans – 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 – interest is calculated initially 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 where the Credit Union is informed that the member has deceased, or where a loan is impaired.

(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 as 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.

(v) Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

(vi) Net gains and losses

Net gains and losses on loans to members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

(c) Loan Impairment

(i) Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on individual loans in arrears. The amount provided 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. Note 26 details the credit risk management approach for loans.

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. This approach is used to assess the collective provisions for impairment.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

(ii) Reserve for credit losses

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.

(iii) Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

(d) Bad Debts Written Off (direct reduction in loan balance)

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 statement of comprehensive income.

(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 statement of comprehensive income. Revaluation decreases are debited to the statement of comprehensive income unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

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) Receivables from other Financial Institutions

Term deposits with other financial institutions 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 statement of financial position.

(g) Equity Investments and Other Securities

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

Investments in shares listed on the stock exchange are revalued to fair value based on the market bid price at the close of business on statement of financial position date. The gains and losses in fair value are reflected in equity through the asset revaluation reserve.

Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

All investments are in Australian currency.

(h) Member Deposits

(i) Basis for measurement

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 Creditor Accruals & Settlement Accounts (refer Note 16).

(i) Borrowings

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

(j) Provision for Employee Benefits

Provision is made for the Credit Union's liability for employee 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.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

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 benefits discounted using national government bond rates.

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 years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of Creditor Accruals & Settlement Accounts.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the statement of comprehensive income as incurred.

(k) Income Tax

The income tax expense shown in the statement of comprehensive income 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 statement of financial position 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.

(l) Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets.

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

(m) 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 related or apportioned 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). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office (ATO), 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. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the statement of cash flows 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.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

(n) 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 statement of comprehensive income 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.

(o) Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(p) Accounting Estimates and Judgements

Management have made judgements when applying the Credit Union's accounting policies with respect to:

- (i) the classification of assets as available for sale
- (ii) the classification of preference share as equity instruments – refer Note 21.

Management have made critical accounting estimates when applying the Credit Union's accounting policies with respect to the impairment provision for loans.

(q) New standards applicable for the current year

The Credit Union applies the current revised accounting standards applicable for financial years commencing the 1 July 2010. There are no new standards applicable for the current financial year. Some amendments have been made to standards that apply to the credit union, as follows.

The credit union has adopted the following amended standards in the presentation of the financial report.

AASB reference	Title of Affected Standard(s):	Nature of change	Application date	Impact on Initial Application
AASB 7	Financial Instruments: Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	Periods commencing on or after 1 January 2011	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

(r) **New standards applicable for the current year**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Nature of change	Application date	Impact on Initial Application
AASB 2010-6 (issued November 2010)	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	Annual reporting periods commencing on or after 1 July 2011	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 9 (issued December 2009 and amended December 2010)	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	The entity does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.

2. **STATEMENT OF COMPREHENSIVE INCOME**

	2011 \$	2010 \$
(a) Analysis of Interest Revenue		
Category of interest bearing assets		
Cash – deposits at call	282,936	193,399
Advances to other financial institutions	1,851,139	1,405,065
Loans to members	9,674,753	9,112,909
Loans to capital investors	15,117	11,061
Total interest revenue	<u>11,823,945</u>	<u>10,722,434</u>
(b) Non-Interest Revenue comprises:		
Fee and commission revenue		
Loan fee income – other than loan origination fees	126,651	97,344
Fee income from member deposits	588,615	730,353
Other fee income	110,396	130,395
Insurance commissions	37,121	41,884
Other commissions	153,884	185,252
Total fee and commission revenue	<u>1,016,667</u>	<u>1,185,228</u>
Other income		
Dividends received	137,311	68,204
Bad debts recovered	61,857	34,745
Gain on disposal of assets – property, plant & equipment	7,665	3,886
Miscellaneous revenue	62,692	67,968
Total other income	<u>269,525</u>	<u>174,803</u>
Total non-interest revenue	<u>1,286,192</u>	<u>1,360,031</u>
(c) Interest Expenses		
Analysis of interest expense		
Deposits from financial institutions	89,118	53,330
Deposits from members	6,997,963	5,820,883
Subordinated debt	92,492	75,312
Preference shares	83,639	71,613
Total interest expense	<u>7,263,212</u>	<u>6,021,138</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
(d) Impairment Losses on Loans and Advances		
Increase in provision for impairment	46,644	220,583
(e) Prescribed Expense Disclosures		
Auditors remuneration		
Audit fees	50,890	44,050
Other services – taxation	4,583	4,310
Other services – compliance	–	–
Other services – other	75,761	90,006
Depreciation expenses		
Buildings	31,487	31,487
Plant and equipment	87,345	64,708
Information technology - hardware	12,705	17,234
Amortisation of software	20,560	13,500
Net movement in provision for annual leave	1,369	(44,364)
Net movement in provision for long service leave	35,613	(139,833)
3. INCOME TAX		
(a) The income tax expense comprises amounts set aside as		
Current tax expense	289,115	175,186
Deferred tax expense	7,008	80,499
Add/(less) under provision of tax in prior year	5,672	25,251
Income tax expense	301,795	280,936
(b) The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	1,124,979	920,433
Prima facie tax payable on profit before income tax at 30%	337,494	276,130
Add tax effect of expenses not deductible		
- Other non-deductible expenses	68	16
- Dividend imputation adjustment	17,654	8,769
- Under provision of tax in prior year	5,672	25,251
Less: Deductions allowed not in accounting expenses	(245)	-
Less: Franking rebate	(58,848)	(29,230)
Income tax expense attributable to operating profit	301,795	280,936
(c) Franking Credits		
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:	3,601,730	3,472,141
4. CASH		
Cash on hand	1,671,668	755,756
Deposits – at call	1,010,000	6,500,000
Total cash	2,681,668	7,255,756

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
5. ADVANCES TO OTHER FINANCIAL INSTITUTIONS		
Deposits with industry bodies - CUSCAL (Refer Note 35)	4,500,000	5,000,000
Deposits with banks	4,500,000	25,541,316
Deposits with other ADI's	-	-
Negotiable certificates of deposit - banks	16,500,000	3,000,000
Total advances to other financial institutions	<u>25,500,000</u>	<u>33,541,316</u>
6. RECEIVABLES		
Interest receivable on deposits with other financial institutions	499,069	404,634
Accrued income	21,167	15,596
Sundry debtors and settlement accounts	659,447	1,126,129
Total receivables	<u>1,179,683</u>	<u>1,546,359</u>
7. PREPAYMENTS		
Prepayments	169,781	179,492
Total prepayments	<u>169,781</u>	<u>179,492</u>
8. LOANS AND ADVANCES		
(a) Amount due comprises:		
Overdrafts and revolving credit	4,093,988	3,833,394
Term loans	137,171,695	127,788,434
Sub total	<u>141,265,683</u>	<u>131,621,828</u>
Less: Unearned income	(49,969)	(51,525)
Sub total	<u>141,215,714</u>	<u>131,570,303</u>
Less: Provision for impaired loans (Note 9)	(123,447)	(157,615)
Net loans and advances	<u>141,092,267</u>	<u>131,412,688</u>
(b) Credit Quality – Security held against loans		
Secured by mortgage over business assets	-	-
Secured by mortgage over real estate	136,971,850	124,459,584
Partly secured by goods mortgage	1,569,479	2,920,289
Wholly unsecured	2,550,938	4,032,815
	<u>141,092,267</u>	<u>131,412,688</u>

It is not practicable to value all collateral as at the balance date due to the variety of assets and conditions. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

Loan to valuation ratio of less than 80%	124,770,198	113,484,399
Loan to valuation ratio of more than 80% but mortgage insured	8,903,935	8,432,822
Loan to valuation ratio of more than 80% and not mortgage insured	3,297,717	2,542,363
	<u>136,971,850</u>	<u>124,459,584</u>

Where the loan value is less than 80% there is a 20% margin to cover the costs of any sale, or potential value reduction.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

(c) Concentration of Loans

The values discussed below include on statement of financial position values and off statement of financial position undrawn facilities as described in Note 31.

- (i) There is no loan which represents 10% or more of Shareholders equity of the Credit Union.
(ii) Loans to individuals and corporate members are concentrated solely in Australia and principally in the following region:

2011	Housing \$	Personal \$	Business \$	Total \$
Bankstown LGA	44,433,073	2,030,164	748,637	47,211,874
Other NSW	101,801,392	3,386,455	3,552,205	108,740,052
Victoria	668,346	43,369	–	711,715
Queensland	3,896,094	70,269	–	3,966,363
South Australia	48,472	–	–	48,472
Western Australia	1,307,092	32,816	–	1,339,908
Tasmania	–	19,943	–	19,943
Northern Territory	–	–	–	–
ACT	–	–	–	–
Other	884,510	20,000	–	904,510
Total on and off statement of financial position	153,038,979	5,603,016	4,300,842	162,942,837

2010	Housing \$	Personal \$	Business \$	Total \$
Bankstown LGA	45,228,196	3,356,603	658,869	49,243,668
Other NSW	94,055,535	5,121,562	969,965	100,147,062
Victoria	193,613	39,554	–	233,167
Queensland	2,960,591	161,472	–	3,122,063
South Australia	55,726	–	–	55,726
Western Australia	837,633	53,409	–	891,042
Tasmania	–	23,209	–	23,209
Northern Territory	–	–	–	–
ACT	–	–	–	–
Other	–	23,246	–	23,246
Total on and off statement of financial position	143,331,294	8,779,055	1,628,834	153,739,183

	2011 \$	2010 \$
(iii) Loans to natural persons:		
Residential loans and facilities	152,538,979	142,631,294
Personal loans and facilities	5,484,004	8,713,051
Business loans and facilities	4,800,842	2,256,364
Total loans	162,823,825	153,600,709
Loans to corporations	119,012	138,474

9. PROVISION ON IMPAIRED LOANS**(a) Total provision comprises**

Collective provisions	123,447	157,615
Total loan provision	123,447	157,615

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
(b) Movement in the collective provision		
Balance at the beginning of year	157,615	253,491
Less: Impaired loans written off against provision	(80,812)	(316,459)
Add: Increase in provision	46,644	220,583
Collective provision at the end of year	<u>123,447</u>	<u>157,615</u>

Details of Credit Risk Management are set out in Note 26.

(c) Impaired loans written off		
Amounts written off against the provision for impaired loans	80,812	316,459
Amounts written off directly to expense	-	-
Total bad debts	<u>80,812</u>	<u>316,459</u>
Bad debts recovered in the period	(61,857)	(34,745)
Net impaired loans written off	<u>18,955</u>	<u>281,714</u>

(d) Analysis of loans that are impaired or potentially impaired by class

In the note below:

- Carrying value is the amount on the statement of financial position
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2011 Carrying value \$	2011 Value of impaired loans \$	2011 Provision for impairment \$	2010 Carrying value \$	2010 Value of impaired loans \$	2010 Provision for impairment \$
Loans to members						
Mortgages	130,431,939	-	-	120,816,606	-	-
Personal	2,969,777	164,970	73,865	5,605,943	180,049	113,046
Overdrafts	4,093,987	57,398	49,582	3,833,393	63,365	44,569
Total loans to natural persons	<u>137,495,703</u>	<u>222,368</u>	<u>123,447</u>	<u>130,255,942</u>	<u>243,414</u>	<u>157,615</u>
Corporate borrowers	3,769,980	-	-	1,365,886	-	-
Total	<u>141,265,683</u>	<u>222,368</u>	<u>123,447</u>	<u>131,621,828</u>	<u>243,414</u>	<u>157,615</u>

(e) Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding

	2011 Carrying value	2011 Provision	2010 Carrying value	2010 Provision
Non impaired up to 30 days	141,043,315	-	131,232,719	-
30 to 90 days in arrears	62,567	-	145,695	-
90 to 180 days in arrears	19,304	7,722	67,474	26,990
180 to 270 days in arrears	40,494	24,296	58,645	35,186
270 to 365 days in arrears	3,794	3,035	15,302	12,242
Over 365 days in arrears	38,811	38,812	38,628	38,628
	<u>141,208,285</u>	<u>73,865</u>	<u>131,558,463</u>	<u>113,046</u>
Overlimit facilities over 14 days	57,398	49,582	63,365	44,569
Total	<u>141,265,683</u>	<u>123,447</u>	<u>131,621,828</u>	<u>157,615</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value or collateral as at the balance date due to the variety of assets and conditions.

(f) Assets acquired via enforcement of security

There are no assets acquired by the Credit Union. The policy is to sell the assets via auction at the earliest opportunity after measures to assist the members to repay the debts have been exhausted.

(g) Loans with repayments past due but not regarded as impaired

There are loans with a value of \$347,613 past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

Loans with repayments past due but not impaired are in arrears as follows:

Loans to members

2011	1 – 3 months	3 – 6 months	6 – 12 months	> 1 year	Total
Mortgage secured	285,046	–	–	–	285,046
Other loans	–	–	–	–	–
Personal loans	62,567	–	–	–	62,567
Overdrafts	–	–	–	–	–
Total	347,613	–	–	–	347,613

2010	1 – 3 months	3 – 6 months	6 – 12 months	> 1 year	Total
Mortgage secured	1,089,251	–	–	–	1,089,251
Other loans	–	–	–	–	–
Personal loans	145,695	–	–	–	145,695
Overdrafts	–	–	–	–	–
Total	1,234,946	–	–	–	1,234,946

(h) 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, and estimated recovery from secured assets.

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 365 days	80
Over 365 days	100

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

10. AVAILABLE FOR SALE INVESTMENTS

	2011 \$	2010 \$
Shares in unlisted companies – at cost		
Shares – Credit Union Services Corporation (Australia) Ltd 10(a)	545,649	545,649
Shares – CU Technology Development Ltd 10(b)	4,450	4,450
Shares – Transaction Solutions Limited 10(c)	273,865	374,612
	823,964	924,711
Loans to unlisted companies		
CU Technology Development Ltd 10(b)	7,864	31,458
Total available for sale investments	831,828	956,169

(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 35. The shares are not able to be traded and are not redeemable.

The financial statements 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 ICBS computer operating system, which the Credit Union converted to on 13 November 2000.

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

The Credit Union is not intending, nor able to dispose of these shares.

Loan to CU Technology Development Ltd (CUTD)

The loan receivable is for \$7,864 and is an unsecured loan with no fixed maturity date.

(c) Transaction Solutions Limited (TAS)

TAS is a company set up to provide the AS400 computer systems upon which our financial software package, ICBS is installed. The Credit Union holds \$122,745 in ordinary shares, and \$151,120 in preference shares in the company fully paid.

The Credit Union is not intending, nor able to dispose of these shares.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
11. PROPERTY PLANT AND EQUIPMENT		
Land at net fair value 11(a)	1,971,964	1,871,964
Buildings at net fair value 11(a)	1,459,523	1,459,523
Less: Provision for depreciation	(31,487)	(31,487)
	<u>1,428,036</u>	<u>1,428,036</u>
Information technology	348,810	799,458
Less: Provision for depreciation	(341,313)	(779,255)
	<u>7,497</u>	<u>20,203</u>
Plant and equipment at cost	1,359,369	1,521,893
Less: Provision for depreciation	(959,485)	(1,187,787)
	<u>399,884</u>	<u>334,106</u>
Total property plant and equipment	<u><u>3,807,381</u></u>	<u><u>3,654,309</u></u>

(a) Land and Buildings – Valuation

Land and buildings have a market valuation of \$3,400,000 as at 30 June 2011. A valuation is to be conducted every year and was performed by Quaid Partners Valuers. Any movement in value was brought to account in the statement of financial position. It should be noted the previous valuation conducted as at 30 June 2010 valued land and buildings at \$3,300,000.

Details of valuation date: 30 June 2011. Basis of valuation is on a fair market value.

(b) Movement in the assets balances during the year were:

2011	Land & buildings \$	Information technology \$	Plant & equipment \$	Total \$
Opening written down value	3,300,000	20,203	334,106	3,654,309
Additions at cost	–	–	172,866	172,866
Revaluation	131,487	–	–	131,487
Disposals written down value	–	–	(19,744)	(19,744)
Depreciation	(31,487)	(12,706)	(87,344)	(131,537)
Closing written down value	<u>3,400,000</u>	<u>7,497</u>	<u>399,884</u>	<u>3,807,381</u>
2010	Land & buildings \$	Information technology \$	Plant & equipment \$	Total \$
Opening written down value	3,300,000	37,061	288,723	3,625,784
Additions at cost	–	882	162,060	162,942
Revaluation	31,487	–	–	31,487
Disposals written down value	–	(506)	(51,969)	(52,475)
Depreciation	(31,487)	(17,234)	(64,708)	(113,429)
Closing written down value	<u>3,300,000</u>	<u>20,203</u>	<u>334,106</u>	<u>3,654,309</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
12. TAXATION ASSETS			
Deferred tax asset		280,529	256,856
GST assets		9,987	13,004
Total taxation assets		<u>290,516</u>	<u>269,860</u>
Deferred tax asset comprise			
Accrued expenses not deductible until incurred		42,550	18,853
Provisions for impairment on loans		37,034	47,285
Provisions for employee benefits		93,870	82,775
Depreciation on fixed assets (net)		92,633	92,485
Effective interest rate		14,442	15,458
Total		<u>280,529</u>	<u>256,856</u>
13. LOAN TO CAPITAL INVESTORS			
Subordinated loans to subordinated debt investors	20	150,000	150,000
Subordinated loans to subordinated preference share investors	21	150,000	150,000
Total loan to capital investors		<u>300,000</u>	<u>300,000</u>
These loans are issued as subordinated loans to the respective investors and on the following terms and conditions:			
(i)	the loans are unsecured		
(ii)	interest is payable quarterly at September, December, March and June		
(iii)	interest may be withheld if the Credit Union fails to pay dividends or interest on the respective liabilities		
(iv)	no repayments are required until the respective liabilities are settled in accordance with the agreements		
14. INTANGIBLE ASSETS			
Computer software		1,649,687	2,314,335
Less: Provision for amortisation		(1,620,279)	(2,278,127)
Total intangible assets		<u>29,408</u>	<u>36,208</u>
Movement in Intangible Assets			
Opening written down value		36,208	23,832
Additions at cost		13,760	25,876
Amortisation		(20,560)	(13,500)
Closing written down value		<u>29,408</u>	<u>36,208</u>
15. DEPOSITS FROM MEMBERS			
Member deposits – at call		70,963,204	69,008,998
Member deposits – fixed term		76,862,616	85,050,146
Total deposits		<u>147,825,820</u>	<u>154,059,144</u>
Withdrawable shares		61,812	69,618
Total deposits		<u>147,887,632</u>	<u>154,128,762</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

Concentration of Member Deposits

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

Concentration of Risk

- (i) There is no deposit which represent 10% or more of the total liabilities of the Credit Union; and
- (ii) There is no identifiable industry group which represent 10% or more of total liabilities of the Credit Union.
- (iii) Geographical concentrations

	2011	2010
	\$	\$
Bankstown LGA	78,965,823	79,972,379
Other NSW	66,645,268	72,950,821
Victoria	1,216,863	233,122
Queensland	589,795	708,913
South Australia	11,118	9,310
Western Australia	201,826	74,083
Tasmania	96,204	103,183
Northern Territory	4,880	149
ACT	36,378	-
Other	119,477	76,802
Total deposits	<u>147,887,632</u>	<u>154,128,762</u>

16. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

Annual leave	171,535	170,165
Accrued interest expense	1,034,155	962,296
Accrued operating expenses	367,359	455,281
Sundry creditors	869,457	1,031,065
Total creditors and borrowings	<u>2,442,506</u>	<u>2,618,807</u>

17. TAXATION LIABILITIES

Provision for income tax expense	168,964	11,441
Total taxation liabilities	<u>168,964</u>	<u>11,441</u>

Current income tax liability comprises:

Balance – previous year	11,441	(190,390)
Less (paid)/refund	(47,794)	165,139
(Over) / under statement in prior year	36,353	25,251
Liability for income tax in current year	289,115	159,338
Less instalments paid in current year	(120,151)	(147,897)
Total income tax liability	<u>168,964</u>	<u>11,441</u>

18. PROVISIONS

Provision for employee long service leave	141,364	105,752
Total provisions	<u>141,364</u>	<u>105,752</u>

Total number of employees at year end	<u>28</u>	<u>26</u>
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Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
19. DEFERRED TAX LIABILITIES		
Deferred tax liabilities	378,892	339,446
	<u>378,892</u>	<u>339,446</u>
Deferred tax liabilities comprises:		
Provision for capital gains tax on revalued land and buildings	<u>378,892</u>	<u>339,446</u>
20. SUBORDINATED DEBT		
Balance at the beginning of the year	1,449,900	1,449,900
Increase due to debt issued	-	-
Balance at the end of the year	<u>1,449,900</u>	<u>1,449,900</u>
<p>The Credit Union entered into an agreement to issue subordinated debt in 2006 which was approved at the members meeting held on 10 March 2006. The agreement specified that the Credit Union also place loans equivalent to 10% of the liability with the investors as security for payment of interest. The Credit Union intends to retire the debt in 2011/2012</p>		
21. PREFERENCE SHARES		
Balance at the beginning of the year	1,449,900	1,449,900
Increase due to shares issued	-	-
Balance at the end of the year	<u>1,449,900</u>	<u>1,449,900</u>
<p>The Credit Union entered into an agreement to issue 15,000 preference shares in 2006 which was approved at the members meeting held on 10 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. Accordingly these shares are classified as liabilities.</p>		
(i) the number of shares authorised	15,000	15,000
(ii) the number of shares issued and fully paid,	15,000	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	\$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	1,500,000
Less Equity share capital discount	<u>(50,100)</u>	<u>(50,100)</u>
Balance at the end of the year	<u>1,449,900</u>	<u>1,449,900</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
22. CAPITAL RESERVE ACCOUNT		
Redeemed Capital Account		
Balance at beginning of the year	185,924	176,132
Transfer from retained earnings on redemptions	9,660	9,792
Balance at the end of the year	<u>195,584</u>	<u>185,924</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 has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.</p>		
23. GENERAL RESERVES		
General reserve	602,512	602,512
Balance at the end of the year	<u>602,512</u>	<u>602,512</u>
24. ASSET REVALUATION RESERVE		
Asset revaluation reserve – land & buildings	2,256,323	2,164,282
Total reserves	<u>2,256,323</u>	<u>2,164,282</u>
Movements in reserves	92,041	31,487
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	2,164,282	2,132,795
Add: increase (decrease) on revaluation of land & buildings	131,487	31,487
Add / (deduct): deferred capital gains tax liability	(39,446)	–
Balance at the end of year	<u>2,256,323</u>	<u>2,164,282</u>
25. GENERAL RESERVE FOR CREDIT LOSSES		
General reserve for credit losses	<u>623,140</u>	<u>623,140</u>
General reserve for credit losses		
<p>This reserve records amount previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA</p>		
Balance at the beginning of the year	623,140	623,140
Add: increase (decrease) transferred from retained earnings	–	–
Balance at end of the year	<u>623,140</u>	<u>623,140</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

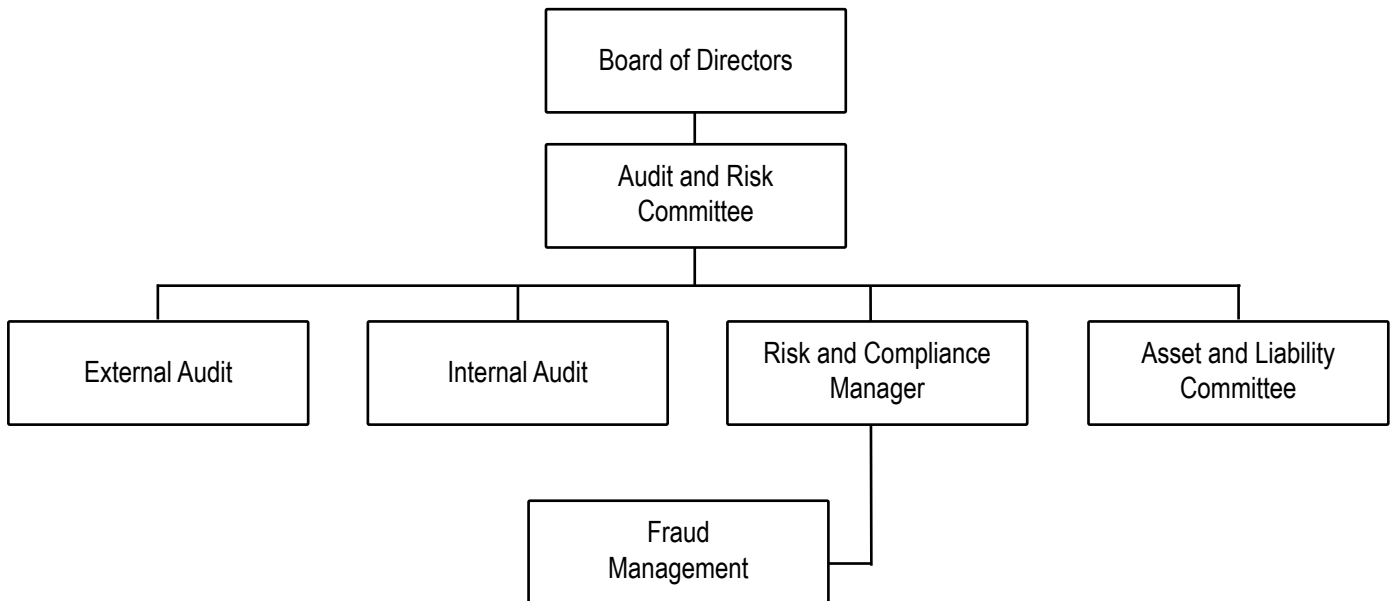
26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

The Credit Union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Audit and Risk Committee and from there to the Asset and Liability Committee which is integral to the management of risk.

The following diagram gives an overview of the structure.



The diagram shows the risk management structure. The main elements of risk governance are as follows:

Board: This is the primary governing body. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks.

Audit and Risk Committee: This is a key body in the control of risk. It has representatives from the Board as well as the Credit Union's Executive Management and the Risk and Compliance Manager. The Audit and Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Audit and Risk Committee through review of operational reports and control assignments to confirm whether risks are within the parameters outlined by the Board.

The Audit and Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Audit and Risk Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit and Risk Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the Board for their consideration.

The Audit and Risk Committee also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Audit and Risk Committee in turn reports to the Board.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

Asset and Liability Committee (ALCO): This committee of senior management meets weekly and has responsibility for monitoring and managing risk.

Credit Risk: It scrutinises operational reports and monitors exposures against limits determined by the Board. The ALCO also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be put in place regarding the authorisation of new loans.

The ALCO has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay.

All large credit exposure facilities above policy limits are approved by the ALCO or the Board. All exposures are checked daily against approved limits and are reported to the ALCO.

All loans are managed daily through the monitoring of the scheduled and other repayments. Accounts have collective provisions raised against them based upon the nature of security and length of arrears. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the ALCO weekly and the Audit and Risk Committee.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated credit control team, which reports to the CFO, implements the Credit Union's Member Credit Management policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the statement of financial position date.

Market Risk: Reviews the Credit Union's interest rate risk exposure, and ensures exposure limits as outlined in the policies for interest rate GAP are complied with, and that the overall level of interest rate (mismatch) risk is within policy bounds. The scrutiny of market risk is intended to prevent any exposure breaches prior to the periodic review by the Board.

Risk and Compliance Manager: This person has responsibility for both liaising with the operational function to ensure timely production of information for the Audit and Risk committee and ensuring that instructions passed down from the Board including via the Audit and Risk Committee are implemented.

Internal Audit: Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit and Risk Committee. The provision of the Credit Union's internal audit function has been outsourced to BDO Audit (NSW-VIC) Pty Ltd. There is clear separation of internal and external audit engagements, with separate partners and managers for each team.

Key risk management policies encompassed in the overall risk management framework include:

- Interest rate risk management;
- Liquidity risk management;
- Credit risk management; and
- Operations risk management, including data risk management.

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

MARKET RISK AND HEDGING POLICY

The objective of the Credit Union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is not exposed to currency risk, nor significant price risk. The Credit Union does not trade in the financial instruments it holds on its books. The Credit Union is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of the ALCO, which reports to the Board

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

A. INTEREST RATE RISK

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Many authorised deposit-taking institutions (ADIs) are exposed to interest rate risk within their treasury operations. This Credit Union does not have a treasury operation and does not trade in financial instruments.

Interest rate risk in the banking book

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

Interest rate risk on the banking book is measured daily, reported to the ALCO weekly, and to the Board monthly.

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to the risk of sensitivity (loss) should interest rates change.

The level of mismatch on the banking book is set out in Note 29. The table set out at Note 29 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered sufficient to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The Credit Union exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Credit Union to manage the risk is to maintain a balanced "on book" strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The measured gap in each 3 month range to be maintained is the lesser of:

- A reduction of 20% or more of budgeted pre-tax operating profit should there be a 100 basis point movement in interest rates; and
- A reduction of 10% or more in the Credit Union's capital base should there be a 200 basis point movement in interest rates.

The gap is measured monthly to identify any large exposures to interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and deposit (both call and term) liabilities to rectify the imbalance. The policy of the Credit Union is not to undertake derivatives to match/reduce the interest rate risk, nor does the credit union undertake any trading activities in derivatives. The Credit Unions exposure to interest rate risk is set out in Note 29 which details the contractual interest change profile.

Based on the calculations as at 30 June 2011 (30 June 2010), the net profit impact for a 1% (2010: 1%) movement in interest rates would be \$261,264 (2010: \$231,191.)

The Credit Union performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Credit Union for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- variable rate mortgage loans would all reprice to the new interest rate within 28 days;
- personal loans would reprice to the new interest rate within 28 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures market risk in the reporting period.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

B. LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Credit Union that the Credit Union maintains adequate cash reserves and committed credit facilities so as to meet member withdrawal demands.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

The Credit Union has a longstanding arrangement with the industry liquidity support scheme - Credit Union Financial Support Services (CUFSS) – through which the Credit Union can access industry funds to provide support.

Under Australian Prudential Regulation Authority (APRA) standards, the Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours. The Credit Union's policy is to maintain a buffer above the APRA minimum requirement, targeting an optimal range of 15-18% of funds as liquid assets. The ratio is monitored daily. Should the liquidity ratio fall below the lower end of the optimal range, the Credit Union will implement a staged management strategy to restore liquidity. In addition to on-statement of financial position liquidity and access to the CUFSS scheme, the Credit Union has access to a variety of committed loan facilities, which may be used to supplement liquidity. Note 32 describes the borrowing facilities as at the balance date.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific Note 28. The ratio of liquid funds over the past year is set out below:

Australian Prudential Regulation Authority	2011	2010
To total adjusted liabilities		
As at 30 June	14.44%	22.11%
Average for the year	18.28%	19.40%
Minimum during the year	14.44%	13.60%
To total member deposits		
As at 30 June	16.01%	23.87%

C. CREDIT RISK

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets.

(i) Credit Risk – Loans

The analysis of the Credit Union's loans by class, is as follows:

Loans to	2011	2011	2011	2010	2010	2010
	Carrying value	Off statement of financial position	Max exposure	Carrying value	Off statement of financial position	Max exposure
	\$	\$	\$	\$	\$	\$
Mortgage	130,431,938	18,722,778	149,154,716	120,816,606	18,513,072	139,329,678
Personal	2,969,777	–	2,969,777	5,605,943	–	5,605,943
Overdrafts	4,093,988	2,954,375	7,048,363	3,833,393	3,604,284	7,437,677
Total to natural persons	137,495,703	21,677,153	159,172,856	130,255,942	22,117,356	152,373,298
Corporate borrowers	3,769,980	–	3,763,980	1,365,886	–	1,365,886
Total	141,265,683	21,677,153	162,942,836	131,621,828	22,117,356	153,739,184

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved but not advanced, redraw facilities, line of credit facilities and overdraft facilities). The details are shown in Note 31 and a summary is in Note 8 (c).

All loans and facilities are within Australia. The geographic distribution and concentrations are described in note 8 (c).

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved, with close monitoring of arrears thereafter. The credit policy has been endorsed by the Board to ensure that loans are only made to members who are capable of meeting loan repayments.

The Credit Union has established policies over:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure according to loan and security type, and to individual members;
- Reassessing and review of loans and facilities;
- Establishment of appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- A regular review of compliance is conducted as part of the internal audit scope.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union which requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that the counterparty will never pay, but it may trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan may be regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants may be engaged to conduct recovery action. Losses predominantly arise from personal loans and facilities not secured by registered mortgages over real estate.

Where recovery of the full amount of a facility is not likely to be achieved in a timely manner, the estimated recoverable amount of that asset is determined. An impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of comprehensive income. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, the Credit Union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the loan balance will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in counterparty risk, as well as identified structural weaknesses or deterioration in cash flows.

Details are as set out in Note 9.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 9.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed to risks in the reduction the Loan to Value (LVR) cover should the property market be subject to decline.

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 75% of the loans in well secured residential mortgages which either have an 80% loan to valuation ratio or less, or are mortgage insured. Note 8 (b) describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10%) a large exposure is considered to exist. No capital is required to be held against these but prior consultation with APRA is required. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be excessive.

The aggregate value of large exposure loans are set out in Note 8. The Credit Union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of at least 80 per cent, in addition to the Credit Union's usual serviceability assessment.

Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of borrowing members dispersed in areas of employment.

(ii) Credit Risk – Liquid Investments

The credit policy is that investments are only made to institutions that are credit worthy.

There is a concentration of credit risk, with the placement of around 24% of liquid assets with CUSCAL, and APRA-supervised institution, and the peak Credit Union body. CUSCAL is AA- rated by Standard and Poors.

Under the Credit Union Industry Liquidity Support Scheme, at least 3.2% of the total assets must be invested with CUSCAL, so as to ensure the scheme has adequate resources to meet its obligations if needed.

All liquid asset holdings meet APRA's definition of high quality liquid assets.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

External Credit Assessment for Institution Investments

The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

Investments with	2011 Carrying value	2011 Past due value	2011 Provision	2010 Carrying value	2010 Past due value	2010 Provision
Cuscal – rated AA-	4,500,000	–	–	5,000,000	–	–
Banks – rated AA and above	4,000,000	–	–	12,541,316	–	–
Banks – rated below AA	17,000,000	–	–	13,000,000	–	–
Unrated institutions – credit unions	–	–	–	3,000,000	–	–
Total	25,500,000	–	–	33,541,316	–	–

D. CAPITAL MANAGEMENT

The capital levels are prescribed by APRA. Under the APRA prudential standards capital is determined in three components:

- Credit risk
- Operations risk

The market risk component is not required as the Credit Union is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises

- Preference share capital
- Retained profits
- Realised reserves.

The preference shares issued are approved by APRA and qualify as Tier 1 capital.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

The Credit Union's Tier 2 capital generally comprises:

- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital;
- Subordinated debt issued to third party investors. The principal amount has been amortised on a straight line basis over the last 5 years to maturity of the loan in accordance with the requirements of APRA Prudential standard APS 111;
- A general reserve for credit losses; and
- Asset revaluation reserve, which accounts for the unrealised gains on assets due to revaluation to fair value. sset revaluation reserve, which accounts for the unrealised gains on assets due to revaluation to fair value.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

The Credit Union's available for sale reserve and asset revaluation reserve are discounted to 45% of the value net of any capital gains tax and estimated costs of sale.

Capital in the Credit Union is made up as follows:

	2011 \$	2010 \$
Tier 1		
Share capital	1,500,000	1,500,000
Capital reserve	195,584	185,924
General reserve	602,512	602,512
Retained earnings	16,285,815	15,472,293
	<u>18,583,911</u>	<u>17,760,729</u>
Less prescribed deductions	903,540	937,689
Net Tier 1 capital	<u>17,680,371</u>	<u>16,823,040</u>
Tier 2		
Subordinated debt	1,449,900	1,449,900
Reserve for credit losses	623,140	623,140
Asset revaluation reserves on property (discounted to 45%)	1,015,344	973,927
	<u>3,088,384</u>	<u>3,046,967</u>
Less prescribed deductions	543,503	594,525
Net Tier 2 capital	<u>2,544,881</u>	<u>2,452,442</u>
Total capital	<u>20,225,252</u>	<u>19,275,482</u>

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

2011		Carrying Value	Risk Weighted Value
Cash	0%	421,735	-
Deposits in highly rated ADI's	20%	17,972,527	3,594,505
Deposits in less highly rated ADI's	50% - 150%	10,286,492	5,143,246
Standard loans secured against eligible residential mortgages up to 80% LVR	35%	127,808,096	44,732,834
Standard loans secured against eligible residential mortgages over 80% LVR	50% - 100%	5,488,649	2,744,325
Non-Standard loans secured against eligible residential mortgages over 80% LVR	100%	-	-
Investments in equity instruments	150%	-	-
Other assets	100%	13,358,132	13,358,132
Total		<u>175,335,631</u>	<u>69,573,042</u>

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FOR THE YEAR ENDED 30 JUNE 2011

2010		Carrying Value	Risk Weighted Value
Cash	0%	365,522	–
Deposits in highly rated ADI's	20%	31,684,270	6,336,854
Deposits in less highly rated ADI's	50% - 150%	9,151,915	4,575,958
Standard loans secured against eligible residential mortgages up to 80% LVR	35%	118,146,457	41,351,260
Standard loans secured against eligible residential mortgages over 80% LVR	50% - 100%	5,071,236	2,756,032
Non-Standard loans secured against eligible residential mortgages over 80% LVR	100%	1,293,416	1,293,416
Investments in equity instruments	150%	–	–
Other assets	100%	12,887,391	12,887,391
Total		178,600,207	69,200,911

The capital ratio as at the end of the financial year over the past 5 years is as follows

2011	2010	2009	2008	2007
24.22%	24.22%	23.32%	18.45%	20.41%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the Credit Union's capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 14%. Further a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from the 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Credit Union uses the standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The operational risk capital requirement is calculated by mapping the Credit Union's three year average net interest income and net non-interest income to the Credit Union's various business lines.

Based on this approach, the Credit Union's operational risk requirement is as follows:

Operational risk capital: 2011: \$ 805,853 (0.97% of capital) 2010: \$798,542 (0.97% of capital)

It is considered that the standardised approach accurately reflects the Credit Union's operational risk other than for the specific items set out below.

Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities.

The Credit Union's main risks – credit, operational, strategic market and liquidity – are periodically analysed. The product of this analysis is reviewed by executive management, the Audit and Risk Committee and the Board in order to determine, together with the capital needed to support the Credit Union's planned asset growth, the Credit Union's capital requirements.

Analysis reveals that the Credit Union does not need to recognise any optional additional capital charge, beyond its 14% risk-weighted capital target.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

27. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes.

	2011 \$	2010 \$
Financial assets – carried at amortised cost		
Cash	2,681,668	7,255,756
Receivables from financial institutions	25,500,000	33,541,316
Receivables	1,179,683	1,546,359
Loans to members	141,265,683	131,621,828
Loans to capital investors	300,000	300,000
Total loans and receivables	<u>170,927,034</u>	<u>174,265,259</u>
Available for sale financial assets – Level 1(a)	–	–
Available for sale financial assets – Level 2(b)	–	–
Available for sale financial assets – Level 3(c)	831,828	956,169
Total available for sale financial assets	<u>831,828</u>	<u>956,169</u>
Total financial assets	<u>171,758,862</u>	<u>175,221,428</u>
Financial liabilities		
Borrowings	2,000,000	–
Deposits from members	147,887,632	154,128,762
Creditors and settlement accounts	2,270,971	2,448,642
Subordinated debt	1,449,900	1,449,900
Preference shares	1,449,900	1,449,900
Total financial liabilities carried at amortised cost	<u>155,058,403</u>	<u>159,477,204</u>
Total financial liabilities	<u>155,058,403</u>	<u>159,477,204</u>

(a) Level 1

Quoted process (unadjusted) in active markets for identical assets or liabilities.

(b) Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(c) Level 3

Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level 3 investments are held at cost and relate to shares in the trade association body CUSCAL Limited, Transaction Solutions, and Credit Union Technology Development.

Cuscal shares are held to maintain services for the settlement with other financial institutions, treasury, and support services.

They are not readily realisable by way of sale or transfer.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

28. 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 deposits, the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. Financial assets and liabilities are at the undiscounted values (including future interest expected to be paid). Accordingly these values will not agree to the statement of financial position.

	2011						Total
	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	
	\$	\$	\$	\$	\$	\$	\$
ASSETS							
Cash	2,259,933	–	–	–	–	421,735	2,681,668
Advances to other financial institutions	5,665,155	8,740,664	11,951,104	–	–	–	26,356,923
Receivables	1,179,683	–	–	–	–	–	1,179,683
Loans and advances – mortgage	424,625	467,908	3,247,905	34,971,635	280,910,530	–	320,022,603
Loans and advances – personal	4,104,071	4,539	96,605	3,988,923	14,919	–	8,209,057
Loans and advances – other	–	–	–	6,033,612	1,497,690	–	7,531,302
Loan to capital investors	–	–	–	–	375,585	–	375,585
Available for sale financial assets	–	–	–	–	–	831,828	831,828
Total financial assets	13,633,467	9,213,111	15,295,614	44,994,170	282,798,724	1,253,563	367,188,649
LIABILITIES							
Borrowings	2,000,000	–	–	–	–	–	2,000,000
Deposits from members – at call	70,963,204	–	–	–	–	61,812	71,025,016
Deposits from members – term	9,756,827	14,894,323	45,415,190	10,274,772	–	–	80,341,112
Creditor accruals and settlement accounts	2,270,971	–	–	–	–	–	2,270,971
Subordinated debt	–	–	–	–	1,869,408	–	1,869,408
Preference shares	–	–	–	–	1,992,243	–	1,992,243
Total liabilities	84,991,002	14,894,323	45,415,190	10,274,772	3,861,651	61,812	159,498,750
Undrawn commitments (Note 31)	21,677,153	–	–	–	–	–	21,677,153
Total financial liabilities	106,668,155	14,894,323	45,415,190	10,274,772	3,861,651	61,812	181,175,903

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	2010						Total
	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	
	\$	\$	\$	\$	\$	\$	\$
ASSETS							
Cash	6,890,234	-	-	-	-	365,522	7,255,756
Advances to other financial institutions	7,652,611	4,603,577	22,244,872	-	-	-	34,501,060
Receivables	1,141,725	-	-	-	-	-	1,141,725
Loans and advances – mortgage	-	279,792	1,979,442	28,256,412	227,249,640	-	257,765,286
Loans and advances – personal	3,854,544	1,987	173,633	6,837,799	1,412,623	-	12,280,586
Loans and advances – other	-	-	413,280	695,377	1,268,890	-	2,377,547
Loan to capital investors	-	-	-	-	377,429	-	377,429
Available for sale financial assets	-	-	-	-	-	956,169	956,169
Total financial assets	19,539,114	4,885,356	24,811,227	35,789,588	230,308,582	1,321,691	316,655,558
LIABILITIES							
Borrowings	-	-	-	-	-	-	-
Deposits from members – at call	69,008,998	-	-	-	-	69,618	69,078,616
Deposits from members – term	11,784,465	15,005,016	53,967,393	7,480,384	-	-	88,237,258
Creditor accruals and settlement accounts	2,448,642	-	-	-	-	-	2,448,642
Subordinated debt	-	-	-	-	2,071,416	-	2,071,416
Preference shares	-	-	-	-	2,016,176	-	2,016,176
Total liabilities	83,242,105	15,005,016	53,967,393	7,480,384	4,087,592	69,618	163,852,108
Undrawn commitments (Note 31)	22,117,356	-	-	-	-	-	22,117,356
Total financial liabilities	105,359,461	15,005,016	53,967,393	7,480,384	4,087,592	69,618	185,969,464

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

29. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term deposits) 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.

	2011						Total \$
	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Over 5 years \$	Non interest bearing \$	
ASSETS							
Cash	2,259,933	-	-	-	-	421,735	2,681,668
Advances to other financial institutions	5,500,000	8,500,000	11,500,000	-	-	-	25,500,000
Receivables- accrued interest	-	-	-	-	-	499,069	499,069
Receivables- other	-	-	-	-	-	680,614	680,614
Loans and advances - mortgage	130,231,900	-	-	200,075	-	-	130,431,975
Loans and advances - personal	7,063,764	-	-	-	-	-	7,063,764
Loans and advances - other	3,769,944	-	-	-	-	-	3,769,944
Loan to capital investors	-	300,000	-	-	-	-	300,000
Available for sale financial assets	-	-	-	-	-	831,828	831,828
Total financial assets	148,825,541	8,800,000	11,500,000	200,075	-	2,433,246	171,758,862
LIABILITIES							
Borrowings	2,000,000	-	-	-	-	-	2,000,000
Deposits from members – at call	70,963,204	-	-	-	-	61,812	71,025,016
Deposits from members - term	9,525,219	14,579,116	43,503,194	9,255,087	-	-	76,862,616
Creditor accruals and settlement accounts	-	-	-	-	-	2,270,971	2,270,971
Subordinated debt	-	1,449,900	-	-	-	-	1,449,900
Preference shares	-	1,449,900	-	-	-	-	1,449,900
Total liabilities	82,488,423	17,478,916	43,503,194	9,255,087	-	2,332,783	155,058,403
Undrawn commitments (Note 31)	21,663,005	-	-	14,148	-	-	21,677,153
Total financial liabilities	104,151,428	17,478,916	43,503,194	9,269,235	-	2,332,783	176,735,556

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	2010						Total \$
	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Over 5 years \$	Non interest bearing \$	
ASSETS							
Cash	6,890,234	-	-	-	-	365,522	7,255,756
Advances to other financial institutions	7,500,000	4,500,000	21,541,316	-	-	-	33,541,316
Receivables- accrued interest	-	-	-	-	-	404,634	404,634
Receivables- other	-	-	-	-	-	1,141,725	1,141,725
Loans and advances - mortgage	120,610,032	-	-	-	-	-	120,816,606
Loans and advances - personal	9,439,336	-	-	206,574	-	-	9,439,336
Loans and advances - other	1,365,886	-	-	-	-	-	1,365,886
Loan to capital investors	-	300,000	-	-	-	-	300,000
Available for sale financial assets	-	-	-	-	-	956,169	956,169
Total financial assets	145,805,488	4,800,000	21,541,316	206,574	-	2,868,050	175,221,428
LIABILITIES							
Borrowings	-	-	-	-	-	-	-
Deposits from members – at call	69,008,998	-	-	-	-	69,618	69,078,616
Deposits from members - term	11,514,030	14,679,981	52,107,257	6,748,878	-	-	85,050,146
Creditor accruals and settlement accounts	-	-	-	-	-	2,448,642	2,448,642
Subordinated debt	-	1,449,900	-	-	-	-	1,449,900
Preference shares	-	1,449,900	-	-	-	-	1,449,900
Total liabilities	80,523,028	17,579,781	52,107,257	6,748,878	-	2,518,260	159,477,204
Undrawn commitments (Note 31)	22,106,003	-	-	11,354	-	-	22,117,357
Total financial liabilities	102,629,031	17,579,781	52,107,257	6,760,232	-	2,518,260	181,594,561

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

The values reported have not been adjusted for the changes in credit ratings of the assets. The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to the original term.

	2011			2010		
	Fair value \$	Book value \$	Variance \$	Fair value \$	Book value \$	Variance \$
ASSETS						
Cash	2,681,668	2,681,668	–	7,255,756	7,255,756	–
Advances to other financial institutions	25,510,008	25,500,000	10,008	33,546,562	33,541,316	5,246
Receivables	1,179,683	1,179,683	–	1,546,359	1,546,359	–
Loans - mortgage	130,431,810	130,431,939	(129)	120,817,866	120,816,606	1,260
Loans - personal	7,063,764	7,063,764	–	9,446,506	9,439,336	7,170
Loans - other	3,769,980	3,769,980	–	1,365,886	1,365,886	–
Loan to capital investors	300,000	300,000	–	300,000	300,000	–
Available for sale financial assets	831,828	831,828	–	956,169	956,169	–
Total assets	171,768,741	171,758,862	9,879	175,235,104	175,221,428	13,676
LIABILITIES						
Borrowings	2,000,000	2,000,000	–	–	–	–
Deposits from members - call	71,025,016	71,025,016	–	69,078,616	69,078,616	–
Deposits from members - term	76,871,086	76,862,616	8,470	84,870,761	85,050,146	(179,385)
Creditor accruals and settlement accounts	2,270,971	2,270,971	–	2,448,642	2,448,642	–
Subordinated debt	1,449,900	1,449,900	–	1,449,900	1,449,900	–
Preference shares	1,449,900	1,449,900	–	1,449,900	1,449,900	–
Total liabilities	155,066,873	155,058,403	8,470	159,297,819	159,477,204	(179,385)

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

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FOR THE YEAR ENDED 30 JUNE 2011

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.

Loans and Advances

The carrying value of loans and advances is net of unearned income and collective 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 rate applied to give effect to the discount of cash flows for mortgage loans were 7.23 % (2010: 6.94 %) and personal loans were 14.95% (2010: 14.70%)

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

Deposits from Members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period maturity.

The rates applied to give effect to the discount of cash flows were 5.70% (2010: 5.89 %).

	2011 \$	2010 \$
31. FINANCIAL COMMITMENTS		
(a) Outstanding Loan Commitments		
Loans approved by the Board but not funded	3,300,391	1,374,478
The payment of these funds at the time of draw down is at the discretion of the Board subject to available liquid funds.		
(b) Redraw Available on Loans		
Loan redraw available to members with a loan redraw facility	15,422,387	17,138,594
(c) Undrawn Loan Facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	6,983,797	7,394,899
Less: Amount advanced	(4,029,422)	(3,790,615)
Net undrawn	2,954,375	3,604,284
These commitments are contingent on members maintaining credit standards and on-going repayment terms on amounts drawn.		
Total financial commitments	<u>21,677,153</u>	<u>22,117,356</u>

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FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
Expenditure Commitments		
(d) Future Capital Commitments		
There are no future capital commitments.		
(e) Operating Lease on Equipment		
Not later than one year	29,040	29,040
Later than 1 year but not 5 years	58,080	87,120
Later than 5 years	—	—
	87,120	116,160
(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 \$166,473 (2010: \$166,473).

32. STANDBY BORROWING FACILITIES

The Credit Union has the borrowing facilities:

2011			
	Gross	Borrowing	Net available
	\$	\$	\$
Overdraft facility - Credit Union Services Corporation (Australia) Limited (CUSCAL)	1,000,000	—	1,000,000
Overdraft facility - Bankwest	4,000,000	(2,000,000)	2,000,000
Total	5,000,000	(2,000,000)	3,000,000

2010			
	Gross	Borrowing	Net available
	\$	\$	\$
Overdraft facility - Credit Union Services Corporation (Australia) Limited (CUSCAL)	2,000,000	—	2,000,000
Overdraft facility - Bankwest	4,000,000	—	4,000,000
Total	6,000,000	—	6,000,000

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

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

33. CONTINGENT LIABILITIES

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 2011

34. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

(a) 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 have been taken to comprise the Directors and the 2 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:

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

	2011	2010
	\$	\$
(a) short-term employee benefits	515,876	508,009
(b) post-employment benefits - superannuation contributions	69,038	66,329
(c) other long-term benefits – net increases in long service leave provision	-	-
(d) termination benefits	-	-
(e) share-based payment	-	-
Total	<u>584,914</u>	<u>574,338</u>

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 the Credit Union'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;
- (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 statement of financial position items.

(b) Loans to Directors and other Key Management Persons

	2011	2010
	\$	\$
(i) The aggregate value of loans to directors and other key management persons as at balance date amounted to	<u>1,571,155</u>	<u>1,634,808</u>
(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)	<u>(33,628)</u>	<u>(28,332)</u>
Net balance available	<u>33,372</u>	<u>38,668</u>

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
(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	85,000	91,329
	<u>85,000</u>	<u>91,329</u>
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to directors and other key management persons amounted to:	-	10,000
	<u>-</u>	<u>10,000</u>
(v) Interest and other revenue earned on loans and revolving credit facilities to KMP	<u>115,388</u>	<u>105,362</u>

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.

There are no loans which are impaired in relation to the loan balances with directors or other KMP.

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

Other transactions between related parties include deposits from Directors, and other KMP are:

	2011 \$	2010 \$
Total value term and savings deposits from KMP	<u>955,373</u>	<u>849,856</u>
Total Interest paid on deposits to KMP	<u>44,765</u>	<u>31,474</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.

(c) Transactions with other Related Parties

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

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

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

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

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

35. 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

- (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 24% of its liquid assets with the entity to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

(b) First Data International (FDI)

This company operates the computer network used to link Redicards and Visa cards operated through rediATMS, and other approved ATM suppliers to the Credit Union's EDP Systems.

(c) Transaction Solutions Limited (TAS)

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.

36. SEGMENTAL REPORTING

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

37. SUPERANNUATION LIABILITIES

The Credit Union contributes to the NGS Super Fund 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, or the obligations of the Plan.

Notes to the Accounts

FOR THE YEAR ENDED 30 JUNE 2011

38. NOTES TO STATEMENT OF CASH FLOWS

	2011	2010
	\$	\$
(a) Reconciliation of Cash		
Cash includes cash on hand, and deposits at call with other financial institutions, and comprises:	2,681,668	7,255,756
(b) Cash Unavailable for Use		
Cash which is excluded from the above amount of cash since it is not readily available for use by reason of it securing overnight settlement obligations.	-	-
(c) Reconciliation of Cash from Operations to Accounting Profit		
The net cash increase (decrease) from operating activities is reconciled to the operating profit after tax.		
Operating profit after tax	823,184	639,497
Add (Deduct):		
Depreciation	152,097	126,929
Depreciation WIP	-	-
Loss on sale of assets	-	-
Movement in provision for staff leave	36,983	(184,197)
Movement in provision for income tax	165,242	11,441
Decrease in other provisions	7,007	-
Movement in accrued operating expenses	(87,923)	144,052
Increase in provision for doubtful debts	46,644	220,583
Increase in deferred tax assets	(31,393)	96,347
Gain on sale of assets	(7,665)	(3,886)
Movement in interest payable	71,859	217,359
Decrease in unearned income	9,018	(32,527)
Decrease in loan transaction costs	(10,574)	(2,662)
Movement in prepayments	9,711	(35,228)
Movement in accrued income	16,270	66,020
Movement in other taxes payable	(22,836)	581,442
Movement in interest receivable	(92,926)	120,975
Movement in taxation refund receivable	-	190,390
Net cash from revenue activities	<u>1,084,698</u>	<u>2,156,535</u>
Add (Deduct) non revenue operations		
Movement in deposit balances	8,041,316	(5,341,316)
Movement in member loans	(9,724,668)	12,213,773
Movement in member deposits and shares	(5,916,966)	(9,970,656)
Net cash from operating activities	<u>(6,515,620)</u>	<u>(941,664)</u>

39. 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 of 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.

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Bankstown City Credit Union Limited

ABN 40 087 649 769 AFSL 238355

Registered Office and Administration

64 Kitchener Parade
Bankstown NSW 2200

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