Laboratories Credit Union Ltd

2009-2010

56th Annual Report

LCU

banking you can trust

LABORATORIES

CREDIT UNION LIMITED

A.B.N. 77 087 650 217

Incorporated in Australia

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30 June 2010
Complete set of financial Statements

Registered Office:

No. 1 The Village, Riverside Corporate Park, Julius Ave
NORTH RYDE NSW 2113

Chairman's Report
Financial Year 2009 –2010

On behalf of the Board of Directors, it is my pleasure to present to members the fifty-sixth Annual Report of Laboratories Credit Union Limited, covering the 2009 – 10 Financial Year.

The past year saw another tough year in a very competitive market place in Australia following the Global Financial Crisis (GFC). Although Australia fared better than most western countries, the financial market is still very tight. The credit squeeze has continued, although interest rates did recover somewhat, with an increase in the reference rate of 150 basis points to 4.5%. Consumer confidence is returning with the housing market leading the way, resulting in increased demand for home loans, the bread and butter of your Credit Union. In this tough environment, LCU still managed to return a strong surplus and achieved 10% overall growth.

LCU continues to maintain its focus on the long-term benefits for our members first and foremost, even though the home lending area continues to be very competitive market. The Board of LCU has established policies, that are there to protect all its members from undue risks, and has not been influenced by market forces to reduce its lending standards, as, appears to have happened elsewhere in the financial services industry. LCU continues to offer deposit products at competitive rates, subject to the same regulatory conditions and are, as safe as those of any major bank.

Financial Performance
As at June 30th 2010, LCU's assets had grown to $116 million, and achieved an after-tax surplus of $458,000 (last year $593,000). LCU's low return on assets is indicative of the Board's philosophy, that LCU should be a true Co-operative, operating with the lowest possible fee structure in the interests of all its members.

LCU continues to maintain high member value through these low fees and through competitive interest rates. LCU's very low operating costs and minimal bad debt and fraud costs, contribute to LCU maintaining a strong capital adequacy of 19.50% which is comfortably in excess of prudential requirements. LCU is planning for another tough year ahead with continued competition on the interest rate front. However, with continued deposit and loans growth, an overall asset growth of around 8% is expected.

Member Services and New Products
LCU's website continues to be an important means of communicating with our members. It is continually reviewed and updated to ensure it remains current and relevant to members' needs. During the year LCU participated in the ABACUS credit union industry advertising campaign, which involved media releases on national television, radio and newspapers. This was supported locally with the walking billboards promotions on site.

LCU arranged for Bridges Financial Services to hold a series of retirement seminars at three different locations in Sydney during September 2009; these were well attended by members. LCU introduced a new 'Green Loan' in October 2009, which was LCU's response to the Federal Government's green policies. This Green Loan is designed to help members with the purchase of energy and water saving devices for their homes and also energy efficient cars. This initiative has had a mixed response, with the 'green' car option being the most popular with members.

Community Service
LCU recognises the importance of education and continues the tradition of community service by providing scholarships to members, or children of members, who have completed the HSC and are progressing to a tertiary institution or who have completed a TAFE Associate Diploma or Certificate. It was my pleasure in February to present scholarships to Ernesto Alejandrino, Jessica Benito de Valle, Bodhi Connor, Russell Harding, Amie Khosla, Joanna Lyon, Kara Panaretto Ramsay, Samantha Panaretto Ramsay, Sandra Randell, Dilan Sellahewa and Eileen Thoms. LCU

warmly congratulates all the winners on their achievements so far and wish them every success in their further studies.

Member Survey
LCU conducted an online survey with some 245 responses being received, with some great results, some of which are shown on the table below.

Main financial institution	80%	Pricing of products	33% excellent & 56% good
Range of products	47% excellent & 49% good	Fairness of fees	55% excellent & 38% good
Phone banking	47% excellent & 44% good	Would recommend LCU	97%
Internet banking	69% excellent & 26% good	Website content	46% excellent & 44% good
Member service	84% excellent & 14% good	Member statements	63% excellent & 31% good
Member communication	73% excellent & 24% good	Receive electronic statements	52%

We wish to thank all the members that made the effort and took the time do the survey.

Acknowledgements
I would like to thank the hardworking LCU Board: Dr Anita Andrew, Ms Janine Clark, Mr Kieran Greene (Chair of the Board Risk Committee), Mr Ian McDonald (Executive Officer to the Board), Dr Tony Murphy, Mr Peter Steele and Dr Bob Steele (Deputy Chair & Chair of the Board Audit Committee), for their much valued cooperation and dedication to the governance of LCU. I would also like to thank Dr Fiona Cameron, Ms Allison Smart and Dr Scott Martin, Associate Directors, all of whom attend Board meetings by invitation and provide invaluable service and views to the Board.

In December 2009 Dr Doug Shaw retired from his position as a Director after 35 years of sterling service to the Board. I wish to thank Dr Shaw for the invaluable service and guidance given to the LCU over many areas.

As always, our General Manager Michael Sinclair and Assistant General Manager Leanne Harris deserve special thanks, for making LCU such a friendly, cooperative yet efficient, compliant and reliable operation throughout the year. They are supported by our loyal, capable and dedicated staff: Eileen Thoms, Lyn Slatter, Terri Breen, Kerrie Griffiths, Rhonda Hatton, Susanne Tran, Jenny Vote, Nalini Mannie and Elizabeth Sinclair.

Finally, I like to thank CSIRO and other organisations that employ our members, for their goodwill and access to premises for seminars and presentations. This helpfulness allows LCU to provide the best possible and most cost effective financial services for its members amongst their staff.

Frank Benito de Valle
Chairman
15th September 2010

DIRECTORS' REPORT

Your directors present their report on the credit union for the financial year ended 30 June 2010.

The credit union is a company registered under the Corporations Act 2001.

INFORMATION ON DIRECTORS

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

Name	*Position*	*Qualifications*	*Experience*
F. Benito de Valle	Chairman	B Econ. FAIDC Dip. FCIS FCPA	Chairman - since December 2007 Director - since January 2000
R.J. Steele	Deputy Chairman	BSc., PhD, MBA., ARACI.	Director - since March 2003 Finance Committee - since November 2005 Audit Committee - since November 2005
A.S. Andrew	Director	B.Sc. Hons., PhD, MEnv.Mgt.	Director – since January 2010 Audit committee – since November 2008
K.J. Greene	Director	B.A.	Director – since January 2000 Risk Committee - since November 2005 Audit Committee – since November 2008
J.E. Clark	Director	Grad Dip Bus Adm	Director – since December 2006 Risk Committee - since December 2006
A.B. Murphy	Director	BSc., Hons.PhD	Director – since January 1998 Risk Committee - since November 2005
I.R.McDonald	Director	B.Comm	Director – since June 1982 Finance Committee - since November 2000
D.E. Shaw	Director	BSc. M.S. PhD	Director – since June 1974 Risk Committee since November 2005 Retired from Board December 2009
P.B. Steele	Director	CPA, Grad Dip Tech Management	Director – since January 1990 Finance Committee since November 2005 Audit Committee since November 2005

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

Name	*Qualifications*	*Experience*
M. Sinclair	**PNA, FAMI**	**Company Secretary – since 1986**

Directors' Meeting Attendance

H *= Meetings Held in the period of appointment.* ***A****= Attended*

Director	Board		Finance		Audit		Risk		Comments
	H	A	H	A	H	A	H	A	
A. Andrew	7	7			9	9			Appointed January 2010
F. Benito de Valle	13	11							
J.E.Clark	13	11					5	5	
K.J.Greene	13	13			9	8	5	5	
I.R.McDonald	13	13	1	1					
A.B.Murphy	13	10					5	5	
D.E.Shaw	5	5					2	2	Retired December 2009
P.B.Steele	13	12	1	1	9	9			
R.J.Steele	13	11	1	1	9	8			

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, a 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, other than that disclosed in note 30 of the financial report.

INDEMNIFYING OFFICER OR AUDITOR

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

No insurance cover has been provided for the benefit of the auditors of the credit union.

FINANCIAL PERFORMANCE DISCLOSURES

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

The net profit of the credit union for the year after providing for income tax was $ 457,948
[2009 $ 593,547]

DIVIDENDS

Dividends relating to Tier 1 preference shares have been paid or declared during and since the end of the financial year amounted to $ 47,746.

REVIEW OF OPERATIONS

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

The Result for the year was affected by :

Trading conditions during the financial year were extremely difficult due to a general lack of liquidity and the high cost of deposits, resulting in substantially reduced margins.
These conditions are expected to persist while the current market conditions remain.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Apart from this, there were no significant changes in the state of the affairs of the credit union during the year.

EVENTS OCCURRING AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND RESULTS

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

(i) The operations of the credit union;

(ii) The results of those operations; or

(iii) The state of affairs of the credit union

in the financial years subsequent to this financial year.

AUDITORS' INDEPENDENCE

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001 as set out on page 4.

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:

Frank Benito de Valle Chairman	Robert J Steele Deputy Chairman

Signed and dated this 15th day of September 2010

DECLARATION OF INDEPENDENCE TO THE DIRECTORS OF LABORATORIES CREDIT UNION LIMITED

As lead auditor of Laboratories Credit Union Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, that 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.

Signed Neville Sinclair, Partner
BDO Audit (NSW-VIC) Pty Limited

Dated 15th September 2010.

INDEPENDENT AUDITOR'S REPORT to the members of Laboratories Credit Union Limited

Report on the Financial Report

We have audited the accompanying financial report of Laboratories Credit Union Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the credit union are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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*, provided to the directors of Laboratories Credit Union Limited, would be in the same terms if provided to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion

a. the financial report of Laboratories 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 2010 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001; and*

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

BDO
Sydney, 17 September 2010

Neville Sinclair
Partner

DECLARATION OF BY DIRECTORS

The directors of the company 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 company's financial position as at 30 June 2010 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:

Frank Benito de Valle ______________________
Chairman

Robert J Steele_________________
Deputy Chairman

Dated this 15th day of September 2010.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Interest revenue	2.a	6,180,866	7,198,043
Interest expense	2.c	3,899,053	5,009,972
Net interest income		2,281,813	2,188,071
Fee commission and other income	2.b	223,777	327,247
		2,505,590	2,515,318
Less			
Non interest expenses			
Impairment losses on loans receivable from members	2.d	18,010	-
Fee and commission expenses		153,674	180,531
General administration			
- Employees compensation and benefits		779,828	760,454
- Depreciation and amortisation	2.f	107,340	88,919
- Information technology		258,604	156,664
- Office occupancy		88,387	83,002
- Other administration		105,484	130,190
Total General Administration		1,339,643	1,219,229
Other operating expenses		349,204	315,447
Total non interest expenses		1,860,531	1,715,207
Profit before income tax		645,059	800,111
Income tax expense	3	187,111	206,564
Profit after income tax		457,948	593,547

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Capital	Reserve for Credit Losses	Retained Earnings	Other Reserves	Total
	$	$	$	$	$
Total at 1 July 2008	866,600	729,552	7,041,186	14,670	8,652,008
Profit for the year			593,547		593,547
Dividends Paid			(60,318)		(60,318)
Transfers to (from) reserves					
Transfer to capital reserve on redemption of shares			(1,060)	1,060	
Total at 30 June 2009	866,600	729,552	7,573,355	15,730	9,185,237
Profit for the year			457,948		457,948
Dividends Paid			(47,746)		(47,746)
Transfers to (from) reserves					
Transfer to capital reserve on redemption of shares			(920)	920	
Total as at 30 June 2010	866,600	729,552	7,982,637	16,650	9,595,439

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	2010 $	2009 $
ASSETS			
Cash	4	2,408,821	3,678,498
Receivables from financial institutions	5	22,442,329	23,382,162
Receivables	6	120,015	368,524
Loans to members	7 & 8	90,215,388	77,635,770
Available for sale investments	9	235,315	235,315
Property, plant and equipment	10	178,979	221,421
Taxation assets	11	209,573	252,695
Loans to Capital Investors	12	100,000	100,000
Intangible assets	13	144,044	111,672
TOTAL ASSETS		116,054,464	105,967,288
LIABILITIES			
Deposits from members	14	103,351,532	94,353,922
Creditor accruals and settlement accounts	15	1,774,112	1,244,140
Taxation liabilities	16	77,967	-
Provisions	17	262,033	197,309
Subordinated Debt	18	993,380	986,680
TOTAL LIABILITIES		106,459,024	96,782,051
NET ASSETS		9,595,439	9,185,237
MEMBERS' EQUITY			
Share capital - preference shares	19	866,600	866,600
Capital reserve account	20	16,650	15,730
General reserve for credit losses	21	729,552	729,552
Retained earnings		7,982,637	7,573,355
TOTAL MEMBERS' EQUITY		9,595,439	9,185,237

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 June 2010

	Note	2010 $	2009 $
OPERATING ACTIVITIES			
Revenue inflows			
Interest received		6,429,375	6,879,046
Fees and commissions		180,503	218,785
Dividends		28,164	79,497
Other income		15,110	31,939
Revenue outflows			
Interest paid		(3,534,146)	(5,227,245)
Suppliers and employees		(1,755,341)	(1,842,946)
Income taxes paid		(66,022)	(270,536)
Net cash from revenue activities	33	1,297,643	(131,460)
Inflows from other operating activities			
Increase in member loans (net movement)		(12,597,627)	4,960,367
Increase in member deposits and shares (net movement)		9,228,789	(3,972,881)
Increase in deposits to other financial institutions (net)		939,833	481,439
Net cash from operating activities		**(1,131,362)**	**1,337,465**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of investments in shares		-	(15)
Proceeds on sale of property, plant and equipment		(25,262)	17,772
Less: Outflows			
Purchase of investments in shares		-	-
Purchase of Intangible Assets		(72,008)	(72,185)
Purchase of property plant and equipment		-	(4,802)
Net cash from investing activities		(97,270)	(59,230)
FINANCING ACTIVITIES			
Inflows (outflows)			
Increase in borrowings (net movement)		-	-
Dividends Paid		(47,745)	(60,320)
Proceeds of issue of preference share capital		-	-
Proceeds of issue of subordinated debt		6,700	-
Net cash from financing activities		(41,045)	(60,320)
Total net cash increase/ (decrease)		(1,269,677)	1,217,915
Cash at beginning of year		3,678,498	2,460,583
Cash at end of year		2,408,821	3,678,498

1. STATEMENT OF ACCOUNTING POLICIES

This financial report is prepared for Laboratories Credit Union Limited as a single credit union, for the year ended the 30th June 2010. The report was authorised for issue on 15th September 2010 in accordance with a resolution of the board of directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards board and the Corporations Act 2001. Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures the financial statements and notes comply with the 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 investments which are stated at fair value]. The accounting policies are consistent with the prior year unless otherwise stated.

b. Loan to Members

(i) Basis of recognition

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the credit union at balance date, less any allowance or provision against 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 members account on the last day of each month.

Overdraft –interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account.

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) 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, and included as part of interest revenue.

(iv) **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.

(v) **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 either a portfolio basis for loans of similar characteristics, or on an individual basis. 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 used in the calculation are as set out in Note 8. Note 25 details the credit risk management approach for loans.

The APRA Prudential Standards require 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 balance sheet 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 in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon:

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

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 provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the income statement.

e. Property, plant and equipment

Property, plant and equipment 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 as at the balance date are as follows:

- Buildings - 40 years.
- Leasehold improvements - 10 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 balance sheet.

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 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 money owing to depositors.

(ii) **Interest payable**

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

i. Borrowings

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

j. Provision for Employee Benefits

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits 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 the sundry creditors and accruals.

Contributions are made by the credit union to an employee's superannuation fund and are charged to the income statement as incurred.

k. Leasehold on Premises

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

l. Income Tax

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

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

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

m. 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.

n. Goods and Services Tax

As a financial institution the credit union is input taxed on all income except for 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 balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

o. Impairment of Assets

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

p. Accounting Estimates and Judgements

Management have made judgements when applying the credit union's accounting policies with respect to

i. The classification of preference shares as equity instruments – refer note 19

Management have made critical accounting estimates when applying the credit union's accounting policies with respect to the impairment provisions for loans - refer note 8.

q. New or emerging standards

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The company'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 9 Issued DEC 2009 Financial Instruments	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.

2. INCOME STATEMENT

a. Analysis of interest revenue

	Note	2010 $	2009 $
Interest revenue on assets carried at amortised cost			
Cash – deposits at call		116,830	187,896
Receivables from financial institutions		1,000,543	1,503,097
Loans to members		5,063,493	5,507,050
Other			
TOTAL INTEREST REVENUE		6,180,866	7,198,043

b. Fee, commission and other income

		2010 $	2009 $
Fee and commission revenue			
Fee income on loans – other than loan origination fees		11,723	16,550
Other fee income		90,607	112,564
Insurance commissions		8,917	5,201
Other commissions		69,256	84,470
TOTAL FEE AND COMMISSION REVENUE		180,503	218,785
Other income			
Dividends received on available for sale assets		28,164	79,497
Bad debts recovered		9,104	20,432
Gain on disposal of assets			
- Property, plant and equipment		-	2,026
Miscellaneous revenue		6,006	6,507
TOTAL FEE COMMISSION AND OTHER INCOME		223,777	327,247

c. Interest expenses

	Note	2010 $	2009 $
Interest expense on liabilities carried at amortised cost			
Short term borrowings - overdraft		19,251	14,281
Deposits from members		3,829,594	4,927,515
Subordinated Debt		50,208	68,176
TOTAL INTEREST EXPENSE		3,899,053	5,009,972

	Note	2010 $	2009 $
d. Impairment losses			
Loans and advances			
Increase in provision for impairment		18,010	-
Bad debts written off directly against profit		-	-
TOTAL IMPAIRMENT LOSSES		18,010	-

e Individually significant items of expenditure (detail)

The following items of expense are shown as part of Administration expenses and considered to be significant to the understanding of the financial performance:-

f. Other prescribed disclosures

	2010 $	2009 $
General administration - depreciation expense include:		
- plant and equipment	40,526	37,640
- leasehold improvements	27,178	27,178
- amortisation of software	39,636	24,101
	107,340	88,919

General administration – office occupancy costs include:

	2010 $	2009 $
property operating lease payments		
- minimum lease payments	83,363	77,523
- contingent rents		

Other operating expenses include**:**

	2010 $	2009 $
Auditor's remuneration (excluding GST)		
- Audit fees	30,700	28,800
- Other Services – taxation	2,600	2,400
- Other Services – compliance	3,000	3,000
- Other Services – other	6,500	5,500
	42,800	39,700
Defined contribution superannuation expenses	112,526	117,100
Loss on disposal of assets		
- property, plant, equipment	-	-

	Note	2010 $	2009 $
3. INCOME TAX EXPENSE			
a. The income tax expense comprises amounts set aside as:-			
Current tax expense - current year profits (3b)		216,926	192,852
Adjustments for previous years		(4,832)	
Deferred tax expense			
Movement in temporary differences		(24,983)	13,712
Total income tax expense in income statement		187,111	206,564
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:			
Profit		645,059	800,111
Prima facie tax payable on profit before income tax at 30%		193,518	240,033
Add tax effect of expenses not deductible			
- Other non-deductible expenses			
- Dividend imputation		3,781	10,221
Subtotal			
Less			
- Tax deductions not in accounting profit		2,064	6,184
- Franking rebate		12,605	34,070
Income tax expense attributable to current year profit		182,630	210,000
Adjustments for previous years		(4,832)	-
Movement in temporary differences – prior year		9,313	(3,436)
Total income tax expense in income statement		187,111	206,564
4. CASH			
Cash on hand		138,547	121,449
Deposits at call		2,270,274	3,557,049
		2,408,821	3,678,498
5. RECEIVABLES FROM FINANCIAL INSTITUTIONS			
Deposits with industry bodies - Cuscal (refer note 28)		3,980,984	4,975,471
Deposits with other societies			
Deposits with banks		18,461,345	18,406,691
		22,442,329	23,382,162

6. RECEIVABLES

Interest receivable on deposits with other financial institutions	120,015	368,524
	120,015	**368,524**

7. LOANS TO MEMBERS

a. Amount due comprises:

Overdrafts and revolving credit	754,336	1,020,962
Term loans	89,521,589	76,666,180
Subtotal	90,275,925	77,687,142
Less:	60,537	51,372
Provision for impaired loans (Note 8)	**90,215,388**	**77,635,770**

b. Credit quality - Security held against loans

Secured by mortgage over real estate	86,239,518	74,278,407
Partly secured by goods mortgage	2,043,720	1,722,306
Wholly unsecured	1,992,687	1,686,429
	90,275,925	**77,687,142**

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

	2010 **$**	**2009** **$**
Security held as mortgage against real estate is on the basis of		
- loan to valuation ratio of less than 80%	75,578,135	63,399,396
- loan to valuation ratio of more than 80% but mortgage insured	4,437,819	5,433,351
- loan to valuation ratio of more than 80% and not mortgage insured	6,223,564	5,445,660
Total	**86,239,518**	**74,278,407**

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

c. Concentration of loans

The values discussed below include on balance sheet values.

(i) Loans to Individual or related groups of members which exceed 10% of reserves in aggregate	-	-

(ii) Loans to members are concentrated to individuals employed primarily in the technology and scientific research industries

(iii) Geographical concentrations
Australia

2010	Housing	Personal	Business	Total
NSW	72,411,908	5,011,334	1,942,099	79,365,341
Victoria	2,353,314	113,393		2,466,707
Queensland	2,731,575	83,802	179,082	2,994,459
South Australia	469,496	8,324		477,820
Western Australia	1,095,444	32,428		1,127,872
Tasmania	1,264,999	13,450		1,278,449
Northern Territory	-	-		-
ACT	1,383,561	30,235		1,413,796
Other	1,150,765	716		1,151,481
Total per balance sheet	82,861,062	5,293,682	2,121,181	90,275,925

2009	Housing	Personal	Business	Total
NSW	62,423,093	4,841,573	693,110	67,957,776
Victoria	2,104,944	36,239		2,141,183
Queensland	3,006,449	179,283	134,398	3,320,130
South Australia	404,649	8,433	255,788	668,870
Western Australia	1,187,828			1,187,828
Tasmania	253,003	16,224	19	269,246
Northern Territory				
ACT	1,206,854	61,175		1,268,029
Other	867,239	6,841		874,080
Total per balance sheet	71,454,059	5,149,768	1,083,315	77,687,142

		2010 **$**	**2009** **$**
8.	**PROVISION ON IMPAIRED LOANS**		
a.	**Total provision comprises**		
	Collective provisions	60,537	51,372
	Individual specific provisions		
	Total Provision	60,537	51,372
b.	**Movement in the provision for impairment**		
	Balance at the beginning of year	51,372	112,707
	Add (deduct):		
	Transfers from (to) income statement	18,010	-
	Bad debts written off provision	(8,855)	(61,335)
	Balance at end of year	60,537	51,372

Details of credit risk management are set out in Note 22.

c. Impaired loans written off

Amounts written off against the provision for impaired loans	8,855	61,335
Amounts written off directly to expense	-	-
Total bad debts	8,855	61,335

d. Analysis of loans that are impaired or potentially impaired by class

In the Note below -

- Carrying Value is the amount of the balance sheet
- Impaired loans value is the 'on balance sheet' loan balances which are past due by 90 days or more
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2010	**2010**	**2010**		**2009**	**2009**	**2009**
	Carrying value	**Value of Impaired Loans**	**Provision for impairment**		**Carrying value**	**Value of Impaired Loans**	**Provision for impairment**
	$	**$**	**$**		**$**	**$**	**$**
Loans to members							
Mortgages	86,239,518				73,989,325		
Personal	2,043,720	116,773	55,567		1,566,591	16,452	15,735
Overdrafts	1,992,687	6,668	4,970		1,020,962	2,369	949
Commercial					1,110,264	0	0
Total	**90,275,925**	**123,441**	**60,537**		**77,687,142**	**18,821**	**16,684**

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.
It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

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

	2010 Carrying Value	**2010 Provision**	**2009 Carrying Value**	**2009 Provision**
	$	**$**	**$**	**$**
30 to 90 days in arrears	510,622	-	515,396	
90 to 180 days in arrears	102,010	40,804	1,195	478
180 to 270 days in arrears	-			
270 to 365 days in arrears	-			
Over 365 days in arrears	14,763	14,763	15,257	15,257
Overlimit facilities over 14 days	6,668	4,970	10,152	949
Total	634,063	60,537	542,000	16,684

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 all collateral as at the balance date due to the variety of assets and condition.

f. Loans with repayments past due but not regarded as impaired

There are loans with a value of $ 444,937 past due which 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 condition.

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

Loans to members

2010	1- 3 Mnths	3-6 Mnths	6-12 Mnths	> 1 Year	Total
Mortgage secured	444,937				444,937
Personal loans	18,684				18,684
Overdrafts	47,001				47,001
Total	510,622				510,622

2009	1- 3 Mnths	3-6 Mnths	6-12 Mnths	> 1 Year	Total
Mortgage secured	456,215				456,215
Personal loans	59,181	1,195		15,257	75,633
Overdrafts	10,149	3			10,152
Total	525,545	1,198		15,257	542,000

g. Key assumptions in determining the provision for impairment

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

Period of impairment	% of
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 265 days	80
Over 365 days	100

	Note	2010 $	2009 $
9. AVAILABLE FOR SALE INVESTMENTS			
Shares in unlisted companies – at cost			
- Cuscal		235,315	235,315

Cuscal Limited

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

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

The credit union is not intending, nor able to, dispose of these shares.

10. PROPERTY, PLANT AND EQUIPMENT

a. Fixed assets

	Note	2010 $	2009 $
Plant and equipment - at cost		338,698	327,094
Less: provision for depreciation		(234,458)	(207,590)
		104,240	119,504
Capitalised leasehold improvements at cost		271,778	271,778
Less: provision for amortisation		(197,039)	(169,861)
		74,739	101,917
		178,979	221,421

b. Movement in the assets balances during the year were :

	2010			2009		
	Plant & equipment	*Leasehold improvements*	*Total*	*Plant & equipment*	*Leasehold improvements*	*Total*
	$	*$*	*$*	*$*	*$*	*$*
Opening balance	119,504	101,917	221,421	100,706	129,094	229,800
Purchases	25,262		25,262	72,185		72,185
Less						
Assets disposed				15,747		15,747
Depreciation charge	40,526	27,178	67,704	37,640	27,177	64,817
Impairment loss						
Balance at the end of the year	104,240	74,739	178,979	119,504	101,917	221,421

	2010 $	2009 $

11. TAXATION ASSETS

	2010 $	2009 $
Provision for income tax – instalments recoverable	-	68,105
Deferred Tax Assets	209,573	184,590
	209,573	252,695

	2010 $	2009 $
Deferred tax assets comprise:		
Accrued expenses not deductible until incurred	35,141	25,166
Provisions for impairment on loans	24,389	21,042
Provisions for employee benefits	110,911	98,474
Depreciation on fixed assets	40,315	41,912
Capital raising costs	(2,789)	(2004)
	209,573	184,590

12. LOANS TO CAPITAL INVESTORS

	2010 $	2009 $
Subordinated loans to Subordinated debt investors	100,000	100,000

These loans are issued as subordinated loans to the respective investors and on the following terms and conditions :

- the loans are unsecured
- interest is payable quarterly at BBSW plus 1.19%.
- no repayments are required until the respective liabilities are settled in accordance with the agreements in 2016

13. INTANGIBLE ASSETS

	2010 $	2009 $
Computer software	284,158	212,732
Less provision for amortisation	140,114	101,060
	144,044	111,672

Movement in the assets balances during the year were :

	2010 $	2009 $
Opening balance	111,672	135,971
Purchases	72,262	4,802
Less		
Assets disposed	0	5,000
Depreciation charge	39,636	24,101
Balance at the end of the year	144,044	111,672

14. DEPOSITS FROM MEMBERS

	2010 $	2009 $
Member Deposits		
- at call	46,604,089	50,224,016
- term	56,714,043	44,097,266
Member withdrawable shares	33,400	32,640
	103,351,532	94,353,922

	Note	2010 $	2009 $
Concentration of member deposits			
(i) Significant individual member deposits which in aggregate represent more than 10 % of the total liabilities:		Nil	Nil
(ii) Member deposits at balance date were received from individuals employed principally in the scientific and technology research industry			

(iii) Geographical concentrations
Australia

	2010	2009
NSW	97,279,132	88,000,815
Victoria	1,122,238	911,526
Queensland	1,664,293	2,083,858
South Australia	85,611	343,703
Western Australia	629,688	512,517
Tasmania	380,987	489,201
Northern Territory	56,498	21,804
ACT	683,112	696,182
Other	1,449,973	1,294,316
Total per balance sheet	103,351,533	94,353,922

15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

	2010	2009
Annual leave	128,429	110,831
Creditors and accruals	116,069	199,781
Interest payable on deposits	1,114,538	749,631
Sundry creditors	415,076	183,897
	1,774,112	1,244,140

16. TAXATION LIABILITIES

	2010	2009
Current income tax liability See Note 11	77,967	-
	77,967	-
Current income tax liability comprises:		
Balance – previous year	(68,375)	9,579
Less paid	76,180	(69,012)
Balance carried forward	4,832	(59,433)
Over / under statement in prior year	(4,832)	(270)
Transferred to tax expense	(4,832)	
Liability for income tax in current year	216,926	192,852
Less Instalments paid in current year	138,949	(201,524)
Balance – current year	77,967	(68,375)

	Note	2010 $	2009 $

17. PROVISIONS

	2010 $	2009 $
Long service leave	241,274	197,309
Provisions – other	20,759	-
	262,033	197,309

18. SUBORDINATED DEBT

	2010 $	2009 $
Balance at the beginning of the year	986,680	979,980
Increase due to debt issued		
Amortisation of Costs of debt	6,700	6,700
Balance at the end of year	993,380	986,680

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

19. PREFERENCE SHARES

	2010 $	2009 $
Balance	866,000	866,000
The credit union issued 10,000 redeemable preference shares with a face value of $100 each to Australian Mutual T1 Capital Funding Trust. The shares may be redeemable after June 2016.	1,000,000	1,000,000
Less capital raising costs associated with the issue	(33,400)	(33,400)
As part of the capital raising scheme, the credit union was required to provide a limited recourse unsecured subordinated loan to the Trustee for 10% of the face value of shares issued. The loan is repayable upon the redemption of the shares.	(100,000)	(100,000)
	866,600	866,600

Key Assumptions

The structure of the share issue agreement and the T1 Loss Reserve are considered to be effectively one transaction to raise capital.

20. CAPITAL RESERVE ACCOUNT

	2010 $	2009 $
Balance at the beginning of the year	15,730	14,670
Transfer from retained earnings on share redemptions	920	1,060
Balance at the end of year	16,650	15,730

Share Redemption

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

	2010 $	2009 $
21. GENERAL RESERVE FOR CREDIT LOSSES		
General reserve for credit losses	729,552	729,552
Other reserve for credit losses		
	729,552	729,552

General reserve for credit losses
This reserve records amount previously set aside as a General provision and is maintained to comply with the Prudential Standards set down by APRA

	2010	2009
Balance at beginning of year	729,552	729,552
Add: increase (decrease) transferred from retained earnings		
Balance at end of year	729,552	729,552

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

A. 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, and other 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 Management, which reports directly to the board.

(i) 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.

Most banks are exposed to interest rate risk within its 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.

The interest rate risk on the banking book is measured daily, reported 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 should interest rates change.

The level of mismatch on the banking book is set out in Note 25 below**.** The table set out at note 25 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The credit union manages it interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

Interest rate sensitivity

The credit union's 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 Gap is measured quarterly to identify potentially large exposures to interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the credit union is not to undertake derivatives to match the interest rate risks. The credit unions exposure to interest rate risk is set out in Note 25 which details the contractual interest change profile.

The credit union performs a <u>sensitivity analysis</u> to measure market risk exposures.

Based on the calculations as at balance date a 1% upwards movement in interest rates would result in an increase in net profit of $68,000. Conversely, a 1% downwards movement in interest rates would result in an equivalent decrease in annual net profit.

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 to 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 deposit 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;
- mortgage loans would loans would all reprice to the new interest rate at the within 28 days;
- personal loans would reprice after a 3 month delay;
- 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.

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 board of directors that the credit union maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

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) which can access industry funds to provide support to the credit union should be necessary at short notice.

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The credit union policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 28 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in the specific note 24.

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, investment assets and derivative contracts (where applicable).

(i) CREDIT RISK – LOANS

The analysis of the credit union's loans by class, is set out in Note 7

Carrying value is the value on the balance sheet**.** Maximum exposure is the value on the balance sheet plus the undrawn facilities (Loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities). The details are shown in note 27.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in note 7.c.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

The credit union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;

- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies;

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 that 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 a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is 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 are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the income statement. 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.

Balance Sheet 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 capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in country risk, changes in a counterparty's industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

The provisions for impaired and past due exposures relate to loans to members.
Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are as set out in Note 8.

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 8.

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 a 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 the majority of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 7.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 per cent) a large exposure is considered to exist. No capital is required to be held against these but the APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The aggregate value of large exposure loans are set out in note 7. [The credit union holds no significant concentrations of exposures to individual members.] Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

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 and reviews of compliance with this policy are conducted.

Concentration risk – industry

The credit union has a concentration in the retail lending for members who comprise employees and family in the scientific research and technology industry. This concentration is considered acceptable on the basis that the credit union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 7.

(ii) CREDIT RISK – LIQUID INVESTMENTS

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the credit union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the credit union.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that limit the amount that can be invested with any one financial institution at a time.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one credit union. Also the relative size of the credit union as compared to the industry is relatively low such that the risk of loss is reduced.

Under the liquidity support scheme at least 3.2% of the total assets must be invested in Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed. The board policy is to maintain investments in Cuscal Limited, a company set up to support the member credit unions and which has an AA rating.

All other investment must be with financial institutions with a rating in excess of BBB. The policies of the board limit the investments outside Cuscal to Authorised Deposit taking Institutions (ADI's)

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.

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.

- A subordinated loan remitted from the credit union's ultimate parent. 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.

Capital in the credit union is made up as follows:

	2010	2009	2008
Tier 1			
Share capital	866,600	866,600	866,600
Capital reserve	16,650	15,730	14,670
General reserve			
Retained earnings	7,982,788	7,573,355	7,041,186
	8,865,738	8,455,685	7,922,456
Less prescribed deductions	471,267	561,024	351,372
Net tier 1 capital	8,394,621	7,894,661	7,571,084
Tier 2			
Subordinated debt	993,380	986,680	979,980
Reserve for credit losses	651726	729,552	729,552
	1,648106	1,716,232	1,709,532
Less prescribed deductions	220,650	394,335	409,636
Net tier 2 capital	1,427,456	1,321,897	1,299,896
Total Capital	9,822,077	9,216,558	8,870,980

The credit union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

The risk weighted assets processes were modified by APRA as from the 1 January 2008 as part of the Basel 2 Prudential framework enhancements. Comparative data has not been available on the revised methods – the risk weighted assets for 2007 and prior reflect the previous methodology.

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

2010	2009	2008	2007	2006
19.50%	**20.40%**	**20.62%**	**19.54%**	**20.13%**

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

To manage the credit unions 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 12%. 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 regulatory capital $ 590,556 2009 $ 634,359

It is considered that the Standardised approach accurately reflects the credit union's operational risk

23. CATEGORIES OF FINANCIAL INSTRUMENTS

a. The following information classifies the financial instruments into measurement classes

	Note	2010 $	2009 $
Financial assets - carried at amortised cost			
Cash	4	2,408,821	3,678,498
Receivables		120,015	368,524
Receivables from financial institutions -	5	22,500,000	23,382,162
Loans to members	7 & 8	90,215,388	77,617,001
Loans to capital investors		100,000	100,000
Total loans and receivables		115,344,224	105,146,185
Available for sale investments - carried at cost		235,315	235,315
Available for sale investments - carried at fair value			
Total available for sale investments		235,315	235,315
TOTAL FINANCIAL ASSETS		115,579,539	105,381,500
Financial liabilities			
Short term borrowings			
Creditors		1,645,684	1,244,144
Deposits from other institutions			
Deposits from members		103,351,533	94,353,922
Subordinated debt		993,380	986,680
Total carried at amortised cost		105,990,597	96,584,746
Fair value through profit and loss			
TOTAL FINANCIAL LIABILITIES		105,990,597	96,584,746

b. Assets measured at fair value

	Balance	Fair value measurement at end of the reporting period using: Level 1	Level 2	Level 3
2010				
Available-for-sale financial assets:				
- Equity investments	0	0	0	235,315
2009				
Available-for-sale financial assets:				
- Equity investments	0	0	0	235,315

The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(b) 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) (Level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level 3 investments are held at cost and relate to the shares in the trade association body CUSCAL Limited. These 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.

24. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the balance sheet.

2010	Book value	Up to 3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total cash flows
	$	$	$	$	$	$	$
ASSETS							
Cash	2,408,821	2,270,274				138,547	2,408,821
Advance to financial Institutions	22,442,329	14,117,265	4,108,140	5,035,877	-		23,261,282
Loans & advances	90,275,925	2,523,742	6,988,554	34,674,130	124,545,820		168,732,246
Total financial assets	**115,127,075**	**18,911,281**	**11,096,694**	**39,710,007**	**124,545,820**	**138,547**	**194,402,349**
LIABILITIES							
Borrowings							
Creditors	1,774,113	659,575					659,575
Deposits from members	103,351,533	63,100,739	40,259,395	1,268,864			104,628,998
Subordinated debt	993,380				993,380		993,380
	106,119,026	**63,760,314**	**40,259,395**	**1,268,864**	**993,380**	**-**	**106,281,953**
Undrawn loan commitments	18,817,776	18,817,776	-	-	-	-	18,817,776
Total financial liabilities	**124,936,802**	**82,578,090**	**40,259,395**	**1,268,864**	**993,380**	**-**	**125,099,729**
2009							
ASSETS							
Cash	3,678,498	3,557,049				121,449	3,678,498
Advance to financial Institutions	23,382,162	16,882,284	3,073,464	4,451,009	-		24,406,757
Loans & advances	77,687,142	1,896,180	5,664,283	27,267,936	99,423,931		134,252,330
Total financial assets	**104,747,802**	**22,335,513**	**8,737,747**	**31,718,945**	**99,423,931**	**121,449**	**162,337,585**
LIABILITIES							
Borrowings							
Creditors	1,244,144	494,509					494,509
Deposits from members –	94,353,922	70,853,565	22,729,885	1,552,941			95,136,391
Subordinated debt	986,680				986,680		986,680
	96,584,746	**71,348,074**	**22,729,885**	**1,552,941**	**986,680**		**96,617,580**
Undrawn loan commitments	18,387,410	18,387,410	**-**	**-**	**-**	**-**	18,387,410
Total financial Liabilities	**114,972,156**	**89,735,484**	**22,729,885**	**1,552,941**	**986,680**		**115,004,990**

25. INTEREST RATE CHANGE PROFILE OF FINANCIAL LIABILITIES

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

2010	Within 1 month	1-3 months	3-12 months	1-5 years	Non interest bearing	Total
ASSETS	$	$	$	$	$	$
Cash	2,270,274				138,547	2,408,821
Receivables					120,015	120,015
Advances to other financial Institutions		17,500,000	5,000,000			22,500,000
Loans & advances	68,290,483	3,623,742	13,287,054	5,073,239		90,274,518
Investments					235,315	235,315
Subtotal	**70,560,757**	**21,123,742**	**18,287,054**	**5,073,239**	**493,877**	**115,538,669**
Total financial assets	**70,560,757**	**21,123,742**	**18,287,054**	**5,073,239**	**493,877**	**115,538,669**
LIABILITIES						
Creditors					1,645,684	1,645,684
Deposits from members	52,699,294	11,139,130	38,345,270	1,134,439	33,400	103,351,533
Subordinated debt	993,380					993,380
Subtotal	**53,692,674**	**11,139,130**	**38,345,270**	**1,134,439**	**1,679,084**	**105,990,597**
Undrawn loan commitments						
Total financial liabilities	**53,692,674**	**11,139,130**	**38,345,270**	**1,134,439**	**1,679,084**	**105,990,597**

2009	Within 1 month	1-3 months	3-12 months	1-5 years	Non interest bearing	**Total**
ASSETS	$	$	$	$	$	**$**
Cash	3,557,049				121,449	3,678,498
Receivables					368,524	368,524
Advances to other financial Institutions	5,000,000	15,475,470	2,906,691			23,382,161
Loans & advances	65,225,013	2,053,965	8,763,584	1,643,172		77,685,734
Investments					235,315	235,315
Subtotal	**73,782,062**	**17,529,435**	**11,670,275**	**1,643,172**	**725,288**	**105,350,232**
Total financial assets	**73,782,062**	**17,529,435**	**11,670,275**	**1,643,172**	**725,288**	**105,350,232**
LIABILITIES						
Creditors					1,133,309	1,133,309
Deposits from members	54,367,729	15,726,525	22,800,720	1,426,608	32,340	94,353,922
Subordinated debt	986,680					986,680
Subtotal	**55,354,409**	**15,726,525**	**22,800,720**	**1,426,608**	**1,165,649**	**96,473,911**
Undrawn loan commitments	18,387,410					18,387,410
Total financial liabilities	**73,741,819**	**15,726,525**	**22,800,720**	**1,426,608**	**1,165,649**	**114,861,321**

26. 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 the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.
The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are held 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

	2010			2009		
2010	**Fair Value**	**Carrying Value**	**Variance**	**Fair Value**	**Carrying Value**	**Variance**
	$	$	$	$	$	$
FINANCIAL ASSETS						
Cash	2,408,821	2,408,821		3,678,498	3,678,498	
Advances to other financial institutions	22,465,831	22,500,000	(34,169)	23,420,495	23,382,162	38,333
Receivables	120,015	120,015		368,524	368,524	
Loans	77,634,833	77,635,770	(937)	76,849,066	77,617,001	(767,935)
Investments	235,315	235,315		235,315	235,315	
Subordinated loans	100,000	100,000		100,000	100,000	
Total financial assets	102,964,815	102,999,921	(35,106)	104,651,898	105,381,500	(729,602)
FINANCIAL LIABILITIES						
Creditors	1,645,684	1,645,684		1,133,309	1,133,309	
Deposits from members	103,366,551	103,351,533	15,018	94,474,363	94,353,922	120,441
Subordinated debt	993,380	993,380		986,680	986,680	
Total financial liabilities	106,005,615	105,990,597	15,018	96,594,352	96,473,911	120,441

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

The 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 12 months approximate their 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 both general and specific provisions for doubtful debts.

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

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

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 Balance Sheet. 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.

		2010 $	2009 $
27.	**FINANCIAL COMMITMENTS**		
a.	**Outstanding loan commitments**		
	The loans approved but not funded	897,424	269,694
b.	**Loan redraw facilities**		
	The loan redraw facilities available	15,823,663	15,840,794
c.	**Undrawn loan facilities**		
	Loan facilities available to members for overdrafts and line of credit loans are as follows:		
	Total value of facilities approved	2,833,139	3,297,884
	Less: Amount advanced	(736,450)	(1,020,962)
	Net undrawn value	2,096,689	2,276,922
	These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
	Total financial commitments	18,817,776	18,387,410

Expenditure commitments

		2010	2009
e.	**Computer Licence commitments**		
	The costs committed under contracts with Ultradata are as follows		
	Not later than one year	139,642	137,000
	Later than 1 year but not 2 years	139,642	137,000
	Later than 2 years but not 5 years	139,642	274,000
	Later than 5 years		
		481,927	548,000

		2010	2009
		$	**$**
f.	**Lease expense commitments for operating leases on property occupied by the credit union**		
	Not later than one year	86,466	83,400
	Later than one year but not later than five years	131,615	250,200
	Over five years		
		218,081	333,600

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

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

28. STANDBY BORROWING FACILITIES

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

2010

	Gross	Current Borrowing	Net Available
	$	$	$
Loan facility	1,200,000		1,200,000
Overdraft facility	500,000		500,000
TOTAL STANDBY BORROWING FACILITIES	1,700,000		1,700,000

2009

	Gross	Current Borrowing	Net Available
	$	$	$
Loan Facility	1,200,000		1,200,000
Overdraft Facility	500,000		500,000
TOTAL STANDBY BORROWING FACILITIES	1,700,000		1,700,000

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

Cuscal holds an equitable mortgage charge over all of the assets of the credit union as security against loan and overdraft amounts drawn under the facility arrangements.

29. CONTINGENT LIABILITIES

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

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.2% of the credit union's total assets (3% under loans and facilities and .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.

30. 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 credit union. *Control* is the power to govern the financial and operating policies of an credit union so as to obtain benefits from its activities.

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

The aggregate Compensation of **key management persons** during the year comprising amounts paid or payable or provided for was as follows:

Note the AASB 124 standard does not specifically require the separation of the directors and executive remuneration. A single table may be shown for KMP combined.

		2010 Total $	2009 Total $
(a)	short-term employee benefits;	294,546	308,112
(b)	post-employment benefits - superannuation contributions	28,990	30,790
(c)	other long-term benefits – net increases in long service leave provision	7,779	9,201
(d)	termination benefits;		
(e)	share-based payment.		
	Total	**331,315**	**348,103**

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.

c. Loans to Directors and other Key Management Persons

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 director's or other KMPs.

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

The detail of transactions during the year is as follows

	2010			2009		
	Mortgage secured	Other term loans	Revolving Credit	Mortgage secured	Other term loans	Revolving Credit
Funds available to be drawn	-	-	78,667	-	-	77,061
Balance	1,537,850	-	80,061	1,654,564		92,000
Amounts disbursed or facilities increased in the year	28,051	-	-	-	-	22,320
Interest and other revenue earned	91,182	-	641	125,633	-	-

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

	2010 $	2009 $
Total value term and savings deposits from KMP	730,334	448,846
Total Interest paid on deposits to KMP	21,111	18,789

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

d. Transactions with Other Related Parties

Other transactions between related parties include deposits from director related entities or close family members of directors, and other KMP.
The credit union's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.
There are no benefits paid or payable to the close family members of the key management persons.
There are no service contracts to which key management persons or their close family members are an interested party.

31. SUPERANNUATION LIABILITIES

The credit union contributes to the CUE Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee.
The credit union has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

32. SECURITISATION

The credit union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The credit union also manages the loans portfolio on behalf of the trust. The credit union bears no risk exposure in respect of these loans. The credit union receives a management fee to recover the costs of no-going administration of the processing of the loan repayments and the issue of statements to the members.

The amount of securitised loans under management as at 30 June 2010 is $203,435 (2009: $607,190).

33. NOTES TO CASH FLOW STATEMENT

	2010 $	2009 $
Reconciliation of cash		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	138,547	121,449
Deposits at call	2,270,274	3,557,049
Bank overdraft		
Total cash	2,408,821	3,678,498

	2010 $	2009 $
Reconciliation of cash from operations to accounting profit		
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax		
Profit after income tax	457,948	593,547
Add (Deduct) :		
Increase in provision for loans	(18,009)	(61,335)
Depreciation and Amortisation expense	67,704	64,818
Amortisation of intangible assets	39,636	24,101
Loss on sale of assets		5,000
Increase in provisions for staff leave	61,563	(45,959)
Increase in provision for income tax	77,967	(77,684)
Increase in other provisions	1,990	8,869
Increase in accrued expenses	(83,712)	(118,233)
Increase in interest payable	364,907	(223,973)
Loss (Gain) on sale of assets		(2,026)
Decreases in prepayments		
Decreases in sundry receivables		
Decreases in deferred tax assets	(24,983)	13,712
Decrease in other assets		
Decrease in interest receivable	248,509	(318,997)
Amortisation of borrowing costs		6,700
Income tax instalments	68,105	
Net cash from revenue activities	1,297,643	(131,460)

34. 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	No. 1 The Village, Riverside Corporate Park, 3 Julius Ave NORTH RYDE NSW 2113
The address the principal place of business is	No. 1 The Village, Riverside Corporate Park, 3 Julius Ave NORTH RYDE NSW 2113

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.

DIRECTORS OF LABORATORIES CREDIT UNION 1954 - 2010

FOUNDATION DIRECTORS

R.J.P. Armstrong
1954 – 1955
2 years service

R.P. Bowman *1954 – 55* *2yrs*	*W.R. Webster* *1954 – 57* *4 yrs*	*R. Kenna* *1954 – 56* *3yrs*	*J.R. Morris* *1954 – 72* *19yrs*
F.C. Hawes *1954 – 56* *3yrs*	*K.J. Loughry* *1954 – 90* *37 yrs*	*R. Nicholls* *1954 – 55* *2 yrs*	

DIRECTORS

G.A. Wildman *1955 – 58* *4 yrs*	*T.C Clark* *1955 – 95* *41 yrs*	*S.A. Ryan* *1955 – 59* *1973 – 86* *19 yrs*	*H.F. Peddie* *1956 – 74* *19 yrs*	*R. Partridge* *1956 – 59* *4 yrs*
R.J. Taylor *1956 – 87* *32 yrs*	*F.O. Cox* *1957 – 59* *3 yrs*	*A.J. Tolliday* *1957 – 59* *3 yrs*	*T.G. Brock* *1959 – 67* *9 yrs*	*K. Wasson* *1959 – 72* *13 yrs*
J.W. Smyth *1959 – 77* *28 yrs*	*G.K. Johnson* *1967 – 72* *6 yrs*	*B.L. Sheldon* *1972 – 94* *23 yrs*	*T.A. Cahalan* *1973 – 82* *10 yrs*	*D.W Shaw* *1974 – 2009* *35 yrs*
P.V. Baston *1977 - 80* *4 years*	*P.E. Robinson* *1980 – 83* *4 yrs*	*G.W. Rae* *1983 – 88* *6 yrs*	*G.W. Goodfellow* *1987 – 89* *3 yrs*	*D W Pendergast* *1989 – 96* *8 yrs*
G.F. Taylor *1989 - 96* *7 years*	*J.F. Gannon* *1993 –97* *5 years*	*W.D. King* *1988 - 99* *11 years*	*D. Stevens* *1991 - 1999* *9 years*	*R.H. Brittain* *1994 - 2003* *9 years*
A.D. Hocking *1994 - 2006* *12 years*				

CURRENT DIRECTORS

F Benito de Valle
1998

I.R. McDonald *1982*	*P.B. Steele* *1989*	*A.B Murphy* *1995*	*K.J. Greene* *1997*
R.J. Steele *2003*	*J.E. Clark* *2003*	*A.S. Andrew* *2010*	

CREDIT UNION PROFILE

REGISTERED OFFICE	1 The Village, Riverside Corporate Park, Julius Avenue Nth Ryde
BRANCH OFFICES	**N.M.I.** *Bradfield Road, Lindfield*
STAFF	M.F. Sinclair, PNA, General Manager L. Harris, Assistant Manager E.R. Thoms, Office Administrator L.E. Slatter, Loans Officer T.A. Breen, Business Development Officer K.P. Griffiths, Member Services Officer R.K. Hatton, Member Services Officer S Tran, Member Services Officer J.R. Vote, Member Service Officer N Mannie, Member Service Officer E.A. Sinclair, Administration Assistant
BANKERS	CUSCAL Central Banking National Australia Bank
AUDITORS	**EXTERNAL**: KENDALLS LMJ **INTERNAL**: Geoffrey Bannister Consultancy
SOLICITOR	Williams, Woolf & Zuur Daniels Bengtsson Pty Ltd
AFFILIATIONS	Credit Union Services Corporation ABACUS – Australian Mutuals