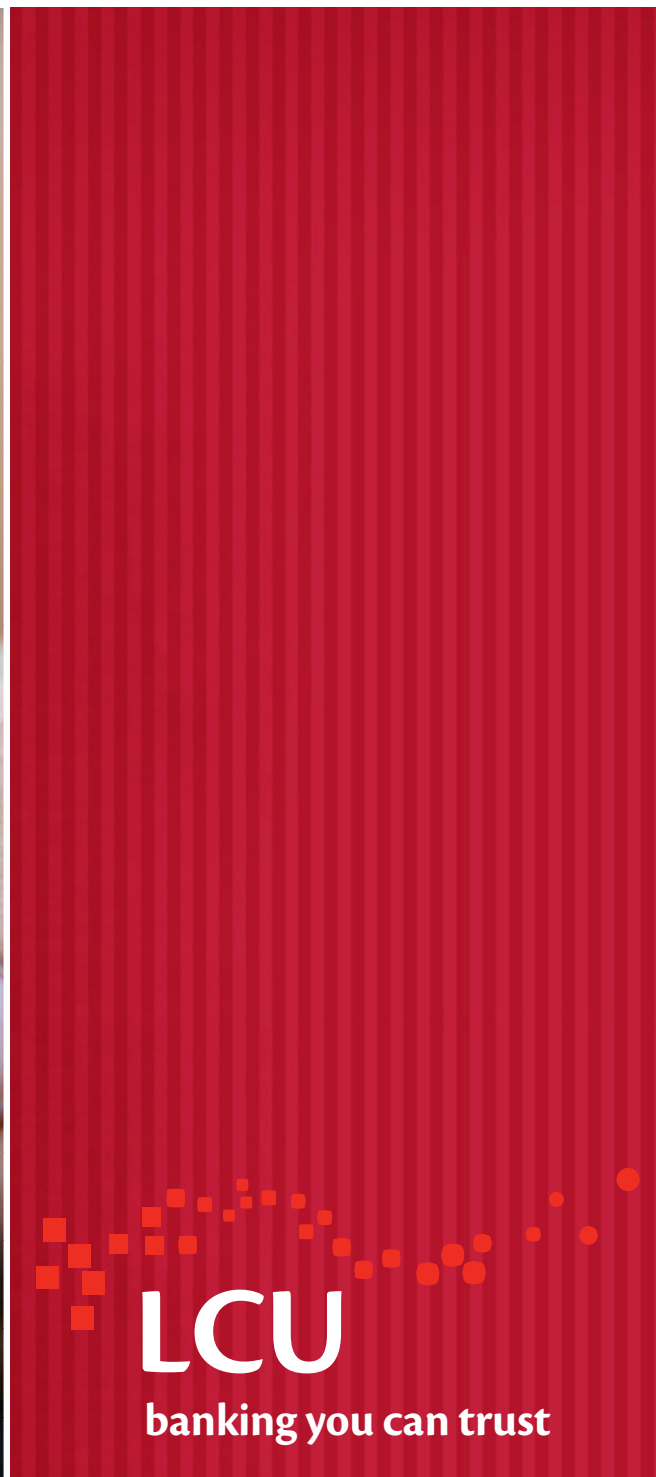


Laboratories Credit Union 58th ANNUAL REPORT 2011-2012



LCU

banking you can trust

Laboratories Credit Union Limited
ABN 77 087 650 217 AFSL/Australian Credit Licence 240807

DIRECTORS OF LABORATORIES CREDIT UNION 1954 - 2012

FOUNDATION DIRECTORS

<i>R.J.P. Armstrong</i> 1954 – 1955 2 years service			
<i>R.P. Bowman</i> 1954 – 55 2 yrs	<i>W.R. Webster</i> 1954 – 57 4 yrs	<i>R. Kenna</i> 1954 – 56 3 yrs	<i>J.R. Morris</i> 1954 – 72 19 yrs
<i>F.C. Hawes</i> 1954 – 56 3 yrs	<i>K.J. Loughry</i> 1954 – 90 37 yrs	<i>R. Nicholls</i> 1954 – 55 2 yrs	

DIRECTORS

<i>G.A. Wildman</i> 1955 – 58 4 yrs	<i>T.C. Clark</i> 1955 – 95 41 yrs	<i>S.A. Ryan</i> 1955 – 59 1973 - 86 19 yrs	<i>H.F. Peddie</i> 1956 – 74 19 yrs	<i>R. Partidge</i> 1956 – 59 4 yrs
<i>R.J. Taylor</i> 1956 – 87 32 yrs	<i>F.O. Cox</i> 1957 – 59 3 yrs	<i>A.J. Tolliday</i> 1957 – 59 3 yrs	<i>T.G. Brock</i> 1959 – 67 2 yrs	<i>K. Wasson</i> 1959 – 72 13 yrs
<i>J.W. Smyth</i> 1959 – 77 18 yrs	<i>G.K. Johnson</i> 1967 – 72 6 yrs	<i>B.L. Sheldon</i> 1972 – 94 23 yrs	<i>T.A. Cahalan</i> 1973 – 82 10 yrs	<i>D.W. Shaw</i> 1974 – 09 35 yrs
<i>P.V. Baston</i> 1977 – 80 4 yrs	<i>P.E. Robinson</i> 1980 – 83 4 yrs	<i>G.W. Rae</i> 1983 – 88 6 yrs	<i>G.W. Goodfellow</i> 1987 – 89 2 yrs	<i>D.W. Pendergast</i> 1989 – 96 8 yrs
<i>G.F. Taylor</i> 1989 – 96 7 yrs	<i>J.F. Gannon</i> 1993 – 97 5 yrs	<i>W.D. King</i> 1988 – 99 11 yrs	<i>D. Stevens</i> 1991 – 99 9 yrs	<i>R.H. Brittain</i> 1994 – 03 9 yrs
<i>A.D. Hocking</i> 1994 – 06 12 yrs	<i>R.J. Steele</i> 2003 - 12 8 yrs	<i>F. Cameron</i> 2012 1 month		

CURRENT DIRECTORS

<i>F. Benito de Valle</i> 1998			
<i>I.R. McDonald</i> 1982	<i>P.B. Steele</i> 1989	<i>A.B. Murphy</i> 1995	<i>K.J. Greene</i> 1997
<i>J.E. Clark</i> 2003	<i>A.S. Andrew</i> 2010	<i>A.S. Martin</i> 2012	

Chairman's Report

Financial Year 2011 – 2012

Results

On behalf of the Board, I am pleased to present to Members the 2012 Annual Report for Laboratories Credit Union Limited.

In this tough environment, LCU returned a strong surplus of \$629,699 after tax, which was a 28% improvement over last year and achieved 12.9% growth in assets. LCU continues to offer competitive term deposit rates helping our members earn good returns in one of the safest banking environments in the world.

LCU's low operating costs and minimal impaired loans and fraud costs contributed to a strong capital adequacy of 17.96% as at June 30. Capital adequacy measures LCU's ability to meet its obligations relative to our low exposure to risk. LCU's capital adequacy is in excess of prudential requirements and well above that of all the big four banks.

Wider economic landscape

The 2011/12 financial year commenced with the continued volatility experienced in the previous two years with no solution in sight. Europe and America were both teetering on the brink of a double-dip recession. The Australian economy continued to grow, mainly as a result of export income from the resources sector. However, in almost every other sector, including the home loan market, the economy remains slow, particularly in NSW. During the year the Reserve Bank reduced the cash rate by 125 basis points to stimulate consumer activity, but it had little impact in our market, and loans growth remained at an all-time low.

LCU had to control its treasury operations carefully in order to manage the impact of the interest rate reductions on loans and investment income while continuing to offer competitively priced fixed term deposits. A clear example of how LCU was affected is given by the difference between loans growth 3.28% and deposit growth 13.72% for 2011/12. The positive side is that most of our members maintained their employment for the year and impaired loans remained at low levels.

Marketing and Member Services

2011/12 was a busy year with many changes and improvements to member services. The new encoded BSB number on member cheque books required the reissue of all personal cheque books to members. Changes in Commonwealth Legislation required LCU to introduce the Home Loan Key Fact Sheet (HLKFS) on the LCU website. LCU's internet banking product was upgraded, with increased security features (e.g. 2 factor authentication).

LCU is currently working on developing the capacity for e-statements and mobile banking, both of which are currently being tested with the introduction scheduled for late 2012.

Scholarships

LCU, as part of its commitment to the community and education, has been awarding Scholarships since 1991. Some 20 years ago, Mr Don Pendergast initiated the awarding of 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. This year each scholarship was worth \$850.

In February 2012, LCU hosted the annual luncheon to celebrate the achievements of our 2012 Tertiary Scholarship winners. Dr Robert Steele, on behalf of the LCU community and the Board and Dr Phil Hendry, representing CSIRO, each gave an inspiring address, presented the winners with their awards, and congratulated them on their 2011 HSC and TAFE results. The Scholarship winners for 2012 were Alison Anderson, Robert Barnard, Michael Burley, Harry Day, Mitchell Frankland, Callum Johnson, Natalya Maley, Ryan McCaugherty, Jennifer Su and Lisa Yang.

Staff and the Board

The 2011/12 year was certainly a year of change in both staff and the Board. Terri Breen retired in July 2011 after some 24 years serving the Credit Union and its members. LCU was fortunate to be able to appoint Ashleigh Cassilles as a full time Marketing and Business Development Officer; Ashleigh has brought new ideas to our marketing drive.

The Board wishes to thank all our staff, Michael Sinclair (General Manager), Leanne Harris (Assistant General Manager), Eileen Thoms, Lyn Slatter, Kerrie Griffiths, Rhonda Hatton, Susanne Tran, Jenny Vote, Nalini Mannie, Ashleigh Cassilles and Elizabeth Sinclair for continuing to provide a friendly yet efficient banking services alternative.

There was some movement on the Board front as well during the year. Dr Bob Steele (Chairman until May 2012) and Dr Fiona Cameron (July 2012) both resigned during the year. I wish to thank them both for their valuable contributions to the Board over the years. The Board welcomes Dr Scott Martin to the table, following his appointment as a Director in August 2012, after serving as an Associate Director.

I would like to thank my fellow Directors, 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 (Chair of the Board Audit Committee) and Dr Scott Martin for their valuable contribution to the governance of LCU. I would also like to thank Ms Allison Smart, Associate Director, who attends Board meetings by invitation and provides invaluable service and views to the Board.

Frank Benito de Valle
Chairman
18 September 2012

DIRECTORS' REPORT

Your directors present their report on the credit union for the financial year ended 30 June 2012.

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	Director -- since January 2000 Audit Committee -- since November 2005, ceased December 2011 Risk committee – since January 2012 Finance committee – since November 2011 Chairman since May 2012
A.S. Andrew	Deputy Chairman	BSc(Hons),PhD, MEnv Mgt	Director – since January 2010 Audit committee – since November 2008, ceased December 2011 Risk committee – since January 2012
K.J. Greene	Director	BA	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, ceased December 2011 F. Cameron appointed as alternate Director 18 January 2012 to 16 May 2012 Audit Committee-since January 2012.
A.B. Murphy	Director	BSc (Hons) PhD	Director – since January 1998 Risk Committee - since November 2005
I.R.McDonald	Director	BCom	Director – since June 1982 Finance Committee - since November 2000. F Cameron appointed as alternate Director 19 October 2011 to 31 December 2011 Audit Committee since January 2012
P.B. Steele	Director	CPA, Grad Dip Tech Management	Director – since January 1990 Finance Committee - since November 2005 Audit Committee - since November 2005
A.S.Martin	Director	MInst P, MAIP, MAICD	Appointed Director June 2012. Finance committee - since November 2011 Audit Committee – since January 2012
R.J. Steele	Chairman	BSc, PhD, MBA, ARACI.	Chairman - since December 2010 Director - since March 2003 Finance Committee - since November

LABORATORIES CREDIT UNION LTD

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			2005 Audit Committee - since November 2005 Resigned from Board May 2012
F. Cameron	Director	BSc (Hons), PhD	18 January 2012 to 16 May 2012. Finance committee – since May 2012 Risk Committee – from November 2011 Appointed Director May 2012 Resigned from Board June 2012

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

Name	Qualifications	Experience
M. Sinclair	Dip. Fin. Services, FIPA	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	15	13			6	5	2	1	
F. Benito de Valle	15	15			6	5	2	2	
J.E.Clark	15	*8			3	0	4	4	*5 meetings attended by alternate.
F. Cameron	2	2					6	6	
K.J.Greene	15	15			2	2	6	6	
A.S.Martin	1	1	2	2	3	2	4	4	
I.R.McDonald	15	7	2	2	3	3			*3 meetings attended by alternate.
A.B.Murphy	15	12					6	6	
P.B.Steele	15	15	2	2	9	9			
R.J.Steele	13	11	1	1					

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

LABORATORIES CREDIT UNION LTD

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2012 Annual Financial Report

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 \$ 629,699 [2011 \$ 493,047]

DIVIDENDS

Dividends relating to Tier 1 preference shares have been paid or declared during and since the end of the financial year amounted to \$ 59,031 [2011 \$ 58,775].

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 the increase in deposits, the high cost of deposits and reduced loan funding resulting in extremely tight margins for the first two quarters of the financial year.

These conditions are expected to ease when consumer confidence improves.

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: -

LABORATORIES CREDIT UNION LTD

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2012 Annual Financial Report

- (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.

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

Anita Andrew 
Director

Signed and dated this 19th day of September 2012.



Grant Thornton Audit Pty Ltd
ABN 91 130 913 594
ACN 130 913 594

Level 19, 2 Market Street
Sydney NSW 2000
GPO Box 2551
Sydney NSW 2001

T +61 2 9286 5555
F +61 2 9286 5599
E info.nsw@au.gt.com
W www.granthornton.com.au

**Auditor's Independence Declaration
To the Directors of Laboratories Credit Union Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Laboratories Credit Union Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in black ink, appearing to read "N. Sinclair".

Neville Sinclair
Director - Audit & Assurance

Sydney_Market_St, 19 September 2012

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Grant Thornton Audit Pty Ltd
ABN 91 130 913 594
ACN 130 913 594

Level 19, 2 Market Street
Sydney NSW 2000
GPO Box 2551
Sydney NSW 2001

T +61 2 9286 5555
F +61 2 9286 5599
E info.nsw@au.gt.com
W www.grantthornton.com.au

**Independent Auditor's Report
To the Members of Laboratories Credit Union Limited**

We have audited the accompanying financial report of Laboratories Credit Union Limited (the "Company"), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 which require us to 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.

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In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.

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 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

A handwritten signature in cursive script that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in cursive script that reads "N. Sinclair".

Neville Sinclair
Director - Audit & Assurance

Sydney_Market_St, 20 September 2012

Directors' declaration

- 1 In the opinion of the directors of Laboratories Credit Union Limited:
 - a the financial statements and notes of Laboratories Credit Union Limited are in accordance with the Corporations Act 2001, including
 - i giving a true and fair view of its financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - b there are reasonable grounds to believe that Laboratories Credit Union Limited will be able to pay its debts as and when they become due and payable.
- 2 The financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Frank Benito De Valle 
Chairman

Anita Andrew 
Director

Dated this 19th day of September 2012.

LABORATORIES CREDIT UNION LTD

ABN 77 087 650 217

2012 financial statements

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012	2011
		\$	\$
Interest revenue	2.a	8,471,707	7,897,878
Interest expense	2.c	5,828,996	5,507,334
Net interest income		<u>2,642,711</u>	<u>2,390,544</u>
Fee commission and other income	2.b	246,236	255,057
		<u>2,888,947</u>	<u>2,645,601</u>
Less:			
Non-interest expenses			
Impairment losses on loans receivable from members	2.d	30,000	15,000
Fee and commission expenses		177,513	166,979
General administration			
- Employees compensation and benefits		815,883	823,144
- Depreciation and amortisation	2.e	118,062	105,586
- Information technology		300,257	271,397
- Office occupancy		95,755	91,588
- Other administration		113,502	104,581
Total General Administration		<u>1,443,459</u>	<u>1,396,296</u>
Other operating expenses		364,855	389,712
Total non interest expenses		<u>2,015,827</u>	<u>1,967,987</u>
Profit before income tax		873,120	677,614
Income tax expense	3	243,421	184,567
Profit after income tax		<u><u>629,699</u></u>	<u><u>493,047</u></u>

LABORATORIES CREDIT UNION LTD

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2012 financial statements

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012**

	Capital	Reserve for Credit Losses	Retained Earnings	Other Reserves	Total
	\$	\$	\$	\$	\$
Total at 1 July 2010	866,600	729,552	7,982,637	16,650	9,595,439
Profit for the year	-	-	493,047	-	493,047
Dividends Paid	-	-	(58,775)	-	(58,775)
Transfer to capital reserve on redemption of shares	-	-	-	-	-
Total at 30 June 2011	866,600	729,552	8,416,909	16,650	10,029,711
Profit for the year	-	-	629,699	-	629,699
Dividends Paid	-	-	(59,031)	-	(59,031)
Transfer to capital reserve on redemption of shares	-	-	(1,460)	1,460	-
Total as at 30 June 2012	866,600	729,552	8,986,117	18,110	10,600,380

LABORATORIES CREDIT UNION LTD

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2012 financial statements

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

	Note	2012	2011
		\$	\$
ASSETS			
Cash	4	4,269,864	3,728,704
Receivables from financial institutions	5	35,741,935	23,518,647
Receivables	6	234,495	145,636
Loans to members	7 & 8	98,088,199	94,962,424
Available for sale investments	9	235,315	235,315
Property, plant and equipment	10	99,413	148,825
Taxation assets	11	218,850	233,611
Loans to capital investors	12	100,000	100,000
Intangible assets	13	91,475	105,636
TOTAL ASSETS		139,079,546	123,178,798
LIABILITIES			
Deposits from members	14	125,356,815	110,242,334
Creditor accruals and settlement accounts	15	1,788,294	1,541,122
Taxation liabilities	16	23,905	62,162
Provisions	17	310,152	303,469
Subordinated debt	18	1,000,000	1,000,000
TOTAL LIABILITIES		128,479,166	113,149,087
NET ASSETS		10,600,380	10,029,711
MEMBERS' EQUITY			
Share capital - preference shares	19	866,600	866,600
Capital reserve account	20	18,110	16,650
General reserve for credit losses	21	729,552	729,552
Retained earnings		8,986,118	8,416,909
TOTAL MEMBERS' EQUITY		10,600,380	10,029,711

Table of other notes to accounts

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LABORATORIES CREDIT UNION LTD

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2012 financial statements

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 June 2012**

	Note	2012 \$	2011 \$
OPERATING ACTIVITIES			
Revenue inflows			
Interest received		8,382,848	7,872,257
Fees and commissions		184,377	171,183
Dividends		50,588	70,436
Other income		11,271	13,438
Revenue outflows			
Interest paid		(5,492,251)	(5,526,042)
Suppliers and employees		(1,917,063)	(1,751,997)
Income taxes paid		(266,917)	(224,410)
Net cash flow from revenue activities	33	952,853	624,865
Inflows/(outflows) from other operating activities			
Increase in member loans (net movement)		(3,117,989)	(4,737,333)
Increase in member deposits and shares (net movement)		15,043,398	6,603,395
(Increase)/Decrease in deposits to other financial institutions (net)		(12,223,288)	(1,076,318)
Net cash flows from operating activities		654,974	1,414,609
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of intangible assets		-	3,300
Proceeds on sale of property, plant and equipment		-	19,571
Outflows			
Purchase of intangible assets		(42,241)	(12,287)
Purchase of property plant and equipment		(12,543)	(53,155)
Net cash flows from investing activities		(54,784)	(42,571)
FINANCING ACTIVITIES			
Inflows/(outflows)			
Dividends paid		(59,031)	(58,775)
Proceeds of issue of subordinated debt		-	6,620
Net cash flows from financing activities		(59,031)	(52,155)
Net increase/(decrease) in cash		541,160	1,319,883
Cash at beginning of year		3,728,704	2,408,821
Cash at end of year	4	4,269,864	3,728,704

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 2012. The report was authorised for issue on 19th September 2012 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.

1. STATEMENT OF ACCOUNTING POLICIES Continued

(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 22 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) **General 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.

1. STATEMENT OF ACCOUNTING POLICIES Continued

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:

- 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, Bank bonds and Negotiable Certificates of deposit 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 marketable financial instruments

Available for sale financial instruments are measured at fair value.

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

Equity Investments

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.

1. STATEMENT OF ACCOUNTING POLICIES Continued

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.

i. 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. Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

p. 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

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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, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

q. Accounting Estimates and Judgements

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

- 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.

r. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The credit union's assessment of the impact of these new standards and interpretations is set out below.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 2011-6 (issued November 2011)	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	Annual reporting periods commencing on or after 1 July 2012	Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 9 Financial Instruments (issued December 2009 and amended December 2010)	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 <i>Financial Instruments: Recognition and Measurement</i> into AASB 9. These include the requirements relating to: Classification and measurement of financial liabilities; and Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	Due to the recent release of these amendments and that adoption is only mandatory for the 31 December 2015 year end, the entity has not yet made an assessment of the impact of these amendments. [The entity does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.]

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AASB 13 (issued September 2011). Fair Value Measurement	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 31 December 2013, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 January 2013. When this standard is adopted for the first time on 1 January 2013, additional disclosures will be required about fair values.
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s. New standards applicable for the current year

The credit union applies the current revised accounting standards applicable for financial years commencing the 1 July 2011. There are no new standards applicable for the current financial year. Some amendments have been made to standards that apply to the credit union, as follows.

AASB reference	Title of Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 7	Financial Instruments: Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	Periods commencing on or after 1 January 2012	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only. These disclosures were adopted early in the 2011 financial report.

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2. INCOME STATEMENT

	2012	2011
	\$	\$
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	138,244	148,643
Receivables from financial institutions	1,741,054	1,437,639
Loans to members	6,592,409	6,311,596
TOTAL INTEREST REVENUE	8,471,707	7,897,878
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	4,241	2,425
Other fee income	110,475	100,323
Insurance commissions	6,948	6,866
Other commissions	62,713	61,569
	184,377	171,183
Other income		
Dividends received on available for sale assets	50,588	70,436
Bad debts recovered	2,987	5,355
Gain on disposal of assets		
- Property, plant and equipment	-	-
Miscellaneous revenue	8,284	8,083
	61,859	83,874
TOTAL FEE COMMISSION AND OTHER INCOME	246,236	255,057
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Short term borrowings - overdraft	19,154	18,193
Deposits from members	5,745,111	5,426,533
Subordinated Debt	64,731	62,608
TOTAL INTEREST EXPENSE	5,828,996	5,507,334
d. Impairment losses		
Loans and advances		
Increase in provision for impairment	30,000	15,000
Bad debts written off directly against profit	-	-
TOTAL IMPAIRMENT LOSSES	30,000	15,000

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	2012 \$	2011 \$
2. INCOME STATEMENT Continued		
e. Other prescribed disclosures		
General administration		
<i>Depreciation and amortisation</i>		
- plant and equipment	34,481	31,013
- leasehold improvements	27,179	27,178
- amortisation of software	56,402	47,395
	<u>118,062</u>	<u>105,586</u>
<i>Office occupancy</i>		
property operating lease payments	<u>90,566</u>	<u>86,897</u>
Other operating expenses		
Auditor's remuneration (excluding GST)		
- Audit fees	33,850	32,235
- Other Services – taxation	3,000	2,800
- Other Services – compliance	3,150	3,000
- Other Services – other	6,000	5,865
	<u>46,000</u>	<u>43,900</u>
Defined contribution superannuation expenses	<u>113,456</u>	<u>126,111</u>
Loss on disposal of assets		
- property, plant, equipment	<u>295</u>	<u>5,547</u>
3. INCOME TAX EXPENSE		
a. The income tax expense comprises amounts set aside as:-		
Current tax charge – (Note 16)	245,234	209,716
Adjustments for prior years	(16,967)	(1,111)
Deferred tax:		
Movement in temporary differences (Note 11)	15,154	(24,038)
Total income tax expense in income statement	<u>243,421</u>	<u>184,567</u>

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	2012 \$	2011 \$
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	873,120	677,614
Prima facie tax payable on profit before income tax at 30%	261,936	203,284
Add tax effect of expenses not deductible		
- Dividend imputation	6,504	6,981
Subtotal	268,440	210,265
Less		
- Tax deductions not in accounting profit	(133)	(133)
- Franking rebate	(21,680)	(23,271)
Income tax expense attributable to current year profit	246,627	186,861
Adjustments for previous years	(16,967)	(1,111)
Movement in temporary differences – prior year	13,761	(1,183)
Total income tax expense in income statement	243,421	184,567
c. Franking credits		
Franking credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year, dividends received and dividends paid is :		
Franking credits are available to the Tier 1 preference shareholders but not to the holders of member shares. This disclosure is required by the AASB 1054 effective from financial year commencing 1 July 2011.		
	3,881,335	3,648,881
4. CASH		
Cash on hand	98,015	95,862
Deposits at call	4,171,849	3,632,842
	4,269,864	3,728,704
5. RECEIVABLES FROM FINANCIAL INSTITUTIONS		
a. Investments at amortised cost		
Hold to Maturity		
Bonds	20,263,234	12,042,287
Receivables		
Deposits with financial institutions (5b)	15,478,701	11,476,360
	35,741,935	23,518,647
b. Dissection of receivables		
Deposits with industry bodies - Cuscal (note 28)	3,478,701	2,976,360
Deposits with other societies	2,000,000	2,500,000
Deposits with banks	10,000,000	6,000,000
	15,478,701	11,476,360

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6. RECEIVABLES

Interest receivable on deposits with other financial institutions	234,495	145,636
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7. LOANS TO MEMBERS**a. Amount due comprises:**

Overdrafts and revolving credit	746,373	683,529
Term loans	97,384,874	94,329,729
Subtotal	98,131,247	95,013,258
Less: Provision for impaired loans (Note 8)	(43,048)	(50,834)
	<u>98,088,199</u>	<u>94,962,424</u>

b. Credit quality - Security held against loans

Secured by mortgage over real estate	94,329,305	91,116,580
Partly secured by goods mortgage	1,651,028	1,831,026
Wholly unsecured	2,150,914	2,065,652
	<u>98,131,248</u>	<u>95,013,258</u>

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:

Security held as mortgage against real estate is on the basis of:

- loan to valuation ratio of less than 80%	87,704,444	82,920,660
- loan to valuation ratio of more than 80% but mortgage insured	3,327,400	3,287,721
- loan to valuation ratio of more than 80% and not mortgage insured	3,297,461	4,908,199
	<u>94,329,305</u>	<u>91,116,580</u>

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

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	-	<u>1,021,557</u>
(ii) Loans to members are concentrated to individuals employed primarily in the technology and scientific research industries		

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(iii) Geographical concentrations					
	2012	Housing	Personal	Business	Total
<u>Australia</u>					
NSW		83,271,571	2,481,533	1,607,188	87,360,292
Victoria		1,981,630	62,666	-	2,044,296
Queensland		3,378,994	79,795	208,364	3,667,153
South Australia		414,765	1,858	205,058	621,681
Western Australia		983,513	15,217	-	998,730
Tasmania		1,390,834	17,840	-	1,408,674
Northern Territory		316,910	-	-	316,910
ACT		1,704,616	8,895	-	1,713,511
Total per balance sheet		<u>93,442,833</u>	<u>2,667,804</u>	<u>2,020,610</u>	<u>98,131,247</u>

7. LOANS TO MEMBERS Continued

	2011	Housing	Personal	Business	Total
<u>Australia</u>					
NSW		81,028,603	2,501,604	1,686,394	85,216,601
Victoria		2,005,590	61,324	-	2,066,914
Queensland		2,824,912	92,688	232,014	3,149,614
South Australia		424,173	4,751	220,403	649,327
Western Australia		978,679	22,789	-	1,001,468
Tasmania		1,138,639	421	-	1,139,060
ACT		1,770,068	20,206	-	1,790,274
Total per balance sheet		<u>90,170,664</u>	<u>2,703,783</u>	<u>2,138,811</u>	<u>95,013,258</u>

- The Loss Reserve Loans were included in the 2011 amounts and have been removed as reflected in note 12 so as to agree to the loans amounts reported above.

	2012	2011
	\$	\$
8. PROVISION ON IMPAIRED LOANS		
a. Total provision comprises		
Individual specific provisions	<u>43,048</u>	<u>50,834</u>
b. Movement in the provision for impairment		
Opening balance	50,834	60,527
Add (deduct):		
Transfers from income statement	30,000	15,000
Bad debts written off provision	<u>(37,786)</u>	<u>(24,693)</u>
Closing balance	<u>43,048</u>	<u>50,834</u>
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	<u>37,786</u>	<u>24,693</u>

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8. PROVISION ON IMPAIRED LOANS Continued

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

	2012			2011		
	Carrying value	Value of Impaired Loans	Provision for impairment	Carrying value	Value of Impaired Loans	Provision for impairment
	\$	\$	\$	\$	\$	\$
Loans to members						
Mortgages	94,329,306	-	-	91,116,580	-	-
Personal – secured by MV	1,659,633	16,983	42,843	1,831,026	61,923	50,481
Personal Unsecured	1,395,935			1,382,123		
Overdrafts	746,373	251	205	683,529	680	353
Total	98,131,247	17,234	43,048	95,013,258	62,603	50,834

In 2011 the overdrafts amount included unsecured personal loans. These have been separated in 2012 and comparative amounts restated to reflect consistent disclosures.

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

	2012		2011	
	Carrying Value	Provision	Carrying Value	Provision
	\$	\$	\$	\$
30 to 90 days in arrears	58,419	32,615	454,515	15,820
90 to 180 days in arrears	11,257	4,503	1,059,099	9,729
180 to 270 days in arrears	-	-	30,867	18,520
270 to 365 days in arrears	-	-	1,605	1,284
Over 365 days in arrears	5,726	5,726	5,128	5,128
Over limit facilities over 14 days	251	204	680	353
Total	75,653	43,048	1,551,894	50,834

The table above exclude the well secured mortgage loans of \$2,330,643

The impaired loans are generally not secured against residential property. Some impaired loans for motor vehicles or other assets of varying value are listed in the Personal Property Security Register. It is not practicable to determine the fair value all collateral as at the balance date due to the variety of assets and condition.

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8. PROVISION ON IMPAIRED LOANS Continued**f. Loans with repayments past due but not regarded as impaired**

There are mortgage secured loans with a value of \$2,330,643 (2011 - 840,535) 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 conditions. The mortgage loans of \$918,626 over 90 days which are regarded as well secured have been examined as to the mortgage security supporting the loans and in each case the values exceed the loans balances by at least 20%.

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

Loans to members

2012	1- 3 Months	3-6 Months	6-12 Months	> 1 Year	Total
	\$	\$	\$	\$	\$
Mortgage secured	1,412,017	918,626	-	-	2,330,643
Personal loans	58,419	-	-	-	58,419
Overdrafts	1,532	-	-	-	1,532
Total	1,471,968	918,626	-	-	2,390,594
2011	1- 3 Months	3-6 Months	6-12 Months	> 1 Year	Total
	\$	\$	\$	\$	\$
Mortgage secured	443,637	396,898	-	-	840,535
Personal loans	152	-	-	-	152
Overdrafts	10,723	-	-	-	10,723
Total	454,512	396,898	-	-	851,410

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	-
90 days to 181 days	40
181 days to 270 days	60
270 days to 265 days	80
Over 365 days	100

2012 **2011**
\$ \$

9. AVAILABLE FOR SALE INVESTMENTS**Shares in unlisted companies – at cost**

- Cuscal

235,315 235,315

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9. AVAILABLE FOR SALE INVESTMENTS Continued**Cuscal Limited**

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company supplies services to organisations. These shares are held to enable the Credit Union to receive essential banking services. The shares are able to be traded.

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, a market value is not able to be determined readily.

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

2012 **2011**
\$ **\$**

10. PROPERTY, PLANT AND EQUIPMENT**a. Fixed assets**

Plant and equipment - at cost	340,044	345,254
Less: provision for depreciation	(261,014)	(243,990)
	79,030	101,264
Capitalised leasehold improvements - at cost	271,778	271,778
Less: provision for amortisation	(251,395)	(224,217)
	20,383	47,561
Closing balance	99,413	148,825

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

	2012			2011		
	<i>Plant equipment</i>	<i>& Leasehold improvements</i>	<i>Total</i>	<i>Plant equipment</i>	<i>& Leasehold improvements</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$
Opening balance	101,264	47,561	148,825	104,240	74,739	178,979
Purchases	12,543	-	12,543	53,155	-	53,155
Assets disposed	(17,753)	-	(17,753)	(46,599)	-	(46,599)
Depreciation charge	(34,481)	(27,179)	(61,660)	(31,013)	(27,178)	(58,191)
Depreciation On disposals	17,457	-	17,457	21,481	-	21,481
Closing balance	79,030	20,383	99,413	101,264	47,561	148,825

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	2012 \$	2011 \$
11. TAXATION ASSETS		
Deferred Tax Assets	<u>218,850</u>	<u>233,611</u>
Deferred tax assets comprise:		
Accrued expenses not deductible until incurred	29,899	44,273
Provisions for impairment on loans	24,483	23,745
Provisions for employee benefits	120,895	121,271
Depreciation on fixed assets	43,573	44,322
	<u>218,850</u>	<u>233,611</u>
12. LOANS TO CAPITAL INVESTORS		
Subordinated loans to Subordinated debt investors	<u>100,000</u>	<u>100,000</u>
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		
Computer software	335,386	293,145
Less provision for amortisation	(243,911)	(187,509)
	<u>91,475</u>	<u>105,636</u>
Movement in the assets balances during the year were :		
Opening balance	105,636	144,044
Purchases	42,241	12,287
Assets disposed	-	(3,300)
Depreciation charge	(56,402)	(47,395)
Closing balance	<u>91,475</u>	<u>105,636</u>
14. DEPOSITS FROM MEMBERS		
Member Deposits		
- at call	55,207,315	52,375,545
- term	70,116,190	57,833,769
Member withdrawable shares	33,310	33,020
	<u>125,356,815</u>	<u>110,242,334</u>

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	2012 \$	2011 \$
14. DEPOSITS FROM MEMBERS Continued		
Concentration of member deposits		
(i) Significant individual member deposits which in aggregate represent more than 10 % of the total liabilities:	-	-
(ii) Member deposits at balance date were received from individuals employed principally in the scientific and technology research industry		
(iii) Geographical concentrations		
<u>Australia</u>		
NSW	118,655,898	103,907,661
Victoria	2,148,109	1,267,756
Queensland	1,772,756	1,420,975
South Australia	399,733	92,369
Western Australia	1,221,630	802,736
Tasmania	409,390	240,365
Northern Territory	30,594	107
ACT	685,395	477,345
Other	N/A	1,938,977
	<u>125,323,505</u>	<u>110,209,314</u>
• The above table excluded the member shares value as the dissection between states is not able to be precisely calculated.		
• The 2012 amounts for the 'other' class are not available to be reported		
15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS		
Annual leave	131,395	129,086
Creditors and accruals	170,113	188,537
Interest payable on deposits	1,432,575	1,095,830
Sundry creditors	54,211	127,669
	<u>1,788,294</u>	<u>1,541,122</u>
16. TAXATION LIABILITIES		
Current income tax liability See Note 11	<u>23,905</u>	<u>62,162</u>
Current income tax liability comprises:		
Opening balance	62,162	(77,967)
Less: Amounts paid	45,195	(76,856)
(Over)/understatement of prior year	(16,967)	1,111
Liability for income tax	245,234	209,716
Less: Instalments paid during year	221,329	(147,554)
Closing balance	<u>23,905</u>	<u>62,162</u>

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	2012 \$	2011 \$
17. PROVISIONS		
Long service leave	271,590	275,152
Provisions – other	38,562	28,317
	<u>310,152</u>	<u>303,469</u>

18. SUBORDINATED DEBT		
Balance at the beginning of the year	1,000,000	993,380
Increase due to debt issued	-	-
Amortisation of Costs of debt	-	6,620
Balance at the end of year	<u>1,000,000</u>	<u>1,000,000</u>

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 also place loans equivalent to 10% of the liability with the investors as security for payment of interest.

19. PREFERENCE SHARES		
Preference shares	<u>866,600</u>	<u>866,600</u>
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)
	<u>866,600</u>	<u>866,600</u>

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		
Opening balance	16,650	16,650
Transfer from retained earnings on share redemptions	1,460	-
Closing balance	<u>18,110</u>	<u>16,650</u>

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.

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	2012 \$	2011 \$
21. GENERAL RESERVE FOR CREDIT LOSSES		
General reserve for credit losses	729,552	729,552
Other reserve for credit losses	-	-
	<u>729,552</u>	<u>729,552</u>

General reserve for credit losses

This reserve records amount previously set aside as a General provision against loans and is maintained to comply with the Prudential Standards set down by APRA.

Opening balance	729,552	729,552
Increase/(decrease) transferred from retained earnings	-	-
Closing balance	<u>729,552</u>	<u>729,552</u>

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.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

Method of managing risk

The credit union manages its 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 union's exposure to interest rate risk is set out in Note 25 which details the contractual interest change profile.

The credit union performs a sensitivity analysis 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 (decrease) in net profit of \$128,009 [2011 \$116,970]. 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 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 all reprice to the new interest rate at the within 28 days;
- personal loans would reprice within 28 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of at 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.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

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;

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

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.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

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 of 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. 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, unless the loan is covered by Lenders Mortgage Insurance. 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 and as such 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 investments must be with an Authorised Deposit taking Institution (ADI).

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

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 General Reserve for Credit Losses.

Capital in the credit union is made up as follows:

	2012	2011	2010	2009
Tier 1				
Share capital	866,600	866,600	866,600	866,600
Capital reserve	18,110	16,650	16,650	15,730
General reserve	-	-	-	-
Retained earnings	8,986,117	8,416,909	7,982,788	7,573,355
	<u>9,870,827</u>	<u>9,300,159</u>	<u>8,866,038</u>	<u>8,455,685</u>
Less: Prescribed deductions	(527,975)	(440,147)	(471,267)	(561,024)
Net tier 1 capital	<u>9,342,852</u>	<u>8,860,012</u>	<u>8,394,771</u>	<u>7,894,661</u>
Tier 2				
Subordinated debt	1,000,000	1,000,000	993,380	986,680
Reserve for credit losses	729,552	680,844	651,726	729,552
	<u>1,729,552</u>	<u>1,680,844</u>	<u>1,645,106</u>	<u>1,716,232</u>
Less: Prescribed deductions	(251,050)	(251,050)	(220,650)	(394,335)
Net tier 2 capital	<u>1,478,502</u>	<u>1,429,794</u>	<u>1,424,456</u>	<u>1,321,897</u>
Total Capital	<u>10,821,354</u>	<u>10,289,806</u>	<u>9,819,227</u>	<u>9,216,558</u>

The 2011 and 2010 amounts have been amended to reflect the amended reports submitted to APRA in October.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

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 reflects the previous methodology.

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

2012	2011	2010	2009	2008
17.96%	18.22%	19.50%	20.40%	20.62%

The level of capital ratio can be affected by growth in asset relative to growth in reserves and by changes in the mix and the risk weighting 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 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 \$ 553,239 (2011 - \$ 508,076).

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

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23. CATEGORIES OF FINANCIAL INSTRUMENTS**a. The following information classifies the financial instruments into measurement classes**

2012	Fair value through profit or loss \$	Held to maturity \$	Amortised cost \$	Total \$
<u>Financial assets</u>				
Cash	-	-	4,269,864	4,269,864
Receivables	-	-	234,495	234,495
Receivables from financial institutions	-	20,200,000	-	20,200,000
Loans to members	-	-	98,131,248	98,131,248
Available for sale investments	235,315	-	-	235,315
Loans to capital investors	-	-	100,000	100,000
	<u>235,315</u>	<u>20,200,000</u>	<u>102,735,607</u>	<u>123,170,922</u>
<u>Financial liabilities</u>				
Creditors	-	-	1,656,897	1,656,897
Deposits from members	-	-	125,356,815	125,356,815
Subordinated debt	-	-	1,000,000	1,000,000
	<u>-</u>	<u>-</u>	<u>128,013,712</u>	<u>128,013,712</u>
2011				
<u>Financial assets</u>				
Cash	-	-	3,728,704	3,728,704
Receivables	-	-	145,636	145,636
Receivables from financial institutions	-	23,500,000	-	23,500,000
Loans to members	-	-	95,062,424	95,062,424
Available for sale investments	235,315	-	-	235,315
Loans to capital investors	-	-	100,000	100,000
	<u>235,315</u>	<u>23,500,000</u>	<u>99,036,764</u>	<u>122,772,079</u>
<u>Financial liabilities</u>				
Creditors	-	-	1,412,036	1,412,036
Deposits from members	-	-	110,242,335	110,242,335
Subordinated debt	-	-	1,000,000	1,000,000
	<u>-</u>	<u>-</u>	<u>112,654,371</u>	<u>112,654,371</u>

b. Assets measured at fair value through profit or loss

Fair value measurement at end of the reporting period using:

	2012		2011	
	Level 3	Total	Level 3	Total
	\$	\$	\$	\$
Available for sale investments	235,315	235,315	235,315	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

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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.

2012	Book value \$	Up to 3 months \$	3-12 months \$	1-5 years \$	After 5 years \$	No Maturity \$	Total cash flows \$
ASSETS							
Cash	4,269,864	4,171,849	-	-	-	98,015	4,269,864
Advance to financial Institutions	35,700,000	15,721,740	2,330,630	21,579,535	-	-	39,631,905
Loans & advances	98,131,258	3,361,423	7,533,983	36,836,883	121,600,422	-	169,332,711
Total financial assets	138,101,122	23,255,012	9,864,613	58,416,418	121,600,422	98,015	213,234,480
LIABILITIES							
Creditors	1,788,292	355,717	-	-	-	-	355,717
Deposits from members	125,356,815	88,300,330	36,811,503	2,451,459	-	-	127,563,292
Subordinated debt	1,000,000	-	-	-	1,000,000	-	1,000,000
Undrawn loan commitments	128,145,107	88,656,047	36,811,503	2,451,459	1,000,000	-	128,919,009
	24,258,807	24,258,807	-	-	-	-	24,258,807
Total financial liabilities	152,403,914	112,914,854	36,811,503	2,451,459	1,000,000	-	153,177,816
2011							
ASSETS							
Cash	3,728,704	3,632,842	-	-	-	95,862	3,728,704
Advance to financial Institutions	23,518,647	9,148,458	8,212,257	8,577,841	-	-	25,938,556
Loans & advances	95,062,424	2,703,619	7,652,216	37,883,414	130,025,004	-	178,264,253
Total financial assets	122,309,775	15,484,919	15,864,473	46,461,255	130,025,004	95,862	207,931,513
LIABILITIES							
Creditors	1,412,036	445,292	-	-	-	-	445,292
Deposits from members – Subordinated debt	110,242,335	69,767,990	41,305,115	1,324,187	-	-	112,397,292
	1,000,000	-	-	-	1,000,000	-	1,000,000
Undrawn loan commitments	112,654,371	70,213,282	41,305,115	1,324,187	1,000,000	-	113,842,584
	21,754,055	21,754,055	-	-	-	-	21,754,055
Total financial Liabilities	134,408,426	91,967,337	41,305,115	1,324,187	1,000,000	-	135,596,639

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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.

	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Non interest bearing \$	Total \$
2012						
ASSETS						
Cash	4,171,849	-	-	-	98,015	4,269,864
Receivables	-	-	-	-	234,495	234,495
Advances to other financial Institutions	3,000,000	13,700,000	1,000,000	18,000,000	-	35,700,000
Loans & advances	82,984,585	508,940	7,520,362	7,117,363	-	98,131,250
Investments	-	-	-	-	235,315	235,315
Total financial assets	90,156,434	14,208,940	8,520,362	25,117,363	567,825	138,570,923
LIABILITIES						
Creditors	-	-	-	-	1,656,897	1,656,897
Deposits from members	67,221,677	20,335,873	35,527,427	2,238,529	33,310	125,356,816
Subordinated debt	1,000,000	-	-	-	-	1,000,000
	68,221,677	20,335,873	35,527,427	2,238,529	1,690,207	128,013,713
Undrawn loan commitments	24,258,807	-	-	-	-	24,258,807
Total financial liabilities	92,480,484	20,335,873	35,527,427	2,238,529	1,690,207	152,272,520
2011						
ASSETS						
Cash	3,632,842	-	-	-	95,862	3,728,704
Receivables	-	-	-	-	145,636	145,636
Advances to other financial Institutions	1,000,000	18,000,000	4,500,000	-	-	23,500,000
Loans & advances	81,086,454	3,073,815	6,955,732	3,895,849	-	95,011,850
Investments	-	-	-	-	235,315	235,315
Total financial assets	85,719,296	21,073,815	11,455,732	3,895,849	476,813	122,621,505
LIABILITIES						
Creditors	-	-	-	-	1,412,036	1,412,036
Deposits from members	59,147,678	10,440,465	39,408,454	1,212,718	33,020	110,242,335
Subordinated debt	1,000,000	-	-	-	-	1,000,000
	60,147,678	10,440,465	39,408,454	1,212,718	1,445,056	112,654,371
Undrawn loan commitments	21,754,055	-	-	-	-	21,754,055
Total financial liabilities	81,901,733	10,440,465	39,408,454	1,212,718	1,445,056	134,408,426

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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 held are regularly traded by the credit union, and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets.

The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to the original term

	Fair Value	2012 Carrying Value	Variance	Fair Value	2011 Carrying Value	Variance
	\$	\$	\$	\$	\$	\$
FINANCIAL ASSETS						
Cash	4,269,864	4,269,864	-	3,728,704	3,728,704	-
Advances to other financial institutions	35,712,951	35,700,000	12,951	23,491,206	23,500,000	(8,794)
Receivables	234,495	234,495	-	145,636	145,636	-
Loans to members	98,131,319	98,131,250	931	95,062,354	95,062,424	(70)
Investments	235,315	235,315	-	235,315	235,315	-
Subordinated loans	100,000	100,000	-	100,000	100,000	-
Total financial assets	138,684,805	138,670,923	13,882	122,763,215	122,772,079	(8,864)
FINANCIAL LIABILITIES						
Creditors	1,656,897	1,656,897	-	1,412,036	1,412,036	-
Deposits from members	125,372,258	125,356,815	15,443	110,237,777	110,242,335	(4,558)
Subordinated debt	1,000,000	1,000,000	-	1,000,000	1,000,000	-
Total financial liabilities	128,029,155	128,013,712	15,443	112,649,813	112,654,371	(4,558)

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.

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26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES Continued

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.

	2012 \$	2011 \$
27. FINANCIAL COMMITMENTS		
a. Outstanding loan commitments		
Loans approved but not funded	554,547	166,683
b. Loan redraw facilities		
Loan redraw facilities available	21,501,933	19,521,943
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	2,873,168	2,836,854
Less: Amount advanced	(670,841)	(771,425)
Net undrawn value	2,202,327	2,065,429
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	24,258,807	21,754,055
d. Computer Licence commitments		
The costs committed under contracts with Ultradata are as follows:		
Not later than one year	166,200	155,856
Later than 1 year but not 2 years	-	155,856
Later than 2 years but not 5 years	-	-
Later than 5 years	-	-
	166,200	311,712
e. Lease expense commitments		
Not later than one year	49,270	88,908
Later than 1 year but not 5 years	-	50,134
Later than 5 years	-	-
	49,270	139,042

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 5 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.

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28. STANDBY BORROWING FACILITIES

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

	Gross	Current	Net
	\$	Borrowing	Available
		\$	\$
2012			
Loan facility	1,200,000	-	1,200,000
Overdraft facility	500,000	28,151	471,849
TOTAL STANDBY BORROWING FACILITIES	<u>1,700,000</u>	<u>28,151</u>	<u>1,671,849</u>
2011			
Loan Facility	1,200,000	-	1,200,000
Overdraft Facility	500,000	-	500,000
TOTAL STANDBY BORROWING FACILITIES	<u>1,700,000</u>	<u>-</u>	<u>1,700,000</u>

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**

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 KMP during the year comprising amounts paid or payable or provided for was as follows:

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30. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL Continued

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.

	2012 Total	2011 Total
	\$	\$
(a) short-term employee benefits;	319,641	307,612
(b) post-employment benefits - superannuation contributions	31,960	30,796
(c) other long-term benefits – net increases in long service leave provision	5,413	22,695
(d) termination benefits;	-	-
(e) share-based payment.	-	-
Total	357,014	361,103

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.

b. 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 KMP.

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

The detail of transactions during the year is as follows:

	2012			2011		
	Mortgage secured	Other term loans	Revolving Credit	Mortgage secured	Other term loans	Revolving Credit
Funds available to be drawn	-	-	89,000	-	-	89,000
Balance	1,087,903	-	74,993	1,214,711	-	75,935
Amounts disbursed or facilities increased in the year	134,866	-	14,007	132,585	-	13,065
Interest and other revenue earned	82,949	-	-	94,931	-	-

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30. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL Continued

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

	2012	2011
	\$	\$
Total value term and savings deposits from KMP	<u>755,168</u>	<u>754,574</u>
Total interest paid on deposits to KMP	<u>33,793</u>	<u>38,222</u>

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

c. Transactions with Other Related Parties

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

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

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

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

31. SUPERANNUATION LIABILITIES

The credit union contributes to the NGS 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 on-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 2012 is \$184,885 (2011 – \$190,619).

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	2012 \$	2011 \$
33. NOTES TO STATEMENT OF CASH FLOWS		
Reconciliation of cash		
Cash comprises:		
Cash on hand	98,015	95,862
Deposits at call with other financial institutions	4,171,849	3,632,842
Total cash	<u>4,269,864</u>	<u>3,728,704</u>
Reconciliation of net cash flows from revenue activities to accounting profit		
The net cash flows from revenue activities is reconciled to the profit after tax:		
Profit after income tax	629,699	493,047
Add/(Deduct):		
Increase in provision for loans	(7,786)	(9,703)
Depreciation expense	61,660	58,191
Amortisation of intangible assets	56,402	47,395
Loss on sale of assets	295	5,547
Increase in provisions for staff leave	8,992	42,093
(Decrease)/Increase in provision for income tax	(38,257)	(15,805)
Increase in accrued expenses	(20,799)	(13,665)
(Decrease)/Increase in interest payable	336,745	(18,708)
Increase in deferred tax assets	14,761	(24,038)
Decrease in interest receivable	(88,859)	60,511
Income tax instalments	-	-
Net cash from revenue activities	<u>952,853</u>	<u>624,865</u>

34. CORPORATE INFORMATION

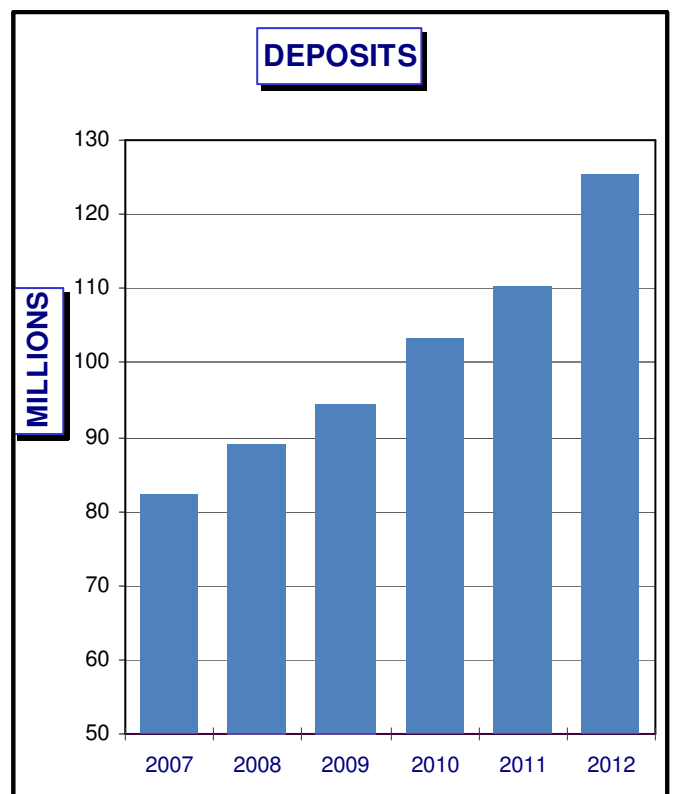
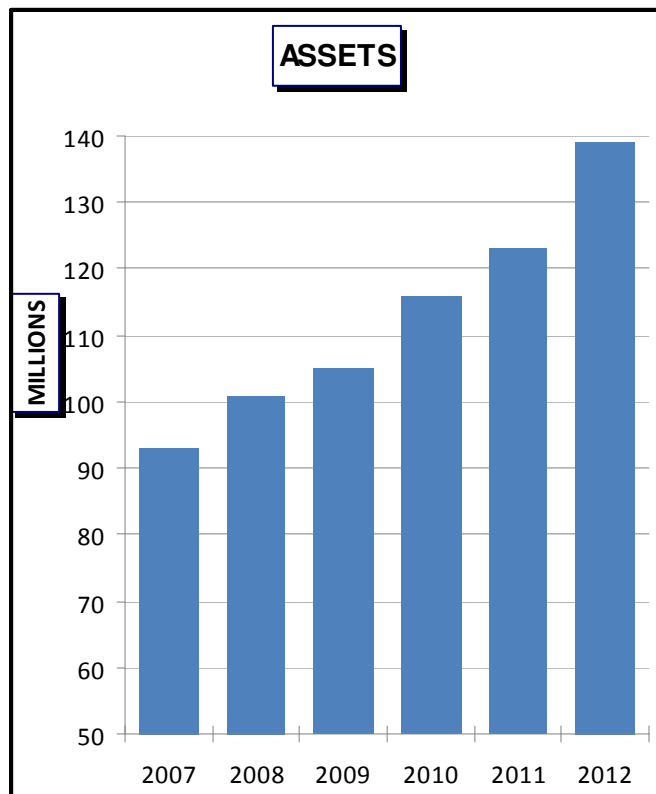
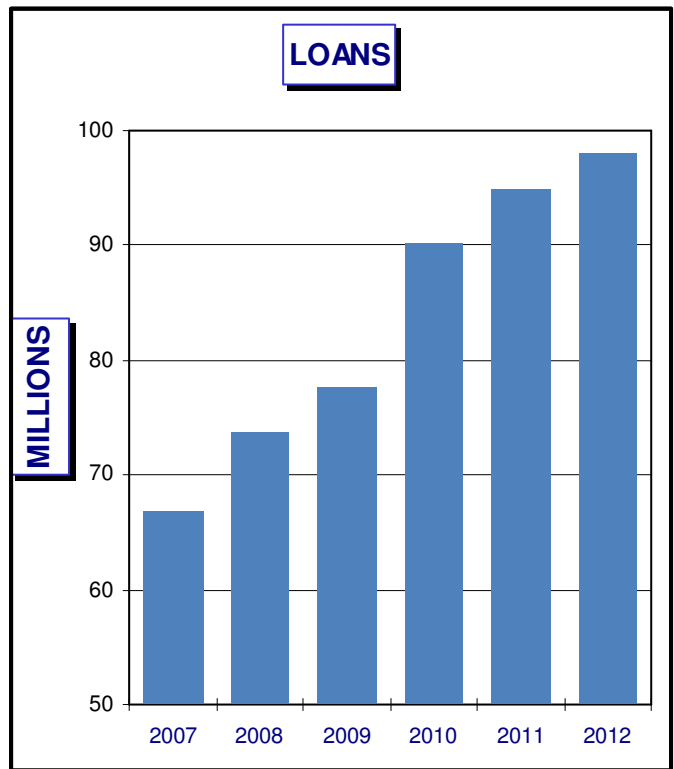
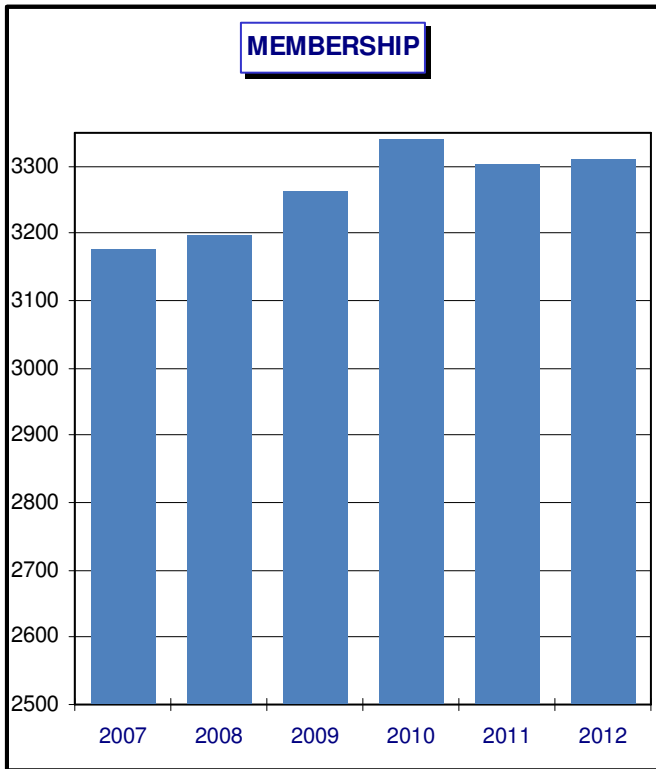
The credit union is a company limited by shares, and is registered under the Corporations Act 2001.

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.

AS AT 30th JUNE, 2012



CREDIT UNION PROFILE

REGISTERED OFFICE	1 The Village, Riverside Corporate Park, Julius Avenue Nth Ryde
BRANCH OFFICES	N.M.I. <i>Bradfield Road, Lindfield</i>
STAFF	M.F. Sinclair, PNA, General Manager L. Harris, Assistant Manager E.R. Thoms, Office Manager L.E. Slatter, Loans Officer A.B. Cassilles, Marketing and 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: BDO (NSW –VIC) Pty Ltd INTERNAL: Step Ahead Consultancy (from 01/07/2012) Geoffrey Bannister Consultancy (ceased 30/06/2012)
SOLICITOR	Williams, Woolf & Zuur Daniels Bengtsson Pty Ltd
AFFILIATIONS	Credit Union Services Corporation ABACUS – Australian Mutuals