



LYSAGHT

CREDIT UNION LIMITED

A.B.N. 79 087 650 226

Incorporated in Australia

2011 ANNUAL
FINANCIAL REPORT

Registered Office:

13 Auburn St
Wollongong, NSW 2500



Credit Union and
Building Society group

CHAIRMAN'S REPORT 2010-2011

Lysaght Credit Union is in a sound financial position despite an uncertain macroeconomic climate and an ever-intensifying competitive environment both in the steel and banking industries.

Our ability to continue to survive and prosper in these circumstances depends upon you and your willingness to choose the Credit Union for your banking needs. The Board is acutely aware that Lysaght Credit Union will only earn your commitment as long as it offers competitive interest rates within a secure banking environment. The Board and our employees take this commitment seriously and we sincerely hope this is evident to you as you conduct your banking business with us.

As a Director since 2005 and Chairman since August 2010, I have seen many changes in the regulatory environment, in the credit union industry and in the local financial services market. However, there are some fundamentals that haven't changed within our own Credit Union, specifically valuing the relationship we have with each of you. A common theme that emerges from the member feedback we receive is that you like being able to talk to 'a real person'. You like the fact that when you walk into the Credit Union a staff member is likely to know your name and greet you with a smile. These are simple, visible traits of a culture that runs deep within the Credit Union; a culture we intend to preserve for the benefit of present and future members alike.

When the Board thinks about the Credit Union's future, retaining existing members and attracting new ones is the greatest challenge. There are many aspects to this challenge and many strategies we have either implemented or are in the process of implementing in order to boost our numbers. We do, however, need your help and ask that you act as our ambassadors, encouraging your family and colleagues to consider joining the Lysaght Credit Union if they are seeking alternate financial service options. Our value proposition is simple - uncomplicated and competitive loan and deposit products funded by the members for the members to help each other achieve their ambitions. If this strikes a chord with anyone you know, kindly send them our way. We'd love to speak to them.

Lysaght Credit Union has had another solid year achieving an after tax profit of \$281,238 for the year ended 31st March, 2011. When you consider that the Credit Union's asset base has grown to \$58.66 million in the same year, this profit represents an average return on assets for the financial year of 0.51%.

One of the key roles of both the Board and Management is to balance the requirements of the Australian Prudential Regulation Authority (APRA) with our intent to deliver the best interest rates possible. We are required by APRA to generate a retained profit. We also have an obligation to our members to redistribute earnings by way of interest rate management in order to offer our members the best deal we can. To achieve both is in no small part due to the very capable management and staff of the Credit Union for which the Board and I are most grateful.

The second year of our five-year strategic plan is now complete and this has resulted in the achievement of many of our milestones including:

- Growing our savings and loan portfolios
- Maintaining minimum account keeping fees
- Introducing the new VISA Debit Card
- Donating a percentage of our profits to worthwhile charities and causes
- Maintaining and improving our relationship with active members.

LYSAGHT CREDIT UNION LTD

ABN 79 087 650 226

2011 Complete Set of Financial Statements

As previously mentioned, the Lysaght Credit Union needs to attract more members as does the Credit Union movement in general. Our cooperation in a nation-wide advertising and information campaign will hopefully raise the mutual banking sector's profile for many potential members. The campaign will demonstrate how we are a credible alternative to mainstream banking institutions. I would be interested in your views on this campaign and any suggestions you may have to attract more members to our Credit Union.

We have known for some time that the lack of a credit or debit card facility was a significant gap in our product range. I am delighted to report that the Credit Union now offers a VISA Debit Card to our members subject to approval. Take-up of the card has exceeded our expectations and has been particularly well received amongst our younger members. The Credit Union has made a significant investment to be able to offer the VISA Debit Card so I encourage you, if you are considering different card alternatives, to have a look at the VISA Debit Card.

In conclusion, I would like to express my appreciation to the Directors who continue to make decisions with the members at the forefront of their mind, the staff who continue to extend friendly and professional service to our members and to you, our members, for continuing to support us and the values of Lysaght Credit Union.

Andrew Morton
Chairman – Lysaght Credit Union

DIRECTORS' REPORT

Your directors present their report on the credit union for the financial year ended 31st March 2011.
 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	Responsibilities
A Morton	Chairman	Manager - Intellectual Property - BlueScope Steel	Board member since 2005	1 withdrawable share
R Newman	Director	Consultant	Board member since 1982	1 withdrawable share
P Daly	Director	Finance Manager - Accounting Services - BlueScope Steel	Board member since 1992	1 withdrawable share
P Renkin	Director	National Manager - Human Resources - BlueScope Steel	Board member since 2009	1 withdrawable share
A Cropp	Director	General Manager - BlueScope Water	Board member since 2003	1 withdrawable share
K Jones	Director	Accountant - BlueScope Steel	Board member since 2006	1 withdrawable share
M Grantham	Director	Consultant	Board member since 1993	1 withdrawable share

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

Name	Qualifications	Experience
P Dwyer	Manager	Manager since 1996

Director	Board		Audit		Other*		Period of appointment
	H	A	H	A	H	A	
A Morton	12	10	10	8			3 years expiring 2012
R Newman	12	11	10	9			3 years expiring 2012
P Daly	12	12	10	10	1	1	3 years expiring 2011
P Renkin	12	5	10	4	1	1	3 years expiring 2013
A Cropp	12	10	10	8			3 years expiring 2012
K Jones	12	12	10	10			3 years expiring 2013
M Grantham	12	9	10	7			3 years expiring 2011

*Remuneration Committee

DIRECTORS' BENEFITS

No director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the credit union, controlled credit union, or a related body corporate with a director, a firm of which a director is a member or a credit union in which a director has a substantial financial interest, other than that disclosed in Note 29 of the financial report.

INDEMNIFYING OFFICER OR AUDITOR

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

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

FINANCIAL PERFORMANCE DISCLOSURES

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

The net profit of the credit union for the year after providing for income tax was \$281,238 [2010 \$231,542].

DIVIDENDS

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the directors of the credit union.

REVIEW OF OPERATIONS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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 circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the credit union in subsequent financial years.

LIKELY DEVELOPMENTS AND RESULTS

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

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

in the financial years subsequent to this financial year.


AUDITORS' INDEPENDENCE

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001 as set out on page 7.

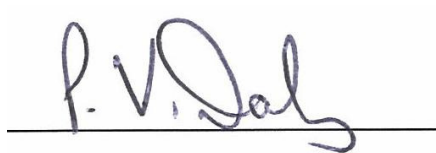
ROUNDING

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Class Order 98/100 (as amended by 06/51). The credit union is permitted to round to the nearest one thousand (\$'000) for all amounts except prescribed disclosures which are shown in whole dollars.

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:



Director



Director

Signed and dated this 28th day of June 2011.



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**DECLARATION OF INDEPENDENCE BY NEVILLE SINCLAIR
TO THE DIRECTORS OF LYSAGHT CREDIT UNION LIMITED**

As lead auditor of Lysaght Credit Union Limited for the year ended 31 March 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of;

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

A handwritten signature in black ink that reads 'N. Sinclair'.

Neville Sinclair
Director

BDO Audit (NSW-VIC) Pty Ltd
Chartered Accountants

Signed in Sydney this 22nd day of June 2011.



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LYSAGHT CREDIT UNION LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Lysaght Credit Union Limited, which comprises the statement of financial position as at 31 March 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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



Independence

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

Auditor's Opinion

In our opinion

- a. the financial report of Lysaght 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 31 March 2011 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*;and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

B D O

BDO Audit (NSW-VIC) Pty Ltd
Chartered Accountants

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

Neville Sinclair
Director


Signed in Sydney this 28th day of June 2011.

DIRECTORS' DECLARATION

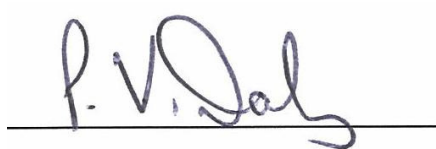
The directors' of Lysaght Credit Union Limited declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position of the credit union as at 31 March 2011 and of its performance for the year ended on that date.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion there are reasonable grounds to believe that the credit union will be able to pay its debts as and when they become due and payable.

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



Director



Director

Signed and dated this 28th day of June 2011.

**STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 MARCH 2011**

	Note	2011 \$	2010 \$
Interest revenue	2(a)	3,657,140	2,711,466
Interest expense	2(c)	(1,960,250)	(1,268,620)
Net interest income		<u>1,696,890</u>	<u>1,442,846</u>
Fees, commission and other income	2(b)	197,104	220,957
Sub Total		<u>1,893,994</u>	<u>1,663,803</u>
Less:			
Non interest expenses			
Impairment losses on loans to members	2(d)	17,697	26,167
Fee and commission expenses		282,272	257,733
General administration:			
- Employees compensation and benefits		685,237	606,964
- Depreciation and amortisation	2(e)	87,637	88,443
- Information technology		58,895	50,308
- Office occupancy		55,695	53,835
- Other administration		90,648	83,221
Other operating expenses		214,080	180,180
Total non interest expenses		<u>1,492,161</u>	<u>1,346,851</u>
Profit before income tax		401,833	316,952
Income tax expense	3	120,595	85,410
Profit after income tax		<u>281,238</u>	<u>231,542</u>
Total comprehensive Income for the period		<u>281,238</u>	<u>231,542</u>

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 31 MARCH 2011**

	Capital Reserve	Reserve for Credit Losses	Retained Earnings	Total
	\$	\$	\$	\$
Total at 1 April 2009	3,294	424,070	5,285,804	5,713,168
Profit for the year	-	-	231,542	231,542
Transfer to capital account on redemption of shares	228	-	-	228
Total as at 31 March 2010	3,522	424,070	5,517,346	5,944,938
Profit for the year	-	-	281,238	281,238
Transfer to capital account on redemption of shares	250	-	-	250
Total as at 31 March 2011	3,772	424,070	5,798,584	6,226,426

The accompanying notes form part of these financial statements.

**STATEMENT OF FINANCIAL POSITION
 AS AT 31 MARCH 2011**

	Note	2011 \$	2010 \$
ASSETS			
Cash	4	5,298,670	4,076,570
Held to maturity investments	5	2,000,000	-
Receivables from financial institutions	6	5,000,000	6,500,000
Receivables	7	89,752	83,925
Loans to members	8 & 9	45,631,845	40,590,781
Available for sale equity investments	10	139,329	145,851
Property, plant and equipment	11	370,204	335,726
Taxation assets	12	38,418	37,473
Intangible assets	13	87,419	93,440
TOTAL ASSETS		<u>58,655,637</u>	<u>51,863,766</u>
LIABILITIES			
Deposits from other institutions		2,000,000	-
Deposits from members	14	49,566,852	45,150,082
Creditor accruals and settlement accounts	15	747,672	701,150
Taxation liabilities	16	56,973	15,882
Provisions	17	49,648	43,648
Deferred tax liabilities	18	8,066	8,066
TOTAL LIABILITIES		<u>52,429,211</u>	<u>45,918,828</u>
NET ASSETS		<u>6,226,426</u>	<u>5,944,938</u>
MEMBERS' EQUITY			
Capital reserve account	19	3,772	3,522
General reserve for credit losses	20	424,070	424,070
Retained earnings		5,798,584	5,517,346
TOTAL MEMBERS' EQUITY		<u>6,226,426</u>	<u>5,944,938</u>

The accompanying notes form part of these financial statements.

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$	2010 \$
OPERATING ACTIVITIES			
Revenue inflows			
Interest received		3,650,520	2,704,178
Fees and commissions		124,596	120,128
Dividends received		15,785	47,720
Other income		41,322	26,223
Revenue outflows			
Interest paid		(1,782,417)	(1,267,943)
Suppliers and employees		(1,362,315)	(1,257,511)
Income taxes paid		(80,450)	(39,896)
Net cash from revenue activities	33(b)	607,041	332,899
Inflows from other operating activities			
Increase in member deposits and shares (net movement)		4,276,906	1,256,353
Outflows from other operating activities			
Increase in members loans (net movement)		(5,067,674)	(2,150,945)
Increase in receivables from other financial institutions		(500,000)	(13,508)
Net cash from other operating activities		(1,290,768)	(908,100)
NET CASH FROM ALL OPERATING ACTIVITIES		(683,727)	(575,201)
INVESTING ACTIVITIES			
Inflows			
Proceeds of investment redemption		-	18,068
Proceeds on sale of property, plant and equipment		15,400	-
Outflows			
Purchase of intangible assets		(40,169)	(59,636)
Purchase of property plant and equipment		(69,404)	(2,944)
NET CASH FROM INVESTING ACTIVITIES		(94,173)	(44,512)
FINANCING ACTIVITIES			
Inflows (outflows)			
Payables to other financial institutions (net movement)		2,000,000	(1,000,000)
NET CASH FROM FINANCING ACTIVITIES		2,000,000	(1,000,000)
Total net cash increase/(decrease)		1,222,100	(1,619,713)
Cash at beginning of year		4,076,570	5,696,283
Cash at end of year	33(a)	5,298,670	4,076,570

1. STATEMENT OF ACCOUNTING POLICIES

This financial report is prepared for Lysaght Credit Union Limited as a single credit union, for the year ended the 31 March 2011. The report was authorised for issue on 28th June 2011 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 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. The accounting policies are consistent with the prior year unless otherwise stated.

(b) Loans to Members

(i) Basis of recognition

All loans are initially recognised at fair value, net of 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 by the 15th day of each month.

Non accrual loan interest - while still legally recoverable, interest is not brought to account as income where the credit union is informed that the member has deceased, or, where a loan is impaired.

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

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

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(v) Fees on loans

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

(vi) Net gains and losses

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

(c) Loan Impairment

(i) Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on 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 9. Note 21 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 statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

(ii) Reserve for credit losses

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

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

(iii) Renegotiated loans

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

d. Bad debts written off (direct reduction in loan balance)

Bad debts are written off from time to time as determined by management and the board of directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the income statement.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

e. Property, plant and equipment

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

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

- Buildings - 40 years
- Leasehold improvements - 10 years
- Plant and equipment - 3 to 7 years
- Assets less than \$300 are not capitalised.

f. Receivables from other financial institutions

Term deposits and Negotiable Certificates of Deposits (NCD's) with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

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

g. Equity investments and other securities

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

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

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

All investments are in Australian currency.

h. Member Deposits

(i) Basis for measurement

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

(ii) Interest payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on amount of money owing to depositors 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.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

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

There are no provisions for Long Service, Annual Leave or Sick Leave. The Credit Union has an arrangement with BlueScope Steel for the supply of staff to meet the Credit Union's needs. All costs are paid to BlueScope Steel as incurred, including all leave entitlements.

k. 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 statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

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

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

l. Intangible Assets

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

Computer software is amortised over the expected useful life of the software. These lives range from 2 to 3 years.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

m. Goods and Services Tax

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

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the 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.

n. 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 an insignificant risk of changes in value.

o. Impairment of Assets

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

p. Accounting Estimates and Judgements

Management have made critical accounting estimates when applying the credit union's accounting policies with respect to the impairment provisions for loans - refer Note 9.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

q. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2011 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 9 Issued DEC 2009 Financial Instruments	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 31 March 2014 year end, the entity has not yet made an assessment of the impact of these amendments.

	Note	2011 \$	2010 \$
2. INCOME STATEMENT			
(a) Analysis of interest revenue			
Interest revenue on assets carried at amortised cost			
Cash - deposits at call		118,393	108,921
Receivables from financial institutions		442,782	275,448
Loans to members		3,095,965	2,327,097
TOTAL INTEREST REVENUE		3,657,140	2,711,466
(b) Fee, commission and other income			
Fee and commission revenue			
Fee income on loans - other than loan origination fees		1,198	-
Fee Income from member deposits		81,948	79,169
Other fee income		11,149	10,967
Insurance commissions		4,654	4,576
Other commissions		25,648	25,416
TOTAL FEE AND COMMISSION REVENUE		124,597	120,128
Other income			
Dividends received on available for sale equity assets		15,785	47,720
Bad debts recovered / Reduction in provision		6,046	20,226
Income from property (rental income)		20,978	-
Gain on disposal of assets			
- Property, plant and equipment		15,400	-
- Shares		-	26,886
Miscellaneous revenue		14,298	5,997
TOTAL OTHER INCOME		72,507	100,829
TOTAL FEE, COMMISSION AND OTHER INCOME		197,104	220,957
(c) Interest expenses			
Interest expense on liabilities carried at amortised cost			
Short term borrowings		2,112	1,911
Deposits from members		1,846,854	1,265,190
Deposits from Financial Institutions		111,284	1,519
TOTAL INTEREST EXPENSE		1,960,250	1,268,620

	Note	2011 \$	2010 \$
2. INCOME STATEMENT (Continued)			
(d) Impairment losses			
Loans and advances			
Increase in provision for impairment		10,000	12,000
Bad debts written off directly against profit		1,697	14,167
Increase in provision for VISA fraud		6,000	-
TOTAL IMPAIRMENT LOSSES		17,697	26,167
(e) Other prescribed disclosures			
General administration - depreciation expense includes:			
- Buildings		6,769	6,769
- Plant and equipment		28,157	28,432
Sub Total		34,926	35,201
General administration - amortisation expense includes:			
- Amortisation of software		46,189	53,242
- Amortisation of shares		6,522	-
Sub Total		52,711	53,242
TOTAL DEPRECIATION AND AMORTISATION		87,637	88,443
Other operating expenses include:			
Auditor's remuneration (excluding GST)			
- Audit fees		39,875	38,015
- Other services - taxation		3,500	3,250
- Other services - compliance		3,000	3,000
		46,375	44,265

	Note	2011 \$	2010 \$
3. INCOME TAX EXPENSE			
(a) The income tax expense comprises amounts set aside as:			
Current tax expense		121,559	79,543
Deferred tax expense		(945)	5,117
Adjustments for previous years		(19)	750
Total income tax expense in income statement		120,595	85,410
(b) The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:			
Profit		401,833	316,952
Prima facie tax payable on profit before income tax at 30%		120,550	95,086
Add tax effect of expenses not deductible:			
- Dividend imputation adjustment		2,030	6,135
- Other non-deductible expenses		4,799	3,891
Subtotal		127,379	105,112
Less:			
- Imputation credits		(6,765)	(20,452)
- (Under)/Over provision for tax in previous year		(19)	750
Income tax expense attributable to current year profit		120,595	85,410
(c) Franking credits			
Franking credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:		1,051,337	875,264

Since the Credit Union rules prevent a dividend being declared, these franking credits are not presently available to members.

Franking credits represent reserves upon which income tax has been paid.

	Note	2011 \$	2010 \$
4. CASH			
Cash on hand		73,841	96,317
Deposits at call		5,224,829	3,980,253
Total		<u>5,298,670</u>	<u>4,076,570</u>
5. HELD TO MATURITY INVESTMENT			
Negotiable certificates of deposit (NCD)		<u>2,000,000</u>	<u>-</u>
6. RECEIVABLES FROM FINANCIAL INSTITUTIONS			
Term deposits held with:			
- Industry bodies - CUSCAL (refer Note 27)		1,000,000	1,000,000
- Deposits with other societies		3,000,000	2,000,000
- Deposits with banks		1,000,000	3,500,000
Total		<u>5,000,000</u>	<u>6,500,000</u>
7. RECEIVABLES			
Interest receivable on deposits with other financial institutions		69,305	47,771
Prepayments		5,470	5,371
Sundry debtors and settlement accounts		14,977	30,783
Total		<u>89,752</u>	<u>83,925</u>
8. LOANS TO MEMBERS			
(a) Amount due comprises:			
Overdrafts and revolving credit		23,960	25,386
Term loans		45,636,122	40,579,412
Subtotal		<u>45,660,082</u>	<u>40,604,798</u>
Add:			
- Unamortised loan origination fees		3,048	7,268
Subtotal		<u>45,663,130</u>	<u>40,612,066</u>
Less:			
- Provision for impaired loans (Note 9)		(31,285)	(21,285)
Total		<u>45,631,845</u>	<u>40,590,781</u>

	Note	2011 \$	2010 \$
8. LOANS TO MEMBERS (Continued)			
(b) Credit quality - Security held against loans			
Secured by mortgage over real estate		41,397,863	36,506,492
Secured other		72,891	68,759
Partly secured by goods mortgage		2,587,901	2,433,040
Wholly unsecured		1,601,427	1,596,507
Total		<u>45,660,082</u>	<u>40,604,798</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%	38,076,402	34,538,521
– Loan to valuation ratio of more than 80% but mortgage insured	1,863,527	1,539,771
– Loan to valuation ratio of more than 80% and not mortgage insured	1,457,934	428,200
Total	<u>41,397,863</u>	<u>36,506,492</u>

(c) Concentration of loans

The values discussed below include on Statement of Financial Position values and off Statement of Financial Position undrawn facilities as described in Note 26.

(i) Loans to Individual or related groups of members which exceed 10% of reserves in aggregate	6,621,785	3,879,391
Total	<u>6,621,785</u>	<u>3,879,391</u>

(ii) Loans to members are concentrated to individuals employed in the steel industry.

	Note	2011 \$	2010 \$
8. LOANS TO MEMBERS (Continued)			
(iii) Geographical concentrations			
NSW - Illawarra		39,665,789	34,786,815
NSW - Sydney		3,065,671	2,376,416
NSW - Other		535,322	453,990
Victoria		121,379	425,882
Queensland		1,258,145	1,358,237
Western Australia		1,013,776	1,103,793
Northern Territory		-	57,835
ACT		-	41,830
		<u>45,660,082</u>	<u>40,604,798</u>
(iv) Concentration of loans by purpose			
Loans to natural persons			
- Residential loans and facilities		27,146,993	25,874,943
- Personal loans and facilities		17,313,862	13,888,872
- Business loans and facilities		1,199,227	840,983
		<u>45,660,082</u>	<u>40,604,798</u>
9. PROVISION ON IMPAIRED LOANS			
(a) Total provision comprises			
Collective provisions		25,814	16,591
Individual specific provisions		5,471	4,694
		<u>31,285</u>	<u>21,285</u>
(b) Movement in the provision for impairment			
Balance at the beginning of year		4,694	2,930
Add/(deduct):			
- Transfers from (to) income statement		777	15,906
- Bad debts written off provision		-	(14,142)
		<u>5,471</u>	<u>4,694</u>
Balance at end of year		<u>5,471</u>	<u>4,694</u>
Details of credit risk management is set out in Note 21.			

	Note	2011 \$	2010 \$
9. PROVISION ON IMPAIRED LOANS (Continued)			
(c) Impaired loans written off			
Amounts written off against the provision for impaired loans		-	14,142
Amounts written off directly to expense		1,540	25
Total bad debts		1,540	14,167
Bad debts recovered in the period / Reduction in provision		6,046	20,226

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

In the note below -

- Carrying Value is the amount of the Statement of Financial Position.
- Impaired loans value is the 'on Statement of Financial Position' 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.

	Carrying value 2011 \$	Value of Impaired Loans 2011 \$	Provision for impairment 2011 \$	Carrying value 2010 \$	Value of Impaired Loans 2010 \$	Provision for impairment 2010 \$
Loans to members						
Mortgages	41,397,863	-	-	36,506,492	-	-
Personal	4,238,259	3,756	3,756	4,072,920	5,040	4,683
Overdrafts	23,960	2,744	1,715	25,386	30	11
Total to natural persons	45,660,082	6,500	5,471	40,604,798	5,070	4,694
Corporate borrowers	-	-	-	-	-	-
Total	45,660,082	6,500	5,471	40,604,798	5,070	4,694

It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

9. PROVISION ON IMPAIRED LOANS (Continued)

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

	2011 Carrying Value \$	2011 Provision \$	2010 Carrying Value \$	2010 Provision \$
Non impaired up to 31 days	-	-	-	-
31 to 90 days in arrears	10	4	17,751	-
90 to 180 days in arrears	1,704	681	595	238
180 to 270 days in arrears	1,030	1,030	-	-
270 to 365 days in arrears	-	-	-	-
Over 365 days in arrears	3,756	3,756	4,445	4,445
Over limit facilities over 14 days	-	-	30	11
Total	6,500	5,471	22,821	4,694

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

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

There are loans with a value of \$547,034 past due which not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

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

	1 - 3 Mnths	3-6 Mnths	6-12 Mnths	> 1 Year	Total
2011					
Mortgage secured	487,867				487,867
Personal loans	58,546				58,546
Overdrafts	621				621
Total	547,034				547,034

2010					
Mortgage secured	291,462				291,462
Personal loans	106,310				106,310
Overdrafts	937				937
Total	398,709				398,709

9. PROVISION ON IMPAIRED LOANS (Continued)

Key assumptions in determining the provision for impairment

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

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

	Note	2011 \$	2010 \$
10. AVAILABLE FOR SALE INVESTMENTS			
Shares in unlisted companies - at cost			
- CUSCAL Limited	10(a)	126,283	126,283
- Transaction Solutions Limited (TAS)		19,568	19,568
Total value of investments		145,851	145,851
Less provisions for impairment			
- Transaction Solutions Limited (TAS)		(6,522)	-
TOTAL INVESTMENTS NET OF PROVISION		139,329	145,851

(a) Disclosures on shares held at cost

CUSCAL Limited

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

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

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

10. AVAILABLE FOR SALE INVESTMENTS (Continued)

Transaction Solutions Limited (TAS)

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

The credit union is not intending to dispose of these shares.

	Note	2011 \$	2010 \$
11. PROPERTY, PLANT AND EQUIPMENT			
(a) Fixed assets			
Land - at cost (valuation 2009)		123,000	123,000
Buildings - at cost (valuation 2009)		270,736	270,736
Less: Provision for depreciation		(95,322)	(88,553)
		175,414	182,183
 Total land & buildings		298,414	305,183
 Plant and equipment - at cost		298,710	277,175
Less: provision for depreciation		(226,920)	(246,632)
		71,790	30,543
 TOTAL PROPERTY, PLANT AND EQUIPMENT		370,204	335,726

An independent valuation was conducted on the land and building located at 13 Auburn St Wollongong in 2009. The valuation amount was determined to be \$1.46 million.

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

	2011				2010			
	<i>Property</i>	<i>Plant & Equipment</i>	<i>Land</i>	<i>Total</i>	<i>Property</i>	<i>Plant & Equipment</i>	<i>Land</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance	182,183	30,543	123,000	335,726	188,951	56,031	123,000	367,982
Purchases	-	69,404	-	69,404	-	2,945	-	2,945
Less:								
Assets disposed	-	-	-	-	-	-	-	-
Depreciation charge	6,769	28,157	-	34,926	6,768	28,433	-	35,201
Balance at the end of the year	175,414	71,790	123,000	370,204	182,183	30,543	123,000	335,726

	Note	2011 \$	2010 \$
12. TAXATION ASSETS			
Deferred tax assets		38,418	37,473
Deferred tax assets comprise:			
- Accrued expenses not deductible until incurred		26,144	26,492
- Provisions for impairment on loans		9,386	6,386
- Provisions for visa fraud		1,800	-
- Depreciation on fixed assets		2,003	6,775
- Deferred fees (less transaction costs) on loan		(915)	(2,180)
TOTAL		<u>38,418</u>	<u>37,473</u>
13. INTANGIBLE ASSETS			
Computer software		257,116	216,947
Less provision for amortisation		(169,697)	(123,507)
TOTAL		<u>87,419</u>	<u>93,440</u>
Movement in the assets balances during the year were:			
Opening balance		93,440	87,047
Purchases		40,169	59,635
Less:			
Assets disposed		-	-
Depreciation charge		46,190	53,242
Balance at the end of the year		<u>87,419</u>	<u>93,440</u>
14. DEPOSITS FROM MEMBERS			
Member deposits			
- At call		23,700,262	21,079,263
- Term		25,861,118	24,065,291
Sub Total		<u>49,561,380</u>	<u>45,144,554</u>
Member withdrawable shares		5,472	5,528
TOTAL		<u>49,566,852</u>	<u>45,150,082</u>

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

	Note	2011 \$	2010 \$
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 steel industry.			
(iii) Geographical concentrations			
	Note	2011 \$	2010 \$
NSW			
– Sydney		3,095,818	2,759,183
– Illawarra		45,188,461	41,352,706
– NSW other		446,175	392,004
Victoria		343,380	264,040
Queensland		152,922	164,771
South Australia		12,231	6,428
Western Australia		242,847	42,735
Tasmania		2,077	11,803
Northern Territory		-	103,943
ACT		77,469	46,941
Total per statement of financial position		49,561,380	45,144,554
15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS			
Creditors and accruals		135,270	110,911
Interest payable on deposits		465,194	287,361
Sundry creditors		147,208	302,878
TOTAL		747,672	701,150

	Note	2011 \$	2010 \$
16. TAXATION LIABILITIES			
Current income tax liability		56,973	15,882
Current income tax liability comprises:			
Balance - previous year		15,882	(35,319)
Less paid		(15,863)	23,764
(Over) / under statement in prior year		19	(11,555)
Liability for income tax in current year		121,559	79,543
Less Instalments paid in current year		64,586	63,661
Balance - current year		56,973	15,882
17. PROVISIONS			
Provision - VISA Fraud		6,000	-
Provision - Other		43,648	43,648
TOTAL PROVISIONS		49,648	43,648
Movement in the Provision VISA Fraud balances during the year were:			
Balance at beginning of year		-	-
Add / (Deduct):			
Transfers from (to) income statement		6,000	-
Fraud written off provision		-	-
Balance at the end of the year		6,000	-
18. DEFERRED TAX LIABILITIES			
Deferred tax liabilities		8,066	8,066
Deferred income tax liability comprises:			
- Unrealised value on fair value		8,066	8,066
		8,066	8,066

	Note	2011 \$	2010 \$
19. CAPITAL RESERVE ACCOUNT			
Balance at the beginning of the year		3,522	3,294
Transfer from retained earnings on share redemptions		250	228
Balance at the end of year		<u>3,772</u>	<u>3,522</u>

(a) Share redemption

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

20. GENERAL RESERVE FOR CREDIT LOSSES

General reserve for credit losses		<u>424,070</u>	<u>424,070</u>
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This reserve records amount previously set aside as a General provision and is maintained to comply with the Prudential Standards set down by APRA.

Balance at beginning of year		424,070	424,070
Add: increase (decrease) transferred from retained earnings		-	-
Balance at end of year		<u>424,070</u>	<u>424,070</u>

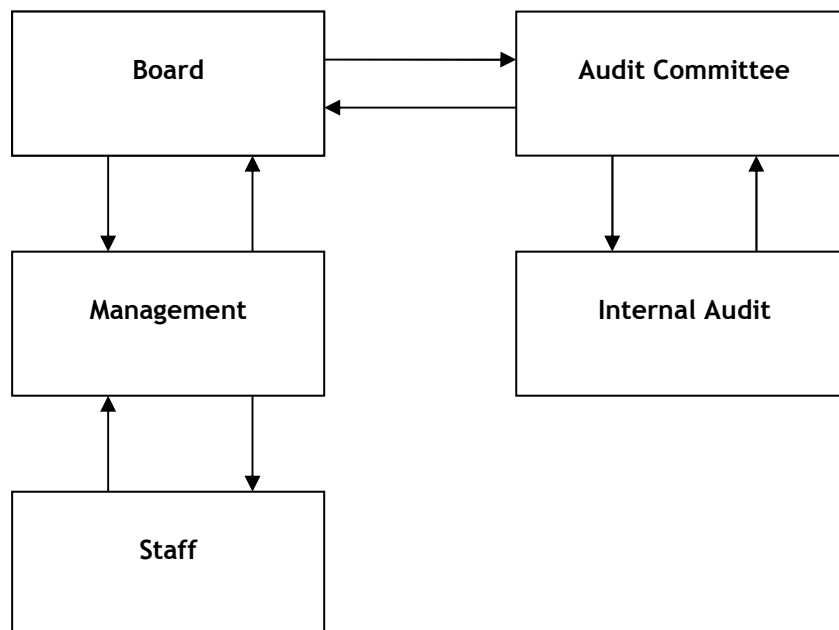
21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

The board has endorsed a policy of compliance and risk management to suit the risk profile of the credit union.

The credit union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the board of directors to the audit committee which are integral to the management of risk.

The following diagram gives an overview of the risk management structure.



The main elements of risk governance are as follows:

Board

This is the primary governing body. It approves the level of risk which the credit union is exposed to and the framework for reporting and mitigating those risks.

The Board has the responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria based decision making process. Criteria used for this assessment include: credit references, loan-to-value ratios on security and the borrowers capacity to repay which vary according to the value of the loan or facility.

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

Audit Committee

Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The audit committee is made up of representatives of the Board. The audit committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The audit committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the board for their consideration.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

The audit committee determines the credit risk of loans in the banking book, ensures provisioning is accurate and determine controls that need to be in put in place regarding the authorisation of new loans.

All loans are managed weekly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or overlimit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Audit Committee and the Board monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. The Manager is responsible for implementing the credit union's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the statement of financial position date.

Market Risk

Senior Staff and members of the Audit Committee take responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP. The scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by the Board.

Internal Audit

Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

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

- Interest rate risk
- Liquidity management
- Credit risk management
- Operations risk management including data risk management.

The credit union has undertaken the following strategies to minimise the risks arising from financial instruments.

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 mineralise risk and optimise return.

Market risk is the risk that changes in interest rates, foreign exchange rates (currency risk) 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 Senior Staff, who report directly to the board.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(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 and 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 24 below. The table set out at Note 24 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The credit union manages 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 monthly to identify large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the credit union is not to undertake derivatives to match the interest rate risks.

Based on the calculations as at 31 March 2011 (31 March 2010), the net profit impact for a 1% (2010: 1%) movement in interest rates would be \$16,286 (2010: \$12,475.)

The credit union performs a sensitivity analysis to measure market risk exposures.

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

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

- mortgage loans would all reprice to the new interest rate within 30 days;
- personal loans would all reprice to the new interest rate within 30 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

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

B. LIQUIDITY RISK

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

The credit union manages liquidity risk by:

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

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 it 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 13% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked weekly. 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 27 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 23.

The ratio of liquid funds over the past year is set out below:

	31 March 2011	31 March 2010
	\$	\$
Liquid funds to total adjusted liabilities		
Prescribed liquidity %	9%	9%
As at 31 March	20.44%	19.73%
Average for the year	19.20%	20.38%
Minimum during the year	15.62%	17.55%

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

C. CREDIT RISK

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

(i) Credit Risk - Loans

The analysis of the credit union's loans by class, is as follows:

Loan type	2011			2010		
	Carrying value	Commitments	Max exposure	Carrying value	Commitments	Max exposure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage	41,398	4,479	45,877	36,506	3,773	40,279
Personal	4,238	97	4,335	4,074	110	4,184
Overdrafts	24	61	85	25	61	86
Total to natural persons	45,660	4,637	50,297	40,605	3,944	44,549
Corporate borrowers	-	-	-	-	-	-
Total	45,660	4,637	50,297	40,605	3,944	44,549

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities; overdraft facilities;). The details are shown in Note 26.

All loans and facilities are within Australia. Concentrations are described in Note 8(c).

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved 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 and security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies;

A regular review of compliance is conducted as part of the internal audit scope.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the 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 regional 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 the loans to members. Past due value is the 'on statement of financial position' loan balances which are past due by 90 days or more.

Details are as set out in Note 9.

Bad debts

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

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

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

Collateral securing loans

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

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

Note 8(b) describes the nature and extent of the security held against the loans held as at the balance date.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Concentration risk - individuals

Concentration risk is a measurement of the credit union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the credit union's regulatory capital (10 %) a large exposure is considered to exist. No capital is required to be held against these but 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 8. Concentration exposures to counterparties are closely monitored.

The credit union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of at least 80 % and annual 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 steel industry (BlueScope Steel). 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 8.

(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 a maximum of 5% can be invested with any one financial institution at a time (excluding CUSCAL).

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 institution. Also the relative size of the credit union as compared to the industry is relatively low such that the risk of loss is reduced.

Under the liquidity support scheme at least 3.2% of the total assets must be invested in CUSCAL, to allow the scheme to have adequate resources to meet its obligations if needed.

External Credit Assessment for Institution Investments

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

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

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

	2011			2010		
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
Investments with						
CUSCAL - rated A+	6,224,829	-	-	4,980,253	-	-
Banks - rated AA and above	3,000,000	-	-	3,500,000	-	-
Other rated institutions	1,500,000	-	-	-	-	-
Unrated institutions - Credit Unions / Building Societies	1,500,000	-	-	2,000,000	-	-
Total	12,224,829	-	-	10,480,253	-	-

D. CAPITAL MANAGEMENT

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk
- Market risk (trading book)
- Operations risk.

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

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises

- Retained profits
- Capital reserve.

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:

- A general reserve for Credit Losses.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital in the credit union is made up as follows:

	2011	2010
Tier 1		
Capital reserve	3,772	3,522
Retained earnings	5,798,584	5,517,347
	5,802,356	5,520,869
Less prescribed deductions	(191,039)	(185,989)
Net Tier 1 Capital	5,611,317	5,334,880
Tier 2		
Reserve for credit losses	283,884	256,680
Less prescribed deductions	(65,201)	(63,142)
Net Tier 2 Capital	218,683	193,538
Total Capital	5,830,000	5,528,418

Under the APRA Prudential Standards, the credit union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time, although APRA has determined that Lysaght Credit Union must hold a minimum Prescribed Capital Ratio of 12%.

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

		Carrying Value	Risk Weighted Value	Carrying Value	Risk Weighted Value
		2011	2011	2010	2010
		\$	\$	\$	\$
Cash	0%	73,841		96,317	
Deposits in ADI's	20%	12,294,135	2,458,827	10,528,025	2,105,605
Standard Loans secured against eligible residential mortgages up to 80% LVR or up to 90% LVR with Mortgage Insurance	35%	39,554,581	13,844,103	35,410,160	12,393,556
Standard loans secured against eligible residential mortgages over 80% LVR with no mortgage insurance	50%-100%	1,457,935	954,508	680,903	340,452
Standard Loans secured against non-eligible residential mortgages	50%	385,346	192,673	415,425	207,713
Investments in equity instruments	400%	4,119	16,476	19,568	78,272
Other assets	100%	4,885,680	4,885,680	4,464,239	4,464,239
Total on statement of financial position assets		58,655,637	22,352,267	51,614,637	19,589,837
Total commitments undrawn		4,636,674	314,653	3,943,740	620,085
Total risk weighted assets		63,292,311	22,666,920	55,558,377	20,209,922

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

2011	2010	2009	2008	2007
22.56%	23.70%	22.89%	22.99%	22.90%

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

To manage the credit unions capital the credit union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the board and the regulator if the capital ratio falls below 14%.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from the 1 January 2009 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The credit union uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the credit union's three year average net interest income and net non-interest income to the credit union's various business lines.

Based on this approach, the credit union's operational risk requirement is as follows:

- Operational risk capital \$3,126,047 (2010: \$2,858,610).

It is considered that the Standardised approach accurately reflects the credit union's operational risk other than for the specific items set out below.

Internal capital adequacy management

The credit union manages its internal capital levels for both current and future activities through a combination of the various committees. The capital required for any change in the credit union's forecasts for asset growth, or unforeseen circumstances, are assessed by the board.

In relation to the operational risks, the major measurements for additional capital are:

1. Fraud risk - The capital held to cover fraud risks is equal to the higher of our largest loss in the last ten years at \$10,000 (2010: \$10,000).
2. Property value decline - The credit union's approach is to take a 5 per cent capital charge in instances where the LVR exceeds 80 per cent only in instances where the exposure is on an impaired loan in excess of 90 days. This is considered appropriate as it is only in these relatively poor quality exposures where there is a significant risk that the credit union may need to draw on the security held.

The optional additional capital charge recognised by the board equates to \$0 (2010: \$0).

22. CATEGORIES OF FINANCIAL INSTRUMENTS

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

	Note	2011 \$	2010 \$
Financial assets - carried at amortised cost			
Cash	4	5,298,670	4,076,570
Held to maturity investment	5	2,000,000	-
Receivables from financial institutions	6	5,000,000	6,500,000
Loans to members	8 & 9	45,660,082	40,604,799
Receivables	7	89,752	83,925
Total loans and receivables		58,048,504	51,265,294
Available for sale equity investments - carried at cost	10	139,329	145,851
Total available for sale investments		139,329	145,851
TOTAL FINANCIAL ASSETS		58,187,833	51,411,145
Financial liabilities - carried at amortised cost			
Creditors	15	135,270	110,911
Deposits from other institutions		2,000,000	-
Deposits from members	14	49,566,852	45,150,082
Sundry creditors	15	147,208	302,878
TOTAL FINANCIAL LIABILITIES		51,849,330	45,563,871

22. CATEGORIES OF FINANCIAL INSTRUMENTS (Continued)

b. Assets measured at fair value

Fair value measurement at end of
the reporting period using:

	Balance \$	Level 1 \$	Level 2 \$	Level 3 \$
Available-for-sale financial assets	139,329			139,329
Total	139,329			139,329

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 (ie as prices) or indirectly (ie 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).

c. Assets measured at fair value based on Level 3

Fair value measurement at the end of the reporting period	Available for sale financial assets 2011	Total 2011	Available for sale financial assets 2010	Total 2010
Opening balance	145,851	145,851	137,033	137,033
Total gains or losses				
- in profit or loss	(6,522)	(6,522)	28,386	28,386
- in other comprehensive income			-	-
Purchases	-	-	19,568	19,568
Transfers out of Level 3	-	-	-	-
Closing balance	139,329	139,329	145,851	145,851

Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(6,522)	(6,522)	28,386	28,386
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23. 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 statement of financial position.

2011	Book value	Up to 3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total cash flows
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>ASSETS</u>							
Cash	5,299	5,309					5,309
Receivables	90					90	90
Liquid Investments	7,000	7,110					7,110
Loans & advances	45,660	1,460	4,237	19,181	64,174		89,052
Available for sale investments	139					139	139
Statement of financial position	58,188	13,879	4,237	19,181	64,174	229	101,700
Undrawn commitments		4,637					4,637
Total financial assets	58,188	18,516	4,237	19,181	64,174	229	106,337
<u>LIABILITIES</u>							
Borrowings	-	-	-	-	-	-	-
Creditors	135	-	-	-	-	135	135
Deposits from financial institutions	2,000	2,019	-	-	-	-	2,019
Deposits from members - at call	23,706	23,707	-	-	-	-	23,707
Deposits from members - term	25,861	11,073	15,754	-	-	-	26,827
Sundry creditors	147	-	-	-	-	147	147
Statement of financial position	51,849	36,799	15,754	-	-	282	52,835
Undrawn loan commitments		300	-	-	-	-	300
Total financial liabilities	51,849	37,099	15,754	-	-	282	53,135

23. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

2010	Book value \$'000	Up to 3 months \$'000	3-12 months \$'000	1-5 years \$'000	After 5 years \$'000	No Maturity \$'000	Total cash flows \$'000
ASSETS							
Cash	4,077	4,085	-	-	-	-	4,085
Receivables	84	-	-	-	-	84	84
Receivable from financial institution	6,500	6,570	-	-	-	-	6,570
Loans & advances	40,605	1,305	3,719	16,279	52,465	-	73,768
Available for Sale Investments	145	-	-	-	-	145	145
Statement of financial position	51,411	11,960	3,719	16,279	52,464	230	84,652
Undrawn commitments	-	3,944	-	-	-	-	3,944
Total financial assets	51,411	15,904	3,719	16,279	52,464	230	88,596
LIABILITIES							
Borrowings	-	-	-	-	-	-	-
Creditors	110	-	-	-	-	110	110
Deposits from financial institutions	-	-	-	-	-	-	-
Deposits from members - at call	21,079	21,079	-	-	-	-	21,079
Deposits from members - term	24,065	11,278	13,447	-	-	-	24,725
Sundry Creditors	302	-	-	-	-	302	302
Statement of financial position	45,556	32,357	13,447	-	-	412	46,216
Undrawn loan commitments	-	300	-	-	-	-	300
Total financial Liabilities	45,556	32,657	13,447	-	-	412	46,516

24. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

2011	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS							
Cash	5,299	-	-	-	-	-	5,299
Available for sale investments	-	-	-	-	-	139	139
Receivables	-	-	-	-	-	90	90
Advance to financial Institutions	1,500	5,500	-	-	-	-	7,000
Loans & advances - mortgage	40,199	-	-	-	-	-	40,199
Loans & advances - personal	4,262	-	-	-	-	-	4,262
Loans & advances - other	1,199	-	-	-	-	-	1,199
Sub total	52,459	5,500	-	-	-	229	58,188
Undrawn commitments	4,637	-	-	-	-	-	4,637
Total financial assets	57,096	5,500	-	-	-	229	62,825
LIABILITIES							
Borrowings	-	-	-	-	-	-	-
Creditors	-	-	-	-	-	748	748
Deposit from financial institution	-	2,000	-	-	-	-	2,000
Deposits from members	27,698	6,797	15,072	-	-	-	49,567
Sub total	27,698	8,797	15,072	-	-	748	52,315
Undrawn loan commitments	300	-	-	-	-	-	300
Total financial liabilities	27,998	8,797	15,072	-	-	748	52,615

24. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

2010	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS							
Cash	3,980	-	-	-	-	-	3,980
Available for sale investments	-	-	-	-	-	146	146
Receivables	-	-	-	-	-	84	84
Advance to financial Institution	3,000	3,500	-	-	-	-	6,500
Loans & advances - mortgage	35,666	-	-	-	-	-	35,666
Loans & advances - personal	4,098	-	-	-	-	-	4,098
Loans & advances - other	841	-	-	-	-	-	841
Sub total	47,585	3,500	-	-	-	230	51,315
Undrawn commitments	3,944	-	-	-	-	-	3,944
Total financial assets	51,529	3,500	-	-	-	230	55,259
LIABILITIES							
Borrowings	-	-	-	-	-	-	-
Deposits from members	24,663	7,244	13,237	-	-	-	45,144
Other	-	-	-	-	-	412	412
Sub total	24,663	7,244	13,237	-	-	412	45,556
Undrawn loan commitments	300	-	-	-	-	-	300
Total financial liabilities	24,963	7,244	13,237	-	-	412	45,856

25. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are held regularly traded by the credit union, and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets.

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

	2011			2010		
	Fair Value	Carrying Value	Variance	Fair Value	Carrying Value	Variance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
FINANCIAL ASSETS						
Cash	5,299	5,299	-	4,077	4,077	-
Advances to other financial institutions	7,000	7,000	-	6,500	6,500	-
Receivables (1)	90	90	-	84	84	-
Loans - mortgage	40,199	40,199	-	35,666	35,666	-
Loans - personal	4,262	4,262	-	4,098	4,098	-
Loans - other	1,199	1,199	-	841	841	-
Investments	139	139	-	146	146	-
Total financial assets	58,188	58,188	-	51,412	41,412	-
FINANCIAL LIABILITIES						
Creditors (1)	135	135	-	110	110	-
Deposits from other financial institutions	2,000	2,000	-	-	-	-
Deposits from members - Call	23,706	23,706	-	21,079	21,079	-
Deposits from members - Term	25,788	25,861	(73)	23,942	24,065	(123)
Sundry Creditors (1)	147	147	-	302	302	-
Total financial liabilities	51,776	51,849	(73)	45,433	45,556	(123)

(1) For these assets and liabilities the carrying value approximates fair value.

25. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

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

The carrying values of cash and liquid assets 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 statement of financial position is considered to be a reasonable estimate of fair value.

Deposits from members

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

The rates applied to give effect to the discount of cash flows were 5.40%-6.20% (2010 - 3.85%-6.30%).

Short term borrowings

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

	Note	2011 \$	2010 \$
26. FINANCIAL COMMITMENTS			
(a) Outstanding loan commitments			
– The loans approved but not funded		718,791	696,084
(b) Loan redraw facilities			
– The loan redraw facilities available		3,857,164	3,186,592
(c) Undrawn loan facilities			
– Loan facilities available to members for overdrafts and line of credit loans are as follows:			
– Total value of facilities approved		83,000	85,500
– Less: Amount advanced		(22,281)	(24,436)
– Net undrawn value		60,719	61,064
– These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.			
Total Financial Commitments		4,636,674	3,943,740
Expenditure commitments			
(d) Other expense commitments			
– Not later than one year		-	-
– Later than 1 year but not 2 years		56,311	-
– Later than 2 years but not 5 years		-	-
– Later than 5 years		-	-
Total Expenditure Commitments		56,311	-

27. STANDBY BORROWING FACILITIES

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

2011	Gross	Current Borrowing	Net Available
	\$	\$	\$
Loan facility	-	-	-
Overdraft facility	300,000	-	300,000
TOTAL STANDBY BORROWING FACILITIES	300,000	-	300,000
2010	Gross	Current Borrowing	Net Available
	\$	\$	\$
Loan facility	-	-	-
Overdraft facility	300,000	-	300,000
TOTAL STANDBY BORROWING FACILITIES	300,000	-	300,000

Withdrawal of the loan facility is subject to the availability of funds at CUSCAL. CUSCAL holds an equitable mortgage charge over all of the assets of the credit union as security against loan and overdraft amounts drawn under the facility arrangements.

28. 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 0.2% under the cap on contributions to permanent loans). This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

Guarantees

The credit union has provided a guarantee to CUSCAL for drawings made by a member up to a limit of \$250,000, to enable CUSCAL to settle the funds transferred by way of direct debit with other financial institutions. The guarantee is cancellable by either the credit union or CUSCAL. The credit union has arrangements with the member to maintain sufficient funds in their account to settle the payments as and when required.

The credit union has issued guarantees on behalf of members for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total \$398,499. The guarantee is payable only on the member defaulting on the contractual repayments to the lessor / supplier. The guarantees are fully secured against registered first mortgages.

29. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Remuneration of key management persons [KMP]

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

Key management persons (KMP) have been taken to comprise the directors and the 1 member of the executive management responsible for the day to day financial and operational management of the credit union.

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

	2011 Directors & KMP \$	2011 Total \$	2010 Directors & KMP \$	2010 Total \$
(a) Short-term employee benefits	184,199	184,199	168,017	168,017
(b) Post-employment benefits - superannuation contributions	-	-	-	-
(c) Other long-term benefits - net increases in long service leave provision	-	-	-	-
(d) Termination benefits	-	-	-	-
(e) Share-based payment	-	-	-	-
Total	184,199	184,199	168,017	168,017

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, 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.

29. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL (Continued)

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 with the exception of loans to KMP who are not directors.

There are no loans which are impaired in relation to the loan balances with director's or other KMPs. KMP who are not directors receive a concessional rate of interest on their loans and facilities. These benefits where subject to fringe benefits tax are included in the remuneration in Note 29 above.

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

The details of transactions during the year are as follows:

	2011		2010	
	Term Loans	Revolving Credit	Term Loans	Revolving Credit
Funds available to be drawn	-	2,175	-	1,292
Balance	888,940	825	569,790	1,708
Amounts disbursed or facilities increased in the year	421,991	36,753	86,000	24,046
Interest and other revenue earned	61,353	205	58,239	117

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

	2011	2010
	\$	\$
Total value term and savings deposits	509,422	436,696
Total Interest paid on deposits	16,181	15,249

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.

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.

30. ECONOMIC DEPENDENCY

The credit union has an economic dependency on the following suppliers of services.

(a) CUSCAL Limited

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

- (i) provides the license rights to Visa Card in Australia and settlement other institutions for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;
- (ii) provides treasury and money market facilities to the credit union. The credit union invests a portion of its liquid assets with the CUSCAL to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

(b) First Data International Limited (FDI)

FDI operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM suppliers to the credit union's EDP Systems.

(c) Ultradata Australia Pty Limited

Provides and maintains the core banking software utilised by the credit union to conduct its day to day transactions.

(d) Transaction Solutions Limited (TAS)

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

31. SUPERANNUATION LIABILITIES

The credit union contributes to BlueScope Steel 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 31 March 2011 is \$211,612 (2010: \$685,201).

	Note	2011 \$	2010 \$
33. NOTES TO CASH FLOW STATEMENT			
(a) Reconciliation of cash			
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:			
– Cash on hand		73,841	96,317
– Deposits at call		5,224,829	3,980,253
Total cash		5,298,670	4,076,570
(b) Reconciliation of cash from operations to accounting profit			
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax:			
Profit after income tax		281,238	231,542
Add (Deduct):			
– Bad debts written off		1,697	-
– Depreciation		34,926	35,200
– Amortisation expense		46,190	53,243
– Reserve transfer		250	227
– Amortised transaction costs & fees on loans		14,914	10,694
– Loss / (Gain) on sale of investments		-	(26,886)
– Increase / (Decrease) in provision for shares		6,522	(9,390)
– Increase in provision for income tax		41,091	51,201
– Increase in other provisions		6,000	-
– Increase / (Decrease) in accrued expenses		24,360	(1,432)
– Increase in interest payable		177,833	677
– Decrease in deferred tax liability		-	8,066
– Loss / (Gain) on sale of assets		(15,400)	-
– (Increase) in prepayments		(99)	(509)
– (Increase) in deferred tax asset		(946)	(13,753)
– Increase in loan provision		10,000	12,000
– (Increase) in interest receivable		(21,535)	(17,981)
Net cash from revenue activities		607,041	332,899
Add (Deduct) non revenue operations			
– Reduction / (increase) in loans balances		(5,067,674)	(2,150,945)
– (Reduction) / increase in liquid investment balances		(500,000)	(13,508)
– Increase in deposit balances		4,276,906	1,256,353
Net cash from operating activities		(683,727)	(575,201)

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: 13 Auburn St Wollongong NSW 2500

The address the principal place of business is: 13 Auburn St Wollongong NSW 2500

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.