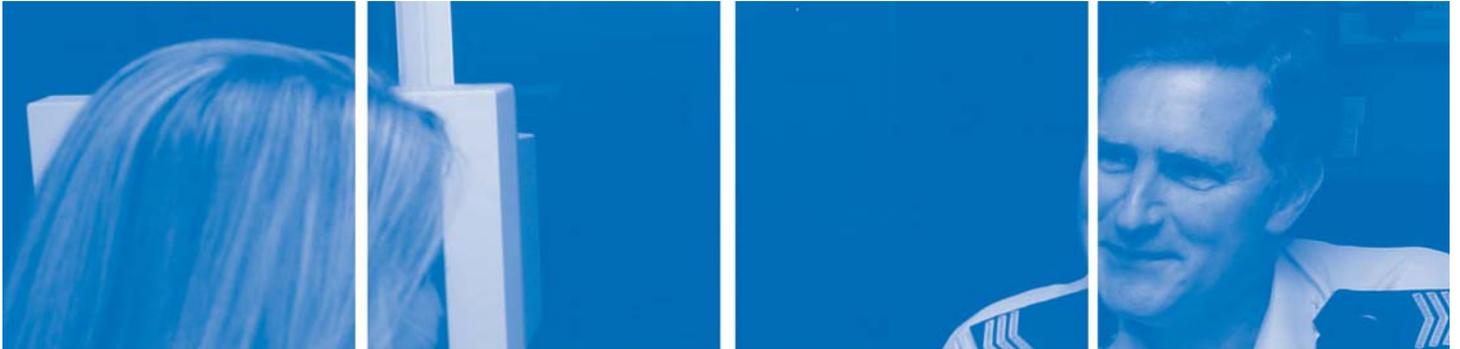


# ANNUAL REPORT 2006



**POLICE  
CREDIT  
UNION**

For You, Your Family, Your Future.



## Table of Contents

Mission Statement	2
Key Statistics of the Credit Union	2
Directors' Report	3
Directors' Declaration	9
Auditor's Report	10
Income Statement	11
Statement of Changes in Member Equity	12
Balance Sheet	13
Notes to and Forming Part of the Accounts	14
Statement of Cash Flows	34
General Information	36

## Mission Statement

The Police Credit Union is a community of Members, Directors and Staff who together form an important and integral part of the life of Police, family and associated community groups.

Directors and Staff operate in the interest of all Members according to the following key values:

- A flexible and caring response to Members' needs;
- Honouring excellence in relationships between and among Members, Directors and Staff; and
- Personal honesty and integrity.

We provide personal attention to the financial well-being of each Member through flexible products and services in a competitive environment combined with prudential financial management in pursuing appropriate levels of growth.

We work together in building the Police Credit Union to become the best in Member service, range of relevant products and services, management practices and financial strength.

## Key Statistics of the Credit Union

	2006	2005
Membership	69,450	68,776
Deposits \$000's	707,419	679,482
Loans \$000's	716,271	675,742
Total Assets \$000's	829,672	778,266
Reserves \$000's	75,924	69,559
Capital Adequacy	15.61%	14.48%

Your Directors present their report together with the financial statements of the Credit Union and the group financial statements of the economic entity being the Credit Union and its controlled entities for the year ended 30 June 2006.

## DIRECTORS' DISCLOSURES

The names of Directors in office at the date of this report, or who held office during the course of the financial year, are:

Anthony Raymond Lauer (Chairman)  
 Kenneth Edward Moroney (Deputy Chairman)  
 Paul Thomas Biscoe  
 Geoffrey Richard Green  
 Terry Francis Seery  
 Lloyd William Taylor  
 David Charles Walton

## MEETINGS ATTENDED

Name	Board		Audit Committee		Other Committees	
	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held
Lauer	12	12	-	-	-	-
Moroney*	7	12	-	-	1	2
Biscoe	12	12	1	1	9	10
Green	12	12	4	4	9	10
Seery	12	12	4	4	2	2
Taylor	12	12	4	4	3	3
Walton	12	12	2	3	2	23

\*Mr Moroney was granted three leave of absences

## DIRECTORS' BENEFITS

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a Director, a firm of which a Director is a Member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 29 of the financial report.

## INDEMNIFICATION AND INSURANCE

During the year, a premium was paid in respect of a contract insuring Directors and Officers of the Credit Union against any costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as an Officer of the Credit Union. The Officers of the Credit Union covered by the insurance contract include the Directors, Executive Officers, Secretary and Employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

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

## SHARE OPTIONS

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

## PRINCIPAL ACTIVITIES

The principal activities of the Credit Union during the year were providing retail financial services to Members in the form of taking deposits and giving financial accommodation. There were no significant changes in the principal activities during the year.

### OPERATING RESULTS

The consolidated entity's profit after providing for income tax amounted to \$8,226,733. The previous year's result was \$6,064,000. This being an improvement of \$2,162,733 or 35.7%. Please note that the result was boosted by \$1,430,212 from three transactions. These will be detailed under "Review of Operations". Assets during the year increased by \$44.9M or 5.6% from \$804.0M to \$848.9M. The year's growth had no negative impact on the capital adequacy ratio, which increased from 14.48% to 15.61%. At 15.61%, the capital adequacy ratio remains well above the statutory minimum of 8%.

These results were achieved in an environment of intense competition, which continues to squeeze the operating margin. They reflect the continuing support of the Membership for the products and services offered by the Credit Union and the ongoing attention given by both Board and Management to Member service, relevant products and the control of costs. It is envisaged that the results for the year ending 30 June, 2007 will be in line with this year's less the three transactions detailed. This reflects improved operating efficiencies which will offset the continuing squeeze on the operating margin.

### DIVIDENDS

No dividends have been paid or declared to Members in the year and no dividend is recommended to be paid.

### REVIEW OF OPERATIONS

The results of the Credit Union's operations from its activities of providing financial services to Members did not change significantly from those of the previous year.

During the year a number of significant events took place: -

- Recognition of staff. Each year a number of staff are recognised as "Star Achievers" for going beyond what is considered normal levels of service to Members (and in support of other staff in their duties). The process of becoming a Star Achiever is that all staff are invited to nominate one of their peers. A panel then considers all nominations. This year we are proud that the following staff were awarded the Star Achievers for 2006:

Cheryl Negro – Transaction Services;  
Josephine Kirsten – Parramatta Branch; and  
Christine Anthony – Parramatta Branch.

- Continued association with Police Legacy. The Credit Union during the year continued to be recognised by Legacy as a "Level 1 supporter". There are only two Level 1 supporters, the other being the Police Association of New South Wales. Police Credit Union is extremely proud to be associated with such a worthy organisation.
- The three significant non-trading transactions that were referred to under "Operating Results" were:-
  - (a) The sale of the Credit Union's interest in 309 Pitt Street, Sydney. The opportunity arose to dispose of the premises. With the bulk of Police moving to Parramatta there were no compelling reasons to retain the property. The Credit Union will be relocating its branch office from 309 Pitt Street nearer to the Sydney Police Centre in December 2006. The sale generated a profit of \$1.3M;
  - (b) The sale of shares in BayCorp Advantage Ltd, which was formerly known as the Credit Reference Association of Australia (CRAA). The Credit Union was a Member of the CRAA and upon its demutualisation, the Credit Union received 173,671 shares. These shares were sold during the year. The sale generated a profit of \$658,258; and
  - (c) The write-off of the shares in Credit Union Technology Development Ltd (CUTD). The investment in this company was held for a number of years. The Credit Union along with other industry participants had contracted with CUTD to supply a banking software application. After reviewing the Credit Union needs it was decided to retain the current application for the foreseeable future. In discussions with CUTD the Board of CUTD sponsored the cancellation of the shares. With the shares being cancelled this created a one off cost of \$571,357.
- The relocation of the Newcastle Branch from 62 Hunter Street to modern and larger premises in August 2005 to 24 Bolton Street. After 10 years the Credit Union had outgrown the former premises reflecting the growth of the business and ongoing support from Members.
- The relocation of the Wollongong Branch in December 2005 to 76 Market Street Wollongong. The Wollongong Branch was opened in 1996 and has experienced an impressive level of growth. Larger premises were required to accommodate the increased demand from Members for the Credit Union's products and services.

- The opening of a new Branch office in December 2005 at 2/100 Queen Street, Campbelltown. Having a Branch in the south west of the Sydney metropolitan area assists in servicing the Members who live and work in the Macarthur Region. To date support from the Membership has been pleasing.
- Continuation of the "family fun days". This year they were held at Wollongong and Campbelltown. In all, over 350 Members took the opportunity to enjoy these wonderful family picnic days.
- The proliferation of mortgage brokers in the market. Mortgage brokers are a significant distribution channel for the majority of lenders. Given the volume of business that mortgage brokers generate for other institutions, it remains pleasing that the Credit Union increased its loan book under management by 4.9% to \$735.1M. Your Directors continually monitor the features of the loans being offered by the Credit Union to ensure that they remain relevant to Members.
- The ongoing focus on internal improvements through re-engineering of underlying processes with the objectives being to improve Member service and internal productivity. The desired outcomes are to grow whilst limiting the need for additional capital, to keep cost increases to a minimum and being able to meet price competition without significantly impacting upon profitability. There were seven major projects finalised during the year.
- Increase in the capital adequacy ratio. As mentioned under the title of "Operating Results", capital adequacy increased from 14.48% to 15.61%. This was a result of net profit increased at a stronger rate than the risk weighted value of assets for the years.

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of the affairs of the Credit Union and its controlled entities during the year.

### EVENTS OCCURRING AFTER BALANCE DATE

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Credit Union and its controlled entities in subsequent financial years, except for the: -

- Continual price competition. Police Credit Union provides an excellent level of service, which allows it to compete on far more than price alone. Having said this, the Board and Management are mindful that competition cannot be ignored and that price certainly is a factor in Members' consideration to their ongoing relationship with the Credit Union. However, being a mutual organisation and not having to provide profits for shareholders does allow room to pass on pricing reflective in the market place. Pricing on core products is reviewed on a regular basis.
- Opening of a new Branch office at 6 - 14 Clarence Street Port Macquarie. This office is scheduled to open in early November 2006. The primary aim of this location is to service current Police Members and the significant number of retired Police living in Port Macquarie and the surrounding area. With the growing strength of the Credit Union, the Board is prepared to continue to commit to reinvesting back into the Credit Union for the benefit of Members. In addition to this office, management will be exploring the feasibility of opening an additional branch prior to Christmas 2007.
- During the last twelve months a reverse mortgage product (retirement lifestyle loan) has been developed. It is scheduled to launch the product in November 2006. The product will be marketed initially to retired Police via the Retired Police Association. This product allows Members to have access to a portion of the equity of their home for a wide range of purposes without the requirement to make regular repayments. Given the higher risks and that little or no cash flow is received by the Credit Union during the life of the loan, a cap has been placed on the amount of the portfolio. With the size of the potential market and the size of loans, it is anticipated that the Credit Union will be able to fulfil Members' needs from on-balance sheet resources. Not having to rely on third parties to provide such a product ensures the Credit Union has control over the management of the product.

### LIKELY DEVELOPMENTS AND RESULTS

The likely developments in the operations of the Credit Union and the expected results of those operations in the financial year subsequent to the year ended 30 June 2006 are as follows: -

- The Board of Directors anticipate that the profit will be in the vicinity of 0.75% - 0.85% return on average assets. This is in line with the results before the three events referred to under "Operating Results" for the year ended 30 June 2006.
- Planned capital expenditure on infrastructure amounts to \$2.7M for the year ending 30 June 2007. This covers software development, one new branch, upgrades to the branch network, expansion of the Credit Union's ATM fleet and general equipment upgrades.

No other matter, circumstances 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 and its controlled entities;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Credit Union and its controlled entities

in the financial years subsequent to this financial year.

### AUDITOR'S INDEPENDENCE

The auditor has provided the following declaration of independence to the Board as prescribed by the Corporations Act 2001.

I, Kevin J Thomas, declare that, to the best of my knowledge and belief, during the year ended 30 June 2006, there have been;

- (i) no contraventions of the auditor's independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Kevin J Thomas  
Chartered Accountant  
(Registered Company Auditor)  
25th September, 2006

INFORMATION ON DIRECTORS AND SECRETARY

<b>Mr A R Lauer</b>	Chairman.
Age	70
Qualifications	Dip. Crim (Syd)
Experience	Holder of the Australian Police Medal Commissioner of Police 1991 – 1996 Former President of Police Association of NSW Life Member of Police Association of NSW Member of the Australasian Credit Union Institute Board Member since 1997
Interest in Shares	\$10.00 in ordinary shares in the Police Credit Union.
<b>Mr K E Moroney</b>	Deputy Chairman. Disputes Resolution Committee
Age	61
Qualifications	Master of Arts (McQU) Dip. Justice Administration (CSU) Grad. Dip. Management (McQU)
Experience	Current Commissioner of NSW Police (41 years of Police Service) Former Deputy President of the Police Association of NSW Life Member of Police Association of NSW Officer in the Order of Australia Holder of Australian Police Medal for Distinguished Service Member of the Australasian Credit Union Institute Board Member since 1994
Interest in Shares	\$10.00 in ordinary shares in the Police Credit Union.
<b>Mr P T Biscoe</b>	Director. Credit Committee
Age	55
Experience	President of the Retired Police Association Police Legacy Legator Police RSL Sub-Branch Member Member of the Australasian Credit Union Institute Board Member since 2000
Interest in Shares	\$10.00 in ordinary shares in the Police Credit Union.
<b>Mr G R Green</b>	Director. Audit Committee Credit Committee
Age	60
Qualifications	L.L.B. (Hons) Barrister of the Supreme Court of NSW
Experience	Former Secretary Legal of the Police Association of NSW and former Senior Vice President Life Member of Police Association of NSW Member of Retired Police Association Member of the Australasian Credit Union Institute Board Member since 1989
Interest in Shares	\$10.00 in ordinary shares in the Police Credit Union.

INFORMATION ON DIRECTORS AND SECRETARY

<b>Mr T F Seery</b>	Director. Audit Committee
Age	61
Qualifications	J.P FACUI
Experience	FAICD - (Fellow Australian Institute of Company Directors) Former Inspector of Police Vice President of NSW/ACT Region of Australasian Credit Union Institute Chairman, Northern Associates Branch of the Police Association Councillor of Credit Union Employers Association Board Member since 1973
Interest in Shares	\$10.00 in ordinary shares in the Police Credit Union.
<b>Mr L W Taylor</b>	Director. Audit Committee Dispute Resolution Committee
Age	66
Qualifications	Mediator – ACDC FACUI
Experience	Former President of the Federation of Police Credit Unions Convenor, Juvenile Justice Deputy Chairman, 1992-1996. Chairman 1996-2001 Member of the Australasian Credit Union Institute Former Secretary Administration of the Police Association of NSW Former President of the Police Association of NSW Life Member of Police Association of NSW Life Member of Police Federation of Australia and New Zealand Board Member since 1988
Interest in Shares	\$10.00 in ordinary shares in the Police Credit Union.
<b>Mr D C Walton</b>	Director. Audit Committee
Age	41
Qualifications	Bachelor of Business Graduate Diploma in Public Administration Senior Associate, Finance Services Institute of Australasia Member of the Australasian Credit Union Institute
Experience	Inspector of Police Casual Academic Staff - Charles Sturt University (Australian Graduate School of Policing) Board Member since 2001
Interest in Shares	\$10.00 in ordinary shares in the Police Credit Union.
<b>Mr B A Williams</b>	Secretary.
Qualifications	Master of Business in Finance FCIS
Experience	34 years of experience in banking and finance.
Directorships	Credit Union Financial Support System Limited Chelsea Wealth Management Pty Limited

### ACKNOWLEDGMENTS

In concluding this Report the Board wishes to acknowledge its appreciation of Bruce A Williams, Chief Executive Officer, the Management and staff of the Credit Union, without whose expertise and commitment the achievements of the past year would not been achieved. 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:



Anthony R Lauer  
Chairman  
25th September, 2006



Kenneth E Moroney  
Deputy Chairman

### The Police Department Employees' Credit Union Limited and Controlled Entities. DIRECTORS' DECLARATION

The Directors' of The Police Department Employees' Credit Union Limited declare that:-

- 1 The financial statements and notes related thereto:-
  - a) Comply with Accounting Standards and the Corporations Act 2001; and
  - b) Give a true and fair view of the financial position of the Credit Union and the economic entity as at 30 June 2006 and the performance for the year ended on that date.
- 2 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.



Anthony R Lauer  
Chairman  
25th September, 2006



Kenneth E Moroney  
Deputy Chairman

To the Members of The Police Department Employees' Credit Union Limited.

### Scope

I have audited the financial report being the Director's Report, Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and Notes to and forming part of the Accounts, of The Police Department Employee's' Credit Union Limited and its subsidiaries (the consolidated entity) for the year ended June 30 2006. The consolidated entity comprises both the company and the entities it controlled during the financial year. The Credit Union's Directors are responsible for the preparation and presentation of the financial report and the information it contains. I have conducted an independent audit of this financial report in order to express an opinion on it to the Members of the Credit Union.

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in this financial report and the evaluation of accounting policies and the significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with my understanding of the Credit Union's and consolidated entity's financial position and performance as represented by the result of its operation and its cash flows.

I formed my audit opinion on the basis of these procedures, which included:

- a) Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- b) Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

### Independence

In conducting my audit, I followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to my statutory audit work, I was engaged to undertake the services disclosed in the notes to the financial statements. The provision of the services has not impaired my independence.

### Audit Opinion

In my opinion, the financial report of The Police Department Employees' Credit Union Limited is in accordance with:-

- a) The Corporations Act 2001 including:
  - (i) giving a true and fair view of the Credit Union's and consolidated entity's Financial position as at 30th June 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations; and
- b) Other mandatory professional reporting requirements in Australia.



Kevin J Thomas  
Chartered Accountant  
(Registered Company Auditor)  
1st October, 2006

## FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Credit Union	
		2006	2005	2006	2005
		\$	\$	\$	\$
Interest Revenue	2a	58,332,167	53,250,636	56,761,230	52,091,758
Borrowing Costs	2b	31,838,537	28,340,245	30,476,224	27,339,134
Net Interest Revenue		26,493,630	24,910,391	26,285,006	24,752,624
Other revenue from ordinary activities	3	9,731,246	5,768,120	9,539,487	5,714,434
Bad and Doubtful Debt Expense	4a	516,915	177,506	516,915	177,506
Fee and commission		5,672,473	4,701,085	5,639,467	4,692,923
General Administration					
- Personnel expenses		8,688,610	8,469,582	8,521,580	8,427,256
- Depreciation and amortisation		1,956,508	1,404,457	1,953,268	1,402,826
- Lease expenses		576,654	1,077,848	540,810	1,073,089
- Other administration expenses		3,729,429	2,354,976	3,685,787	2,351,572
Other operating expenses		3,935,317	3,943,492	3,710,241	3,781,652
Operating Profit before Income Tax		11,148,970	8,549,565	11,256,425	8,560,234
Income Tax Expense	5	2,922,237	2,485,565	2,922,237	2,485,565
<b>Operating Profit after Income Tax</b>		<b>8,226,733</b>	<b>6,064,000</b>	<b>8,334,188</b>	<b>6,074,669</b>
Minority Equity Interest adjustment		13,432	1,334	-	-
Profit attribute to Members of the parent entity		8,240,165	6,065,334	8,334,188	6,074,669

The accompanying notes form part of these accounts and are to be read in conjunction therewith.

## Statement of Changes in Member Equity

Credit Union	Capital Account	Retained Profits	Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Other Reserves	Total
	\$	\$	\$			\$	\$
Balance 1 July 2004	168,750	33,029,884	2,630,965	1,857,812	-	27,197,000	64,884,411
Operating Profit for the year	-	6,074,669	-	-	-	-	6,074,669
Transfers to and from Reserves							
- General Reserves	-	(1,200,000)	-	-	-	1,200,000	-
- Capital Account	42,890	(42,890)	-	-	-	-	-
- Reserve for Credit Losses	-	-	(475,702)	-	-	-	(475,702)
Net effect of adoption of new standard	-	(1,348,986)	-	-	-	-	(1,348,986)
Revaluation Increment	-	-	-	424,823	-	-	424,823
<b>Balance 30 June 2005</b>	<b>211,640</b>	<b>36,512,677</b>	<b>2,155,263</b>	<b>2,282,635</b>	<b>-</b>	<b>28,397,000</b>	<b>69,559,215</b>
Operating Profit for the year	-	8,334,188	-	-	-	-	8,334,188
Transfers to and from Reserves							
- General Reserves	-	(1,200,000)	-	-	-	1,200,000	-
- Capital Account	27,540	(27,540)	-	-	-	-	-
- Reserve for Credit Losses	-	-	312,779	-	-	-	312,779
- Capital Profits Reserve	-	(1,430,212)	-	-	-	-	(1,430,212)
Capital Profit on sale transferred from retained earnings	-	-	-	-	1,430,212	-	1,430,212
Asset realisation on sale of freehold Property	-	-	-	(2,282,635)	-	-	(2,282,635)
<b>Balance 30 June 2006</b>	<b>239,180</b>	<b>42,189,113</b>	<b>2,468,042</b>	<b>-</b>	<b>1,430,212</b>	<b>29,597,000</b>	<b>75,923,547</b>

Consolidated	Capital Account	Retained Profits	Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Other Reserves	Total
	\$	\$	\$			\$	\$
Balance 1 July 2004	168,750	33,029,884	2,630,965	1,857,812	-	27,197,000	64,884,411
Operating Profit for the year	-	6,064,000	-	-	-	-	6,064,000
Profit attributable to minority shareholders	-	1,334	-	-	-	(1,334)	-
Transfers to and from reserves							
- General Reserves	-	(1,200,000)	-	-	-	1,200,000	-
- Capital Account	42,890	(42,890)	-	-	-	-	-
- Reserve for Credit Losses	-	-	(475,702)	-	-	-	(475,702)
Affinity Wealth Management Shares	-	-	-	-	-	1	1
Equity interest in Chelsea Warehouse Trust	-	-	-	-	-	200	200
Net effect of adoption of new standard	-	(1,348,986)	-	-	-	-	(1,348,986)
Revaluation Increment	-	-	-	424,823	-	-	424,823
<b>Balance 30 June 2005</b>	<b>211,640</b>	<b>36,503,342</b>	<b>2,155,263</b>	<b>2,282,635</b>	<b>-</b>	<b>28,395,867</b>	<b>69,548,747</b>
Operating Profit for the year	-	8,226,733	-	-	-	-	8,226,733
Profit attributable to minority shareholders	-	13,432	-	-	-	(13,432)	-
Transfers to and from Reserves							
- General Reserves	-	(1,200,000)	-	-	-	1,200,000	-
- Capital Account	27,540	(27,540)	-	-	-	-	-
- Reserve for Credit Losses	-	-	312,779	-	-	-	312,779
- Capital Profits Reserve	-	(1,430,212)	-	-	-	-	(1,430,212)
Capital Profit on sale transferred from retained earnings	-	-	-	-	1,430,212	-	1,430,212
Asset realisation on sale of freehold Property	-	-	-	(2,282,635)	-	-	(2,282,635)
<b>Balance 30 June 2006</b>	<b>239,180</b>	<b>42,085,755</b>	<b>2,468,042</b>	<b>-</b>	<b>1,430,212</b>	<b>29,582,435</b>	<b>75,805,624</b>

The above statement reports the changes in equity under AIFRS only. For details of the variances from previous year's reported results and account balances due to AIFRS changes - refer to page 18.

**AS AT 30 JUNE 2006**

	Note	Consolidated		Credit Union	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>ASSETS</b>					
Cash and Liquid Assets	6	21,970,880	16,011,159	21,577,440	15,541,079
Receivables due from other Financial Institutions	7	67,500,000	67,500,000	67,500,000	67,500,000
Accrued Receivables	8	1,543,010	1,425,215	1,520,505	1,391,759
Investment Securities	9	13,000,000	5,000,000	13,000,000	5,000,000
Loans and Advances	10 & 11	734,057,714	699,628,911	715,269,205	674,452,517
Other Investments	12	2,796,211	4,348,440	2,796,218	4,348,447
Property Plant and Equipment	13	4,985,512	6,087,867	4,980,112	6,079,227
Intangible Assets	14	2,494,846	3,428,207	2,494,846	3,428,207
Taxation Assets	15	533,421	524,700	533,421	524,700
<b>TOTAL ASSETS</b>		<b>848,881,594</b>	<b>803,954,499</b>	<b>829,671,747</b>	<b>778,265,936</b>
<b>LIABILITIES</b>					
Payables to other Financial Institutions	16	35,000,000	19,779,116	35,000,000	19,779,116
Deposits and Borrowings	17	707,418,942	679,481,645	707,418,942	679,481,645
Creditors and other Liabilities	18	8,555,784	7,037,081	8,266,756	6,862,397
Provisions	19	20,104,224	26,545,504	1,070,258	1,022,647
Taxation Liabilities	20	1,997,020	1,562,406	1,992,244	1,560,916
<b>TOTAL LIABILITIES</b>		<b>773,075,970</b>	<b>734,405,752</b>	<b>753,748,200</b>	<b>708,706,721</b>
<b>NET ASSETS</b>		<b>75,805,624</b>	<b>69,548,747</b>	<b>75,923,547</b>	<b>69,559,215</b>
<b>MEMBER FUNDS</b>					
Capital Account	21	239,180	211,640	239,180	211,640
Reserves		33,495,455	32,835,099	33,495,254	32,834,898
Retained Profits		42,085,755	36,503,342	42,189,113	36,512,677
Minority Equity Interest		(14,766)	(1,334)	-	-
<b>TOTAL MEMBER FUNDS</b>		<b>75,805,624</b>	<b>69,548,747</b>	<b>75,923,547</b>	<b>69,559,215</b>

The accompanying notes form part of these accounts and are to be read in conjunction therewith.

## 1 Statement of Accounting Policies

The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. The Police Department Employees' Credit Union Limited is a financial institution domiciled in Australia.

### 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. The effects of changes in accounting policies arising from the adoption of Australian equivalents to International Financial Reporting Standards are shown on page 18.

### b. Loans to Members

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

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against debts considered doubtful.

#### (i) Interest on Loans - Method of Calculation

Interest charged by the Credit Union on Members' loans funded before the introduction of the Consumer Credit Code on 1st November, 1996, other than Overdrafts, is calculated on the basis of charging interest in the initial month from the date the loan is advanced, and thereafter on the first day of the month on the opening balance. On completion of a loan, a full month's interest is charged on the opening balance for the month in which the loan is finalised. For loans funded after 1st November 1996, the interest is calculated on the basis of the daily balance outstanding and is charged in arrears on the last day of each month.

#### (ii) Non Accrual Loan Interest

While still legally recoverable, interest is not brought to account as income when the Credit Union is informed that the Member has deceased, or on impaired loans where recovery of the debt is considered unlikely as determined by the Board of Directors. APRA has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan, or 15 days for an overlimit overdraft facility.

#### (iii) Loan Fees

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

#### (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.

### c. Principles of Consolidation

The consolidated entity's financial statements comprise consolidated accounts of the Credit Union and its controlled entities. The effects of intercompany balances, transactions and unrealised profits arising between the controlled entities and the Credit Union are eliminated on consolidation.

### d. Property, Plant and Equipment

Property, Plant and Equipment are stated at the lower of cost less depreciation, or recoverable amount. Fixed Assets are depreciated using the straight line method. The following rates are used:-

Building	2.5%	Office Equipment	20.0%
EDP Equipment	37.5%	Motor Vehicles	25.0%
EDP Software	37.5%	Office Furniture and Fittings	20.0%
Leasehold Improvements	25.0%	Core Banking System	14.29%

Assets less than \$1000 are not capitalised.

**e. Deposits with other Financial Institutions**

Term Deposits are unsecured and have a carrying amount equal to their principal amount. Interest is calculated on the daily balance and paid at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis over the expired period of the term of the investment. Interest receivable, but not yet paid, is included in the amount of receivables in the Balance Sheet.

**f. Investments and Securities**

Investments and Securities to be held to maturity are recorded at the lower of cost or recoverable amount. All investments are in Australian currency.

**g. Member Savings****(i) Basis for Determination**

Member Savings and Term Deposits are quoted at the aggregate amount of monies owing to depositors.

**(ii) Interest Payable**

Interest is calculated on savings accounts on a daily basis and credited to most account types every six months at the end of June and December. For Term Deposits, interest is calculated on a daily basis at the agreed rate for the appropriate term and is paid as per the conditions of the term account.

**h. Provision for Employee Entitlements**

Provision for long service leave is on a pro-rata basis for employees with five or more years of service. The provision attributable to employees with more than ten years service have been measured at their nominal amount. The provision attributable to employees with less than ten years service is shown at the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees. Leave is on a pro-rata entitlement for part year service, including leave entitlement due but not taken at balance date.

Contributions are made by the Credit Union to an employees' superannuation fund and is charged as expense when incurred. The Credit Union has no legal obligation to cover any shortfall in the fund's obligation to provide benefits to employees' retirement.

**i. Loan Impairment****(i) Specific Provision**

Losses for impairment loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The amount provided for doubtful debts is determined by Management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions in the calculation are set out in Note 11.

The APRA Prudential Standards requires a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears.

**(ii) Reserve for Credit Losses (formerly held as a General Provision)**

In addition to the above specific provision, the Board has recognised the need to make an allocation from Retained Earnings to ensure there is adequate protection for Members against the prospect that some Members will experience loan repayment difficulties.

The level of reserve is determined having regard to asset growth, economic conditions and other general risk factors. For tax purposes, the reserve is tax effected.

As a result of changes to Accounting Standards prescribed by AIFRS, the General Provision is no longer eligible for recognition as a provision to be offset against the gross balance of loans. The provision for general credit risk in the loan portfolio is now recognised as the Reserve for Credit Losses.

**j. Bad Debts Written Off**

Bad debts are written off from time to time as determined by Management and the Board when it is reasonable to expect that the recovery of the debt is unlikely. Loans written off are brought to account as an expense in the Income Statement. Bad debts are written off against the provision for doubtful debts if a provision for impairment had previously been recognised.

**k. Income Tax**

The Credit Union adopts the liability method of tax effect accounting whereby the income tax expense shown in the Income Statement is based on the operating profit before income tax adjusted for any permanent differences between accounting profit and taxable income.

Timing differences (which arise due to the different periods in which items of revenue and expense are recognised for tax purposes) are brought to account as either Provision for Deferred Income Tax or an asset described as Future Income Tax Benefit, at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. Timing differences are presently assessed at 30% (2005 30%). Future Income Tax Benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. The amount of these benefits is based on the assumption that:

- (i) No adverse change will occur in income tax legislation; and
- (ii) The anticipation that the Credit Union will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

**l. Derivative Financial Instruments**

Under the Prudential Standards, derivative instruments may only be used for hedging purposes. Whenever possible, the Credit Union hedges its risks against interest rate fluctuations by managing its on-balance sheet assets and liabilities.

The Credit Union has no fixed interest rate swaps at the date of 30 June 2006.

**m. Goods and Services Tax**

As a Financial Institution the Credit Union is Input Taxed on all income except other income from commissions and some fees. An Input Taxed supply is not subject to GST collection, and the GST on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to Reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

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

Receivables and payables are stated with the amount of GST included where applicable GST is collected.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Balance Sheet.

Cashflows are included in the statement of cashflows 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. Leasehold on premises**

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

A provision is recognised for the estimated make good costs on the operating leases, based on the Net Present Value of the future expenditure at the conclusion of the lease term discounted at 5%. Increases in the provision in future years shall be recognised as part of the interest expense.

**o. Intangible Assets**

Capitalised software costs that are not an integral part of the associated hardware are classified as intangibles, and are amortised over the useful life of the asset and assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation of the intangible asset is recognised as an expense in the Income Statement.

**p. Risk Management Objectives and Policies**

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

**(i) Market Risk and Hedging Policy**

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

The Credit Union is exposed to interest rate risk arising from changes in market interest rates.

The policy of the Credit Union is to monitor on a monthly basis the net interest rate gaps changes between assets and liabilities and ensure that any movements will not have an unacceptable adverse outcome to the Credit Union.

Details of the interest rate risk profile are set out in Note 23.

Based on the Value at Risk (VAR) calculations as at 31 March 2006, the VAR was 0.96%.

**(ii) Credit Risk – Loans**

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

The Credit Union has a concentration in the retail lending for Members who form part of the life of Police, family and associated community groups. This concentration is considered acceptable on the basis that the Credit Union was formed to service these Members. Should Members leave the industry the loans continue and other employment opportunities are available to the Members to facilitate the repayment of the loans.

**(iii) Credit Risk – Liquid Investments**

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

The Credit Union policy limits minimum and maximum exposures to specified authorised institutions.

The Credit Union maintains approximately 90% of the investments in Credit Union Services Corporation (Aust) Ltd (CUSCAL), a company set up to support the Member credit unions.

**(iv) Credit Risk – Equity Investments**

All investments in equity instruments are solely for the benefit of service to the Credit Union. The Credit Union invests in entities set up for the provision of services such as treasury, IT solutions etc. Further details of the investments are set out in Note 12.

The shares in Baycorp Limited were the exception whereby the shares were received on the demutualisation of the company. These shares were sold on 28 July 2005.

**(v) Liquidity Risk**

The Credit Union has set out in Note 22 the maturity profile of the financial assets and financial liabilities, based on contractual repayment terms.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA prudential standards. The Credit Union policy is to apply a guideline minimum of 11% of funds as liquid assets with the ratio being checked daily. Should the liquidity ratio fall below this level the management and board are to address the matter and ensure that the liquid funds are obtained from borrowing facilities, raising new deposits and/or sale of mortgages to a securitisation trust. Note 27 describes the borrowing facilities as at balance date.

FOR YEAR ENDED 30 JUNE 2005	Note	Balance reported in previous year 2005 \$	Current year's reported comparative 2005 \$	Changes \$
<b>ASSETS</b>				
Cash and Liquid Assets		15,541,079	16,011,159	470,080
Receivables due from other Financial Institutions		67,500,000	67,500,000	-
Accrued Receivables		1,235,893	1,425,215	189,322
Investment Securities		5,000,000	5,000,000	-
Loans and Advances	1,2,5	672,993,433	699,628,911	26,635,478
Other Investments		4,348,447	4,348,440	(7)
Property, Plant and Equipment	3	9,507,434	6,087,867	(3,419,567)
Intangible Assets	3		3,428,207	3,428,207
Deferred Tax Assets	4	531,958	524,700	(7,258)
<b>TOTAL ASSETS</b>		<b>776,658,244</b>	<b>803,954,499</b>	<b>27,296,255</b>
<b>LIABILITIES</b>				
Payables to other Financial Institutions		19,779,116	19,779,116	-
Deposits and Borrowings		679,481,645	679,481,645	-
Creditors and other Liabilities		6,862,397	7,037,081	174,684
Provisions	5	1,022,647	26,545,504	25,522,857
Taxation Liabilities	6 & 7	759,501	1,562,406	802,905
<b>TOTAL LIABILITIES</b>		<b>707,905,306</b>	<b>734,405,752</b>	<b>26,500,446</b>
<b>NET ASSETS</b>		<b>68,752,938</b>	<b>69,548,747</b>	<b>795,809</b>
<b>MEMBER FUNDS</b>				
Capital Account		211,640	211,640	-
Reserves	2	30,679,635	32,835,099	2,155,464
Retained Profits		37,861,663	36,503,342	(1,358,321)
Minority Equity Interest		-	(1,334)	(1,334)
<b>TOTAL MEMBER FUNDS</b>		<b>68,752,938</b>	<b>69,548,747</b>	<b>795,809</b>

## AS AT 30 JUNE 2005

	Note	Retained Profits 2005 \$	Reserves 2005 \$
<b>INITIAL BALANCE</b>		37,861,663	30,679,635
Loan fee deferred	1	(696,179)	-
Loan costs deferred	1	155,866	-
Loan - General Provision	2	-	2,155,263
Deferred Tax Asset on General Provision	4	(646,579)	-
Deferred Tax Asset on Costs	6	46,760	-
Deferred Tax Liability on Loan Fees	6	(208,854)	-
Chelsea Warehouse Trust	5	-	200
Chelsea Wealth Management	7	(9,335)	1
<b>REVISED BALANCE</b>		<b>36,503,342</b>	<b>32,835,099</b>

Note	Explanation
1	The deferral of the fees and transaction costs under the effective interest rate method has resulted in a deferral of the income to subsequent years.
2	General provision is reallocated to the Reserve for Credit Losses in accordance with AASB 139 and AASB 13.
3	Software installation costs have been transferred from Property, Plant and Equipment to Intangible Assets.
4	The Deferred Tax Assets on the General Provision has been written back following the reduction in the provision for doubtful debts.
5	Loans securitised into the Chelsea Warehouse Trust are recognised On-Balance Sheet.
6	A Future Income Tax Benefit and Deferred Tax Liability has been provided on the deferral of fees and transaction costs under the effective interest rate method.
7	Consolidation of financial planning practice.

## 2 Income Statement

### a) Analysis of Interest Revenue

Category of interest bearing assets	Interest Revenue		Average Balance		Average Interest Rate	
	2006	2005	2006	2005	2006	2005
Cash - deposits at call	540,432	581,448	18,881,760	16,985,040	2.86%	3.42%
Deposits with other Fin. Institutions	4,528,883	4,001,397	74,597,796	70,597,796	6.07%	5.67%
Securities - trading	-	-	-	-	-	-
Securities - investment	-	-	-	-	-	-
Loans and advances	53,262,852	48,667,791	717,989,165	672,399,486	7.42%	7.24%
Other	-	-	-	-	-	-
<b>Total</b>	<b>58,332,167</b>	<b>53,250,636</b>	<b>811,468,721</b>	<b>759,982,322</b>	<b>7.19%</b>	<b>7.01%</b>

### b) Analysis of Interest Expense

Category of interest bearing liabilities	Interest Expense		Average Balance		Average Interest Rate	
	2006	2005	2006	2005	2006	2005
Deposits held from other Fin. Institutions	-	-	-	-	-	-
Member Deposits	29,374,736	25,812,985	692,971,434	667,903,156	4.24%	3.86%
Overdraft	116,839	192,196	-	-	-	-
Long Term Borrowings	984,650	1,333,953	27,000,000	19,000,000	3.65%	7.02%
Other	1,362,312	1,001,111	23,408,727	21,080,399	5.82%	4.75%
<b>Total</b>	<b>31,838,537</b>	<b>28,340,245</b>	<b>743,380,161</b>	<b>707,983,555</b>	<b>4.28%</b>	<b>4.00%</b>

### 3 Profit from Ordinary Activities - Revenue

#### Revenue from Ordinary Activities

	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
Dividend Revenue	297,661	228,653	297,661	228,653
Fee and Commission Revenue				
- Loan Fee Income	1,895,076	1,786,231	1,895,076	1,786,231
- Other Fee Income	3,381,779	2,007,957	3,381,779	2,007,957
- Insurance Commissions	1,204,103	1,118,332	1,204,103	1,118,332
- Other Commissions	805,497	573,805	613,738	520,119
Bad Debts Recovered	92,146	39,678	92,146	39,678
- Gain on Disposal of Property	1,343,311	-	1,343,311	-
- Gain on Disposal of Baycorp Advantage Shares	658,258	-	658,258	-
Other Revenue				
- Income from Property	-	4,350	-	4,350
- Other	53,415	9,114	53,415	9,114
<b>Total Revenue from Ordinary Activities</b>	<b>9,731,246</b>	<b>5,768,120</b>	<b>9,539,487</b>	<b>5,714,434</b>

### 4 Profit from Ordinary Activities - Expenses

#### a. Bad and Doubtful Debts Expense

Increase in provision	-	-	-	-
Bad Debts written off directly against profit	516,915	177,506	516,915	177,506
<b>Total Bad and Doubtful Debts Expense</b>	<b>516,915</b>	<b>177,506</b>	<b>516,915</b>	<b>177,506</b>

#### b. Other Prescribed Expense Disclosures

Auditor's Remuneration				
- Audit Fees	109,450	84,828	109,450	84,828
- Other Services	15,688	18,700	15,688	18,700
	<b>125,138</b>	<b>103,528</b>	<b>125,138</b>	<b>103,528</b>
Loss on disposal of assets				
- Property, plant and equipment	21,123	1,294	21,123	1,294
Net movement in provision for depreciation				
- Buildings	34,798	(60,603)	34,798	(60,603)
- Plant and equipment	99,223	740,722	99,223	740,722
- Leasehold improvements	168,531	1,631	168,531	1,631
Net movement in provision for				
- Employee Entitlements	3,305	7,025	3,305	7,025
- Supervision Levy	41,002	87,657	41,002	87,657
Loss on Cancellation of CUTD Shares	571,357	-	571,357	-

## 5 Income Tax

a. The prima facie tax payable on operating profit is reconciled to the income tax expense in the accounts as follows:

	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
Prima facie tax payable on operating profit before income at 30% (2004 30%)	3,376,928	2,568,070	3,376,928	2,568,070
Add tax effect of expenses not deductible:				
- Buildings Depreciation	13,914	24,900	13,914	24,900
- Other Depreciation	—	—	—	—
- Entertainment	4,249	5,510	4,249	5,510
- Imputation Credits CUSCAL Dividends	38,270	—	38,270	—
- CUTD writedown	—	33,000	—	33,000
- Capital losses realised	(8,070)	—	(8,070)	—
- Provision adjustment of Income Tax for previous year	27,508	(23,097)	27,508	(23,097)
- Sale of Pitt Street Property	(402,993)	—	(402,993)	—
- Over provision of Future Income Tax Benefit for previous year	—	(31,126)	—	(31,126)
Rebate on fully franked dividends	(127,569)	(91,692)	(127,569)	(91,692)
	<b>2,922,237</b>	<b>2,485,565</b>	<b>2,922,237</b>	<b>2,485,565</b>

b. Income tax expense comprises amounts set aside as:

Provision for income tax attributable to current year taxable income	3,020,962	2,072,756	3,020,962	2,072,756
Movement in future income tax benefit	(82,443)	448,335	(82,443)	448,335
Movement in deferred tax liability account	—	(12,429)	—	(12,429)
Over provision of income tax for previous year	(16,282)	(23,097)	(16,282)	(23,097)
	<b>2,922,237</b>	<b>2,485,565</b>	<b>2,922,237</b>	<b>2,485,565</b>

### c. Franking Credits

The amount of franking credits held by the Credit Union after adjustment for credits arising on tax payable in the current year's profits.

	13,754,638	11,183,951	13,754,638	11,183,951
--	------------	------------	------------	------------

## 6 Cash and Liquid Assets

Cash on hand	1,804,906	2,011,159	1,411,466	1,541,079
Deposits at call	17,400,000	14,000,000	17,400,000	14,000,000
Cash at Bank	2,765,974	—	2,765,974	—
	<b>21,970,880</b>	<b>16,011,159</b>	<b>21,577,440</b>	<b>15,541,079</b>

## 7 Receivables Due From Other Financial Institutions

Deposits - Term	67,500,000	67,500,000	67,500,000	67,500,000
-----------------	------------	------------	------------	------------

## 8 Accrued Receivables

Interest Receivable on deposits with other Financial Institutions	630,860	532,182	630,860	532,182
Prepayments	346,116	400,390	346,116	400,390
Sundry Debtors	437,455	336,777	414,950	303,321
Amortised Loan Transaction Costs	128,579	155,866	128,579	155,866
	<b>1,543,010</b>	<b>1,425,215</b>	<b>1,520,505</b>	<b>1,391,759</b>

## 9 Investment Securities

Bank Bills and Certificates of Deposits	13,000,000	5,000,000	13,000,000	5,000,000
-----------------------------------------	------------	-----------	------------	-----------

**10 Loans and Advances****a. Amount Due comprises**

	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
Overdrafts and Revolving Credit Loans	53,926,889	53,541,262	53,926,889	53,541,262
Term Loans	681,132,565	647,377,614	662,344,056	622,201,220
	<b>735,059,454</b>	<b>700,918,876</b>	<b>716,270,945</b>	<b>675,742,482</b>
Less: Provision for Impaired Loans	297,036	593,786	297,036	593,786
Less: Unamortised Loan Origination Fees	704,704	696,179	704,704	696,179
Net Loans and Advances	<b>734,057,714</b>	<b>699,628,911</b>	<b>715,269,205</b>	<b>674,452,517</b>
<b>b. Security Dissection</b>				
Secured by Mortgage	582,468,730	555,990,934	563,680,221	530,814,540
Secured Other	79,113,727	75,562,489	79,113,727	75,562,489
Unsecured	73,476,997	69,365,453	73,476,997	69,365,453
	<b>735,059,454</b>	<b>700,918,876</b>	<b>716,270,945</b>	<b>675,742,482</b>

**c. Concentration of Loans**

(i) Individual loans which exceed 10% of Member Funds in aggregate amount to \$0.00 (2005 \$0.00)

(ii) Loans to Members are concentrated solely in Australia

(iii) Loan purpose dissection:

- Residential	530,128,548	493,374,056	511,340,039	468,197,662
- Personal	119,153,646	117,385,127	119,153,646	117,385,127
- Commercial	69,590,428	74,712,603	69,590,428	74,712,603
- Lease	16,186,832	15,447,090	16,186,832	15,447,090
	<b>735,059,454</b>	<b>700,918,876</b>	<b>716,270,945</b>	<b>675,742,482</b>

**11 Provision on Impaired Loans****a. Total Provision Comprises**

Specific Provision	297,036	593,786	297,036	593,786
General Provision	Nil	Nil	Nil	Nil
	<b>297,036</b>	<b>593,786</b>	<b>297,036</b>	<b>593,786</b>

**b. Movement in Specific Provision**

Balance at the beginning of the year	593,786	648,713	593,786	648,713
Add: Transfers from Income Statement	-	-	-	-
Deduct: Bad debts written off against provision	-	-	-	-
Deduct: Transfers to Income Statement	(296,750)	(54,927)	(296,750)	(54,927)
Balance at end of year	<b>297,036</b>	<b>593,786</b>	<b>297,036</b>	<b>593,786</b>

**c. The specific loans provision consists of:**

(i) Provision required under the APRA Prudential Standards	297,036	593,786	297,036	593,786
(ii) Additional specific provision	-	-	-	-
	<b>297,036</b>	<b>593,786</b>	<b>297,036</b>	<b>593,786</b>

**d. Impaired Loans Written Off**

Amounts written off against the provision for impaired loans	64,538	485,629	64,538	485,629
Amounts written off directly to expense	516,915	177,506	516,915	177,506
Total Bad debts	581,453	663,135	581,453	663,135
Bad debts recovered in the period	92,352	39,628	92,352	39,678

e. Impaired Loan Disclosures	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Impaired Loans as at Balance Date</b>				
Balance of the impaired loans	321,747	830,820	321,747	830,920
Estimated value of loans which is secured	29,748	124,831	29,748	124,831
<b>Renegotiated Loans not impaired</b>				
Balance of the renegotiated loans	–	–	–	–
Estimated value of loans which is secured	–	–	–	–
<b>Loans upon which interest is not being Accrued</b>				
Loans with provision for impairment	24,306	8,833	24,306	8,833
Less: Specific provision	13,996	8,833	13,996	8,833
Loans with no provision for impairment	–	28,323	–	28,323
<b>Total Non Accrual Loans</b>	<b>10,310</b>	<b>28,323</b>	<b>10,310</b>	<b>28,323</b>
Reconstructed Loans with no provision for impairment	447,989	13,075	447,989	13,075
Loans with repayments Past Due but not impaired (due to security held)	1,147,623	414,034	1,147,623	414,034
<b>Assets Acquired via enforcement of security (excluding loans reported)</b>				
- Real estate	440,190	–	201,686	–
- Other	–	–	–	–
	<b>440,190</b>		<b>201,686</b>	
<b>Revenue on Impaired Loans (Non Accrual &amp; Restructured)</b>				
Interest and other revenue recognised as revenue earned during the year	49,639	129,214	49,639	129,214
Interest and other revenue accrued but not recognised as revenue (i.e. forgone) in the year	47,354	34,524	47,354	34,524

**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 the 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.

## 12 Other Investments

	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
Shares and deposits with CUSCAL:				
- Member Shares	10	10	10	10
- Commercial Shares (i)	2,387,525	2,976,610	2,387,525	2,976,610
BayCorp Advantage Ltd (ii)	–	526,223	–	526,223
Credit Union Technology Development (iii)	–	631,357	–	631,357
Chelsea Wealth Management Pty Ltd (iv)	408,676	214,240	408,683	214,247
	<b>2,796,211</b>	<b>4,348,440</b>	<b>2,796,218</b>	<b>4,348,447</b>

(i) CUSCAL provides numerous services to the Credit Union. These are referred to in Note 27, 28 and 30.

(ii) Upon the demutualisation of Credit Reference Association of Australia (CRAA) on 28 September 1998, this Credit Union being a Member of CRAA, was issued with 173,671 shares of \$1 each in the newly created company, BayCorp Advantage Ltd. The shares were issued on the basis of usage of CRAA services. The shares were subsequently listed on the ASX and at 30 June 2005 were valued at \$3.03 per share. The shares were sold on 28 July 2005 valued at \$3.80 per share.

(iii) Shares in Credit Union Technology Development Ltd (CUTD). The Credit Union has purchased shares in this company which contracted to provide new information technology facilities in accordance with the Credit Union movement's long term strategy. These shares were cancelled in the year. The value received from the cancellation was \$0.

Credit Union Technology Development	–	1,421,357	–	1,421,357
Provision for Share Write Down	–	(790,000)	–	(790,000)
	–	<b>631,357</b>	–	<b>631,357</b>

(iv) On 1 April 2005 the Credit Union purchased an interest in Chelsea Wealth Management Pty Ltd financial planning practice. The Credit Union was issued with 7 shares of \$1 each.

Chelsea Wealth Management Shares	–	–	7	7
Chelsea Wealth Management Investment	432,080	216,040	432,080	216,040
Less: Provision for impairment	(23,404)	(1,800)	(23,404)	(1,800)
	<b>408,676</b>	<b>214,240</b>	<b>408,683</b>	<b>214,247</b>

## 13 Property, Plant and Equipment

a. Properties at Independent Valuation	1,456,363	3,653,161	1,456,363	3,653,161
Less: Accumulated Depreciation	10,443	45,242	10,443	45,242
Leasehold Improvements at Cost	2,811,601	1,933,037	2,811,601	1,933,037
Less: Accumulated Depreciation	2,005,321	1,836,790	2,005,321	1,836,790
Plant, Equipment & Furniture at Cost	4,059,436	3,917,237	4,059,436	3,917,237
Less: Accumulated Depreciation	2,177,196	2,237,471	2,177,196	2,237,471
Computer Equipment at Cost	4,090,933	4,857,622	4,082,293	4,848,982
Less: Accumulated Depreciation	3,563,851	4,424,334	3,560,611	4,424,334
Motor Vehicles at Cost	430,955	413,090	430,955	413,090
Less: Accumulated Depreciation	106,965	142,443	106,965	142,443
Total Written Down Value	<b>4,985,512</b>	<b>6,087,867</b>	<b>4,980,112</b>	<b>6,079,227</b>

**b. Land and Buildings - Valuation**

Land and buildings at 309 Pitt Street were valued at a market value of \$3,653,161 as at 31st December 2004 based upon an independent valuation. This property was sold on 20th December 2005 for \$3,300,000. The Credit Union retains a property at Goulburn with the land valued by the NSW Valuer General as at 1st July 2005 at \$255,000.

	2006		2005	
	Property	Plant & Equipment	Property	Plant & Equipment
Opening Balance 1 July	3,607,920	2,479,947	3,084,156	1,900,124
Add: Purchases in the year	1,253,202	2,183,452	203,162	1,116,170
Revaluation adjustments		–	260,000	–
Less: Disposal of assets	(3,450,000)	(134,600)	–	(86,200)
Loss on sale		(21,123)	–	(1,294)
Depreciation charge	34,798	(968,084)	60,602	(448,853)
<b>Closing Balance 30 June</b>	<b>1,445,920</b>	<b>3,539,592</b>	<b>3,607,920</b>	<b>2,479,947</b>

**14 Intangible Assets**

	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
Computer Software	5,659,495	5,569,635	5,659,495	5,569,635
Less: Provision for Amortisation	(3,164,649)	(2,141,428)	(3,164,649)	(2,141,428)
	<b>2,494,846</b>	<b>3,428,207</b>	<b>2,494,846</b>	<b>3,428,207</b>

**15 Taxation Assets**

Future Income Tax Benefit	533,421	524,700	533,421	524,700
Future Income Tax Benefit comprises				
- Provision for Impairment on Loans	182,945	178,136	182,945	178,136
- Deferred Loan Origination Costs	46,760	46,760	46,760	46,760
- Provision for Staff Entitlements	300,795	299,804	300,795	299,804
- Other	2,921	0	2,921	0
	<b>533,421</b>	<b>524,700</b>	<b>533,421</b>	<b>524,700</b>

**16 Amounts Payable to Other Financial Institutions**

Special Service Provider:				
- Overdraft Secured (Note 27)	–	779,116	–	779,116
- Loan (Note 27)	35,000,000	19,000,000	35,000,000	19,000,000
	<b>35,000,000</b>	<b>19,779,116</b>	<b>35,000,000</b>	<b>19,779,116</b>

**17 Deposits**

Member Deposits:				
- at call	289,953,562	280,469,512	289,953,562	280,469,512
- term	417,000,290	398,519,503	417,000,290	398,519,503
Total Member Deposits	<b>706,953,852</b>	<b>678,989,015</b>	<b>706,953,852</b>	<b>678,989,015</b>
Withdrawable Shares	465,090	492,630	465,090	492,630
	<b>707,418,942</b>	<b>679,481,645</b>	<b>707,418,942</b>	<b>679,481,645</b>

**Concentration of Risk**

- (i) There are no Members who individually have deposits which represent 10% or more of the total liabilities of the Credit Union.
- (ii) Details of classes of deposits which represent 10% or more of shareholders' equity of the Credit Union are set out below:

	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Industry Group</b>				
State Government	165,486,604	161,087,516	165,486,604	161,087,516
Federal Government	38,318,375	37,691,550	38,318,375	37,691,550
<b>Geographic Areas</b>				
Sydney Metropolitan	389,338,254	374,562,600	389,338,254	374,562,600
Hunter Region	41,635,054	38,952,028	41,635,054	38,952,028
Illawarra Region	15,611,702	14,677,415	15,611,702	14,677,415
Australian Capital Territory	27,806,462	27,099,711	27,806,462	27,099,711
Central Coast Region	32,437,277	30,302,204	32,437,277	30,302,204

**18 Creditors and Borrowings**

Creditors and Accruals	1,762,926	1,486,972	1,473,898	1,312,288
Interest Payable on Deposits	6,792,858	5,550,109	6,792,858	5,550,109
	<b>8,555,784</b>	<b>7,037,081</b>	<b>8,266,756</b>	<b>6,862,397</b>

**19 Provisions**

Provision for Employee Annual Leave	508,570	560,897	508,570	560,897
Provision for Employee Long Service Leave	494,080	438,448	494,080	438,448
Provision for Securitised Loans	19,033,966	25,522,857	—	—
Other	67,608	23,302	67,608	23,302
	<b>20,104,224</b>	<b>26,545,504</b>	<b>1,070,258</b>	<b>1,022,647</b>
Number of Employees at year-end	133	132	131	130

**20 Taxation Liabilities**

Provision for Income Tax	1,160,716	639,384	1,160,716	639,384
Provision for Deferred Income Tax	831,528	919,375	831,528	919,375
Other	4,776	3,647	—	2,157
	<b>1,997,020</b>	<b>1,562,406</b>	<b>1,992,244</b>	<b>1,560,916</b>
Provision for Deferred Income Tax Comprises				
- Prepayments	103,835	120,117	103,835	120,117
- Deferred Loan Origination Fees	208,854	208,854	208,854	208,854
- Tax Allowances relating to Property, Plant & Equipment	518,839	590,404	518,839	590,404
	<b>831,528</b>	<b>919,375</b>	<b>831,528</b>	<b>919,375</b>

**21 Capital Account**

Balance - 1 July	211,640	168,750	211,640	168,750
Transfer from retained earnings on share redemptions	27,540	42,890	27,540	42,890
Balance - 30 June	<b>239,180</b>	<b>211,640</b>	<b>239,180</b>	<b>211,640</b>

**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 have been paid to Members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriate to the account.

## 22 Maturity Profile of Financial Assets and Liabilities

Monetary assets and liabilities have differing maturity profiles depending on their contractual term, and in the case of loans, the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities currently held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid and is based upon contractual conditions of each loan being strictly complied with (and is subject to change in the event that current repayment conditions are varied).

Assets						
Maturity	Receivables from other Fin. Institutions		Non Trading Securities Held		Loans & Advances (before Provision)	
	2006	2005	2006	2005	2006	2005
At Call	21,970,880	16,011,159	–	–	–	–
Overdraft	–	–	–	–	53,926,943	53,541,262
Up to 3 Months	80,500,000	72,500,000	–	–	9,700,576	11,447,371
3 to 12 Months	–	–	–	–	30,433,842	35,868,521
1 to 5 Years	–	–	–	–	134,078,793	140,998,341
Over 5 Years	–	–	–	–	506,919,300	459,063,381
Unspecified	–	–	–	–	–	–
<b>Total</b>	<b>102,470,880</b>	<b>88,511,159</b>	–	–	<b>735,059,454</b>	<b>700,918,876</b>

Liabilities				
Maturity	Payable to other Fin. Institutions		Member Deposits	
	2006	2005	2006	2005
At Call	–	–	290,418,652	280,469,512
Overdrafts	–	779,116	–	–
Up to 3 Months	35,000,000	19,000,000	227,409,763	231,386,203
3 to 12 Months	–	–	132,185,096	121,170,177
1 to 5 Years	–	–	57,405,431	46,455,753
Over 5 Years	–	–	–	–
Unspecified	–	–	–	–
<b>Total</b>	<b>35,000,000</b>	<b>19,779,116</b>	<b>707,418,942</b>	<b>679,481,645</b>

## 23 Interest Rate Change Profile of Financial Assets and Liabilities

Monetary assets and liabilities have conditions which allow interest rates to be amended either on maturity (Term Deposits and Term Investments) or after adequate notice is given (Loans and Savings). The following table 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.

Assets						
Maturity	Receivables from other Fin. Institutions		Non Trading Securities Held		Loans & Advances (before Provision)	
	2006	2005	2006	2005	2006	2005
Within 1 month	44,970,880	38,011,159	–	–	–	–
1 to 3 months	57,500,000	50,500,000	–	–	683,570,247	642,260,724
3 to 12 months	–	–	–	–	10,041,862	13,139,257
1 to 5 years	–	–	–	–	41,447,345	45,518,895
Over 5 year	–	–	–	–	–	–
<b>Total</b>	<b>102,470,880</b>	<b>88,511,159</b>	–	–	<b>735,059,454</b>	<b>700,918,876</b>
<b>Weighted Average Interest Rate</b>	<b>5.66%</b>	<b>5.57%</b>	–	–	<b>7.52%</b>	<b>7.42%</b>

Liabilities				
Maturity	Payable to other Fin. Institutions		Member Deposits	
	2006	2005	2006	2005
Within 1 month	—	19,779,116	383,666,372	373,920,886
1 to 3 months	35,000,000	—	162,509,021	158,741,053
3 to 12 months	—	—	106,919,248	102,297,364
1 to 5 years	—	—	54,324,301	44,522,342
Over 5 year	—	—	—	—
<b>Total</b>	<b>35,000,000</b>	<b>19,779,116</b>	<b>707,418,942</b>	<b>679,481,645</b>
<b>Weighted Average Interest Rate</b>	<b>6.38%</b>	<b>6.26%</b>	<b>4.22%</b>	<b>3.98%</b>

## 24 Net Fair Value of Financial Assets and Liabilities

Net Fair Value is an estimate of the present market value of each asset or liability and has been calculated to show the difference between the current and future value of funds at the present time. Where the assets/liabilities are short term in nature or reprice frequently, then the net fair value is stated at book value.

The information is only relevant to circumstances at Balance Date and will vary depending on the contractual rates applied to each asset and liability. No assets held are regularly traded by the Credit Union.

Assets						
Maturity	Receivables from other Fin. Institutions		Non Trading Securities Held		Loans & Advances (before Provision)	
	2006	2005	2006	2005	2006	2005
Net Fair Value	102,470,880	88,511,159	—	—	735,096,823	700,970,092
Book Value	102,470,880	88,511,159	—	—	735,059,454	700,918,876
Variance	—	—	—	—	37,369	51,216

Liabilities				
Maturity	Payables to other Fin. Institutions		Member Deposits	
	2006	2005	2006	2005
Net Fair Value	34,998,800	19,779,116	707,624,206	679,571,744
Book Value	35,000,000	19,779,116	707,418,942	679,481,645
Variance	(1,200)	—	205,264	90,099

## 25 Expenditure Commitments

### a. Future Capital Commitments

The Credit Union has entered into contracts to purchase fixed assets at a value of \$1,180,000 (2005 \$2,317,000). The amount is to be paid over the following periods:

	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
Within 1 year	1,120,000	2,317,000	1,120,000	2,317,000
1 to 2 years	60,000	—	60,000	—
2 to 5 years	—	—	—	—
over 5 years	—	—	—	—
	<b>1,180,000</b>	<b>2,317,000</b>	<b>1,180,000</b>	<b>2,317,000</b>

**b. Future Lease Rental Commitments**

Future lease rental commitments are \$9,606,660 (2005 \$7,835,644). Operating lease payments under existing lease arrangements for office accommodation are payable over the following periods:

	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
Within 1 year	848,670	441,532	848,670	441,532
1 to 2 years	1,342,182	432,056	1,342,182	432,056
2 to 5 years	3,701,740	2,764,077	3,701,740	2,764,077
over 5 years	3,714,068	4,197,979	3,714,068	4,197,979
	<b>9,606,660</b>	<b>7,835,644</b>	<b>9,606,660</b>	<b>7,835,644</b>

**26 Financial Commitments****a. Loan Commitments**

Loans approved but not funded as at 30th June, 2006 total \$14,724,727 (2005 \$19,914,037).

**b. Undrawn Loan Facilities**

Loan facilities available to Members for Overdrafts, Credit Card and Redraw Loans are as follows:

Total value of facilities approved	96,146,076	94,350,322	96,146,076	94,350,322
Less: Amount outstanding at balance day	53,905,107	53,541,262	53,905,107	53,541,262
Net undrawn value	<b>42,240,969</b>	<b>40,809,060</b>	<b>42,240,969</b>	<b>40,809,060</b>

**27 Standby Borrowing Facilities**

The Credit Union has the following credit facilities with CUSCAL:

**Overdraft**

Approved Limit	12,000,000	12,000,000	12,000,000	12,000,000
Less: Amount Drawn	—	779,116	—	779,116
Available to Draw	<b>12,000,000</b>	<b>11,220,884</b>	<b>12,000,000</b>	<b>11,220,884</b>

**Wholesale Funding**

Approved Limit	47,000,000	42,000,000	47,000,000	42,000,000
Less: Amount Drawn	35,000,000	19,000,000	35,000,000	19,000,000
Available to Draw	<b>12,000,000</b>	<b>23,000,000</b>	<b>12,000,000</b>	<b>23,000,000</b>

These commitments are contingent on Members maintaining credit standards and on-going repayment terms on amounts drawn. Under the contracts, the Credit Union has the right to withdraw the facilities at any time without notice. Draw down 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.

**28 Contingent Liabilities****Liquidity Support Scheme**

The Credit Union is a Member of the Credit Union Financial Support Scheme Limited (CUFSS), a company established to provide financial support to Member Credit Unions in the event of a liquidity or capital problem arising. As a Member, the Credit Union is committed to maintaining an amount equivalent to 3.2% of total assets as deposits with CUSCAL. The maximum call for each Member Credit Union would be 3.2% of the Credit Union's total assets. No funds have been so provided at 30th June 2006 to Credit Unions under this scheme. The Credit Union has the opportunity under certain circumstances to draw on this scheme.

**Employee Entitlements**

The Credit Union has a potential liability for the payment of entitlements to employees consequent on the dismissal of an employee, the amount of which cannot be determined. No amount has been provided, as in the view of the Directors the reasons were justified and the matter is before the industrial relations tribunal for a determination.

## 29 Disclosures on Key Management Personnel

a. Names and positions held of Key Management Personnel in office at any time during the financial year are:

Key Management Person	Position
Mr Anthony Lauer	Chairman
Mr Ken Moroney	Deputy Chairman
Mr Paul Biscoe	Director
Mr Geoff Green	Director
Mr Terry Seery	Director
Mr Lloyd Taylor	Director
Mr David Walton	Director
Mr Bruce Williams	Chief Executive Officer
Mr Norm Clancy	General Manager - Operations
Mr Trevor Kerrison	General Manager - Marketing and Human Resources
Mr Anthony Sluiter	Chief Financial Officer

### b. Remuneration of Key Management Personnel

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

**Key Management Persons (KMP)** has been taken to comprise the Directors and the 4 Members of the Executive Management responsible for the day to day financial and operational management of the Credit Union.

The aggregate Compensation of **Key Management Persons** during the year comprising amounts paid or payable or provided for was as follows:

	2006	2005
	\$	\$
(i) short-term employee benefits	1,014,449	906,388
(ii) post-employment benefits - Superannuation contributions	222,578	192,930
(iii) other long-term benefits - net increases in Long Service leave provision	18,617	1,064
(iv) termination benefits	845,092	358,204
Total	<b>2,100,736</b>	<b>1,458,586</b>

In the above table, remuneration shown as "short term benefits" means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of Fringe Benefits received, but excludes out of pocket expense reimbursements. All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Credit Union.

Note the AASB 124 standard does not specifically require the separation of the Directors and Executive remuneration.

### Other Transactions with Related Parties

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

- each of the loans and advances, deposits and acceptances and promissory notes; [disclosures may include the aggregate amounts outstanding at the beginning and end of the period, as well as advances, deposits, repayments and other changes during the period];
- each of the principle types of income, interest expense and commissions paid;
- the amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date; and
- irrevocable commitments and contingencies and commitments arising from off balance sheet items.

**c. Loans To Directors and other Key Management Persons**

	2006	2005
(i) The aggregate value of loans to Directors and other Key Management Personnel as at balance date amounted to:	\$ 1,915,844	\$ 1,944,272
(ii) The total value of revolving credit facilities to Directors and other Key Management Personnel, as at balance date amounted to:	349,000	349,000
Less amounts drawn down and included in (i)	242,829	182,891
Net balance available	106,171	166,109
(iii) During the year the aggregate value of loans disbursed to Directors and other Key Management Personnel amounted to:		
Revolving Credit Facilities	50,311	289,134
Personal Loans	–	94,891
Term Loans	17,722	1,188,038
<b>Total</b>	<b>68,033</b>	<b>1,572,063</b>
(iv) During the year the aggregate value of Revolving Credit Facility limits granted or increased to Directors and other Key Management Personnel amounted to:	–	302,000
(v) Interest and other revenue earned on Loans and Revolving Credit facilities to KMP	126,188	107,551

The Credit Union's policy for lending to Directors and Management is that the loans are approved and deposits accepted on the same terms and conditions which apply 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 received a concessional rate of interest on their loans and facilities. These benefits were subject to Fringe Benefits Tax and are included in the remunerations in 29.b. above.

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

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

Total value Term and Savings Deposits from KMP	1,278,808	878,888
Total Interest paid on Deposits to KMP	39,688	44,584

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 apply to Members for each type of deposit.

**d. Transactions with Other Related Parties**

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

The Credit Union's policy for receiving deposits from related parties is that all transactions are approved and accepted on the same terms and conditions which apply to Members.

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. Credit Union Services Corporation Australia Limited (CUSCAL)**

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act 1959.

This entity supplies:

- (i) The Credit Union's rights to Visa Card in Australia and provides services in the form of settlement with bankers for ATM, Visa card and cheque transactions, and the production of Visa cards and Redicards for use by Members.
- (ii) Supplies financial banking services to the Credit Union. The Credit Union invests a substantial portion of its High Quality Liquid Assets with the entity to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

**b. First Data Resources Australia Limited (FDRA)**

This company operates the switching computer used to link Visa and Redicards through Reditellers, and other EFT suppliers to the Credit Union's EDP Systems.

**c. Service Contracts**

All service contracts are capable of being cancelled within twelve (12) months except FDRA. The total amount paid to FDRA during the year for the provision of switching services amounted to \$628,629 (2005 \$540,944).

**d. Transaction Solutions Pty Limited**

This entity 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 bureau to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with relevant Prudential Standards.

**e. Ultradata Australia Ltd**

This company provides the Credit Union's database software.

**f. Australian Settlements Limited**

This company provides the Credit Union with settlement services by direct entry processing.

**31 Segmental Reporting**

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

**32 Events Occurring after the Balance Date**

There were no events that have occurred since 30 June, 2006 that will have significant impact upon the Credit Union. Reference should be made to the Directors' Report.

**33 Superannuation Liabilities**

If an employee does not nominate a fund of choice, the Credit Union contributes to two superannuation funds. One being the CUE Super Plan which is an industry fund. This fund is separately administered by Trustees appointed by Credit Union Services Corporation (Australia) Limited. The CUE Super Plan is a contribution accumulation type fund. The Credit Union has no interest in the Superannuation Fund (other than as a contributor to comply with Superannuation Guarantee Levy) and is not liable for the performance of the plan nor the obligations of the plan.

The other being a Corporate Master Trust which is administered by MLC Limited. It is a contribution accumulated type fund. The Credit Union has no legal obligation to cover any shortfall in the Fund's obligation to provide benefits to employees on retirement. In the event the Fund is terminated, Members are only entitled to the balance of their account within the fund. As at the date of the last annual review being 30 June 2006, the fund had reserves equal to Members accumulated balances.

The Credit Union is legally obligated to contribute to the Fund as per the Superannuation Guarantee Levy Act and for employees who have a contract of service. These obligations are enforceable. As at the date of this report there is:-

1. No outstanding payments due by the Credit Union.
2. No former employee or any individual associated with a former employee or an entity of a former employee receiving or entitled to receive a benefit under the Corporate Master Trust.

**34 Securitisation**

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited and Australian Mortgage Securities Limited whereby the Credit Union acts as an agent to manage the loans portfolio on their behalf. The Credit Union bears no credit risk exposure in respect of these loans.

Securitized Loan Balances

	2006	2005
	\$	\$
	26,551,332	36,589,021

## Statement of Cash Flows

FOR YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Credit Union	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>					
<b>Inflow</b>					
Interest Received		58,233,489	53,251,987	56,662,552	52,093,109
Fees and Commission					
- Dividends Received		297,661	228,653	297,661	228,653
- Other Income		9,316,572	5,589,910	9,124,813	5,536,224
<b>Total Inflow</b>		<b>67,847,722</b>	<b>59,070,550</b>	<b>66,085,026</b>	<b>57,857,986</b>
<b>Less: Outflow</b>					
Interest Paid		30,595,789	27,863,915	29,233,476	26,862,804
Suppliers and Employees		21,557,215	20,403,901	21,181,198	20,324,705
Taxes Paid		2,443,118	2,294,672	2,443,118	2,294,672
<b>Total Outflow</b>		<b>54,596,122</b>	<b>50,562,488</b>	<b>52,857,792</b>	<b>49,482,181</b>
<b>Net Cash from Operating Activities</b>	<b>3</b>	<b>13,251,600</b>	<b>8,508,062</b>	<b>13,227,234</b>	<b>8,375,805</b>
<b>INVESTING ACTIVITIES</b>					
<b>Inflow</b>					
Investment Redemption		329,018,773	330,275,480	329,018,773	330,275,480
Proceeds from Sale of Fixed Assets		3,584,600	86,200	3,584,600	86,200
Member Loan Repayments		246,239,078	274,915,291	244,769,147	274,568,828
<b>Total Inflow</b>		<b>578,842,451</b>	<b>605,276,971</b>	<b>577,372,520</b>	<b>604,930,508</b>
<b>Less: Outflow</b>					
Purchase of Investments		338,380,535	333,015,574	338,380,535	333,015,574
Purchase of Fixed Assets		3,526,515	2,345,585	3,526,515	2,336,945
Member Loans Disbursed		287,385,461	306,608,722	285,814,524	306,608,722
<b>Total Outflow</b>		<b>629,292,511</b>	<b>641,969,881</b>	<b>627,721,574</b>	<b>641,961,241</b>
<b>Net Cash from Investing Activities</b>		<b>(50,450,060)</b>	<b>(36,692,910)</b>	<b>(50,349,054)</b>	<b>(37,030,733)</b>
<b>FINANCING ACTIVITIES</b>					
<b>Inflow</b>					
Member Shares (net)	2	(27,540)	(42,890)	(27,540)	(42,890)
Member Savings (net)	2	27,964,837	22,171,718	27,964,837	22,171,718
Payables to other Financial Institutions		16,000,000	—	16,000,000	—
<b>Net Cash from Financing Activities</b>		<b>43,937,297</b>	<b>22,128,828</b>	<b>43,937,297</b>	<b>22,128,828</b>
<b>Total Net Cash Increase / (Decrease)</b>		<b>6,738,837</b>	<b>(6,056,020)</b>	<b>6,815,477</b>	<b>(6,526,100)</b>
Cash at Beginning of Year		15,232,043	21,288,063	14,761,963	21,288,063
<b>Cash at End of Year</b>	<b>1</b>	<b>21,970,880</b>	<b>15,232,043</b>	<b>21,577,440</b>	<b>14,761,963</b>

## 1. Reconciliation of Cash

Cash includes cash on hand and deposits at call with CUSCAL net of overdraft.

	Consolidated		Credit Union	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash as at balance date comprises:				
Cash on Hand	4,570,880	2,011,159	4,177,440	1,541,079
Deposits at Call	17,400,000	14,000,000	17,400,000	14,000,000
Less: Overdraft with CUSCAL	–	(779,116)	–	(779,116)
	<b>21,970,880</b>	<b>15,232,043</b>	<b>21,577,440</b>	<b>14,761,963</b>

2. Member deposits and shares are shown net of deposits and withdrawals.

3. The net cash from Operating Activities is reconciled to the Operating Profit and Extraordinary Item after Income Tax.

Operating Profit & Extraordinary Item after Income Tax	8,226,733	6,064,000	8,334,188	6,074,669
Bad Debts Written Off	516,915	177,506	516,915	177,506
Depreciation Expense	2,015,383	1,402,825	2,015,383	1,402,825
Increase in Provision for Employee Entitlements	3,305	7,025	3,305	7,025
Accrued Expenses	1,518,696	1,029,525	1,404,352	854,841
Loss on Sale of Assets	592,480	1,294	592,480	1,294
Decrease (Increase) in Prepayments	54,274	92,873	54,274	92,873
Increase (Decrease) in Unearned Income	8,525	696,179	8,525	696,179
Amortised Loan Transaction Costs	27,287	(155,866)	27,287	(155,866)
Decrease (Increase) in Sundry Debtors	(199,355)	54,751	(210,306)	88,207
Increase (Decrease) in Deferred Taxes Payable	(98,725)	1,244,906	(98,725)	1,244,906
Provisions for Income Tax	524,618	(243,524)	521,332	(245,014)
Other Provisions	61,464	(514,446)	58,224	(514,654)
IFRS Opening Balances and Adjustments	0	(1,348,986)	0	(1,348,986)
Net Cash from Operating Activities	<b>13,251,600</b>	<b>8,508,062</b>	<b>13,227,234</b>	<b>8,375,805</b>

## Compliance Statistics

### a. Capital Adequacy

At all times the Credit Union must maintain a minimum of 8% capital adequacy ratio. The capital adequacy ratio is a measure of reserves, general provisions for doubtful debts less an amount equal to the future income tax benefit as a percentage of the risk weighted value of assets. The Credit Union's ratio as at balance date was 15.61% (2005 14.48%).

### b. Liquidity

The Credit Union is required to maintain at all times liquid assets at a minimum level of 9% of its liability base in High Quality Liquid Assets. These percentages were exceeded for the whole year. In addition to liquid assets the Credit Union has in place confirmed standby lines available to it. The High Quality Liquid Asset Ratio as at balance date was 12.83% (2005 11.62%).

### Auditors

Kevin J Thomas  
Chartered Accountant  
Unit B2A, Central Park  
Thornleigh NSW 2120

### Bankers

Australia and New Zealand  
Banking Group Limited  
  
Credit Union Services  
Corporation (Australia) Limited  
National Australia Bank Limited

### Affiliations

Credit Union Services Corporation  
(Australia) Limited  
1 Margaret Street  
Sydney NSW 2000

Federation of Police Credit Unions  
Level 27, 1 Market Street  
Sydney NSW 2000

### Head Office

The Police Department Employees' Credit Union Limited  
ABN 95 087 650 799. AFSL No. 240018.  
Level 27, 1 Market St Sydney NSW 2000  
Phone: 131 PCU (131 728)  
Email: info@pcu.com.au

### PCU Assistance Centre

Level 27, 1 Market St  
Sydney NSW 2000  
Phone: 131 PCU (131 728)  
Eaglenet: 88899  
Email: info@pcu.com.au

### Newcastle

24 Bolton St  
Newcastle NSW 2300  
Phone: (02) 4929 0941  
Eaglenet: 70941  
Email: newcastle@pcu.com.au

### Campbelltown

Unit 2/100 Queen Street,  
Campbelltown NSW 2560  
Phone: (02) 4640 7000  
Eaglenet: 88839  
Email: campbelltown@pcu.com.au

### PCU Direct

Level 1, 309 Pitt St  
Sydney NSW 2000  
Phone: 131 PCU (131 728)  
Eaglenet: 88884  
Email: direct@pcu.com.au

### Canberra

Shop 16, Canberra House  
40 Marcus Clarke St  
Canberra ACT 2601  
Phone: (02) 6257 4277  
Email: canberra@pcu.com.au

### Port Macquarie

6 - 14 Clarence Street,  
Port Macquarie NSW 2444  
Phone: (02) 6582 9900  
Eaglenet: 44840  
Email: portmacq@pcu.com.au

### Sydney

Ground Floor, 309 Pitt St  
Sydney NSW 2000  
Phone: (02) 9287 0828  
Eaglenet: 88828  
Email: sydney@pcu.com.au

### Goulburn

c/o Police Academy  
McDermott Dr Goulburn NSW 2580  
Phone: (02) 4821 7599  
Eaglenet: 24587  
Email: goulburn@pcu.com.au

### Parramatta

Ground Floor Octagon Building  
110 George St Parramatta NSW 2150  
Phone: (02) 9841 8273  
Eaglenet: 88873  
Email: parramatta@pcu.com.au

### Gosford

9-11 Mann St  
Gosford NSW 2250  
Phone: (02) 4324 5222  
Eaglenet: 67433  
Email: gosford@pcu.com.au

### Penrith

295 High St  
Penrith NSW 2750  
Phone: (02) 4720 5000  
Eaglenet: 44750  
Email: penrith@pcu.com.au

### Wollongong

76 Market St  
Wollongong NSW 2500  
Phone: (02) 4227 1121  
Eaglenet: 44830  
Email: wollongong@pcu.com.au

Website:  
Redial Telephone Banking:  
ABN:  
BSB:  
AFSL No:

www.pcu.com.au  
131 PCU (131 728)  
95 087 650 799  
815 000  
240018



For You, Your Family, Your Future.