



Service One Credit Union Ltd  
**Annual Report**

05-06



SNOWY MOUNTAINS  
CREDIT UNION



HOSPITALS  
CREDIT UNION



THE CREDIT UNION  
OF CANBERRA

## Vision

To be the first choice banking institution for those living in the ACT and South Eastern NSW.

## Mission

To excel at providing banking and financial services.

## Values

We care about each other and behave as a supportive family would behave. The conduct of our business and ourselves shows others what kind of organisation we are and is demonstrated by the following values:

- We are respectful and courteous
- We are tolerant and supportive
- We are honest and open
- We are dependable and accountable
- We are prudent and ethical



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## Corporate Directory

### Administration Centre

Service One Credit Union Limited  
ABN 42 095 848 598  
AFSL Number 240836

75 Denison Street  
DEAKIN ACT 2600  
Locked Bag 1  
DEAKIN ACT 2600

BSB 801 009

Telephone 1300 361 761  
Facsimile (02) 6215 7171  
For overseas callers  
+ 61 2 6215 7112

Internet:  
www.wearefamily.com.au  
email:  
members@wearefamily.com.au

### Phone Banking (only available in Australia)

1300 361 431 for The Credit Union of Canberra  
1300 558 028 for Snowy Mountains Credit Union  
(02) 6285 4789 for Hospitals Credit Union

### Branch Locations

Australian National University  
The Credit Union of Canberra  
Concessions Area, Acton

Batemans Bay  
The Credit Union of Canberra  
Shop G21C, Stockland Centre

Belconnen  
The Credit Union of Canberra  
Shop 164, Gallery Level,  
Belconnen Mall

Bemboka  
Snowy Mountains Credit Union  
Loftus Street

Calvary Hospital  
Hospitals Credit Union  
Haydon Drive, Bruce

Canberra City  
The Credit Union of Canberra  
Shop 32A, Baileys Arcade

Cooma  
Snowy Mountains Credit Union  
138 Sharp Street

Deakin  
The Credit Union of Canberra  
75 Denison Street

Narooma  
The Credit Union Centre  
Narooma Plaza  
Cnr Princes Hwy & Willcocks Ave

Queanbeyan  
Snowy Mountains Credit Union  
68-70 Monaro Street

The Canberra Hospital  
Hospitals Credit Union  
Yamba Drive, Garran

Tuggeranong  
The Credit Union of Canberra  
Shop 18, Lower Level,  
Tuggeranong Hyperdome

Tumut  
Snowy Mountains Credit Union  
52-54 Russell Street

University of Canberra  
The Credit Union of Canberra  
The Hub

Woden  
The Credit Union of Canberra  
Shop 71 Gallery Court,  
Woden Plaza

### Directors

Mr John Clarke (Chair) LLB  
Mrs Joanne Krueger (Deputy Chair) BHSc (Nursing), MBA, Dip Fin Serv, MACUI  
Mr Erik Adriaanse BA (Acc) FCPA  
Professor Jennifer Corbett BA (Hons), MA, (Ec), MA, PhD  
Mr Ian Davis BA (Hons)  
Mr Winston Phillips JP

Mrs Deborah Robinson BComm, MBA  
Mr Colin Smeal  
Ms Maria Storti BEc, MBA, FCA, GAICD  
Mr Jim Wrenford

### Chief Executive Officer

Mr Peter Carlin

### Chief Finance Officer

Mr Matthew Smith

### Senior Managers

Dr Isaacus Adzoxornu  
Mr Cliff Brownless  
Mrs Yvonne Earle  
Mr Kevin King  
Mrs Colleen McGrory

### Corporate Governance Committee

Mr Colin Smeal (Chair)  
Professor Jennifer Corbett  
Mr Winston Phillips

### Audit and Compliance Committee

Mr Erik Adriaanse (Chair)  
Ms Maria Storti  
Mr Jim Wrenford

### Finance and Risk Committee

Mr Ian Davis (Chair)  
Mrs Joanne Krueger  
Mrs Deborah Robinson

### Bankers

JP Morgan Chase Bank

### Solicitors

Phillips Fox

### Internal Auditor

Walter Turnbull

### External Auditor

Ernst & Young

### Insurers

American Home Assurance Co.  
CUNA Mutual Group  
Specialist Underwriting Agencies P/L



## Corporate Governance Statement

On 31 March 2003 the Australian Stock Exchange (ASX) Corporate Governance Council released *Principles of Good Corporate Governance and Best Practice Recommendations* (the Recommendations). SOCU, because it is an unlisted public company, is not obliged to report on whether or not it follows the Recommendations. However, the Board has chosen to do so in acknowledgement of its responsibility for and commitment to best practice in corporate governance.

The Board recognises that achieving best practice is an ongoing process and will reflect changes in community thinking.

The Credit Union has developed a corporate governance section on its website.

The various codes, policies and terms of reference referred to in this statement are published on the website.

### Board of Directors

The Board has adopted the following key responsibilities:

- Act in the best interest of the Credit Union as a whole;
- Observe their duties as Directors in terms of corporations law, general law, the Credit Union's constitution and other relevant legislation;
- Compliance with APRA prudential standards; and
- Enhance member value.

In order to meet these responsibilities, the key functions of the Board include:

- Establishing, making appointments and making delegations to Board committees;
- Appointing, delegating to, supporting, evaluating and rewarding the CEO and having in place a succession plan;
- Seeking to achieve a diverse and effective Board, with appropriate skills, operating standards and procedures for the Board and its committees;

- Reviewing, determining and monitoring the strategic direction and objectives;
- Reviewing, approving and monitoring the strategic plan including financial and non financial performance measures;
- Ensuring that the principal business risks have been identified and the implementation and monitoring by management of a framework to manage those risks;
- Reviewing, approving and monitoring policy, within a policy and compliance framework;
- Ensuring a process is in place for the maintenance of the integrity of internal controls, and financial and management information systems;
- Ensuring SOCU acts legally and responsibly on all matters;
- Ensuring that appropriate ethical standards are maintained;
- Reviewing, determining and monitoring the skills and performance of:
  - The Board as a whole;
  - Directors as individuals;
  - Board sub committees; and
  - Reporting to the members on the Board's stewardship as required.

### Composition of the Board

The Constitution of the Credit Union (the Constitution) stipulates that the Board consists of a minimum of 5 and no more than 10 Directors. At all times the Board must have no less than 5 elected Directors. The Constitution also allows the Board to appoint a Director for a 12-month term.

Directors' profiles appear in the Annual Report.

Under the Constitution there is no maximum period of service for Directors, however elected Directors serve a three year term and retire in rotation but may stand for re-election. Any Director appointed to fill a casual vacancy during the financial year must also have that appointment confirmed by a resolution of members at that year's Annual General Meeting.

## Board Processes

The Board generally meets monthly and more regularly if required.

The agenda for Board meetings is prepared by the Chair of the Board in conjunction with the Chief Executive.

Because each member of the Credit Union may cast a vote in the election of a Director, the Board has little influence on the member's choice of the candidates. The Board recommends that members choose candidates with a proven ability to make a contribution to the Board's strategy, policies and effectiveness.

The Board is of the view that the Board shall only comprise non-executive Directors. The Board has adopted the principle that it should comprise a majority of independent Directors and that its Chair should be an independent Director.

## Board and Director Performance Evaluation

The Board conducts a formal evaluation of the performance of the Board, its Committees, the Directors and the CEO.

## Director Independence

The Recommendations indicate that the Board should comprise a majority of independent Directors. An independent Director being considered independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

However, the Constitution of the Credit Union stipulates that a Director has to be a member of the Credit Union and in most cases that means a Director will have deposits and, possibly, loans with the Credit Union, which might compromise that independence. Details of loans to Directors and other Director related transactions are included in the annual Financial Statements.

The Board is of the view that it would ordinarily expect a relationship to be considered material when it accounts for more than 5% of the total services provided by the member or supplier or

more than 20% of the total supplies of the Credit Union or services of the same, or a similar, nature.

Taking into account the above qualifications, the Board has determined that each of the Directors is an independent Director. In so determining, the Board had regard to the information contained in the profile of each Director and the tests set out in the Recommendations.

## Director Access to Professional Advice

To assist in the effective discharge of their duties, Directors may, in consultation with the Chair, seek independent legal advice on their duties and responsibilities at the expense of the Credit Union and, in due course, make all Board members aware of both instructions to advisors and the advice obtained.

## Director Access to Employees

Senior executives regularly attend Board meetings and Directors have unfettered direct access to all senior executives of the Credit Union.

## Board Committees

The Board has three formally constituted standing committees to assist it in decision-making, oversight and control:

- the Audit and Compliance Committee;
- the Finance and Risk Committee; and
- the Corporate Governance Committee.

In addition to the above standing committees the Board also establishes the following ad hoc committees from time to time and as necessary:

- a Director Nominations Committee;
- a Constitutional Review Committee; and
- a Remuneration Committee.

Membership of the committees comprises Directors with representatives of management attending as required. All committees have written Terms of Reference.

The minutes of all Board Committee meetings are tabled, and any recommendations are considered at the next scheduled Board meeting.

The memberships of Board Committees and attendances at meetings are set out in the Directors' Report.

All Directors are entitled to attend all Board Committee meetings.

## The Corporate Governance Committee

The Committee's role includes:

- Reviewing and reporting to the Board on current corporate governance policies and reviewing outcomes;
- Reviewing and reporting to the Board on corporate governance issues;
- Providing recommendations to the Board on corporate governance practices after assessment and review;
- Reviewing and reporting to the Board on the Credit Union's compliance with the best practice recommendations of the ASX Corporate Governance Council;
- Reviewing disclosure of corporate governance policies and information on the Credit Union's website;
- Reviewing and reporting to the Board on best practice developments in corporate governance;
- Providing recommendations to the Board on effective policies and procedures to ensure effective communication of the Credit Union's corporate governance policies to members, media, analysts and industry participants; and
- Providing recommendations to the Board on technical or professional development courses to assist Directors in keeping up to date with relevant issues and practices.

Remuneration for Directors or the CEO does not contain any component related to profit sharing or the issue of stock or options.

The Committee from time to time seeks advice from external experts.

## Audit and Compliance Committee

The Committee's role includes:

- Facilitating communication between the internal auditor, the external auditors and the Board;
- Reviewing and considering any changes to accounting policies;
- Receiving and considering reports from management so as to determine the effectiveness of the Credit Union's risk management systems;
- If necessary, requiring the internal auditor or Senior Manager – Risk and Compliance to undertake any audit or compliance project and report on such;
- Considering and reviewing with the external auditors, the internal auditor and management:
  - the adequacy of the Credit Union's internal controls to minimise risk or exposures, including computerised information system controls and security;
  - any related significant findings and recommendations of the external auditor and the internal auditor together with management's responses to such findings and recommendations.
- Considering and reviewing with management and the internal auditor:
  - significant findings during the year and management's responses to such findings;
  - any difficulties encountered in the course of internal audits, including any restrictions on the scope of their work or access to required information;
  - any changes required in the planned scope of the internal audit plan; and
  - the internal audit budget and staffing.
- Reviewing legal and regulatory matters that may have a material impact on the Credit Union's compliance policies and programs and reports received from APRA;
- Considering and reviewing the policies and procedures for the selection, appointment and reappointment of the external auditor, the rotation of external audit engagement partners and the terms of any such appointment;
- Monitoring the Credit Union's compliance with the legal obligations to which it is subject; and

- Assisting the Board and management in monitoring risk management, controls and corporate governance performance.

In discharging the above general responsibilities the Committee will undertake the following specific functions:

- Confirming and assuring the independence of the internal and external auditors;
- Considering and reviewing, in consultation with the external auditor and the internal auditor, the audit scope and plan of the internal auditor and the external auditor;
- Reviewing year-end accounts to ensure that such accounts have been prepared in accordance with proper accounting principles and recommending them for adoption by the Board. This will incorporate a review of the management letter prepared by the external auditor and the management response to that letter;
- Reviewing the Credit Union's insurance arrangements;
- Recommending the appointment and removal of the external auditor;
- Considering the level of fees payable to the external auditors; and
- Assessing the performance and independence of the external auditor and whether the independence of this function is maintained having regard to the provision of non-audit related services.

The external and internal auditors have a direct line of communication to the Chair of the Audit and Compliance Committee and meet regularly, *in camera*, with the Committee.

The external auditor of the Credit Union is Ernst and Young who attends the Annual General Meeting of the Credit Union and is available to take questions from members.

Internal audit is outsourced to Walter Turnbull, a firm of chartered accountants.

The internal audit function operates under documented standards and procedures for auditing that set out the purpose, authority and responsibility of the internal audit function. The function of internal audit is to provide an independent assessment of risk and compliance with internal controls.

The internal audit plan is approved by the Audit and Compliance Committee each year and outlines a program of internal audits to be conducted for the year.

The results of all internal audits are reported to the Audit and Compliance Committee. In addition, processes have been put in place to ensure that appropriate follow-up actions are taken in relation to significant audit findings and identified areas of risk.

The Senior Manager – Risk and Compliance attends all Audit and Compliance Committee meetings, other than the *in camera* sessions described above.

## The Constitution Review Committee

The Constitution Review Committee makes recommendations to the Board if in the opinion of the Committee a change to the Constitution should be submitted to the members for consideration at a General Meeting.

## The Finance and Risk Committee

The Committee's role includes:

- Overseeing and monitoring the Credit Union's policies and procedures in relation to the management and control of the following risks:
  - *credit risk*: being the risk from a borrower or counter-party failing to meet contractual obligations to the Credit Union or to perform as agreed;
  - *liquidity risk*: being the risk from the Credit Union's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
  - *market risk*: being the following risks:
    - Funding risk:
      - The risk of over-reliance on a particular funding source, the volatility of funding costs or availability of funding.

- Interest rate risk:
  - The risk from movements in interest rates and the impact on pricing relationships between asset and liability products of a retail or wholesale nature;
  - The risk to earnings from fluctuations in exchange rates and market volatility;
  - The risk from changes in the value of portfolios of financial instruments; and
  - The risk from material changes in global and domestic economic conditions generally.
- *operational risk*: being the risk attributable to the daily operations of the Credit Union.
- Reviewing and approving loan and other financial facility submissions, credit limits and exposures above the levels and limits delegated by the Board to management or within the levels and limits as specifically delegated to the Committee by the Board from time to time;
- Overseeing budget processes and reviewing and reporting to the Board on matters in relation to financial performance;
- Reporting to the Board on all material matters arising from its review and monitoring functions by the provision to the Board of the Committee's minutes of meetings or by special report, as appropriate;
- Reviewing and making recommendations on any changes to risk limit structures; and
- Overseeing and monitoring management's annual risk assessment.

The Senior Manager – Risk and Compliance attends all Finance and Risk Committee meetings, other than *in camera* sessions.

## Internal Control Framework

### Business Risk Identification and Management

The Board monitors the operational and financial performance of the Credit Union against budget and other key performance measures through a structure of regular management reports to

the Board and its Committees. The Board also receives and reviews reports and advice on areas of operational and financial risk. The Audit and Compliance Committee reviews on an annual basis the adequacy of insurance coverage to mitigate certain operational risks of the Credit Union.

The Credit Union has established controls at the Board, executive and business unit levels that are designed to safeguard the interests of the Credit Union and ensure the integrity of reporting (including accounting, financial reporting, occupational health and safety, and other internal control policies and procedures).

These controls are designed to ensure that the Credit Union complies with regulatory requirements and community standards.

Each year the Chief Executive Officer and the Chief Finance Officer provides the Board with statements about the Credit Union's financial reports and compliance with the Corporations Act, APRA's prudential standards and the accounting standards. The statements reflect the declarations required to be made by Directors in the Annual Financial Statements.

At least annually, formal performance appraisals are conducted for all employees.

The Credit Union has an active Occupational Health and Safety Committee. That Committee comprises both managers and other employees. The Senior Manager – Risk and Compliance is a member of that Committee.

## Ethical Standards

The core values of the Credit Union centre on improving the quality and efficiency of financial service delivery by providing products and services to help members meet their financial goals.

To this end, the Credit Union is committed to maintaining the highest ethical standards in delivering products and services to its members.

The Credit Union acknowledges that personal financial information is sensitive and subject to privacy legislation. To this end, the Credit Union is committed to ethical and appropriate practices and compliance with relevant privacy legislation. It has in place processes to maintain

the expectations of the community and members for the security, privacy and integrity of personal financial information. Where appropriate, the Credit Union aims to conduct its operations without needing to rely on the collection of personal financial information.

The Board has adopted Codes of Conduct, which set out the expectations for Directors and staff in their business affairs and in dealings with members. The Codes of Conduct require high standards of personal integrity and honesty in all dealings, a respect for the privacy of members and others and observance of the law.

New staff members are provided with a copy of the Code of Conduct when they join the Credit Union and it is readily accessible online for existing staff members.

The Board regularly reviews all its policies to ensure their continued relevance and effectiveness.

Where necessary, at Board meetings Directors report on any interest that could potentially conflict with those of the Credit Union and report on any Director related transactions in the Notes to the Annual Financial Report.

## Communication with Members

The Board aims to ensure that members are informed of all major developments affecting the state of affairs of the Credit Union. Information is communicated to members as follows:

- The Annual Report is distributed to all members who request it and includes relevant information about the operations of the Credit Union during the year, changes in the state of affairs of the Credit Union and details of future developments, in addition to other disclosures required by the *Corporations Act 2001*;
- Twice yearly a newsletter is sent to all active members of the Credit Union;
- When the Credit Union becomes aware of information which in the view of the Board requires members to be notified immediately a letter is sent to members;
- The Credit Union regularly conducts surveys to determine the feelings of members;
- The Credit Union maintains an internet email service for the prompt notification to members of material information released by the Credit Union; and
- The Credit Union website contains a “what’s news” section to keep members informed of current events.



## Directors



### Erik Adriaanse

Erik Adriaanse is a qualified fellow CPA, a Divisional Councillor and past President of CPA Australia in Canberra. Erik is also a Board member of Legacy Canberra, Snowy

Hydro SouthCare Helicopter Service, The Cultural Facilities Corporation, The Australian Council of Professions and the Centre for Dialogue Steering Committee.

Following a 30 year background as an accountant in private practice Erik is currently General Manager of the Independent Property Group.

Erik has completed 17 Sydney to Hobart yacht races and has represented Australia in sailing. He has climbed Mt Kilimanjaro and reached 6500 metres on Mt Everest.



### John Clarke (Chair)

John has been a Director of Service One Credit Union since 2001 and prior to that was a Director of Snowy Mountains Credit Union from 1996.

Since 1975, John has been a barrister and solicitor for the Supreme Courts of NSW, ACT and the High Court of Australia. He is presently a partner in a law firm in Cooma. John is a member of the Cooma Rotary Club and has been involved with many other community organisations including Apex, Landcare, Women's Refuge, Nursing Home, Preschools, Daycare and as pro bono adviser to various community organisations.



### Jennifer Corbett

Professor Corbett was appointed as a non-executive Director in August 2005. She is currently Professor of Economics at the Crawford School of Economics and Government, and Executive

Director of the Australia-Japan Research Centre. She is also a Fellow of St Antony's College, Oxford and was, for several years, Chair of its Finance Committee. Her research interests include corporate governance of financial institutions.



### Ian Davis

Ian Davis has lived in Canberra for more than 20 years. He is the Executive Director of National Publishers (previously National Capital Newsletters), which he established after a career in

journalism (Finance Editor and News Editor of *The Canberra Times*, Government Business Editor of *The Australian Financial Review* and Economics Correspondent for *The Age*). National Publishers develop and publish newsletters and other publications for industry associations, government agencies and companies. He is a member of the Council of the University of Canberra and has three grown-up children.



### Joanne Krueger (Deputy Chair)

A Canberra resident since 1981, Joanne has over 25 years experience within the ACT and Commonwealth health systems, and has extensive experience

in quality assurance, strategic planning and risk management.

Joanne has a Masters of Business Administration, and a Diploma in Financial Services with the Australasian Institute of Credit Union Directors. She is a strong believer in cooperative endeavors and the tangible benefits that can flow to communities by working with marginalised and disadvantaged groups. She has well demonstrated her commitment working with the United Nations High Commissioner for Refugees during the Rwandan crisis and by contributing her time and efforts to raise supplies for the victims of the recent Tsunamis in Papua New Guinea and the Pacific regions. She has been an invited speaker at numerous National and International Health conferences and is a proactive voice for women's issues in the Canberra region.

In addition, Joanne has served as a Director of the YWCA Canberra, works in the Department of Veterans' Affairs and is currently the Deputy Chair on the Board of Service One Credit Union and in 2005 was the Convenor of the Board for the Women's Centre for Health Matters.



### Winston Phillips

Winston is 55 years of age, father of four children and lives on a small farm near Cooma. He was a Director of Snowy Mountains Credit Union from 1996 and Chair for two years.

He has been a Director of SOCU since it was formed in 2001. Chair of the Sir William Hudson Memorial Centre Nursing Home since 1999 and a Director since 1996, Winston has also been a Councillor on Cooma-Monaro Shire Council since 1991. A volunteer member of Bush Fire Brigades for 38 years, Winston is Chair of the Cooma-Monaro District Rural Fire Services Committee. He has been President of the Monaro High School Parents and Citizens Association for the past three years.



### Deborah Robinson

Deborah has 20 years of experience in the workforce, firstly in an audit role with a firm of Chartered Accountants, then as a manager/tax adviser with the Government sector.

Deborah has been a Credit Union member for over 30 years and an active Board member for 11 years having served on the Audit and Compliance, Finance and Risk and Corporate Governance Committees. Deborah has completed the Company Directors Course Diploma, a Master of Business Administration, a Bachelor of Commerce plus leadership training and industry specific courses. Deborah has strong financial and corporate governance skills, and a thorough understanding of the financial services industry in which we operate. She is married with two children and has lived in the local community since late 1974. Deborah also makes time to help out at her son's school.



### Colin Smeal

Colin came to Canberra in 1964 after having started his career working for one of the major banks in Sydney. He has a long history serving the ACT Hospital system and was a Director of the

ACT Hospitals and Health Employees Credit Union for 9 years, subsequently joining the Service

One Credit Union Board in March 2002. He has held senior level positions in both the private and public sector, including Director, Employment and Industrial Relations; Director, Personal Services; and Director Administration, Royal Canberra Hospital. Colin then moved on to become Director Executive and Workforce Management in the ACT Chief Minister's Department. Colin resigned from the ACT Public Service in 2002 and until recently was a Senior Policy Adviser with the Australian Medical Association. Colin is currently working on health policy issues with the Federal Department of Health and Ageing.



### Maria Storti

Maria Storti was appointed as a non-executive Director in August 2005. She has been a Chartered Accountant for more than 20 years and has extensive financial management and business

experience. She has worked in large organisations within Australia and internationally and is currently employed as Chief Finance Officer of ActewAGL and TransACT.



### Jim Wrenford

Jim has lived all his life in the Tumut Region, successfully conducting his own rural business in the Blowering and Adelong areas. For the past 3 years he has lived in semi-

retirement in Tumut. He is a foundation member of the Snowy Mountains Credit Union Tumut Branch. Over the years Jim has been involved with various local community organisations. Currently he is a Director of Gundagai Rural Lands Protection Board and serves on a number of Local and State Committees. He is also the State Observer at the Australian Plague Locusts Commission. Since his election as a Director he has completed several Credit Union related training courses. Jim has completed his 3 year term as a Director, due to personal reasons he will not be seeking re-election for another term.



## Chair's Report



In my last report I discussed the nature of the Service One family. I'd like to start this year's report on the same topic and herald some important changes to our vision and branding.

The Service One Credit Union family is made up of the members of our three Credit Unions, our staff, our suppliers and the communities within which we work and live. This family is built on mutual trust and our aspiration that members consider us their first port-of-call for financial advice.

We have now taken this aspiration one step further. The Board and senior management group have completed our three-year strategic plan: Vision 2009.

Our objective is to be the first-choice banking institution for those living in the ACT and South Eastern NSW. We intend achieving this through exceptional service, quality products, low fees, relevant product information and advice and well-managed growth and profitability.

Our confidence in achieving such an ambitious goal is founded in the knowledge of how we compare to the major banks. We recently approached Cannex, an independent financial monitoring firm, to compare our rates and fees to those of other financial institutions. Cannex found that compared to the major banks our members are up to \$143 better off each year by banking with us. This is a most encouraging result, reflecting, as it does, the Credit Union's commitment to our members.

In pursuing this vision we also have considered our branding. In my last report I spoke about our 'we are family' slogan and how it has been and continues to be well received by members. The challenge this year is to build on this acceptance by developing a group identity, which reflects our values.

When The Credit Union of Canberra, Hospitals Credit Union and Snowy Mountains Credit Union amalgamated in 2001 the name Service One Credit Union was chosen. Since then this name has remained generally unknown and has been used only for administrative purposes.

Our task over the coming year will be to develop a name and logo that both reflects the beliefs, values and origins of each Credit Union and gives us a group identity.

A new brand will inevitably bring some change. We will however, continue to offer our members the same exceptional service, low fees and competitive product selection that you have come to expect.

## Solid Financial Results

I am pleased to report solid financial results for the year ended 30 June 2006.

Your Credit Union's assets rose to \$230,681,000 (2005:\$221,937,000) during the year. Total members' funds increased to \$17,184,000 from (2005:\$16,050,000).

Profit after tax was \$1,134,000 compared with \$1,414,000 last year and was consistent with that budgeted.

The consolidated entity of Service One Credit Union - received \$8,986,000 (2005:\$8,374,000) in net interest revenue this financial year. Non-interest revenue fell to \$4,794,000 (2005:\$5,308,000). Non-interest expenses rose to \$11,915,000 from (2005:\$11,604,000).

The main driver of the profit result was the emphasis on the containment of costs and is a great credit to the work been done by management and staff in this area.

The 2006/07 financial year will see a continued focus on costs although we will be aiming for a higher level of growth in member loans and deposits.

Loan demand was constrained throughout most of the year, due to the softening real estate market and concerns about potential interest rate rises. Furthermore, we have experienced stiff competition for loans.

However, faced with a choice of lowering asset quality and chasing loan growth or maintaining asset quality at the cost of lower loan growth, the Board chose the latter option.

Given the conservative approach we have adopted during a period of strong asset appreciation, we are satisfied that we have a strong loan portfolio and that the Credit Union is in a sound financial position.

## Challenging Business Environment

The business environment within which we operate is becoming more and more competitive with new lenders appearing regularly. The Board's positioning of the Credit Union remains the same: we aim to provide an extensive range of competitive banking services, which are superior to those offered by the major banks.

While maintaining a strong emphasis on cost management, our strategy over the coming year will be to ensure that we provide members with high-quality financial services in a personal, caring manner with the emphasis on friendly, professional service.

Competitive pressure has been further compounded by a growing trend within the finance industry: fraud. There has been a great deal of publicity regarding the increase in the level of fraudulent activity in the financial industry. Fraudulent activity increases costs and often directly affects members. The key to defeating fraud is awareness, collaboration and education. We have an active fraud management program and take the protection and security of information, transaction data and privacy very seriously.

## Regulation and Corporate Governance

During the year the Board has given particular attention to corporate governance issues in order to ensure that our high standards of management are maintained and that we continue to seek improvement in our best-practice methods. Please refer to the Corporate Governance Statement commencing on page 3 of this report for more information on our approach.

## Products and Services

Service One Credit Union continues to provide members with a range of personal and business banking services comparable to those provided by the banks, but with one major difference - we exist solely to support the people who live and work in our community.

It is pleasing to see strong growth in the number of members completing their banking via our internet and telephone banking services. This is a reflection of the increased functionality and convenience available through these remote-access channels.

While the shift to electronic banking is acknowledged, our service emphasis means that we will continue to invest in the look and feel of our branches for those members who prefer to bank in-branch and to ensure an appropriate working environment for our staff.

In the coming 2006/07 year we will be refurbishing our Deakin, Bemboka and Calvary branches. These new refurbishments come after successful refurbishments at our Narooma and Tuggeranong branches.

We have also relocated our Woden and University of Canberra branches to newer premises and installed new ATMs at the Gunghalin Town Centre and the Vanilla Bean Café in the John Curtin Medical Research School at ANU this year.

New ATMs will be installed at the Brindabella complex at the Canberra airport and the Brand Depot in Fyshwick later this year.

## Member Survey

Member responses to the 2006 Member Survey were very encouraging. This type of member feedback is extremely important to us as it helps us improve our member services. Below are some of the key results:

- 95% of members found our staff helpful and friendly;
- 94% of members felt that we help make your banking simple; and
- 82% of members thought our involvement in the community was important.

Compare the results of our 2006 member survey with those of the 2004 and 2002 member surveys.

	2002	2004	2006
Found our staff are knowledgeable about the Credit Union's products and services	77%	91%	98%
Found our staff genuinely interested in your enquiries	88%	92%	96%
Found the website the preferred method of communication	16%	16%	51%

The majority of members are clearly satisfied and happy with the products and services provided by the Credit Union. The Credit Union will not however, allow itself to become complacent. We are always striving to provide our members with competitive products and services.

## People

A successful result does not happen by accident and this year has seen many challenges met by our Board, management and staff. They were unwavering in their professionalism, hard work and dedication in upholding our vision and values to make our Credit Union even stronger. I sincerely thank them for their work. The Board farewells Jim Wrenford and on behalf of members thank him for the past 3 years service.

There can be no doubt that our staff are our key asset. While the year ahead looks as though it will be challenging, the staff performance over the last 12 months gives me confidence that we will move forward with continued success.

The Board and staff are constantly aware that the Credit Union's sole reason for being is the service of its members. On behalf of the Directors and staff I thank you for your continued support and loyalty.

Remember that Service One Credit Union is your only locally run and managed Credit Union, serving your region.



**John Clarke**



## Involvement in Our Community

Service One Credit Union (SOCU) members are locals, we employ locally and we believe that one of our responsibilities is to give back to the local community. We therefore offer support to local sporting, cultural and charitable groups and organisations with philosophies similar to ours – organisations committed to enhancing the livelihood and well-being of the local community. For more information on our involvement in the community visit our web site at [www.wearefamily.com.au](http://www.wearefamily.com.au)

11 year old Rhyc, a huge fan, was thrilled with his win. He also received a signed CA Brumbies jersey.

### Activities 2005-06

#### Calvary Hospital Maternity Unit

On 1 July 2005 Calvary Hospital hosted a trivia night to raise funds for its Maternity Unit. The trivia night raised \$17,750 to assist with the purchase of an Emergency Mobile Ultrasound machine for unborn babies. Hospitals Credit Union donated the remaining \$2,000 to purchase the machine.

#### CA Brumbies



Winner of 'Toss the Coin'  
Rhyc with Stirling Mortlock

This year SOCU teamed up with the CA Brumbies for another exciting Super 14 season. Although we didn't get the result we were after, with the CA Brumbies narrowly missing out on a finals berth, we were once again able to provide local charitable

organisations and sporting groups with home game tickets. These groups included Camp Quality, The Canberra Hospital Oncology Ward and Childrens Ward, Cooma Rugby, Tumut Rotary, Valmar Support Tumut, Tumut Apex, ACT Eden Monaro Cancer Support, Cooma Athletics, Bemboka Fire Brigade and The Woden School.

During two home games we presented half-time entertainment with supporters given the chance to run out onto Canberra Stadium and towards the end of the season we ran a competition that gave rugby fans the chance to 'Toss the Coin' at the CA Brumbies vs Reds game. The lucky winner,

#### SouthCare and Service One to the rescue



SnowyHydro SouthCare Helicopter

From car accidents to rescue missions in the mountains, the Snowy Hydro SouthCare helicopter is there to help those in need. Providing the aero-medical and rescue helicopter service to the Australian Capital Territory and the south-east region of New South Wales, the Snowy Hydro SouthCare helicopter operates 24 hours a day, 365 days a year, rescuing patients and providing support to search and rescue operations and aerial fire-fighting missions.

SOCU recently teamed up with Snowy Hydro SouthCare to help it continue to save lives. The three year sponsorship reinforces Snowy Hydro SouthCare's presence in the Canberra and Snowy Mountains area. Wayne Evans, CEO of the Snowy Hydro SouthCare helicopter fund describes the partnership as 'beneficial for both organisations. It's a pleasure to work with the Credit Union because we actually know who we are dealing with; they are not just financial supporters, they understand our importance in the community'. SOCU is delighted to be working with the Snowy Hydro SouthCare helicopter service.

The SouthCare Helicopter Service's annual gala dinner was held earlier this year and saw over 400 people attend. The Credit Union donated a South Sydney jersey signed by Russell Crowe and a Balloon Aloft balloon ride for two over Canberra. Other fundraising activities at the dinner included silent and online auctions and a \$5,000 Briolette Diamond raffle that also gave guests a chance of winning \$10,000 in cash.

The dinner raised over \$70,000 for the Helicopter Service - a wonderful result.

### Sunday in the Park



Southy enjoying 'Sunday in the Park'

This year we were the proud sponsor of 'Sunday in the Park' - a classic Canberra event that drew thousands to Commonwealth Park for seven consecutive Sundays from January 8 2006 to February 19 2006. The Children had a ball with jumping castles, balloon modelling,

face painting and picnic games each week with entertainment provided by the Gecko Gang. Brumby Jack, Southy and the Snowy Hydro Southcare Helicopter made special guest appearances.

With the children busy, the adults were free to relax to the sounds of various jazz, funk and blues bands that performed each week. These events did Canberra proud and we encourage you to look out for them next summer.



Brumby Jack relaxing at 'Sunday in the Park'

### Dream and Achieve

Batemans Bay branch raised money to send 17 year old Abbey Earl to the World Youth Leadership conference in America. Abbey was one of 300 young Australians chosen by a global council to attend the conference.

With the help of the local community the Credit Union raised over \$12,500 for Abbey. The success of this joint venture prompted the creation of a foundation to help other local residents follow their dreams, the Batemans Bay Youth Foundation.

### Snowy River Festival



Action at The Snowy River Festival

Snowy Mountains Credit Union supported this year's Snowy River Festival held in Dalgety during November. The Snowy River Festival is a three-day celebration of the history, heritage and culture of the high country. With art exhibitions, the Stockman's challenge, a Bush dance, food fair and bush poetry the festival offered something for everyone. This year's festival will be held from 17-19 November 2006.



Ryan Pendergast winner 'Snowy River Challenge'

### 2006 Lions/Snowy Hydro Art Show

The 2006 Lions/Snowy Hydro Art Show was sponsored by Snowy Mountains Credit Union, with Cooma Branch Manager, Chris Brooks presenting the first place award: 'Best Watercolour Prize' to David Hatton for his outstanding painting 'Outback Silence NT'.

The judge commented: "Anyone who has travelled through the outback in the Northern Territory, or even Central Australia will be familiar with the deep blue sky set off by the red earth. The suggestion of tracks weaving through the landscape, scattering of trees and the hills in the far distance add depth and interest to this beautiful work."

The picture was sold at the show to a visitor from Delaware.

### Meals on Wheels

Every second month staff members from our Tumut branch collect meals from Tumut District Hospital and distribute them to the sick and elderly residents of Tumut. Our Tumut staff have been assisting Meals on Wheels for the past two years and will continue to support this vital community activity in the future.

### Donating with Denim

On the last Friday of each month members can see our staff looking a little less formal than usual, as we don our jeans for local charities. This year our staff donated over \$1,700 to local charities.

Jeans days this financial year have benefited the Kids Help Line, Childrens Medical Research Institute, Pink Ribbon Day, ACT Eden-Monaro Cancer Support group, CanAssist Cancer Support Tumut, The Cancer Council ACT, ACT Organ and Tissue Donation Service, Make-A-Wish Foundation, ANU Disability Service Unit, The Shepherd Centre and The Cancer Council – Biggest morning tea.



Staff supporting The Shepherd Centres' Loud Shirt Day

### Credit Union balloon

You may have noticed our balloon floating over Canberra this past year. With the help of Balloon Aloft we have donated balloon rides to the following community groups to assist with their fundraising efforts: Dream and Achieve Batemans Bay, SouthCare Gala Dinner, St Peters Anglican College Cultural Expo and CA Brumbies and ACT/NSW Junior Rugby Union.



Our Credit Union balloon

### Some community activities sponsored by The Credit Union of Canberra

The Credit Union of Canberra was proud to play a part in the community by making contributions to organisations like Tennis ACT, The Llewellyn Choir of Australian National University, CA Brumbies Super 14 Rugby Union, Canberra Tertiary Open Day, Centenary of Canberra, University of Canberra Blues and Leadership awards, Batemans Bay Orchid and Foliage Society, Batemans Bay Surf Life Saving Club, Broulee Surf Life Saving Club, Dolphins Junior Rugby, Far South Coast Rugby Union, Malua Bay Bowls, Circus Quirkos, The World Festival of Magic, and Canberra Special Childrens Christmas Party.



Colleen presenting Yvonne from ACT Eden Monaro Cancer Support with proceeds from Jeans Day

### Some community activities sponsored by Hospitals Credit Union

Hospitals Credit Union was proud to play a part in the community by supporting the Mary Potter Award, Calvary Hospital and The Canberra Hospital through our sponsorship of the Hospital Staff Excellence Awards and the Calvary and Canberra New Staff Induction morning tea.

### Some community activities sponsored by Snowy Mountains Credit Union

Snowy Mountains Credit Union was proud to play a part in the community by making contributions to organisations like Tumut Rugby Union, McAuley Catholic Central School, Tumut and District Woodworkers, Tumut Bike Race, Bemboka Show, Cooma Show, Candelo Show, 7<sup>th</sup> Light Horse Brigade, Snowy River Festival, Tumbarumba District Garden Club, Gadara P&C Special School, Bega Valley Community transport, Tumut Girl Guides, Meals on Wheels Tumut, Monaro Air Rifle Club, Yallabee Lodge, Cooma Unlimited, The Lions Club of Cooma and Dalgety Show Society.



## Directors' Report

Your Directors present their report, together with the financial statements of Service One Credit Union Limited ("the Credit Union") and its consolidated entities ("the group") for the year ended 30 June 2006.

### Directors

The Directors of the Credit Union, in office during the year and at the date of this report are:

Mr Erik Adriaanse;  
Mr John Clarke;  
Professor Jennifer Corbett;  
(appointed 22 August 2005);  
Mr Ian Davis;  
Mrs Joanne Krueger;  
Mr Winston Phillips;  
Mrs Deborah Robinson;  
Mr Colin Smeal;  
Ms Maria Storti (appointed 4 August 2005); and  
Mr James Wrenford.

Each Director holds one \$10 redeemable preference share in the Credit Union. Details of each Director's qualifications, experience and special responsibilities is detailed at page 9 and 10 of the Credit Union's Annual Report.

### Company Secretaries

**Peter L Carlin** BA(Acc), FCPA

Mr Carlin has been a Company Secretary and CEO of Service One Credit Union Ltd for 5 years. Prior to holding this position he was Company Secretary and CEO of The Credit Union of Canberra for 6 years.

Mr Carlin has been a CPA for over 16 years.

**Matthew D Smith** BComm, CPA

Mr Smith has been a Company Secretary of Service One Credit Union Ltd for 2 years and CFO of Service One Credit Union Ltd for 5 years. Prior to holding this position he was CFO of The Credit Union of Canberra for 6 years.

Mr Smith has been a CPA for over 6 years.

### Indemnifying an Officer or Auditor

No indemnities have been given or paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the Credit Union.

Insurance premiums have been paid to insure each of the Directors and Executive 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. The premiums relating to this insurance cannot be disclosed under the terms and conditions of this policy.

### Principal Activities

The principal activities of the Credit Union and the group during the financial year were the provision of retail financial services, insurance and other associated services to the members of the Credit Union in accordance with the Constitution of the Credit Union.

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

### Operating Results

The profit of the Credit Union and the group after income tax was \$1,134,000 (2005:\$1,414,000). The results for 2006 did not contain any material items of revenue or expense that are not of a recurring nature.

In accordance with Rule 7.1 of the Constitution of the Credit Union, no dividends are payable.

## Review of Operations

The results of the Credit Union's operations are as follows:

### Reserves

An amount of \$1,115,000 (2005:\$1,368,000) was transferred to reserves and \$19,000 (2005:\$46,000) was transferred to capital. Members' funds, representing reserves and capital, now total \$17,184,000 (2005:\$16,050,000).

### Assets

Assets increased by 3.9% to \$230,681,000 (2005:\$221,937,000).

### Loans

Loan balances increased by 6.2% to \$168,808,000 (2005:\$158,933,000).

### Deposits

Deposit balances increased by 3.4% to \$208,712,000 (2005:\$201,787,000).

### Members

Shareholder numbers increased by 0.6% to 33,620 (2005:33,419).

## Significant Changes in State of Affairs

No matter or circumstance that has arisen since the end of the year has significantly affected or may significantly effect:

- (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.

## Likely Developments and Results

Other than in the normal course of business, no significant developments are expected in the Credit Union's operation in future financial years.

## Subsequent Events after the Balance Date

There has been no transaction or event of a material or unusual nature likely to affect the operation of the Credit Union, the results of those operations or the state of affairs of the Credit Union.

## 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. The Credit Union is permitted to round to the nearest one thousand dollars (\$'000) for all amounts except prescribed disclosures which are shown in whole dollars.



## Directors' Benefits

No Director has received or become entitled to receive, during the financial year or since 30 June 2006, a benefit (other than benefits disclosed at note 24 of the financial statements) by reason of a contract made by the Credit Union, or an entity within the Credit Union group, with the Director, a firm of which the Director is a member, or a company in which the Director has a substantial financial interest.

## Auditor Independence and Non-audit Services

The Directors have been provided the Auditor's Independence Declaration and that Declaration appears at page 60 of the Annual Report.

### Non-audit Services

The following non-audit services were provided by the Credit Union's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services – \$8,646

Signed in accordance with a resolution of the Board of Directors.



**J C Clarke**  
Chair

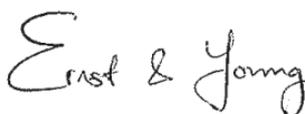


**J Krueger**  
Deputy Chair

Dated this 18th day of August 2006

## Auditor's Independence Declaration to the Directors of Service One Credit Union Limited

In relation to our audit of the financial report of Service One Credit Union Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act* 2001 or any applicable code of professional conduct.



**Ernst & Young**



**James Palmer**  
Partner

18 August 2006

Service One Credit Union Ltd  
ABN : 42 095 848 598

**Financial Report**  
**For the Year Ended 30 June 2006**

05-06

## Financial Report for the year ended 30 June 2006

### Income Statement

Year ended 30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Interest income	2	15,146	13,843	15,146	13,843
Interest expense	2	(6,160)	(5,469)	(6,160)	(5,469)
Net interest revenue	2	8,986	8,374	8,986	8,374
Other operating income	3	4,794	5,308	4,794	5,308
Impairment losses on loans and advances	9 (c)	(115)	(104)	(115)	(104)
Other operating expenses	3	(11,915)	(11,604)	(11,915)	(11,604)
Profit before income tax		1,750	1,974	1,750	1,974
Income tax attributable to profit	4	(616)	(560)	(616)	(560)
Net profit after income tax		1,134	1,414	1,134	1,414
Net profit attributable to members of Service One Credit Union Ltd		1,134	1,414	1,134	1,414

## Financial Report for the year ended 30 June 2006

## Balance Sheet

At 30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>ASSETS</b>					
Cash and liquid assets	5	10,764	12,472	10,764	12,472
Receivables due from other financial institutions	6	43,360	43,074	43,360	43,074
Accrued receivables	7	1,102	593	1,102	593
Investment securities	8	7	7	7	7
Loans and advances	9	168,808	158,933	168,808	158,933
Available for sale investments	11	1,514	1,735	1,315	1,536
Property, plant and equipment	12	3,592	3,320	3,592	3,320
Intangibles	13	524	668	524	668
Deferred tax assets	4	261	271	261	271
Other	14	749	864	749	864
<b>TOTAL ASSETS</b>		<b>230,681</b>	<b>221,937</b>	<b>230,482</b>	<b>221,738</b>
<b>LIABILITIES</b>					
Payables to other financial institutions	15	3	2	3	2
Deposits and borrowings	16	210,429	202,434	210,430	202,435
Deferred tax liabilities	4	281	268	281	268
Payables	17	2,071	2,223	2,071	2,223
Provisions	18	713	960	713	960
<b>TOTAL LIABILITIES</b>		<b>213,497</b>	<b>205,887</b>	<b>213,498</b>	<b>205,888</b>
<b>NET ASSETS</b>		<b>17,184</b>	<b>16,050</b>	<b>16,984</b>	<b>15,850</b>
<b>MEMBERS' FUNDS</b>					
Reserves		16,950	15,835	16,750	15,635
Capital		234	215	234	215
<b>TOTAL MEMBERS' FUNDS</b>		<b>17,184</b>	<b>16,050</b>	<b>16,984</b>	<b>15,850</b>

## Statement of Cash Flows

Year ended 30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Interest received		14,637	13,767	14,637	13,767
Interest costs		(6,066)	(5,277)	(6,066)	(5,277)
Fees and commissions received		4,353	4,472	4,353	4,472
Payments to suppliers and employees		(10,987)	(10,530)	(10,987)	(10,530)
GST paid		(309)	(360)	(309)	(360)
GST received		81	62	81	62
Dividends received		166	81	166	81
Income tax paid		(863)	(523)	(863)	(523)
Miscellaneous receipts		275	510	275	510
Net cash flows from/(used in) operating activities	19 (a)	1,287	2,202	1,287	2,202
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Net (increase)/decrease in investments		(65)	(8,431)	(65)	(4,196)
Net (increase)/decrease in loans to members		(9,990)	(3,968)	(9,990)	(8,203)
Proceeds from sale of investment property		-	4,475	-	4,475
Proceeds from sale of property, plant and equipment		11	30	11	30
Payments for property, plant and equipment		(946)	(811)	(946)	(811)
Net cash flows from/(used in) investing activities		(10,990)	(8,705)	(10,990)	(8,705)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Net increase in deposits from members		6,925	7,190	6,925	7,190
Net cash flows from/(used in) financing activities		6,925	7,190	6,925	7,190
Net increase/(decrease) in cash held		(2,778)	687	(2,778)	687
Cash at beginning of year		11,825	11,138	11,825	11,138
<b>CLOSING CASH CARRIED FORWARD</b>	19 (b)	<b>9,047</b>	<b>11,825</b>	<b>9,047</b>	<b>11,825</b>

## Financial Report for the year ended 30 June 2006

## Statement of Changes in Equity

## Consolidated

	Asset Revaluation Reserve	Capital Redemption Reserve	Retained Profits	General Reserve for Credit Losses	General Reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening – 1st July 2004	200	169	-	355	13,510	14,234
Profit for the year	-	-	1,414	-	-	1,414
Revaluation increment	574	-	-	-	-	574
Tax effect of revaluation	(172)	-	-	-	-	(172)
Transfer (from)/to general reserve	(200)	-	(1,368)	(5)	1,573	-
Transfer (from)/to capital redemption reserve	-	46	(46)	-	-	-
<b>Closing 30th June 2005</b>	<b>402</b>	<b>215</b>	<b>-</b>	<b>350</b>	<b>15,083</b>	<b>16,050</b>
Opening – 1st July 2005	402	215	-	350	15,083	16,050
Profit for the year	-	-	1,134	-	-	1,134
Transfer (from)/to general reserve	-	-	(1,115)	55	1,060	-
Transfer (from)/to capital redemption reserve	-	19	(19)	-	-	-
<b>Closing 30th June 2006</b>	<b>402</b>	<b>234</b>	<b>-</b>	<b>405</b>	<b>16,143</b>	<b>17,184</b>

## Service One Credit Union Ltd

	Asset Revaluation Reserve	Capital Redemption Reserve	Retained Profits	General Reserve for Credit Losses	General Reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening – 1st July 2004	-	169	-	355	13,510	14,034
Profit for the year	-	-	1,414	-	-	1,414
Revaluation increment	574	-	-	-	-	574
Tax effect of revaluation	(172)	-	-	-	-	(172)
Transfer (from)/to general reserve	-	-	(1,368)	(5)	1,373	-
Transfer (from)/to capital redemption reserve	-	46	(46)	-	-	-
<b>Closing 30th June 2005</b>	<b>402</b>	<b>215</b>	<b>-</b>	<b>350</b>	<b>14,883</b>	<b>15,850</b>
Opening – 1st July 2005	402	215	-	350	14,883	15,850
Profit for the year	-	-	1,134	-	-	1,134
Transfer (from)/to general reserve	-	-	(1,115)	55	1,060	-
Transfer (from)/to capital redemption reserve	-	19	(19)	-	-	-
<b>Closing 30th June 2006</b>	<b>402</b>	<b>234</b>	<b>-</b>	<b>405</b>	<b>15,943</b>	<b>16,984</b>

## Notes

30 June 2006

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* including applicable Accounting Standards.

The financial report has been prepared in accordance with the historical cost convention, except for land and building and some investments, which are measured at fair value.

The accounting policies adopted are consistent with industry standard.

The balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current, additional information regarding this are included in the relevant notes.

## Financial Report for the year ended 30 June 2006

## Notes

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

## Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed at Note 30.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard
2004-3	AASB1 First-time adoption of AIFRS AASB101 Presentation of Financial Statements AASB124 Related Party Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2006
2005-1	AASB139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006
2005-4	AASB139 <i>Financial Instruments: Recognition and Measurement</i> , AASB132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB1 First-time adoption of AIFRS, AASB1023 <i>General Insurance Contracts</i> and AASB1038 <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2006
2005-5	AASB1 First-time adoption of AIFRS and AASB139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006
2005-6	AASB3 <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact.	1 January 2006
2005-9	AASB4 <i>Insurance Contracts</i> , AASB1023 <i>General Insurance Contracts</i> , AASB139 <i>Financial Instruments: Recognition and Measurement</i> and AASB132 <i>Financial Instruments: Disclosure and Presentation</i>	No change to accounting policy required. Therefore no impact.	1 January 2006
2005-10	AASB132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB101 <i>Presentation of Financial Statements</i> , AASB114 <i>Segment Reporting</i> , AASB117 <i>Leases</i> , AASB133 <i>Earnings per Share</i> , AASB139 <i>Financial Instruments: Recognition and Measurement</i> , AASB1 First-time adoption of AIFRS, AASB4 <i>Insurance Contracts</i> , AASB1023 <i>General Insurance Contracts</i> and AASB1038 <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2007
2006-1	AASB121 <i>The Effects of Change in Foreign Currency Rates</i>	No change to accounting policy required. Therefore no impact.	1 January 2006
2006-2	AASB1 First-time adoption of AIFRS	No change to accounting policy required. Therefore no impact.	30 June 2006

## Notes

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

<b>New Standard/UIG Affected Standard(s)</b>	<b>Nature of change to accounting policy</b>	<b>Application date of standard/interpretation</b>
<i>AASB7 Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact.	1 January 2007
<i>UIG4 Determining whether an Arrangement contains a Lease</i>	No change to accounting policy required. Therefore no impact.	1 January 2006
<i>UIG5 Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	No change to accounting policy required. Therefore no impact.	1 January 2006
<i>UIG7 Applying the Restatement Approach under AASB129 Financial Reporting in Hyperinflationary Economies</i>	No change to accounting policy required. Therefore no impact.	1 March 2006
<i>UIG8 Scope of AASB2</i>	No change to accounting policy required. Therefore no impact.	1 May 2006
<i>UIG9 Reassessment of Embedded Derivatives</i>	No change to accounting policy required. Therefore no impact.	1 June 2006

## Financial Report for the year ended 30 June 2006

# Notes

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### Cash and Liquid Assets

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand. For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts. Cash on hand, bank deposits and other short term deposits are stated at their nominal values.

#### Loans and Advances

Loans and advances are financial assets with fixed and determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method.

Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans.

The loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account monthly.

Bad debts were written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the income statement.

#### Property, Plant and Equipment

Plant and equipment is stated at cost less, where applicable accumulated depreciation and any accumulated impairment losses. Where lease agreements include a requirement to restore the site to its original condition, an estimate of those costs is included in leasehold improvements and depreciated over the lease term.

Land and buildings are measured at fair value less accumulated depreciation on buildings and any accumulated impairment losses.

#### Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than leasehold land.

Major depreciation periods are:

	<b>2006</b>	2005
• Freehold buildings	<b>40 years</b>	40 years
• Leasehold improvements	<b>the lease term</b>	the lease term
• Plant, equipment and computer system	<b>3 to 15 years</b>	3 to 15 years

#### Revaluations

Following initial recognition at cost, land and building are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any subsequent accumulated impairment losses.

Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

## Financial Report for the year ended 30 June 2006

### Notes

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance in the revaluation reserve for that asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to general reserves.

Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair value at the balance sheet date.

#### *Impairment*

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell and value in use.

In 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.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement.

#### *Intangible assets*

Intangible assets are initially recognised at cost and following initial recognition, at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets are not capitalised and expenditure is charged against profits in the year in which the expenditure occurred.

Intangible assets are amortised over their useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives of intangible assets is assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset maybe impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimates. The amortisation expense on intangibles with finite useful lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

All recognised intangible assets have been assessed as having a finite useful life and the major amortisation periods are:

- |                     |                      |               |
|---------------------|----------------------|---------------|
|                     | <b>2006</b>          | 2005          |
| • Computer software | <b>3 to 15 years</b> | 3 to 15 years |

## Financial Report for the year ended 30 June 2006

# Notes

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### Impairment of Assets

The Credit Union assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Credit Union makes an estimate of the assets recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other asset groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs.

When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount.

In 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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in previous years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Employee Benefits

*Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using a probability based assessment method. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on bank bill swap rates with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### Trade and Other Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Credit Union prior to the end of the financial year that are unpaid and arise when the Credit Union becomes obligated to make future payments in respect of the purchase of these goods and services.

#### Provisions

Provisions are recognised when the Credit Union has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Credit Union expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

## Financial Report for the year ended 30 June 2006

# Notes

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Fees and Commissions*

Loan fees are brought to account as income in the year of receipt. No loan fees were in excess of costs.

Fee and commission income is recognised as revenue on an accrual basis.

##### *Interest*

Interest on member loans is brought to account as revenue in the month in which the interest is charged to members' accounts.

Interest on investments is recognised as it accrues, taking into account the effective yield on the financial assets.

#### Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes presented in these financial statements.

#### Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

#### Taxes

##### *Income taxes*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carry amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or subsequently enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

## Financial Report for the year ended 30 June 2006

# Notes

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### *Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### **Principles of Consolidation**

The consolidated financial statements are those of the consolidated entity, comprising Service One Credit Union Ltd (the Credit Union) and all entities that Service One Credit Union Ltd controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

#### **Investments**

Financial assets are classified as either financial assets at fair value through the profit and loss, loans and receivables, held-to-maturity investments, or available for sale investments, as appropriate. The Credit Union determines the classification of financial assets after initial recognition and, when appropriate, re-evaluates the classification at the end of each year.

All Investments have been classified as available-for-sale investments as at the end of the year.

Available for sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value, as a loan or receivable or as a held-to maturity investment. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques, such techniques include using recent arm's length market transactions; reference to current market value of another instrument that is substantially the same and discounted cash flow analysis. For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost.

## Notes

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### Nature and Purpose of Members' Funds

##### *General Reserve*

Any unappropriated profit from the Credit Union's operations is transferred to the General Reserve. The General Reserve contains amounts of retained profits that have been set aside by the Directors for the purpose of funding future operations of the Credit Union.

##### *Asset Revaluation Reserve*

Any revaluation increments or decrements of non current assets are recorded in the Asset Revaluation Reserve.

##### *Capital Redemption Account*

Under the *Corporations Act 2001* redeemable preference shares (member shares) may only be redeemed out of profits or from a new share issue for the purposes of redemption. The Capital Redemption Account represents the shares redeemed by members. Member shares for existing and new members of the Credit Union are shown as liabilities.

##### *General Reserve for Credit Losses*

The general reserve for credit losses is based on 0.5% of those Risk Weighted Assets for which a specific provision has not already been raised. Risk Weighted Assets are calculated using the formula of the Australian Prudential Regulation Authority's Prudential Standards.

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006

Notes

	Consolidated		
	Average Balance \$'000	Interest \$'000	Average Interest Rate %
<b>2. INTEREST REVENUE AND INTEREST EXPENSE</b>			
The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are month-end averages.			
<b>Interest revenue 2005</b>			
Cash and liquid assets	9,790	228	2.33%
Receivables due from other financial institutions	34,814	1,897	5.45%
Loans and advances	158,006	11,718	7.42%
	202,610	13,843	6.83%
<b>Interest expense 2005</b>			
Member deposits	192,745	5,451	2.83%
Borrowings	134	18	13.43%
	192,879	5,469	2.84%
Net interest income 2005		8,374	
<b>Interest revenue 2006</b>			
Cash and liquid assets	9,741	275	2.82%
Receivables due from other financial institutions	46,516	2,664	5.73%
Loans and advances	161,936	12,207	7.54%
	218,193	15,146	6.94%
<b>Interest expense 2006</b>			
Member deposits	203,963	6,126	3.00%
Borrowings	778	34	4.37%
	204,741	6,160	3.01%
Net interest income 2006		8,986	

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>3. OTHER OPERATING INCOME AND EXPENSES</b>					
<b>Fees and commissions income</b>					
- Loan fee income		496	461	496	461
- Other fee income		3,250	3,389	3,250	3,389
- Insurance commissions		281	287	281	287
- Other commissions		326	335	326	335
		<b>4,353</b>	<b>4,472</b>	<b>4,353</b>	<b>4,472</b>
<b>Other operating revenue</b>					
- Bad debts recovered		184	114	184	114
- Other		257	477	257	715
		<b>441</b>	<b>591</b>	<b>441</b>	<b>829</b>
<b>Other operating income</b>					
- Net gain from sale of investment property		-	238	-	-
- Net gain from sale of plant and equipment		-	7	-	7
		<b>-</b>	<b>245</b>	<b>-</b>	<b>7</b>
Other operating income		<b>4,794</b>	<b>5,308</b>	<b>4,794</b>	<b>5,308</b>
<b>Other expenses</b>					
<b>Amortisation</b>					
- Leasehold improvements		156	159	156	159
		<b>156</b>	<b>159</b>	<b>156</b>	<b>159</b>
<b>Depreciation</b>					
- Plant and equipment		397	379	397	379
- Building		42	21	42	21
- Computer system		210	255	210	255
		<b>649</b>	<b>655</b>	<b>649</b>	<b>655</b>
<b>General and administration costs</b>					
- Personnel		3,987	3,596	3,987	3,596
- Insurance, compliance and legal		542	604	542	604
- Occupancy		245	226	245	226
- Marketing		433	438	433	438
- Printing, stationery and production		267	243	267	243
- Cash delivery charges		427	423	427	423
- Communications		281	311	281	311
- Maintenance and support		401	432	401	432
- Members transactions related costs		2,256	2,325	2,256	2,325
- Other		1,299	1,202	1,299	1,202
		<b>10,138</b>	<b>9,800</b>	<b>10,138</b>	<b>9,800</b>
Rental – operating leases		697	670	697	670
Net loss from sale of plant and equipment		2	-	2	-
<b>Other provisions</b>					
- Provision for employee benefits		273	320	273	320
Other expenses		<b>11,915</b>	<b>11,604</b>	<b>11,915</b>	<b>11,604</b>

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>4. INCOME TAX</b>					
The major components of income tax are:					
<b>Income statement</b>					
<i>Current income tax</i>					
Current income tax charge		593	551	593	551
Adjustments in respect of current income tax of previous years		-	(60)	-	(60)
<i>Deferred income tax</i>					
Relating to origination and reversal of temporary differences		23	69	23	69
Income tax expense reported in the income statement		<b>616</b>	560	<b>616</b>	560
<b>Statement of changes in equity</b>					
<i>Deferred income tax related to items charged or credited directly to equity</i>					
Net gain on revaluation of land and building		-	172	-	172
Income tax expense reported in equity		-	172	-	172
A reconciliation between tax expense and the product of accounting profit before tax multiplied the applicable tax rate is as follows:					
Accounting profit before income tax		<b>1,750</b>	1,974	<b>1,750</b>	1,974
Income tax at 30%		525	592	525	592
Adjustments in respect of current income tax of previous years		-	(60)	-	(60)
Capital gains tax on sale of investment property		-	58	-	58
Rebatable dividend payments		(34)	(24)	(34)	(24)
Depreciation allowance on investment building		-	(1)	-	(1)
Other non-assessable income		-	(85)	-	(85)
Other non-deductible expenses		125	80	125	80
Income tax reported in the income statement		<b>616</b>	560	<b>616</b>	560
<b>Deferred income tax</b>					
<i>Deferred tax liabilities</i>					
Accelerated depreciation for tax purposes		109	96	109	96
Revaluation of building to fair value		172	172	172	172
		<b>281</b>	268	<b>281</b>	268

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>4. INCOME TAX (cont)</b>					
<i>Deferred tax asset</i>					
Employee provisions		147	139	147	139
Provision for doubtful debts		12	26	12	26
Other provisions		32	33	32	33
Accelerated depreciation on building for accounting purposes		61	49	61	49
Accrued expenses		9	24	9	24
		<b>261</b>	<b>271</b>	<b>261</b>	<b>271</b>

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>5. CASH AND LIQUID ASSETS</b>					
Cash on hand and at banks		3,664	3,940	3,664	3,940
Deposits at call		7,100	8,532	7,100	8,532
		<b>10,764</b>	<b>12,472</b>	<b>10,764</b>	<b>12,472</b>
Cash at banks and deposits at call earn interest at floating rates on daily deposit rates. These deposits are available within a maximum of two working days.					
<b>6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS</b>					
Interest bearing deposits with CUSCAL	29 (a)	43,358	43,069	43,358	43,069
Other Credit Union receivables		2	5	2	5
		<b>43,360</b>	<b>43,074</b>	<b>43,360</b>	<b>43,074</b>
<b>Maturity analysis</b>					
Not longer than 3 months		23,360	32,074	23,360	32,074
Longer than 3 and not longer than 12 months		20,000	11,000	20,000	11,000
		<b>43,360</b>	<b>43,074</b>	<b>43,360</b>	<b>43,074</b>
<b>7. ACCRUED RECEIVABLES</b>					
Interest receivable	29 (a)	1,102	593	1,102	593
<b>8. INVESTMENT SECURITIES</b>					
Other		7	7	7	7
<b>Maturity analysis</b>					
Longer than 1 and not longer than 5 years		7	7	7	7
<b>9. LOANS AND ADVANCES</b>					
Overdrafts		20,928	22,427	20,928	22,427
Other		147,921	136,593	147,921	136,593
Provision for impairment	9 (c)	(41)	(87)	(41)	(87)
Net loans and advances		<b>168,808</b>	<b>158,933</b>	<b>168,808</b>	<b>158,933</b>
<b>(a) Maturity analysis</b>					
Overdrafts		20,928	22,427	20,928	22,427
Not longer than 3 months		3,044	3,067	3,044	3,067
Longer than 3 and not longer than 12 months		9,878	9,016	9,878	9,016
Longer than 1 and not longer than 5 years		34,292	34,983	34,292	34,983
Longer than 5 years		100,666	89,440	100,666	89,440
Net loans and advances		<b>168,808</b>	<b>158,933</b>	<b>168,808</b>	<b>158,933</b>

## Notes

30 June 2006

Notes

	Consolidated		Service One Credit Union Ltd	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>9. LOANS AND ADVANCES (Cont)</b>				
(b) Concentration of Risk				
The loan portfolio of the Credit Union does not include any loan that represents 10% or more of capital.				
(c) Provision for impairment				
Specific provision				
Opening balance	87	351	87	351
Bad debts previously provided for written off during the year	(151)	(353)	(151)	(353)
Bad and doubtful debts provided for during the year	105	89	105	89
Closing balance	41	87	41	87
Charge to income statement for impairment losses on loans and advances comprises:				
Specific provision	105	89	105	89

The specific provision for impairment includes the provision required under the prudential standards at 30 June 2006, and a provision for specifically identified individual loans.

Items not specifically provided for are charged directly to the expense account. (2006:\$10,548, 2005:\$15,571).

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>10. IMPAIRMENT OF LOANS AND ADVANCES</b>					
The policy covering impaired loans and advances is set out in Note 1.					
<i>Impaired loans with specific provision for impairment</i>					
		184	154	184	154
		(41)	(87)	(41)	(87)
		143	67	143	67
<i>Impaired loans without specific provision for impairment</i>					
		151	565	151	565
		294	632	294	632
<b>11. AVAILABLE FOR SALE INVESTMENTS</b>					
		408	408	408	408
		884	1,105	884	1,105
		21	21	21	21
		2	2	2	2
		125	125	-	-
		74	74	-	-
		1,514	1,735	1,315	1,536
<b>Investment in controlled entity</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Investment in controlled entity comprises:					
Name	Country of incorporation	Percentage of equity interest held by the economic entity			
		2006	2005		
		%	%		
CUC No 1 Pty Ltd	Australia	100	100	2	2
- ordinary shares					

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>12. PROPERTY, PLANT AND EQUIPMENT</b>					
<b>Leasehold land</b>					
At fair value		290	290	290	290
<b>Building on leasehold land</b>					
At fair value		1,864	1,682	1,864	1,682
Provision for depreciation		(63)	(21)	(63)	(21)
		<b>1,801</b>	<b>1,661</b>	<b>1,801</b>	<b>1,661</b>
Total leasehold land and buildings		<b>2,091</b>	<b>1,951</b>	<b>2,091</b>	<b>1,951</b>
<b>Leasehold improvements</b>					
At cost		1,551	1,483	1,551	1,483
Provision for amortisation		(896)	(972)	(896)	(972)
Total leasehold improvements		<b>655</b>	<b>511</b>	<b>655</b>	<b>511</b>
<b>Plant and equipment</b>					
At cost		4,078	3,711	4,078	3,711
Provision for depreciation		(3,232)	(2,853)	(3,232)	(2,853)
Total plant and equipment		<b>846</b>	<b>858</b>	<b>846</b>	<b>858</b>
Total written down value		<b>3,592</b>	<b>3,320</b>	<b>3,592</b>	<b>3,320</b>
<p>The fair value of leasehold land and building having a cost of \$1.5 million has been determined by reference to Directors' valuation based upon the independent valuation of Collier International Consultants and Valuation Pty Ltd as at 15 November 2005.</p>					
<b>Reconciliation of carrying amount of property, plant and equipment for the financial year.</b>					
<b>Leasehold land and building</b>					
Carrying amount at beginning of year		1,951	1,398	1,951	1,398
Revaluation		-	574	-	574
Additions		182	-	182	-
Depreciation		(42)	(21)	(42)	(21)
Carrying amount at end of year		<b>2,091</b>	<b>1,951</b>	<b>2,091</b>	<b>1,951</b>

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>12. PROPERTY, PLANT AND EQUIPMENT (Cont)</b>					
<b>Leasehold improvements</b>					
Carrying amount at beginning of year		511	359	511	359
Additions		300	311	300	311
Amortisation		(156)	(159)	(156)	(159)
Carrying amount at end of year		655	511	655	511
<b>Plant and equipment</b>					
Carrying amount at beginning of year		858	849	858	849
Additions		398	411	398	411
Disposals		(13)	(23)	(13)	(23)
Depreciation		(397)	(379)	(397)	(379)
Carrying amount at end of year		846	858	846	858
Property, plant and equipment are subject to:					
a) fixed and floating charge to secure credit facilities provided by CUSCAL					
b) a floating charge executed under the Emergency Liquidity Support Scheme to secure an advances that may be made to the Credit Union under the scheme.					
<b>13. INTANGIBLES (Computer Software)</b>					
At cost		1,422	1,480	1,422	1,480
Provision for amortisation		(898)	(812)	(898)	(812)
Total written down value		524	668	524	668
<b>Reconciliation of carrying amount of intangibles for the financial year.</b>					
Carrying amount at beginning of year		668	834	668	834
Additions		66	89	66	89
Amortisation		(210)	(255)	(210)	(255)
Carrying amount at end of year		524	668	524	668
<b>14. OTHER ASSETS</b>					
Prepayments		381	343	381	343
Other		368	521	368	521
		749	864	749	864
<b>15. PAYABLE TO OTHER FINANCIAL INSTITUTIONS</b>					
Other Credit Union payables		3	2	3	2

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>16. DEPOSITS AND BORROWINGS</b>					
		118,626	113,049	118,627	113,050
Call deposits					
Term deposits		90,086	88,738	90,086	88,738
		208,712	201,787	208,713	201,788
		1,717	647	1,717	647
Borrowings					
	29 (a)	210,429	202,434	210,430	202,435
<b>(a) Deposits</b>					
Maturity Analysis					
At call		118,626	113,049	118,627	113,050
Not longer than 3 months		43,997	42,993	43,997	42,993
Longer than 3 and not longer than 12 months		40,090	37,601	40,090	37,601
Longer than 1 and not longer than 5 years		5,999	8,144	5,999	8,144
		208,712	201,787	208,713	201,788
Included in call deposits above is an amount of \$310,000 (2005:\$308,000) representing member shares. These shares are withdrawable by members on resignation from the Credit Union.					
<b>Concentration of deposits</b>					
The Credit Union's deposit portfolio does not include any deposit that represents 10% or more of total liabilities.					
<b>(b) Borrowings</b>					
Unsecured					
- Bank overdrafts – other financial institution		593	647	593	647
Secured					
- Overdraft – CUSCAL		1,124	-	1,124	-
Total Borrowings		1,717	647	1,717	647
Credit facilities provided by CUSCAL are secured by a fixed and floating charge over all of the assets and undertakings of the Credit Union.					
Maturity Analysis					
Not longer than 3 months		1,717	647	1,717	647
		1,717	647	1,717	647
<b>17. PAYABLES</b>					
Trade creditors	29 (a)	291	430	291	430
Accrued interest payable		1,570	1,476	1,570	1,476
Other creditors		210	317	210	317
		2,071	2,223	2,071	2,223

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>18. PROVISIONS</b>					
Employee benefits - Annual leave		244	228	244	228
- Long service leave		245	235	245	235
		<b>489</b>	<b>463</b>	<b>489</b>	<b>463</b>
- Fringe benefits tax		7	7	7	7
Make good on leased premises		99	102	99	102
Income tax		118	388	118	388
		<b>713</b>	<b>960</b>	<b>713</b>	<b>960</b>
<i>Provision for fringe benefits tax</i>					
Carrying amount at beginning of year		7	20	7	20
Arising during the year		30	29	30	29
Utilised		(30)	(42)	(30)	(42)
Carrying amount at end of year		7	7	7	7
<i>Provision for make good</i>					
Carrying amount at beginning of year		102	96	102	96
Arising during the year		29	1	29	1
Unused amounts reversed		(35)	(2)	(35)	(2)
Discount rate adjustments		3	7	3	7
Carrying amount at end of year		99	102	99	102
In accordance with branch and ATM lease agreements the Credit Union must restore the leased premises to its original condition before the expiry of the lease term.					
During the year, \$35,000 was reversed for costs that were not incurred on the renewal of branch leases and \$29,000 was recognised in respect of the new leases.					
Because of the long term nature of the liability, the uncertainty in estimating the provision is the costs that will ultimately be incurred, the provision has been discounted using bank bill swap rates that match as closely as possible the remaining term of each lease agreement.					

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>19. STATEMENT OF CASH FLOWS</b>					
(a) Reconciliation of the operating profit after tax to the net cash flows from operations					
	Profit from ordinary activities after tax	1,134	1,414	1,134	1,414
	Charge for bad and doubtful debts	115	104	115	104
	Depreciation	649	655	649	655
	Amortisation	156	159	156	159
	Net loss on disposal of plant and equipment	2	-	2	-
	Net (gain)/loss on sale of investment property	-	(238)	-	-
	Net (gain)/loss on disposal of plant and equipment	-	(7)	-	(7)
<b>Changes in assets and liabilities</b>					
	Interest receivable	(509)	(76)	(509)	(76)
	Other receivables	115	(180)	115	(418)
	Provisions	(224)	(41)	(224)	(41)
	Other payables	(151)	412	(151)	412
	Net cash flows from operating activities	1,287	2,202	1,287	2,202
(b) Reconciliation of cash					
Cash balance comprises:					
	– Cash	3,664	3,940	3,664	3,940
	– Other short-term liquid assets	7,100	8,532	7,100	8,532
	– Bank overdraft	(1,717)	(647)	(1,717)	(647)
	Closing cash balance	9,047	11,825	9,047	11,825
(c) Cash flows presented on a net basis					
Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:					
	(i) member deposits to and withdrawals from deposit accounts;				
	(ii) borrowings and repayments on loans to members; and				
	(iii) sales and purchases of investments.				
(d) Bank overdraft and loan facilities					
The Credit Union has an overdraft facility available to the extent of \$4,000,000 and pre-approved loan facility of \$6,000,000. Both credit facilities are provided by CUSCAL and are secured by a fixed and floating charge over all of the assets and undertakings of the Credit Union. At balance date, the bank overdraft was in use by \$1,254,040 (2005:nil) leaving \$2,745,960 available (2005:\$4,000,000) and the pre-approved loan facility was unused.					



## Notes

30 June 2006

Notes

	Consolidated		Service One Credit Union Ltd	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>22. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS</b>				
Credit related commitments				
Binding commitments to extend credit are agreements to lend to members as long as there is no violation of any condition established in the contract. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.				
Credit limits undrawn	<b>15,838</b>	14,714	<b>15,838</b>	14,714
Approved but undrawn loans	<b>974</b>	1,052	<b>974</b>	1,052
	<b>16,812</b>	15,766	<b>16,812</b>	15,766
The Credit Union has issued a floating charge over all assets of the Credit Union. This has been executed under the Emergency Liquidity Support Scheme to secure any advances that may be made to the Credit Union under the Scheme.				
As at 30th June 2006 there were no contingent liabilities.				
<b>23. SUBSEQUENT EVENTS</b>				
There has been no transaction or event of a material or unusual nature likely to affect the operation of the Credit Union, the results of those operations or the state of affairs of the Credit Union.				

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006	Notes	Consolidated		Service One Credit Union Ltd	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>24. DIRECTOR AND EXECUTIVE DISCLOSURES</b>					
(a) Details of key management personnel					
The Directors of Service One Credit Union Ltd during the year were:					
Mr E M Adriaanse;					
Mr J C Clarke (Chair);					
Professor J Corbett (appointed 22nd August 2005);					
Mr I Davis;					
Mrs J Krueger ;					
Mr W C Phillips;					
Mrs D Robinson;					
Mr C Smeal;					
Ms M Storti (appointed 4th August 2005); and					
Mr J Wrenford.					
The executives of Service One Credit Union Ltd during the year were:					
Mr P L Carlin Chief Executive Officer; and					
Mr M D Smith Chief Finance Officer.					
See Note 24(c) for disclosure on loans to key management personnel.					
(b) Key management personnel compensation					
Short-term employee benefits		<b>475,019</b>	425,026	<b>475,019</b>	425,026
Post-employment benefits		<b>40,809</b>	36,131	<b>40,809</b>	36,131
		<b>515,828</b>	461,157	<b>515,828</b>	461,157
(c) Loans to key management personnel					
Loans have been made to key management personnel and spouses on terms and conditions no more favourable than those available on similar transactions to members of the Credit Union.					
The terms and conditions in respect of all loans to key management personnel have not been breached.					
Aggregate amount outstanding at balance date		<b>93,563</b>	104,560	<b>93,563</b>	104,560
Aggregate amount of repayments received during the financial year		<b>18,690</b>	17,960	<b>18,690</b>	17,960
Key management personnel concerned:					
Mr I Davis, Mr W Phillips.					
Aggregate amount of approved overdraft facilities		<b>30,000</b>	30,000	<b>30,000</b>	30,000
Aggregate amount drawn against overdraft facilities		<b>3,147</b>	4,836	<b>3,147</b>	4,836
Key management personnel concerned:					
Mr J Clarke, Mr J Wrenford, Mr C Smeal, Mr P Carlin and Mr M Smith.					

## Notes

30 June 2006

Notes	Consolidated		Service One Credit Union Ltd	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>25. AUDITOR'S REMUNERATION</b>				
Amounts received or due and receivable by Ernst and Young for:				
– an audit of the financial statements of the entity and any other entity in the consolidated entity				
– current year	74,500	60,700	74,500	60,700
– tax services in relation to the entity and any other entity in the consolidated entity	8,646	20,049	8,646	20,049
	<b>83,146</b>	<b>80,749</b>	<b>83,146</b>	<b>80,749</b>
<b>26. ECONOMIC DEPENDENCY</b>				
The Credit Union has an economic dependency on:				
Credit Union Services Corporation (Australia) Ltd (CUSCAL) supplies the Credit Union rights to Visa Card in Australia and provides services in the form of settlement with bankers for ATM and Visa Card transactions, and the production of Visa and Redicards for its members. It also provides treasury and money market facilities to the Credit Union.				
First Data Corporation Ltd operates the switching computer used to link Redicards operated through Reditellers and other ATM suppliers to the Credit Union's computer system.				
Transaction Solutions Pty Ltd who operate the computer facility on behalf of the Credit Union in conjunction with other Credit Unions.				
FiServ Solutions Australia Pty Ltd provides core-banking software to the Credit Union for the processing of all member accounts and related activities.				
<b>27. RELATED PARTY DISCLOSURES</b>				
See Note 24(c) for disclosure on loans to Directors.				
Shareholding				
Each Director holds one \$10 redeemable preference share in the Credit Union.				

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006

## 28. SEGMENT INFORMATION

The economic entity operates predominantly in one business and geographical segment being the finance industry within Australia. The operations comprise the acceptance of deposits and the provision of loans.

## 29. FINANCIAL INSTRUMENTS

## (a) Terms, conditions and accounting policies

The consolidated entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument at the balance date, are as follows:

Recognised Financial Instruments	Notes	Accounting Policies	Terms and Conditions
<i>(i) Financial assets</i>			
Loans and Advances	9	The loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account generally on the last day of each month. Loans and advances are measured at amortised cost using the effective interest rate method. Further details on the classification for loans are in Note 1.	All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
Due from other financial institutions, accrued receivables and other short-term deposits	6,7	Short-term deposits are measured at amortised cost using the effective interest rate method. Interest is accrued on a monthly basis and recognised when earned.  Other Credit Union receivables are recognised at their nominal amounts.	Short-term deposits have an average maturity of 115 days and effective interest rates of 5.33% to 6.16%.  Receivables due from other Credit Unions are normally settled within 7 days.
<i>(ii) Financial liabilities</i>			
Bank overdrafts	16(b)	The bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate.
Trade creditors	17	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade liabilities are normally settled on 30-day terms.
Payable to other financial institutions	15	Payables to other Credit Unions are carried at their nominal amounts.	Payables to other Credit Unions are normally settled within 7 days.
Deposits	16(a)	Short term deposits are recorded at the principal amount. Long term deposits are measured at amortised cost using the effective interest rate method.	Details of maturity terms are set out in Note 16(a). Interest is calculated on the daily balance outstanding.
Borrowings	16(b)	The borrowings are carried at the principal amount. Interest is charged as an expense as it accrues.	Interest charged on borrowings is fixed for the term of the loan. Interest payments are made quarterly in arrears. Details of the security over the borrowings are set out in Note 16(b).

## Notes

30 June 2006

### 29. FINANCIAL INSTRUMENTS (Cont)

#### (b) Interest rate risk

The economic entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at the balance date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in:								Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate		
	2006 \$'000	2005 \$'000	1 month or less	1 month to 3 months		3 months to 12 months		1 year to 5 years		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 %	2005 %
				2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000								
<b>(ii) Financial assets</b>																	
Cash and liquid assets	7,100	8,532	-	-	-	-	-	-	-	3,664	3,940	10,764	12,472	3,70%	3,54%		
Due from other financial institutions	-	-	7,000	13,500	16,358	18,569	20,000	11,000	-	2	5	43,360	43,074	5,79%	5,71%		
Accrued receivables	-	-	-	-	-	-	-	-	-	1,102	593	1,102	593	N/A	N/A		
Investment securities	-	-	-	-	-	-	-	-	-	7	7	7	7	N/A	N/A		
Loans and advances	127,118	130,066	1,470	1,487	3,400	2,487	17,419	11,941	19,442	-	-	168,849	159,020	7,66%	7,62%		
Available for sale investments	-	-	-	-	-	-	-	-	-	1,514	1,735	1,514	1,735	N/A	N/A		
<b>Total financial assets</b>	<b>134,218</b>	<b>138,598</b>	<b>8,470</b>	<b>14,987</b>	<b>19,758</b>	<b>21,056</b>	<b>37,419</b>	<b>22,941</b>	<b>19,442</b>	<b>6,289</b>	<b>6,280</b>	<b>225,596</b>	<b>216,901</b>				

N/A - not applicable for non-interest bearing financial instruments.

Exposure to interest risks and the effective interest rates are the same for both the consolidated entity and for the Credit Union.

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006

## 29. FINANCIAL INSTRUMENTS (Cont)

## (b) Interest rate risk (Cont)

Financial Instruments	Floating interest rate		Fixed interest rate maturing in:								Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate		
	2006 \$'000	2005 \$'000	1 month or less	1 month to 3 months	3 months to 12 months	1 year to 5 years	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 %	2005 %	
<i>(i) Financial liabilities</i>																	
Bank overdrafts and borrowings	1,124	-	-	-	-	-	-	-	-	-	593	647	1,717	647	5.79%	N/A	
Deposits	118,626	113,049	14,164	29,833	40,090	5,999	8,144	-	-	-	-	208,712	201,787	2.94%	2.94%		
Trade creditors	-	-	-	-	-	-	-	-	-	-	291	430	291	430	N/A	N/A	
Accrued interest payable	-	-	-	-	-	-	-	-	-	-	1,570	1,476	1,570	1,476	N/A	N/A	
Other creditors	-	-	-	-	-	-	-	-	-	-	210	317	210	317	N/A	N/A	
Total financial liabilities	119,750	113,049	14,164	29,833	40,090	5,999	8,144	2,664	2,870	2,664	2,870	212,500	204,657				

N/A - not applicable for non-interest bearing financial instruments.

Exposure to interest risks and the effective interest rates are the same for both the consolidated entity and for the Credit Union.

## Financial Report for the year ended 30 June 2006

### Notes

30 June 2006

#### 29. FINANCIAL INSTRUMENTS (Cont)

##### (c) Net fair values

All financial assets and liabilities have been recognised at balance date at their net fair value.

**The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:**

*Cash and liquid assets and due from other financial institutions:* The carrying amounts approximate fair value because of their short-term to maturity or are receivable on demand.

*Loans and advances:* The fair values of loans receivable excluding impaired loans are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The net fair value of impaired loans was calculated by discounting expected cash flows using a rate, which includes a premium for the uncertainty of the flows.

*Investments securities and available-for-sale investments:* For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment securities and available-for-sale investments.

*Payables to other financial institutions:* The carrying amount approximates fair value because of their short-term to maturity.

*Deposits and borrowings:* The carrying amount approximates fair value for on call deposits and borrowings because of their short-term to maturity. For deposits that are long term, the fair value is calculated by discounting the expected cash flows at prevailing interest rates.

*Payables:* This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value.

##### (d) Credit risk

The Credit Union's maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date, to recognised financial assets is the carrying amount, as disclosed in the balance sheet and notes to the financial statements.

Concentrations of credit risk, where applicable, are identified in the notes to the relevant financial assets.

Credit risk in loans receivable is managed in the following ways:

- a risk assessment process is used for all members; and
- where a loan to value ratio exceed policy limits on mortgage secured loans, mortgage guarantee insurance is taken.

##### (e) Interest rate risk

The Board of the Credit Union has in place a market risk management policy which sets limits on the exposure to interest rate risk. The Credit Union actively manages the exposure through balance sheet techniques and may use instruments such as derivatives if it were likely that policy limits would be exceeded.

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006

## 30. INTERNATIONAL FINANCIAL REPORTING STANDARDS

Balance Sheet reflecting reconciliation of adjustments to:

AIFRS as at 1st July 2004

	Notes	Consolidated			Service One Credit Union Ltd		
		AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>ASSETS</b>							
Cash and liquid assets		12,119	-	12,119	12,119	-	12,119
Receivables due from other financial institutions		34,280	-	34,280	34,280	-	34,280
Accrued receivables		517	-	517	517	-	517
Investment securities		7	-	7	7	-	7
Loans and advances	a	154,562	508	155,070	158,796	508	159,304
Other investments		6,333	-	6,333	1,899	-	1,899
Property, plant and equipment	b,c,f	4,267	(1,662)	2,605	4,267	(1,662)	2,605
Intangibles	c	-	834	834	-	834	834
Deferred tax assets	d	394	(52)	342	394	(52)	342
Other	e	1,741	(1,055)	686	1,741	(1,055)	686
<b>TOTAL ASSETS</b>		<b>214,220</b>	<b>(1,427)</b>	<b>212,793</b>	<b>214,020</b>	<b>(1,427)</b>	<b>212,593</b>
<b>LIABILITIES</b>							
Payables to other financial institutions		142	-	142	142	-	142
Deposits and borrowings		195,578	-	195,578	195,578	-	195,578
Deferred tax liabilities	d	661	(564)	97	661	(564)	97
Payables		1,767	-	1,767	1,767	-	1,767
Provisions	f	876	99	975	876	99	975
<b>TOTAL LIABILITIES</b>		<b>199,024</b>	<b>(465)</b>	<b>198,559</b>	<b>199,024</b>	<b>(465)</b>	<b>198,559</b>
<b>NET ASSETS</b>		<b>15,196</b>	<b>(962)</b>	<b>14,234</b>	<b>14,996</b>	<b>(962)</b>	<b>14,034</b>
<b>MEMBERS' FUNDS</b>							
Reserves		15,027	(962)	14,065	14,827	(962)	13,865
Capital		169	-	169	169	-	169
<b>TOTAL MEMBERS' FUNDS</b>		<b>15,196</b>	<b>(962)</b>	<b>14,234</b>	<b>14,996</b>	<b>(962)</b>	<b>14,034</b>

## Notes

30 June 2006

### 30. INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont)

Balance Sheet reflecting reconciliation of adjustments to:

AIFRS as at 30th June 2005

	Notes	Consolidated			Service One Credit Union Ltd		
		AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>ASSETS</b>							
Cash and liquid assets		12,472	-	12,472	12,472	-	12,472
Receivables due from other financial institutions		43,074	-	43,074	43,074	-	43,074
Accrued receivables		593	-	593	593	-	593
Investment securities		7	-	7	7	-	7
Loans and advances	a	158,431	502	158,933	158,431	502	158,933
Other investments		1,735	-	1,735	1,536	-	1,536
Property, plant and equipment	b,c,f	4,769	(1,449)	3,320	4,769	(1,449)	3,320
Intangibles	c	-	668	668	-	668	668
Deferred tax assets	d	318	(47)	271	318	(47)	271
Other	e	1,832	(968)	864	1,832	(968)	864
<b>TOTAL ASSETS</b>		<b>223,231</b>	<b>(1,294)</b>	<b>221,937</b>	<b>223,032</b>	<b>(1,294)</b>	<b>221,738</b>
<b>LIABILITIES</b>							
Payables to other financial institutions		2	-	2	2	-	2
Deposits and borrowings		202,434	-	202,434	202,435	-	202,435
Deferred tax liabilities	d	563	(295)	268	563	(295)	268
Payables		2,223	-	2,223	2,223	-	2,223
Provisions	f	857	103	960	857	103	960
<b>TOTAL LIABILITIES</b>		<b>206,079</b>	<b>(192)</b>	<b>205,887</b>	<b>206,080</b>	<b>(192)</b>	<b>205,888</b>
<b>NET ASSETS</b>		<b>17,152</b>	<b>(1,102)</b>	<b>16,050</b>	<b>16,952</b>	<b>(1,102)</b>	<b>15,850</b>
<b>MEMBERS' FUNDS</b>							
Reserves		16,937	(1,102)	15,835	16,737	(1,102)	15,635
Capital		215	-	215	215	-	215
<b>TOTAL MEMBERS' FUNDS</b>		<b>17,152</b>	<b>(1,102)</b>	<b>16,050</b>	<b>16,952</b>	<b>(1,102)</b>	<b>15,850</b>

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006

## 30. INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont)

## Income Statement

For the year ended 30th June 2005

	Notes	Consolidated			Service One Credit Union Ltd		
		AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Interest income		13,843	-	13,843	13,843	-	13,843
Interest expense	f	(5,462)	(7)	(5,469)	(5,462)	(7)	(5,469)
Net interest revenue		8,381	(7)	8,374	8,381	(7)	8,374
Other operating income	f	5,306	2	5,308	5,306	2	5,308
Impairment losses on loans and advances	a	(99)	(5)	(104)	(99)	(5)	(104)
Other operating expenses	b,e,f	(11,737)	133	(11,604)	(11,737)	133	(11,604)
Profit before income tax		1,851	123	1,974	1,851	123	1,974
Income tax attributable to profit	d	(469)	(91)	(560)	(469)	(91)	(560)
Net profit after income tax		1,382	32	1,414	1,382	32	1,414
Net profit attributable to members of Service One Credit Union Ltd		1,382	32	1,414	1,382	32	1,414

## Notes

30 June 2006

### 30. INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont)

Reference	Item	AGAAP	AIFRS	Impact
a	Loans and advances	The provision for impairment included both specific provisions, calculated on loans currently in arrears, and a general provision intended to take account of probable future losses and latent risks inherent in the credit portfolio.	Under AIFRS the Credit Union must raise provisions in respect of only those loans for which there is objective evidence of impairment as at each balance date.	<p><i>At transition to AIFRS:</i></p> <p>Increase to loans and advances and increase to reserves of \$507,759.</p> <p><i>Balance Sheet – 30 June 2005:</i></p> <p>Increase to loans and advances and increase to reserves of \$502,401.</p> <p><i>Profit for year to 30 June 2005:</i></p> <p>Decrease profit by \$5,358.</p>
b	Property, plant and equipment	The Credit Union had capitalised computer system conversion costs as property, plant and equipment.	Under AIFRS these capitalised costs do not meet the recognition requirements of intangible assets.	<p><i>At transition to AIFRS:</i></p> <p>Decrease to property, plant and equipment and decrease to reserves of \$892,532.</p> <p><i>Balance Sheet – 30 June 2005:</i></p> <p>Decrease to property, plant and equipment and decrease to general reserves of \$825,079.</p> <p><i>Profit for year to 30 June 2005:</i></p> <p>Increase to profit of \$67,453.</p>
c	Intangibles	Computer software was classified as property, plant and equipment.	Under AIFRS, computer software is classified as an intangible asset. Therefore, computer software has been reclassified from property, plant and equipment to intangible assets.	<p><i>At transition to AIFRS:</i></p> <p>Decrease to property, plant and equipment and increase to intangible assets of \$834,000.</p> <p><i>Balance Sheet – 30 June 2005:</i></p> <p>Decrease to property, plant and equipment and increase to intangible assets of \$668,000.</p> <p><i>Profit for year to 30 June 2005:</i></p> <p>No effect.</p>

## Financial Report for the year ended 30 June 2006

## Notes

30 June 2006

## 30. INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont)

Reference	Item	AGAAP	AIFRS	Impact
d	Income tax	The income statement approach of tax effect accounting was used whereby the income tax expense was based on the accounting profit adjusted for any permanent differences. Timing differences were brought to account as either a provision for deferred income tax or future income tax benefit.	<i>AASB112 Income Taxes</i> requires the Credit Union to adopt a balance sheet approach under which deferred tax balances are recognised when there is a difference between the carrying value of an asset or liability and its tax base.	<p><i>At transition to AIFRS:</i></p> <p>Decrease deferred tax asset by \$51,907, decrease deferred tax liability by \$563,262 and increase reserves by \$511,355.</p> <p><i>Balance Sheet – 30 June 2005:</i></p> <p>Decrease deferred tax asset by \$47,034, decrease deferred tax liability by \$295,439 and increase reserves by \$248,405.</p>
e	Other assets – restructure and conversion costs	The Credit Union had capitalised restructure and conversion costs.	Under AIFRS these capitalised costs do not meet the recognition requirements Intangible assets.	<p><i>At transition to AIFRS:</i></p> <p>Decrease other assets and decrease reserves by \$1,054,620.</p> <p><i>Balance Sheet – 30 June 2005:</i></p> <p>Decrease other assets and decrease reserves by \$968,103.</p> <p><i>Profit for year to 30 June 2005:</i></p> <p>Increase profit by \$86,517.</p>
f	Provisions – make good provision	These costs were not previously recognised.	<p>Under <i>AASB116 Property, Plant and Equipment</i>, where the construction or commissioning of an asset results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset. This includes leasehold improvements, whereby the costs involved in restoring the leased asset at the end of the lease term must be included in the cost of the asset and depreciated over the lease term.</p> <p>An equivalent liability is recognised under <i>AASB137, Provisions, Contingent Liabilities and Contingent Assets</i>.</p>	<p><i>At transition to AIFRS:</i></p> <p>Increase property, plant and equipment by \$63,416. Recognition of a provision of \$98,990 and decrease reserves by \$35,574.</p> <p><i>Balance Sheet – 30 June 2005:</i></p> <p>Increase property, plant and equipment by \$44,321. Recognition of a provision of \$102,406 and decrease reserves by \$58,085.</p> <p><i>Profit for year to 30 June 2005:</i></p> <p>Decrease to profit due to: unwinding of the discount on the provision by \$6,753, write back of unused provisions by \$1,600 and additional amortisation of \$20,359.</p>



## Directors' Declaration

*Service One Credit Union Limited*

*ABN 42 095 848 598*

*AFS Licence No. 240836*

The Directors of Service One Credit Union Limited and of the consolidated entity declare that:

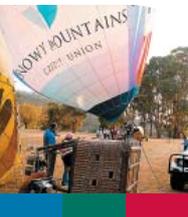
1. The financial statements and notes related thereto:
  - a. Comply with Accounting Standards and the *Corporations Act 2001*; and
  - b. Give a true and fair view of the financial position as at 30 June 2006 and performance for the period ended on that date of the Credit Union and of the consolidated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

**J C Clarke**  
Chair

**J Krueger**  
Deputy Chair

Dated this 18th day of August 2006



## Independent Audit Report to Members of Service One Credit Union Limited

### Scope

#### *The financial report and Directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the Directors' declaration for Service One Credit Union Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The Directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the Directors and management of the company.

### Independence

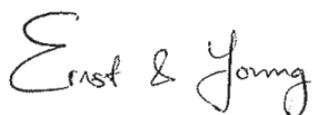
We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the

Directors of the company a written Auditor's Independence Declaration, a copy of which is attached in the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the Directors at the date this audit report was signed. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### Audit opinion

In our opinion, the financial report of Service One Credit Union Limited is in accordance with:

- (a) the *Corporations Act* 2001, including:
  - (i) giving a true and fair view of the financial position of Service One Credit Union Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations* 2001; and
- (b) other mandatory financial reporting requirements in Australia.



**Ernst & Young**



**James Palmer**

Partner

Canberra  
23 August 2006

[www.wearefamily.com.au](http://www.wearefamily.com.au)  
email: [members@wearefamily.com.au](mailto:members@wearefamily.com.au)  
BSB: 801 009

**Administration Centre**

75 Denison Street DEAKIN ACT 2600  
Telephone Response Centre  
Phone: 1300 361 761  
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Sat: 9.00am – 12.00pm  
Facsimile: (02) 6215 7171



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