

Chairman's Report

This is my second report as Chairman of The University Credit Society Limited. The policy of your Board of Directors has always been directed towards your Society continuing to grow at a steady rate, delivering services at competitive prices and more importantly providing a strong, secure and stable financial environment for members. It is therefore pleasing to report that The University Credit Society has recorded another year of sound financial results with many positive achievements.

On behalf of the Board, I present the following summary of highlights from our 2005/2006 results:

- Member deposits during the year increased by 5.88% to \$109.0m and total assets by 6.44% to \$119.6m. Loans to members increased 12.16% to \$66.1m;
- Consolidated operating profit after tax for the year ended 30th June 2006 was \$434,477. This result enabled the Credit Society to further strengthen its reserves to \$8.5 m;
- Capital Adequacy at 30th June 2006 was 14.84%. This figure is well above APRA's required prudential standard of 10%;
- Liquidity of 37.7%. This level of liquidity is well in excess of the 9% required by prudential standards and reflects the Board's policy of conservatively managing Unicredit's liquid assets.

As I said last year, Unicredit now offers a wide range of products extending from housing and investment loans to car loans, personal loans and a variety of deposit accounts. I would strongly encourage you to look carefully at the details of the products and pricing offered by Unicredit before responding to the advertising of our competitors. The Society is based upon the advantages of mutuality and personalised service. Of course in an age of strong competition, increasing costs and general pressure on margins, growth has to be one of our key objectives. Growth, however, with the benefits it brings to all members, will only be possible if we receive your support.

The University Credit Society remains dedicated to providing the best service possible to our members. We remain independent at a time when mergers are commonplace. The conservative and secure management of our funds is partly responsible for this, but so also is the continuing loyalty and support of our members.

In closing, I extend my thanks to all Unicredit members for your continued support and to my fellow Directors and staff for their advice and contribution to yet another successful year.



Bill Ford

Chairman, Board of Directors

The University Credit Society Ltd.

Directors' Report

The directors of The University Credit Society Limited present their report on the consolidated financial statements of the Society and its controlled entities (the Economic Entity) for the financial year ended 30 June 2006.

DIRECTORS

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

NAME	QUALIFICATIONS, EXPERIENCE AND ANY SPECIAL RESPONSIBILITIES
R R Boffey (Resigned 2/12/2005)	BSc (Agric) (Hons) (UWA), MSc (Agric Econs) (UWA). Senior Lecturer in Banking & Finance, School of Accounting, Finance & Economics, Edith Cowan University. Fellow, Australian Institute of Banking & Finance. Deputy Chair, The University Credit Society Limited Chairman, Audit & Risk Management Committee
S D Bradshaw	BSc (Hons), PhD W. Aust., FZS, FAIBiol. Member. Corres. Mus. d'Hist.Nat. (Paris). Chair of Zoology, The University of WA. Director, Tertiary Travel Service Pty Ltd.
W J Ford	BA LLB (Hons), DipEd W.Aust., DipLib (NSW). Barrister and Solicitor of Supreme Court of Western Australia. Dean of the Law School, The University of WA. Committee Member (UWA Branch) NTEU & UWA Academic Staff Association, Former National Vice-President (Academic) NTEU, Chairman, The University Credit Society Limited. Director, Tertiary Travel Service Pty Ltd.
P J Grant	BA (English) Marketing and Events Consultant, City of Joondalup Former President, National Union of Students WA Branch Chairman, Edith Cowan Student Guild. Deputy Chair, The University Credit Society Limited Chairman, Audit & Risk Management Committee Chairman, Marketing Committee.
M L Griffith	BCom W.Aust., DipAccounting FCPA Retired Executive Director (Finance & Resources), The University of WA. Chairman, Uni Mutual Ltd. Chairman, Tertiary Travel Service Pty Ltd.

M L T Johns	Retired Senior Technician, Department of Psychology, The University of WA. Deputy Chairman, Tertiary Travel Service Pty Ltd. Director, Volunteer Task Force
F J Lincoln	BSc PhD, FRACI Honorary Research Fellow, Chemistry, School of Biomedical, Biomolecular & Chemical Sciences, The University of WA.
V R Wilmot	BBus (Accounting) Dist, CA. Fellow, Financial Services Institute of Australasia. Business Manager, Finance & Resources, The University of WA. Board Member, WorkCover WA and WA Sport Centre Trust. Chair, Audit Committee, WorkCover WA.

Each director holds one share in the Society.

M L Griffith holds one share in Tertiary Travel Service Pty Ltd in trust for the Society.

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

M D Blackburn	BSc (Econ) Hons, MBA, CPA, FCMA, FCIS Fellow of Chartered Secretaries Australia, Company Secretary since July 1998. Credit Society General Manager since 1998.
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The Society keeps a register of information concerning the directors of the Society, including details of each director's interest in any securities issued by the Society. The Society has no such securities on issue. The register is available for inspection: -

- by any member, without fee; and
- by any other person, on payment of the amount (if any) prescribed by the rules of the Society.

MEETINGS OF DIRECTORS

The number of meetings of the Society's Board of Directors and of the Society's Audit & Risk Management, Lending, Conditions & Remunerations and Marketing Committees held during the year ended 30 June 2006 and the number of meetings attended by each director were:

	BOARD	AUDIT & RISK	LENDING	CONDITIONS & REMUNERATIONS	MARKETING
Numbers of meetings held:	11	2	4	5	1
Numbers of meetings attended by:					
R R Boffey	5	1	1	1	*
S D Bradshaw	7	*	*	*	*
W J Ford	8	1	2	5	*
P Grant	8	-	4	2#	-
M L Griffith	6	-	*	4	*
MLT Johns	9	*	3	4	1
FJ Lincoln	10	1	4	*	*
VR Wilmot	10	1#	*	*	*

* Not a member of the relevant committee

Appointed to committee on 20 March 2006

PRINCIPAL ACTIVITIES

The principal activities of the entities in the Economic Entity during the year were: -

- The University Credit Society Limited Credit Society
- Tertiary Travel Service Pty Ltd Travel Agent

CONSOLIDATED RESULTS

The consolidated profit after income tax of the Economic Entity for the year was \$434,477.

DIVIDENDS

The directors do not recommend that a dividend be paid. No dividends have been paid during the year.

REVIEW OF OPERATIONS

The Economic Entity continued to operate satisfactorily during the year with the result that:

- Members' funds increased from \$7,640,057 to \$8,504,369 (11.31%)
- Total assets increased from \$112,320,141 to \$119,553,969 (6.44%)
- Members' deposits increased from \$102,929,347 to \$108,983,750 (5.88%)
- Loans to members increased from \$58,892,658 to \$66,052,635 (12.16%)

INDEMNIFICATION AND INSURANCE

During the year, a premium was paid in respect of a contract insuring directors and officers of the Society and related bodies corporate against liability.

The officers of the Society and related bodies corporate covered by the insurance contract include the directors, executive officers, secretary and employees.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

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

NON-AUDIT SERVICES

The Board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of the non-audit services provided means that auditor independence was not compromised.

The following fees for non-audit services were paid to the external auditors during the year ended 30 June 2006: Taxation services \$2,706 (2005: \$825).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Economic Entity during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect -

- (i) the operations of the Economic Entity; or
- (ii) the results of those operations; or
- (iii) the state of affairs of the Economic Entity;

in financial years subsequent to 30 June 2006.

LIKELY DEVELOPMENTS IN THE OPERATIONS OF THE ECONOMIC ENTITY AND EXPECTED RESULTS OF OPERATIONS

The Economic Entity will continue to maintain and develop facilities for servicing the financial and related requirements of its members with a sufficient margin of profit to provide for an adequate and appropriate level of reserves.

DIRECTORS' BENEFITS

Since the end of the previous financial year no director of the Society has received or become entitled to receive a benefit (other than a remuneration benefit included in note 8 to the consolidated financial statements) by reason of a contract made by the Society or an entity controlled by the Society or by a body corporate that was related to the Society, with a director or with a firm of which the director is a member or with an entity in which the director has a substantial financial interest.

OTHER MATTERS

No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is or has been an officer or an auditor of the Economic Entity.

No person has applied for Leave of Court to bring proceedings on behalf of the Economic Entity or to intervene in any proceedings to which the Economic Entity is a party for the purpose of taking responsibility on behalf of the Economic Entity for all or any part of those proceedings.

The party was not subject to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

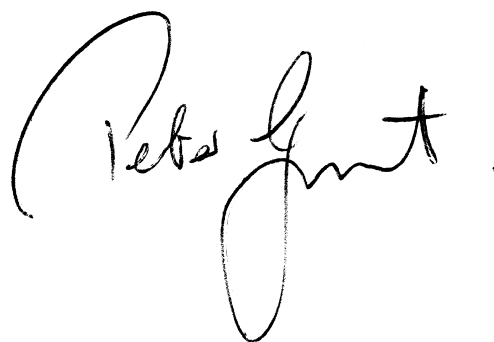
In accordance with the Corporations Act 2001 section 307C, the auditors of the Economic Entity, Bentleys MRI Perth Partnership, has provided a signed independence declaration to the directors in relation to the year ended 30 June 2006. This declaration has been attached to the independent audit report to the members of the Economic Entity.

This report is made in accordance with a resolution of the Board of Directors.

Dated at Nedlands this 27th day of October 2006.



William J Ford
Chairman



Peter J Grant
Deputy Chair

Income Statement

	Notes	2006		2005	
		Economic Entity \$	Society \$	Economic Entity \$	Society \$
Interest revenue	2	7,174,415	7,166,974	6,820,020	6,809,681
Interest expense	2	(4,194,815)	(4,194,815)	(3,911,135)	(3,911,135)
Net interest revenue	3	2,979,600	2,972,159	2,908,885	2,898,546
Other revenue	2	1,181,281	636,215	1,074,741	555,866
Bad and doubtful debt expense	2	(348)	(348)	(472)	(472)
Employee benefits expense	2	(1,711,784)	(1,371,080)	(1,567,246)	(1,260,917)
Occupancy expenses	2	(217,256)	(209,829)	(145,973)	(139,165)
Depreciation and amortisation expenses	2	(111,589)	(111,589)	(114,765)	(113,921)
Other expenses	2	(1,499,217)	(1,420,497)	(1,597,543)	(1,507,628)
Profit before income tax	2	620,687	495,031	557,626	432,308
Income tax expense	4	(186,210)	(148,513)	(158,517)	(120,922)
Profit attributable to members of the Society		434,477	346,518	399,109	311,386

The accompanying notes form part of these financial statements

Balance Sheet

	Notes	2006		2005	
		Economic Entity \$	Society \$	Economic Entity \$	Society \$
ASSETS					
Cash and cash equivalents	5(a)	1,483,020	1,482,525	1,622,301	1,621,806
Due from other financial institutions	5(b)	29,330,088	29,330,088	29,191,519	29,191,519
Trade & other receivables	5(c)	898,326	592,638	1,244,874	997,346
Investment securities	5(d)	18,978,195	18,978,195	19,001,123	19,001,123
Loans and advances	5(e)	66,044,318	66,044,318	58,886,583	58,886,583
Other investments	5(f)	355,680	455,680	444,598	544,598
Property, plant and equipment	5(g)	2,177,855	2,177,855	1,709,246	1,709,246
Intangible assets	5(h)	20,183	20,183	24,117	24,117
Financial assets	5(i)	80,174	80,174	-	-
Deferred tax assets	5(j)/6(d)	186,129	185,122	195,781	195,635
TOTAL ASSETS		119,553,969	119,346,779	112,320,141	112,171,972
LIABILITIES					
Deposits and borrowings	6(a)	108,983,750	109,215,950	102,929,347	103,058,501
Payables and other liabilities	6(b)	1,668,622	1,410,529	1,454,475	1,281,375
Financial liabilities	6(c)	-	-	-	-
Tax liabilities	6(d)	93,182	94,602	12,782	-
Employee benefits	6(e)	304,046	297,011	283,480	279,762
TOTAL LIABILITIES		111,049,600	111,018,092	104,680,084	104,619,638
NET ASSETS		8,504,369	8,328,687	7,640,057	7,552,334
EQUITY					
Reserves	7	8,328,687	8,328,687	7,552,334	7,552,334
Retained profits		175,682	-	87,723	-
TOTAL EQUITY		8,504,369	8,328,687	7,640,057	7,552,334

The accompanying notes form part of these financial statements

Statements of Changes in Equity

<u>Economic Entity</u>	Reserves \$	Retained Earnings \$	Total \$
Balance at 1 July 2004	7,253,894	-	7,253,894
Profit attributable to members of the company:	-	399,109	399,109
Total recognised income and expense for the year		399,109	399,109
Transfers to and from reserves:			
- general reserve	311,386	(311,386)	-
- asset revaluation reserve	-	-	-
- general reserve for credit losses	(12,946)	-	(12,946)
Balance at 30 June 2005	7,552,334	87,723	7,640,057
Profit attributable to members of the company:	-	434,477	434,477
Total recognised income and expense for the year		434,477	434,477
Transfers to and from reserves:			
- general reserve	346,518	(346,518)	-
- asset revaluation reserve	469,131	-	469,131
- general reserve for credit losses	(39,296)	-	(39,296)
Balance at 30 June 2006	8,328,687	175,682	8,504,369
 <u>Society</u>			
Balance at 1 July 2004	7,253,894	-	7,253,894
Profit attributable to members of the company:	-	311,386	311,386
Total recognised income and expense for the year		311,386	311,386
Transfers to and from reserves:			
- general reserve	311,386	(311,386)	-
- asset revaluation reserve	-	-	-
- general reserve for credit losses	(12,946)	-	(12,946)
Balance at 30 June 2005	7,552,334	-	7,552,334
Profit attributable to members of the company:	-	346,518	346,518
Total recognised income and expense for the year		346,518	346,518
Transfers to and from reserves:			
- general reserve	346,518	(346,518)	-
- asset revaluation reserve	469,131	-	469,131
- general reserve for credit losses	(39,296)	-	(39,296)
Balance at 30 June 2006	8,328,687	-	8,328,687

The accompanying notes form part of these financial statements

Cash Flow Statement

	2006		2005	
	Economic	Society	Economic	Society
	Entity		Entity	
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest and bill discounts received	7,135,399	7,127,958	6,713,461	6,703,122
Interest and other costs of finance paid	(4,194,815)	(4,194,815)	(3,883,173)	(3,883,173)
Fees and commissions received	8,571,697	597,835	7,654,243	552,307
Cash paid to suppliers and employees	(10,235,895)	(2,410,398)	(9,959,141)	(2,870,592)
Income tax paid	(96,155)	(43,395)	(247,100)	(179,331)
Net cash provided by operating activities (Note 15(3))	1,180,231	1,077,185	278,290	322,333
CASH FLOWS FROM INVESTING ACTIVITIES				
Net receipts from (payments for) short term investments	(25,087)	(25,087)	(4,018,179)	(4,018,179)
Member loans granted	(30,525,151)	(30,525,151)	(19,435,000)	(19,435,000)
Member loans repaid	23,247,946	23,247,946	19,228,229	19,228,229
Payments for property, plant and equipment	(69,986)	(69,986)	(104,156)	(103,466)
Contributions to CUSCAL	88,918	88,918	158,196	158,196
Net cash used in investing activities	(7,283,360)	(7,283,360)	(4,170,910)	(4,170,220)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in members deposits	6,157,521	6,157,521	3,894,401	3,894,401
Net increase/(decrease) in withdrawable shares	(72)	(72)	(1,214)	(1,214)
Dividends paid	-	-	(243,653)	-
Net cash provided by financing activities	6,157,449	6,157,449	3,649,534	3,893,187
NET INCREASE/(DECREASE) IN CASH HELD	54,320	(48,726)	(243,086)	45,300
Cash at beginning of year	2,282,675	2,153,026	2,525,761	2,107,726
CASH AT END OF YEAR (Note 15(1))	2,336,995	2,104,300	2,282,675	2,153,026

The accompanying notes form part of these financial statements

Notes to and forming part of the Financial Statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report is for The University Credit Society Limited and its controlled entity, Tertiary Travel Service Pty Ltd. The University Credit Society Limited is a financial institution, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of Preparation

First time adoption of Australian Equivalents to International Financial Reporting Standards.

The University Credit Society Limited as an individual entity and The University Credit Society Limited and subsidiary as an economic entity have prepared the financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (IFRS) from 1 July 2005.

In accordance with the requirements of AASB1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and economic entity financial statements resulting from the introduction of IFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions under available under AASB1 have been applied. These consolidated financial statements are the first financial statements of The University Credit Society Limited to be prepared in accordance with Australian equivalents to IFRS.

Reconciliations of the transition from previous Australian GAAP to IFRS have been included in Note 22 to this financial report.

(b) Principals of Consolidation

A controlled entity is an entity controlled by The University Credit Society Limited. Control exists where The University Credit Society Limited has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with The University Credit Society Limited to achieve the objectives of The University Credit Society Limited.

All intercompany balances and transactions between entities in the economic entity, including any unrealised profit or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

(c) Income Tax

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

Deferred tax is accounted for using the balance sheet liability method in respect to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement, except where it relates to items that may be directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation, and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(d) Loans and Advances

Loans and advances are recognised at recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principle 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 and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Bad debts are 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 statement of financial performance. The provision of impairment is calculated in accordance with a formula prescribed under the Prudential Standards.

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Property

Freehold land and buildings are measured on their fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. It is the policy of the economic entity to have an independent valuation at least every three years, with annual appraisals being made by the directors.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Depreciation

All fixed assets including buildings, but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Freehold Buildings	2.5%
Plant and Equipment	5% – 33%

(f) Intangible Assets**Software**

Under AIFRS, items of computer software which are not integral to the computer hardware owned by the Society are classified as intangible assets, not as part of plant and equipment. Computer software held as intangible assets is amortised over 3 years.

(g) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rate applicable to financial assets.

All revenue received arises from the operating activities of the economic entity.

Fees and commissions are recognised upon the rendering of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(h) Employee Benefits

Liabilities for wages and salaries, annual leave and long service leave are recognised and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' service up to that date.

(i) Investments

Interests in listed and unlisted securities, other than controlled entities in the consolidated accounts, are brought to account at cost and dividend income is recognised in the statement of financial performance when receivable.

(j) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the economic entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Statement of Financial Position are shown as inclusive of GST.

(l) Interest Rate Swaps

The Society uses derivative financial instruments in the form of interest rate swaps to hedge its risk associated with interest rate fluctuations. These financial instruments are stated at fair value.

For the purposes of hedge accounting, hedges are either classified as fair value hedges when they hedge the exposure changes in the fair value of recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability.

In relation to fair value hedges (interest rate swaps) any gain or loss from remeasuring to hedging is recognised immediately in the income statement.

Any gain or loss attributable to the hedged risk on remeasurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the income statement.

(m) Financial Instruments

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

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

FINANCIAL INSTRUMENTS	BALANCE SHEET NOTES	ACCOUNTING POLICIES	TERMS AND CONDITIONS
FINANCIAL ASSETS			
Cash and cash equivalents	5	All investments are recognised at the lower of cost or net realisable value where the difference is material.	All liquid assets in excess of balances held as branch floats are invested on the 11am money market.
Investments	5	All investments are recognised at the lower of cost or net realisable value where the difference is material.	Invested funds are in marketable parcels with maturities spread evenly over usually less than 90 days
Receivables	5	Amounts receivable are carried at face value unless there is doubt as to collectability	Receivables are due and payable at the time of raising the debt or in certain circumstances due and payable within 30 days.
Loans and advances	5	The loan contract specifies the manner in which interest is applied. This is usually either on the daily balance or on the opening balance. In each instance interest is charged in arrears.	Housing, investment, overdraft, line of credit and commercial loans are secured against real estate or in a limited number of cases term deposits. Personal loans may be advanced unsecured however security is normally in the form of goods mortgage. Loans may be advanced from 12 months to 30 years.
FINANCIAL LIABILITIES			
Payables to other financial institutions	6	The overdraft is brought to account at face value. Interest is charged as an expense as it accrues.	The overdraft is secured by a fixed and floating charge over the Credit Society's assets.
Payables and other liabilities	6	Payments and accruals are recognised when incurred whether or not billed.	Creditors are normally paid within the specified trading terms.
Deposits	6	Deposits are recorded at the principal amount plus accrued interest.	Member deposits accrue interest at rates and for terms according to the deposit type and balance. Interest is accrued on the daily balance.
UNRECOGNISED FINANCIAL INSTRUMENTS			
Interest rate swaps		The Society enters into interest rate swap agreements that are used to convert its fixed rate loans and advances to variable interest rates. It is the Society's policy not to recognise assets or liabilities in relation to interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.	At balance date, the Society has interest rate swap agreements with a notional amount of \$16.2m, on which it pays 4.79% to 6.39% interest and receives Bank Bill Swap rate calculated on the notional amount. The swaps are used to protect the Society from exposure to increasing interest rates. The swaps in place cover a proportion of the fixed rate loans at balance date. The swaps expire between October 2006 and June 2011.

NOTE 2: PROFIT BEFORE INCOME TAX EXPENSE

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
Interest on commercial loans:				
Loans for residential investment properties	885,915	885,915	801,459	801,459
Other commercial loans	261,134	261,134	296,996	296,996
	1,147,049	1,147,049	1,098,455	1,098,455
Interest on loans other than commercial loans	3,332,555	3,332,555	3,139,317	3,139,317
Interest on investments	2,694,811	2,687,370	2,582,248	2,571,909
Interest revenue	7,174,415	7,166,974	6,820,020	6,809,681
Interest on members' deposits	4,187,916	4,187,916	3,855,706	3,855,706
Interest on borrowings	6,899	6,899	55,429	55,429
Interest expense	4,194,815	4,194,815	3,911,135	3,911,135
Loan establishment fees	41,285	41,285	39,218	39,218
Other fee income	659,249	326,795	553,672	291,243
Income from property	-	25,800	-	25,800
Insurance commissions	80,288	80,288	83,582	83,582
Other commissions	342,079	103,667	361,616	79,370
Dividends	57,055	57,055	33,094	33,094
Bad debts recovered	1,325	1,325	3,558	3,558
Non interest revenue	1,181,281	636,215	1,074,741	555,866
Bad and doubtful debts (Note 11)	348	348	472	472
Bad and doubtful debts expense	348	348	472	472
Depreciation and amortisation -				
Property, plant and equipment	111,589	111,589	114,765	113,921
Transfers to provisions -				
Holiday pay	(17,816)	(17,816)	(18,297)	(18,297)
Long service leave	22,082	22,082	8,237	8,237
Personnel costs	1,707,518	1,366,814	1,577,306	1,270,977
Supervision levy	6,029	6,029	11,762	11,762
Occupancy expenses	217,256	209,829	145,973	139,165
Other expenses	1,493,188	1,414,468	1,585,781	1,495,866
Other expenses	3,539,846	3,112,995	3,425,527	3,021,631
PROFIT BEFORE INCOME TAX EXPENSE	620,687	495,031	557,626	432,308

NOTE 3: INTEREST REVENUE AND EXPENSE

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.

	Economic Entity Average Balance \$	Economic Entity Interest \$	Economic Entity Average Interest Rate %
INTEREST REVENUE 2006			
Investment securities	47,484,454	2,694,811	5.68%
Loans and advances	62,608,408	4,479,604	7.15%
	110,092,862	7,174,415	6.52%
INTEREST EXPENSE 2006			
Customer deposits	105,556,435	4,187,916	3.97%
Short-term borrowings	587,988	6,899	1.17%
	106,144,423	4,194,815	3.95%
<i>Net Interest Income 2006</i>	3,948,439	2,979,600	2.56%
INTEREST REVENUE 2005			
Investment securities	45,721,417	2,582,248	5.65%
Loans and advances	59,099,413	4,237,772	7.17%
	104,820,830	6,820,020	6.51%
INTEREST EXPENSE 2005			
Customer deposits	100,893,935	3,855,706	3.82%
Short-term borrowings	587,988	55,429	9.43%
	101,481,923	3,911,135	3.85%
<i>Net Interest Income 2005</i>	3,338,907	2,908,885	2.65%

NOTE 4: INCOME TAX

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
(a) The prima facie tax on profit before income tax is reconciled to income tax provided in the financial report as follows:				
Prima facie tax payable on operating profit at 30% (2005: 30%):				
Economic Entity	186,210	-	167,288	-
Society	-	148,513	-	129,693
Add / (Less) effect of non assessable amounts	-	-	(8,771)	(8,771)
Income Tax attributable to profit before income tax	186,210	148,513	158,517	120,922
(b) The components of income tax expense comprise:				
Current Tax	186,210	148,513	158,517	120,922
Deferred Tax	-	-	-	-
	186,210	148,513	158,517	120,922
(c) Current and deferred tax recognised in equity:				
Current Tax	-	-	-	-
Deferred Tax - Net gain on revaluation of land and building	37,369	37,369	-	-
	37,369	37,369	-	-
(d) Deferred tax assets				
Deferred tax assets have been recognised in the balance sheet for the following items:				
Deductible temporary differences	186,129	185,121	195,781	195,635
Unused tax losses	-	-	-	-
	186,129	185,121	195,781	195,635
(e) Deferred tax liabilities relating to temporary differences				
	37,369	37,369	-	-

NOTE 5: ASSETS

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
(a) Cash and liquid assets				
Cash floats	213,804	213,309	207,977	207,482
Cash at bank	1,269,216	1,269,216	1,414,324	1,414,324
	1,483,020	1,482,525	1,622,301	1,621,806
(b) Due from other financial institutions				
Deposits with SSPs	28,708,313	28,708,313	28,660,299	28,660,299
Bank deposits	621,775	621,775	531,220	531,220
	29,330,088	29,330,088	29,191,519	29,191,519
Maturity analysis:				
At call	621,775	621,775	531,220	531,220
Not longer than 3 months	28,708,313	28,708,313	28,660,299	28,660,299
	29,330,088	29,330,088	29,191,519	29,191,519
(c) Accrued receivables				
Trade debtors	517,355	213,370	927,656	681,068
Accrued income	271,249	271,249	230,908	230,908
Other debtors and prepayments	109,722	108,019	86,310	85,370
	898,326	592,638	1,244,874	997,346
(d) Investment securities				
Bank accepted bills of exchange	18,978,195	18,978,195	19,001,123	19,001,123
	18,978,195	18,978,195	19,001,123	19,001,123
Maturity analysis:				
Not longer than 3 months	18,978,195	18,978,195	19,001,123	19,001,123
	18,978,195	18,978,195	19,001,123	19,001,123
(e) Loans and advances				
Loans (Note 12)	66,052,635	66,052,635	58,892,658	58,892,658
Less provision for doubtful debts (Note 11)	(8,317)	(8,317)	(6,075)	(6,075)
	66,044,318	66,044,318	58,886,583	58,886,583
Maturity analysis:				
Not longer than 3 months	42,000,806	42,000,806	17,920,046	17,920,046
Longer than 3 and not longer than 12 months	10,244,109	10,244,109	8,213,613	8,213,613
Longer than 1 year and not longer than 5 years	13,807,720	13,807,720	20,401,027	20,401,027
Longer than 5 years	-	-	12,357,972	12,357,972
Less provision for doubtful debts (Note 11)	(8,317)	(8,317)	(6,075)	(6,075)
	66,044,318	66,044,318	58,886,583	58,886,583
(f) Other investments				
Shares - in controlled entities (Note 10)	-	100,000	-	100,000
- other unlisted companies	355,680	355,680	444,598	444,598
	355,680	455,680	444,598	544,598

NOTE 5: ASSETS (continued)

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
(g) Property, Plant and Equipment				
Freehold Land				
At independent valuation 2004			900,000	900,000
At independent valuation 2006	1,250,000	1,250,000		
Buildings				
At independent valuation 2004			700,000	700,000
At independent valuation 2006	800,000	800,000		
	2,050,000	2,050,000	1,600,000	1,600,000
Less accumulated depreciation	-	-	(31,141)	(31,141)
Total Land and Buildings	2,050,000	2,050,000	1,568,859	1,568,859
Plant and Equipment				
At cost	892,366	857,317	842,177	807,128
Less accumulated depreciation	(764,511)	(729,462)	(701,790)	(666,741)
Total Plant and Equipment	127,855	127,855	140,387	140,387
Total Property, Plant and Equipment	2,177,855	2,177,855	1,709,246	1,709,246

Land and buildings are revalued no less frequently than three years.

The basis of valuation of land and buildings is fair market value based on existing use. The 2006 valuation was carried out by Mr R I Sharp AAPI, of Glendinning & Associates Pty Ltd.

Movements in Carrying Amounts

Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

	Freehold Land \$	Buildings \$	Plant and Equipment \$	Total \$
Balance at the beginning of year	900,000	668,859	140,387	1,709,246
Additions	-	5,991	63,995	69,986
Disposals	-	-	(221)	(221)
Depreciation expense	-	(31,349)	(76,306)	(107,655)
Revaluation	350,000	156,499	-	506,499
Carrying amount at the end of year	1,250,000	800,000	127,855	2,177,855

NOTE 5: ASSETS (continued)

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
(h) Intangible assets				
Computer software	20,183	20,183	24,117	24,117
	20,183	20,183	24,117	24,117
(i) Financial assets				
Interest rate swaps (Mark to market)	80,174	80,174	-	-
	80,174	80,174	-	-
(j) Deferred tax assets				
Deferred tax asset	186,129	185,122	190,677	190,531
	186,129	185,122	190,677	190,531

NOTE 6: LIABILITIES

(a) Deposits and borrowings				
Members' deposits	108,967,542	109,199,742	102,913,067	103,042,221
Withdrawable shares - non-interest bearing	16,208	16,208	16,280	16,280
	108,983,750	109,215,950	102,929,347	103,058,501
Maturity analysis:				
At call	34,114,094	34,346,294	30,314,281	30,443,435
Not longer than 3 months	62,935,866	62,935,866	60,653,684	60,653,684
Longer than 3 and not longer than 6 months	6,583,020	6,583,020	7,091,699	7,091,699
Longer than 6 and not longer than 12 months	4,470,048	4,470,048	4,320,185	4,320,185
Longer than 1 year and not longer than 5 years	880,722	880,722	549,498	549,498
	108,983,750	109,215,950	102,929,347	103,058,501
(b) Payables and other liabilities				
Trade creditors and accruals	1,668,622	1,410,529	1,454,475	1,281,375
Due to controlled entity	-	-	-	-
	1,668,622	1,410,529	1,454,475	1,281,375
(c) Financial liabilities				
Bank overdraft (Note 18)	-	-	-	-
	-	-	-	-
(d) Tax liabilities				
Income tax	55,813	57,233	7,678	(5,104)
Deferred tax liability	37,369	37,369	-	-
	93,182	94,602	7,678	(5,104)

NOTE 6: LIABILITIES (continued)

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
(e) Employee benefits				
Accrued salaries	41,323	34,288	26,153	22,435
Provision for employee benefits:				
Annual leave	87,080	87,080	105,063	105,063
Long service leave	175,643	175,643	152,264	152,264
	304,046	297,011	283,480	279,762
(a) Number of employees at year end	34	27	33	27

NOTE 7: RESERVES

General reserve

Balance at beginning of year	6,536,907	6,536,907	6,225,521	6,225,521
Transfer to reserve for year	346,518	346,518	311,386	311,386
Balance at end of year	6,883,425	6,883,425	6,536,907	6,536,907

Asset revaluation reserve

Balance at beginning of year	707,588	707,588	707,588	707,588
Add: Revaluation increment on freehold land and buildings	469,131	469,131	-	-
Balance at end of year	1,176,719	1,176,719	707,588	707,588

General reserve for credit losses

Balance at beginning of year	307,839	307,839	320,785	320,785
Transfer to/(from) reserve for year	(39,296)	(39,296)	(12,946)	(12,946)
Balance at end of year	268,543	268,543	307,839	307,839

	8,328,687	8,328,687	7,552,334	7,552,334
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NOTE 8: KEY MANAGEMENT PERSONNEL

The directors of the Society at any time during the financial year were –

R R Boffey	S D Bradshaw	W J Ford	P J Grant
M L Griffith	M L T Johns	F J Lincoln	V R Wilmot

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

Key Management Persons have been taken to comprise the Directors of the parent and subsidiaries entities and the members of the executive management team responsible for the day-to-day financial and operational management of the Society. The executive management team is comprised of the Chief Executive Officer; Executive Manager, Finance & Administration and Executive Manager, Lending.

Total remuneration received by Key Management Persons of the Society –

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
Paid by the Society	350,894	350,894	332,371	332,371
Paid by subsidiaries	-	-	-	-
	350,894	350,894	332,371	332,371

Aggregate transactions of the directors, executives and related parties with the Society are as follows:

Interest on loans for the year	24,165	24,165	54,808	54,808
Interest paid on deposits for the year	80,023	80,023	29,810	29,810
Deposits at year end	1,567,279	1,567,279	1,583,775	1,583,775

TRANSACTIONS WITH DIRECTORS, EXECUTIVES AND RELATED PARTIES

Loans are made and financial, travel and insurance services supplied to the directors, executives and related parties on the same terms and conditions as those applied to other members.
No terms or conditions of any loan to related parties have been breached.

The aggregate amount due in respect of loans advanced by the Society at year end was:	380,864	380,864	183,605	183,605
Loans advanced during the year	285,495	285,495	821,670	821,670
Loan repayments received during the year	97,757	97,757	992,930	992,930

NOTE 9: COMMITMENTS FOR EXPENDITURE

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
The Economic Entity is committed for the following future lease expenditure in respect of operating leases which has not been provided for in the accounts:				
- Not later than one year	81,459	81,459	101,241	101,241
- 12 months to 5 years	161,584	161,584	159,614	159,614
- Longer than 5 years	-	-	-	-
	243,043	243,043	260,855	260,855
Loans approved but not funded as at 30 June	17,765,952	17,765,952	15,703,015	15,703,015

NOTE 10: INVESTMENTS IN CONTROLLED ENTITIES

The Society beneficially owns shares in the following wholly owned controlled entities, which are incorporated in Australia:

	Cost of Parent's Investment	Cost of Parent's Investment
Tertiary Travel Service Pty Ltd 100,000 ordinary shares	100,000	100,000

NOTE 11: PROVISION FOR DOUBTFUL DEBTS

(a) Specific provision for doubtful debts				
Balance at beginning of year	6,075	6,075	475	475
Add/(deduct) provision for year	2,590	2,590	8,212	8,212
	8,665	8,665	8,687	8,687
Less bad debts written off	(348)	(348)	(2,612)	(2,612)
Balance at end of year	8,317	8,317	6,075	6,075

NOTE 11: PROVISION FOR DOUBTFUL DEBTS (continued)

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
(b) Minimum provision required under the prudential standards	11,601	11,601	6,981	6,981
(c) Aggregate amount of loans on which interest is no longer being accrued	8,317	8,317	6,075	6,075
(d) Aggregate amount of loans in arrears by more than 90 days where interest is being accrued	5,162	5,162	1,072	1,072
(e) Non-accrual loans included in provision for doubtful debts	8,317	8,317	6,075	6,075
(f) Interest revenue on non-accrual loans	588	588	178	178
(g) Interest foregone on non-accrual loans	825	825	279	279
(h) Net fair value of assets acquired through enforcement of security.	-	-	-	-

NOTE 12: LOANS

Loans by purpose

Commercial loans -

Loans for residential investment properties	14,265,164	14,265,164	12,563,552	12,563,552
Other commercial loans	4,342,346	4,342,346	4,671,128	4,671,128
Total commercial loans	18,607,510	18,607,510	17,234,680	17,234,680
Residential loans	38,507,039	38,507,039	33,202,249	33,202,249
Personal loans	8,938,086	8,938,086	8,455,729	8,455,729
Less provision for doubtful debts	(8,317)	(8,317)	(6,075)	(6,075)
Total	66,044,318	66,044,318	58,886,583	58,886,583

Loans by security

Secured by mortgage	59,132,472	59,132,472	53,573,546	53,573,546
Secured other	6,035,530	6,035,530	4,090,104	4,090,104
Unsecured	884,633	884,633	1,229,008	1,229,008
Less provision for doubtful debts	(8,317)	(8,317)	(6,075)	(6,075)
Total	66,044,318	66,044,318	58,886,583	58,886,583
(h) Net fair value of assets acquired through enforcement of security.	-	-	-	-

NOTE 13: FINANCIAL INSTRUMENTS

(a) Credit Risk Exposure

The credit risk on financial assets of the economic entity which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts. The economic entity does not have any material credit risk exposure to any single debtors under financial instruments entered into by the economic entity.

(b) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of the changes in market interest rates and the effective weighted average interest rates of financial assets and financial liabilities, both recognised and unrecognised, at the balance date, are as follows:

	2006	2006	2006	2006	2006
	Floating interest rate	Non interest bearing	Fixed Interest 1 year or less	Fixed Interest 1 year to 5 years	Total carrying amount as per balance sheet
	\$	\$	\$	\$	\$
Financial Instruments					
(i) Financial Assets					
Cash and liquid assets	1,269,216	213,804	-	-	1,483,020
Due from other financial institutions	29,330,088	-	-	-	29,330,088
Trading securities	18,978,195	-	-	-	18,978,195
Loans and advances	38,857,788	-	13,646,810	13,539,720	66,044,318
Unlisted shares and sub-ordinated deposits	-	355,680	-	-	355,680
Receivables and other assets	-	898,326	-	-	898,326
Interest rate swaps	-	80,174	-	-	80,174
Interest rate swaps *	16,200,000	-	(1,790,000)	(14,410,000)	-
Total financial assets	104,635,287	1,547,984	11,856,810	(870,280)	117,169,802
Weighted average interest rate	6.174%	0.000%	6.232%	6.833%	
(ii) Financial Liabilities					
Overdraft and loan facility	-	-	-	-	-
Member shares	-	16,208	-	-	16,208
Member deposits	34,097,886	-	73,578,439	1,291,217	108,967,542
Trade creditors and accruals	-	1,668,622	-	-	1,668,622
Total financial liabilities	34,097,886	1,684,830	73,578,439	1,291,217	110,652,372
Weighted average interest rate	0.812%	0.000%	5.072%	5.134%	
Net financial assets (liabilities)	70,537,401	(136,846)	(61,721,629)	(2,161,497)	6,517,430

* Notional principal amounts

NOTE 13: FINANCIAL INSTRUMENTS (continued)

	2005	2005	2005	2005	2005
	Floating interest rate \$	Non interest bearing \$	Fixed Interest 1 year or less \$	Fixed Interest 1 year to 5 years \$	Total carrying amount as per balance sheet \$
Financial Instruments					
(b) Interest Rate Risk					
(continued)					
(i) Financial Assets					
Cash and liquid assets	1,414,324	207,977	-	-	1,622,301
Due from other financial institutions	29,191,519	-	-	-	29,191,519
Investment securities	19,001,123	-	-	-	19,001,123
Loans and advances	40,397,112	-	9,417,996	9,071,475	58,886,583
Unlisted shares and sub-ordinated deposits	-	444,598	-	-	444,598
Receivables and other assets	-	1,244,874	-	-	1,244,874
Interest rate swaps *	12,950,000	-	(3,600,000)	(9,350,000)	-
Total financial assets	102,954,078	1,897,449	5,817,996	(278,525)	110,390,998
Weighted average interest rate	6.220%	0.000%	6.129%	6.858%	
(ii) Financial Liabilities					
Overdraft and loan facility	-	-	-	-	-
Member shares	-	16,280	-	-	16,280
Member deposits	30,298,001	-	72,065,568	549,498	102,913,067
Trade creditors and accruals	-	1,454,475	-	-	1,454,475
Total financial liabilities	30,298,001	1,470,755	72,065,568	549,498	104,383,822
Weighted average interest rate	0.858%	0.000%	4.834%	4.855%	
Net financial assets (liabilities)	72,656,077	426,694	(66,247,572)	(828,023)	6,007,176

* Notional principal amounts

NOTE 13: FINANCIAL INSTRUMENTS (continued)

(c) Net fair values

The net fair value of the financial assets and liabilities at 30 June 2006 equate to their carrying value as disclosed in the accounts, other than interest rate swap agreements which had a net fair value of \$80,174 (2005: \$(44,231)).

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

Cash and Liquid Assets:	Net fair value equals the carrying amount as these funds are either on hand or invested on the 11am short term money market.
Investments:	Net fair value equals the carrying amount. The terms of these investments allow immediate and relative cost free recoupment. Other investments will also equate to carrying value in an orderly market.
Receivables:	Debtors' balances are maintained in accordance with terms of trade, collectability is not in doubt and consequently net fair value equals book value.
Loans and Advances:	Other than impaired loans the loans and advances are at fair value. As such the carrying value will equate to fair value. Impaired loans have been deducted from the gross book value.
Overdraft:	Due to the short term to maturity carrying value equates to fair value.
Deposits:	Deposits are at market rates and as such the carrying amount equates to the fair value.
Trade Creditors and Other Liabilities:	Trade creditors and other liabilities are accounted for according to trade terms and conditions. As such the carrying amount equates to the fair value.
Share Capital:	The carrying amount equates to the fair value.
Interest Rate Swap Agreements:	The fair values of interest rate swap contracts are determined as the difference in present value of the future interest cash flows.

(d) Reconciliation of Net Financial Assets to Net Assets

	Notes	Economic Entity 2006 \$	Economic Entity 2005 \$
Net financial assets as above		6,517,430	6,007,176
Non-financial assets and liabilities:			
Property, plant and equipment	5(g)	2,177,855	1,709,246
Intangible assets	5(h)	20,183	24,117
Deferred tax assets	5(j)/6(d)	186,129	195,781
Provisions	6(d)/6(e)	(397,228)	(296,262)
Net assets as per balance sheet		8,504,369	7,640,057

NOTE 14: CONCENTRATION OF RISK

	2006		2005	
	Economic Entity	Society	Economic Entity	Society
	\$	\$	\$	\$
Loans to members or associated members which exceed ten per cent of shareholders' equity are as follows:				
Number of loans	4	4	4	3
Aggregate value	3,903,367	3,903,367	3,115,044	3,115,044

There are no loans or deposits reported as liabilities which amount individually to ten per cent or more of total liabilities.

NOTE 15: NOTES TO THE STATEMENT OF CASH FLOWS**1. Reconciliation of cash**

For the purposes of the statement of cash flows, cash includes cash on hand and 'at call' deposits with other financial institutions, less bank overdraft. Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the financial statements as follows:

Cash and current accounts	1,715,220	1,482,525	1,751,455	1,621,806
Deposits with banks	621,775	621,775	531,220	531,220
Bank overdraft	-	-	-	-
	2,336,995	2,104,300	2,282,675	2,153,026

2. Cash flows presented on a net basis

Cash flows from the following activities are presented on a net basis in the statement of cash flows:

- (a) member deposits in and withdrawals from share, savings and other deposit accounts; and
- (b) sales and purchases of short term investments.

3. Reconciliation of Operating Profit after Income**Tax to Net Cash Inflow from Operating Activities**

Operating profit after income tax	434,477	346,518	399,109	311,386
(Increase) in interest receivable	(40,341)	(40,341)	(82,155)	(82,155)
Depreciation and amortisation	111,589	111,589	114,764	113,921
(Decrease)/increase in income tax provisions	85,504	99,706	(101,680)	(70,698)
Decrease/(increase) in future income tax benefit	4,548	5,409	13,097	12,289
(Decrease)/Increase in accrued expenses and provisions	212,925	141,007	97,849	164,636
Decrease/(increase) in debtors and prepayments	404,165	445,933	(149,548)	(113,900)
Bad debts written off less recovered	(38,032)	(38,032)	(3,086)	(3,086)
Increase/(decrease) in annual & long service leave provisions	5,396	5,396	(10,060)	(10,060)
Dividends paid/payable	-	-	-	-
	1,180,231	1,077,185	278,290	322,333

NOTE 16: REMUNERATION OF AUDITORS

	2006		2005	
	Economic Entity \$	Society \$	Economic Entity \$	Society \$
Total remuneration received by the auditors in connection with -				
auditing the accounts	32,783	26,238	28,800	26,000
any other services provided by the auditors	2,706	2,706	825	825

NOTE 17: SUPERANNUATION COMMITMENTS

The Society contributes to The University Credit Society Superannuation Plan for the purposes of Superannuation Guarantee payments and also to other Superannuation Funds as nominated by individual employees, provided that such contributions meet the minimum requirements of the Superannuation Guarantee Levy. The principal benefits provided to employees are for retirement and death & disability cover. The Society contributes 9% (2005: 9%) of employees' gross ordinary earnings in Superannuation Guarantee contributions: employees may at their discretion, also contribute a percentage of their gross ordinary earnings. The University Credit Society Superannuation Plan is separately administered by its Trustees, SMF Funds Management Limited (ABN 23 009 564 354),

NOTE 18: FINANCING ARRANGEMENTS

The Society has given an equitable charge over all of its assets in favour of Credit Union Financial Services (Australia) Limited securing:

(a) an overdraft facility of \$300,000 (2005 - \$300,000).

NOTE 19: SEGMENTAL INFORMATION

The Group operates predominantly in the finance industry and in one geographical area, being Australia.

NOTE 20: SERVICE AGREEMENTS

The Society has entered into agreements for the supply of services with the following:

1. Credit Union Services Corporation Australia Limited (CUSCAL)

CUSCAL provides central banking and member chequing facilities, electronic funds transfer services, Redicards and Visa cards. CUSCAL also provides, through its IT division, the application software used by the Society.

2. The System Works (TSW)

This company is an integrated data processing centre and provides the mainframe hardware used by the Society and a number of other credit unions.

3. First Data Resources Australia Limited (FDRA)

FDRA processes Redicard transactions through the ATM and EFTPOS network.

NOTE 21: CONTINGENT LIABILITY

Tertiary Travel Service Pty Ltd - Ansett Australia Ltd (In Administration)

On 13 September 2002, Tertiary Travel Service Pty Ltd received a demand from the Administrators of Ansett Australia Ltd for payment of monies owing in respect to travel booked but not able to be taken due to the collapse of Ansett Australia Ltd on 14 September 2001.

The issue is still currently subject to industry and legal review and until it is resolved, Tertiary Travel Service Pty Ltd does not intend to pay any further monies to the Ansett Administrator.

Should further monies become payable, Tertiary Travel Service Pty Ltd may be able to recover such funds from existing insurance arrangements.

NOTE 22: MANAGEMENT OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

AIFRS Impact on Statement of Financial Position as at 1 July 2004

	Notes	Economic Entity		
		Current 2004 \$	AIFRS 2004 \$	Changes 2004 \$
Assets				
Cash and liquid assets		1,445,428	1,445,428	-
Due from other financial institutions		21,517,308	21,517,308	-
Accrued receivables		766,432	766,432	-
Investment securities		22,788,729	22,788,729	-
Loans and advances		58,693,231	58,693,231	-
Loans and advances - provision	1	(321,260)	(475)	320,785
Other investments		602,794	602,794	-
Property, plant and equipment	2	1,743,971	1,730,390	(13,581)
Deferred tax assets	3	203,774	107,538	(96,236)
Intangible assets	2	-	13,581	13,581
Total Assets		107,440,407	107,664,956	224,549
Liabilities				
Deposits and borrowings		98,747,774	98,747,774	-
Payables and other liabilities		1,382,778	1,382,778	-
Tax liabilities		109,359	109,359	-
Provisions		267,387	267,387	-
Total Liabilities		100,507,298	100,507,298	-
Net Assets		6,933,109	7,157,658	224,549
Members' Equity				
Reserves	1	6,933,109	6,933,109	-
Retained profits	3		224,549	224,549
		6,933,109	7,157,658	224,549

	Opening retained profits Balances \$	Operating profit for 2005 \$	Total changes in Equity \$
Operating Profit Movement			
Initial Balance	-	-	-
Loans and advances - General Provision	-	320,785	320,785
Deferred tax asset on General Provision	(96,236)	-	(96,236)
Revised Balance	(96,236)	320,785	224,549

**AIFRS Impact on Statement of Financial
Position as at 30 June 2005**

				Economic Entity		
				Current 2005 \$	AIFRS 2005 \$	Changes 2005 \$
	Notes					
Assets						
Cash and liquid assets				1,622,301	1,622,301	-
Due from other financial institutions				29,191,519	29,191,519	-
Accrued receivables				1,244,874	1,244,874	-
Investment securities				19,001,123	19,001,123	-
Loans and advances				59,200,496	59,200,496	-
Loans and advances - provision	1			(313,914)	(6,075)	307,839
Other investments				444,598	444,598	-
Property, plant and equipment	2			1,733,363	1,709,246	(24,117)
Deferred tax assets	3			195,781	103,429	(92,352)
Intangible assets	2			-	24,117	24,117
Total Assets				112,320,141	112,535,627	215,487
Liabilities						
Deposits and borrowings				102,929,347	102,929,347	-
Payables and other liabilities				1,480,628	1,480,628	-
Tax liabilities				12,782	12,782	-
Provisions				257,327	257,327	-
Total Liabilities				104,680,084	104,680,084	-
Net Assets				7,640,057	7,855,543	215,487
Members' Equity						
Reserves	1			7,552,334	7,552,334	-
Retained profits	3			87,723	303,210	215,487
				7,640,057	7,855,544	215,487

	Opening retained profits Balances \$	Operating profit for 2005 \$	Total changes in Equity \$
Operating Profit Movement			
Initial Balance	87,723	-	87,723
Loans and advances - General Provision	-	307,839	307,839
Deferred tax asset on General Provision	(92,352)	-	(92,352)
Revised Balance	(4,629)	307,839	303,210

Note Explanation

- 1 General Provision is reallocated to Reserves for credit losses in accordance with AASB 139 and AASB 130.
- 2 Software licences and installation costs have been transferred from fixed assets to intangible assets.
- 3 The deferred tax asset on the General Provision has been written back following the reduction in the provisions for doubtful debts.

NOTE 23: COMPANY DETAILS

The registered office of the company is:
The University Credit Society Limited
80 Broadway
NEDLANDS WA 6009

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 7 to 33, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2006, and of the performance for the year ended on that date of the company and economic entity.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the chief executive officer and chief financial officer.

This declaration is made in accordance with a resolution of the Board of Directors.

Dated at Nedlands this 27th day of October 2006.



Director



Director

Auditor's Independence Declaration to Directors of The University Credit Society Ltd.

CHARTERED
ACCOUNTANTS
& BUSINESS
ADVISORS

A MEMBER OF
MOORES ROWLAND
INTERNATIONAL



Bentleys MRI Perth Partnership
ABN 17 735 344 518

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AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF THE UNIVERSITY CREDIT SOCIETY LIMITED

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

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

BENTLEYS MRI PERTH PARTNERSHIP

A handwritten signature in blue ink, appearing to read "M Hillgrove", is written over a light blue horizontal line.

MICHAEL J HILLGROVE
Partner

DATED at PERTH this 27th October 2006

CHARTERED
ACCOUNTANTS
& BUSINESS
ADVISORS

A MEMBER OF
MOORES ROWLAND
INTERNATIONAL



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**THE UNIVERSITY CREDIT SOCIETY LTD
AND CONTROLLED ENTITY**

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF THE
UNIVERSITY CREDIT SOCIETY LTD AND CONTROLLED ENTITY**

SCOPE

The financial report and directors' responsibility.

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for The University Credit Society Ltd (the credit society) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the credit society and the entity it controlled during that year.

The directors of the credit society are responsible for the preparation and true and fair presentation of the financial report 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 in order to express an opinion to the members of the credit society. 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 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.



INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

AUDIT OPINION

In our opinion, the financial report of The University Credit Society Ltd is in accordance with:

- a. the Corporations Act 2001, including:
 - i. giving a true and fair view of the credit society's and consolidated entity's financial position as 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 professional reporting requirements in Australia.

BENTLEYS MRI PERTH PARTNERSHIP

A handwritten signature in blue ink, appearing to read 'M Hillgrove', is positioned above the name of the partner.

MICHAEL J HILLGROVE
Partner

Dated at Perth this 27TH day of October 2006.