



ANNUAL REPORT 2011

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The Mutual has again recorded sound financial results despite another year of difficult operating conditions that were impacted by global uncertainty and unexpectedly weak consumer spending.

World economic conditions, headed by those experienced in the United States and Europe, have adversely impacted local business conditions and will continue to cause concern for some time yet.

Although the Australian economy has fared better than most, thanks largely to the booming resources sector, the demand for credit has been negatively impacted. Australia's rising inflation, expected higher levels of unemployment and falling property prices have not helped this situation. We are still suffering at the hands of a "two-speed economy" with those in the non-mining states being the most disadvantaged.

At present, the Reserve Bank of Australia is providing no clear indication regarding movements in interest rates, however most analysts are predicting that the next move in the official cash rate will be down.

Despite these key macroeconomic factors, The Mutual has performed strongly this financial year, which is a reflection of our competitively priced financial products and services, robust financial and risk management policies, prudent management and committed service from staff.

FINANCIAL PERFORMANCE

The ongoing negative effects of the global financial crisis still remain and continue to impact on our business. Despite this, our lending activity was stronger than in financial year 2010. However we still have surplus capacity to drive this aspect of our business which will be a key focus for 2012.

During the year The Mutual employed two mobile lenders and became very aggressive with pricing strategies on our loan products. These moves were well received by members.

From the depositors' perspective, there has been intense competition for deposit funds across all financial institutions. This has been driven by the need for the major banks to fund a higher percentage of their lending activity from domestic sources. This has significantly increased competition for deposit funds,

which has in turn increased the cost of raising deposits. Offsetting this is the fact that Australians savings rates are the highest in more than 20 years.

Despite these difficult ongoing conditions, the Board considers The Mutual's results very pleasing, particularly given the \$750,000 in "one-off" costs associated with the Phoenix Credit Union merger.

The key performance highlights include:

- 8.7% increase in total assets to \$474.2 million
- 11.1% increase in loans and advances to members to \$390.5 million
- 26% decrease in after tax profits to \$1.747 million however this percentage would have been a reduction of 5% if the merger costs were added back to profit
- 31.8% increase in members equity to \$27.307 million



John Lane - Chairman

Another pleasing result is the significant improvement in our loan arrears position. This has resulted from being more proactive in consulting with borrowers when they are falling behind with their repayments, as well as our continued conservative approach when assessing loan applications. These factors coupled with the National Credit Code, which was implemented on 1 January 2011, will now ensure that borrowers are not financially overcommitted.

The strength of The Mutual's financial position can be measured by its capital adequacy ratio. As at 30 June 2011, this was 17.05%, up from 15.68% in 2010, representing an 8.7% increase over the corresponding period. This percentage remains well above our regulatory requirements and indeed far higher than that of Australia's four major banks.

Liquidity levels have also been maintained at above regulatory levels. Gross liquidity at 30 June 2011 was 20.40%, which has been maintained as a result of focusing on retail deposits and offering attractive rates of return.

OPERATIONAL HIGHLIGHTS

By far the most significant event during the past financial year was our successful merger with Phoenix Credit Union. This was the first time in Australia that a building society and credit union have successfully merged. Members of both organisations voted overwhelmingly in favour of the merger on 23 February 2011 which then became effective on 1 March 2011. Adding to the complexity of the merger was the need to merge both organisations' different financial software systems. This complex project was completed on 31 May 2011 with very little impact on members of either The Mutual or Phoenix, which is testament to the operations team tasked with the project.

Coupled with the Phoenix merger was the opening of our branch in Mayfield in December 2010. This move was primarily aimed at servicing the interests of Phoenix members but also better serving our existing Newcastle-based members. In addition, our ATM network was also expanded with installations completed at Wallsend, Jesmond and Waratah Shopping Village.

Lending for the 12 months to June 2011 was \$82.4 million. This compares with \$74 million for the year to 2010. Even though this represents an 11% increase over the previous year, potential borrowers chose to remain out of the market concerned about further increases in official interest rates and rises to the cost of living.

The Mutual has also strengthened its approach to risk management, compliance and corporate governance through the introduction of executive committees and risk management systems. The Mutual's Business Continuity Management Plan is an ongoing work in progress to ensure all operating risks are identified and, where possible, mitigation processes implemented to minimise any possible interruption to business.

Developing The Mutual brand was a strategic project that the Board and management team worked closely on during the year. Our aim has been to increase the awareness of The Mutual across new and existing markets and position the business as a real alternative provider in the residential and personal loan finance markets. A number of media campaigns featuring former NBN Television newsreader, Melinda Smith, have been developed and are proving to be very successful in driving the awareness of The Mutual's brand and product offering.

CORPORATE AND SOCIAL RESPONSIBILITY

The Mutual is firmly committed to supporting community events, programs and organisations across our areas of operation. This remains a key priority for our business.

Initiatives such as bank@school and the Mighty Mutuals financial literacy program are testimony to this principal. Following on from the opening of the Mayfield branch, The Mutual has now extended school banking to 12 schools including two in the Newcastle area being Jesmond Public School and Mayfield East Public School.

These programs have been key drivers in recent years in attracting younger members to The Mutual. Today, 20% of our membership base is aged 20 years and under, which positions the organisation well for future growth.

APPRECIATION

After 17 years as a Director of The Mutual, Mr Tom Morgan retired from the Board in December 2010. Mr Morgan's association with The Mutual spans more than 50 years. As a partner at Maitland-based legal practice, Thompson Norrie, he worked as a legal consultant to the Board up until his retirement in 1993, following which he was offered a position on The Mutual Board. Mr Morgan was a keen contributor to the Board through his wealth of local knowledge relating to business, local events, identities and sporting and charitable organisations. On behalf of the Board I wish he and his family all the best for his retirement.

Following the merger with Phoenix Credit Union, their former Chairman, Mr Stephen James, accepted a position on The Mutual Board on 1 March 2011. Mr James is the Supply Planning Manager at OneSteel's Newcastle operation and holds a Bachelor of Engineering degree. Mr James is also experienced in the areas of Occupational Health and Safety, Operations Management and Business Systems.

Our financial results are also a reflection of the dedication of The Mutual's committed and knowledgeable staff and management. On behalf of the Board I thank them for their dedicated service to members and congratulate them on their achievements.

MUTUALITY

Mutuality remains fundamental to the success of our business. Without the demands of shareholders we are able to focus on serving the needs of our members by offering low fees, competitive rates and excellent service. It also allows the Mutual to support organisations that improve the lives of people who live in the areas in which we operate.

The Mutual continues to be part of the industry-led "It all comes back to our Members" campaign that highlights the benefits of being a member of a mutual organisation.

Our status as a mutual will continue to be a cornerstone of our business.

OUTLOOK

Our focus will always be to provide our members with highly competitive, quality financial products and excellent customer service, while continuing to support the communities in which we operate. We will continue to invest in areas of our operation that ensure The Mutual continues to be a stronger and more competitive financial institution. Strong financial results provide us with the capacity to invest in improved services and products, while providing members with lower costs for products and greater benefits.

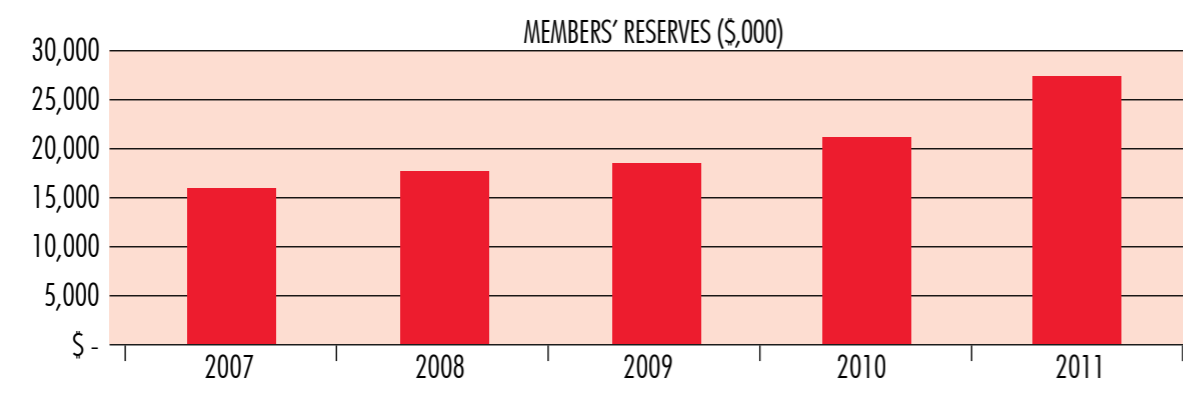
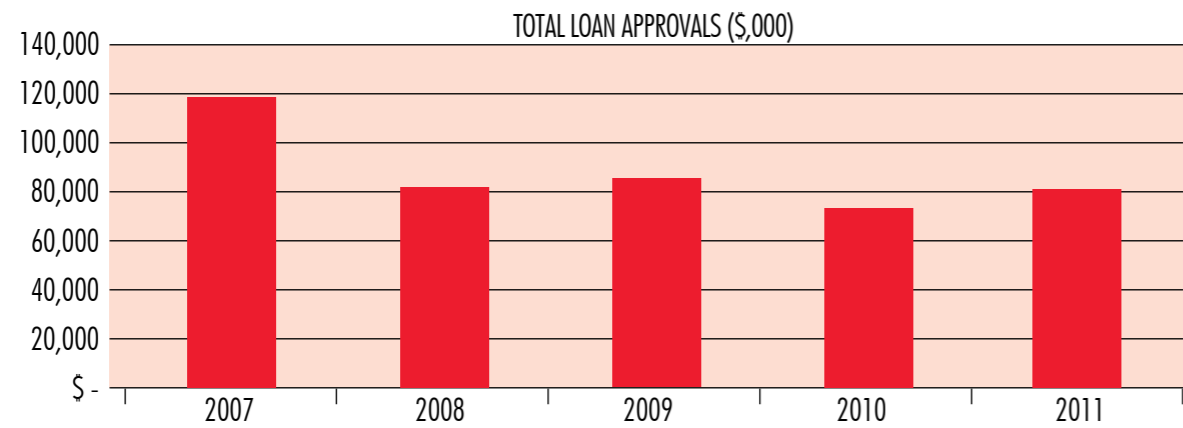
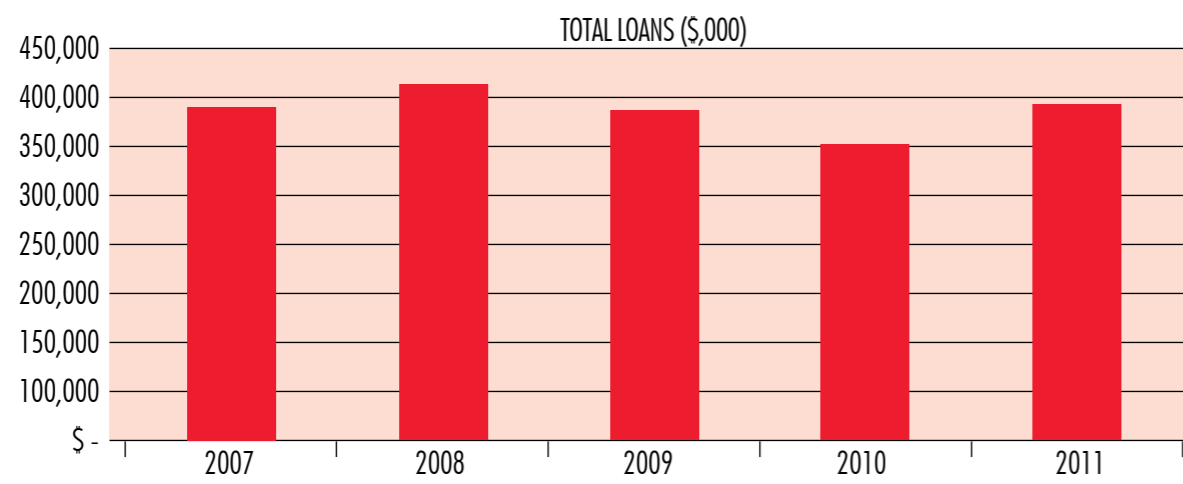
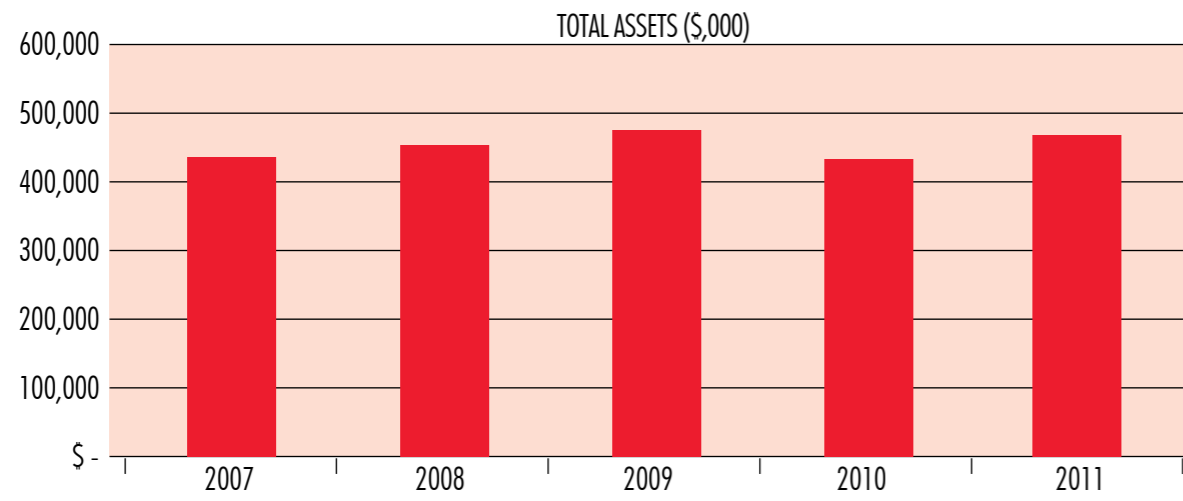
Volatility and global uncertainty dictates that we need to remain vigilant about international events. However, in domestic and regional areas the overall situation remains positive.

The Mutual is well placed to deliver strong financial performances into the years ahead.

Finally, I would like to thank our members for continuing to trust The Mutual with their business.

J.E. Lane

Chairman



management team

left to right - Ian Robinson, Kieran Quigley, Rod Williams, Glen Pearson, Geoffrey Seccombe (General Manager), Ken Archer, Gary Hainsworth, Todd Paterson
Absent - Noeleen Davidson

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IN THE COMMUNITY

Baby Competition



Left to right; Dylan Kedwell with his mum Sarah Kedwell, James Moylan with his dad Paul Moylan, marketing officer Jane O'Rourke and Cruz Smith with his mum Sheree Smith.

Tocal Field Days



The Mutual car on display at Tocal Field Days held in April this year

FILMING OUR LATEST CAMPAIGN

Behind the scenes Andrew Robertson and Melinda Smith fine tuning The Mutual's latest Television Commercial.



THE MUTUAL ENTERS NEWCASTLE



Wallsend, Wallsend Plaza



Mayfield, Branch Staff; Jillian Lloyd, Vicki Sexton, Carolyn Gibbs



Jesmond, Stocklands Jesmond



Waratah, Waratah Village

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This financial report covers Maitland Mutual Building Society Limited as an individual entity. The financial report is presented in the Australian currency. Maitland Mutual Building Society Limited is a company limited by shares and guarantee, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

Maitland Mutual Building Society Limited
 417 High Street
 Maitland NSW 2320

The financial report was authorised for issue by the directors on 25 August, 2011. The Society has the power to amend and reissue the financial report.

Your directors present their report on the Society for the financial year ended 30 June 2011.

DIRECTORS

The names of the directors in office at any time during, or since the end of, the year are:

- J E Lane
- R B Mudford
- A Chadwick
- T T Robinson
- S W James (appointed 1 March 2011)
- W T Morgan (retired 15 December 2010)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

INFORMATION ON DIRECTORS



J E Lane (Chairman)

Mr Lane joined the board in 2008. Mr Lane has been involved in the business, sporting and general Maitland Community for many years. He was the managing director of the family owned menswear business, Ken Lane Pty Ltd for 32 years. Mr Lane was a member of the Maitland Chamber of Commerce for 21 years, has served on the Retailers Association Council and the Retail Advisory Group for Associated Retailers Ltd. He has served for 15 years on the Finance Council of the Diocese of Maitland-Newcastle as well as being a Board member of the Catholic Development Fund. Mr Lane has been involved as both a player and administrator with Maitland Rugby Union Club and Western Suburbs Cricket Club.

He is a member of the Society's Audit, Risk, IT, Remuneration and Nomination and Insurance Committees.



R B Mudford

Mr Mudford joined the board in 2008. Mr Mudford is the principal of the chartered accounting practice, Mudford and Associates, delivering accounting, taxation and audit services. Mr Mudford is a Fellow of the Institute of Chartered Accountants in Australia, a Registered Tax Agent, Company Auditor and Registered External Examiner of Trust Accounts for the Law Society of New South Wales. He is also a Justice of the Peace. Mr Mudford is a member of the Maitland Chamber of Commerce, including serving for several terms as its Treasurer. He is also a member of the Maitland Rotary Club and has been awarded a Rotary Paul Harris Fellowship.

He is a member of the Society's Audit, Risk and Remuneration and Nomination Committees.



A Chadwick

Mrs Chadwick joined the board in 2009. Mrs Chadwick is a Director of Hulin Chadwick Lawyers, a Maitland based legal firm. She has practised in the Maitland area since 1993 and before that in Sydney and Bathurst. Mrs Chadwick has been admitted as a solicitor of the Supreme Court of NSW and the High Court of Australia for the previous 25 years. She is also a District Court Arbitrator and qualified mediator. Mrs Chadwick is well known in the Maitland community having served on several committees for St John's Parish in Maitland, the Catholic Diocese of Maitland-Newcastle and the Maitland District Cricket Association.

She is a member of the Society's Audit, Risk, Remuneration and Nomination Committees.



T T Robinson

Mr Robinson joined the board in 2010. Mr Robinson, now retired, is a qualified solicitor having previously been a partner for 20 years with Clayton Utz, a major Australian Law firm. As a partner at Clayton Utz, Mr Robinson specialised in banking and financial services. Mr Robinson was head of their Retail Banking group and was, more recently head of their Structured Capital Markets group, specialising in securitisation. Mr Robinson lives in Sydney and is also a director of SDN Children's Services Inc, a not for profit company which provides child care services, as well as programs for children and families who need targeted support. He is a consultant to the Board of Maple Brown Abbott Limited, a privately owned Australian investment management company.

He is a member of the Society's Audit and Risk Committees.



S W James

Mr James joined the Board on the 1 March 2011 as a result of the Society's merger with Phoenix (NSW) Credit Union Ltd. Mr James was previously the Chairman of Phoenix. Mr James is employed by OneSteel as a Supply Planning Manager and holds a Bachelor of Engineering degree as well as an Australian Institute of Company Directors Diploma. He was appointed to the Board of Phoenix in 1999 where he served on several committees. In addition to his Board service, Mr James also has experience in matters relating to Occupational Health and Safety, Operations Management and Business Systems.

He is a member of the Society's Audit, Risk and Remuneration and Nomination Committees.

COMPANY SECRETARIES

Mr Geoffrey Seccombe. FFin, MAICD, JP (appointed in 1994)
General Manager of the Society since 1994 and has over 35 years experience in the finance industry.

Mr Gary Hainsworth. B Comm, ACA (appointed in 2003)
Manager, Finance and Administration of the Society and has over 25 years experience in a senior role in the building society industry.

Mr Rodney Williams. Dip Law (SAB) (appointed in 2007)
Manager, Legal and Compliance of the Society and has over 25 years experience in private practice.

PRINCIPAL ACTIVITIES

The principal activities of Maitland Mutual Building Society Limited involved the provision of financial services to members in the form of taking deposits and giving financial accommodation. No significant change in the nature of these activities occurred during the year.

MEETINGS OF DIRECTORS

The number of meetings of the Society's board of directors and of each board committee held during the year ended 30 June 2011, and the number of meetings attended by each director were:

	Full meetings of Directors		Audit		Remuneration and Nomination	
	Eligible to attend	Number attended	Eligible to attend	Number attended	Eligible to attend	Number attended
J E Lane	14	14	4	4	1	1
R B Mudford	14	14	4	4	1	1
A Chadwick	14	13	4	4	1	1
T T Robinson	14	14	4	4	-	-
S W James	4	4	2	2	1	1
W T Morgan	6	4	2	1	-	-

	Insurance		Information Technology		Risk	
	Eligible to attend	Number attended	Eligible to attend	Number attended	Eligible to attend	Number attended
J E Lane	2	2	1	1	4	4
R B Mudford	-	-	-	-	4	4
A Chadwick	-	-	-	-	4	4
T T Robinson	-	-	-	-	4	4
S W James	-	-	-	-	1	1
W T Morgan	-	-	-	-	2	1

REVIEW OF OPERATIONS

The profit from ordinary activities after providing for income tax amounted to \$1.747 million (2010: \$2.369 million).

The Society's pre-tax profit for the year was \$2.478 million (2010: \$3.390 million) representing a decrease of 27% over the previous financial year.

As disclosed throughout the financial report, the Society merged with Phoenix (NSW) Credit Union Limited during the year. Costs of \$751,000 were attributable to the merger. If these costs were excluded, the Society's pre-tax profit would have been \$3.229 million representing a decrease of 5% on the previous financial year.

Total assets increased by 9% to \$474 million for the year to 30 June 2011. (2010: decreased 8% to \$436 million).

New loan funding for the year totalled \$82 million, an increase of 11% to loans funded over last year of \$74 million. The demand for these loans was met by redemptions and repayments from existing loans. At reporting date, the value of mortgage loans securitised was \$64 million. Securitisation is an integral part of the Society's capital management and funding activities. Securitisation is a means of funding loans originated by the Society.

SHORT AND LONG TERM OBJECTIVES

The Society has established short and long term objectives as outlined in the Society's business plan which is reviewed on an annual basis. These objectives are both financial and non financial and are aimed towards providing exceptional financial security, value and service to its members. These objectives are measured through both financial and non financial key performance indicators that have been determined relevant to the industry.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the Society and Phoenix Credit Union (Phoenix) merged after both financial institutions received overwhelming support from their members at their respective General Meetings.

The merged entity became effective from 1 March 2011 and retained The Mutual identity. Further information is included in note 5.

AFTER BALANCE DAY EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Society, the results of those operations or the state of affairs of the Society in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out at page 13.

FUTURE DEVELOPMENTS

Likely developments in the operations of the Society and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Society.

ENVIRONMENTAL ISSUES

The Society's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

INSURANCE OF OFFICERS

During the financial year, the Society paid a premium in respect of a contract insuring directors and officers of the Society against liability. The officers of the company covered by the insurance contract include the directors, executive officers and each company secretary.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Society, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Society. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

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

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

PROCEEDINGS ON BEHALF OF THE SOCIETY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Society.

No proceedings have been brought or intervened in on behalf of the Society with leave of the Court under section 237 of the Corporations Act 2001.

ROUNDING OF AMOUNTS

The Society is an entity to which ASIC Class order 98/100 applies and accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

This report is made in accordance with a resolution of directors:

J E Lane

Director

R B Mudford

Director

Maitland, 25 August 2011



Results in Business

ABN 40 332 649 703

The Bolton Building
25 Bolton Street
Newcastle 2300
PO Box 694

Ph: (02) 4928 8500

Fax: (02) 4926 1971

www.cutcher.com.au

cnmail@cutcher.com.au

TO THE DIRECTORS OF MAITLAND MUTUAL BUILDING SOCIETY LIMITED**Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 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.

M J O'Connor CA

Partner

CUTCHER & NEALE

Newcastle, 24 August 2011



Results in Business

ABN 40 332 649 703
 The Bolton Building
 25 Bolton Street
 Newcastle 2300
 PO Box 694
 Ph: (02) 4928 8500
 Fax: (02) 4926 1971
 www.cutcher.com.au
 cnmail@cutcher.com.au

TO THE MEMBERS OF MAITLAND MUTUAL BUILDING SOCIETY LIMITED

REPORT ON THE FINANCIAL REPORT

The summary financial statements of Maitland Mutual Building Society Limited comprise the summary statement of comprehensive income, summary statement of financial position, summary statement of cash flows, summary statement of changes in equity, discussion and analysis of the financial statements, and the Directors' declaration derived from the audited financial statements of Maitland Mutual Building Society Limited for the year ended 30 June 2011 as set out on pages 15 to 23.

The summary financial statements do not contain all the disclosures required by Australian Accounting Standards – Reduced Disclosure Requirements. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial report of Maitland Mutual Building Society Limited.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY FINANCIAL STATEMENTS

The Directors are responsible for the preparation of a summary of the audited financial statements on the basis described in Note 1.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Auditing Standard ASA 810: Engagements to Report on Summary Financial Statements.

AUDITOR'S OPINION

In our opinion, the summary financial statements derived from the audited financial statements of Maitland Mutual Building Society Limited for the year ended 30 June 2011, are consistent, in all material respects with those audited financial statements, on the basis described in Note 1.

M J O'Connor CA

Partner

CUTCHER & NEALE

Newcastle, 24 August 2011

The Directors of Maitland Mutual Building Society Limited declare that the summary financial statements of Maitland Mutual Building Society Limited for the financial year ended 30 June 2011, as set out on pages 16 to 23:

- (a) comply with Accounting policies as described in Note 1; and
- (b) have been derived from and are consistent with the full financial statements of Maitland Mutual Building Society Limited.

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

J E Lane

Director

R B Mudford

Director

Maitland, 25 August 2011

STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Interest income	2	31,186	29,117
Interest expense	2	(22,184)	(20,242)
Net interest income		<u>9,002</u>	<u>8,875</u>
Fee and commission income	3	1,224	1,262
Fee and commission expense	4	(581)	(524)
Net fee and commission income		<u>643</u>	<u>738</u>
Other operating income	3	96	112
Net impairment (losses)/reversals on loans and advances		140	(650)
Employee costs		(3,657)	(2,930)
Depreciation and amortisation		(558)	(615)
Printing and stationery		(165)	(80)
Marketing expenses		(494)	(233)
Other expenses		(2,529)	(1,827)
Profit before income tax		<u>2,478</u>	<u>3,390</u>
Income tax expense		(731)	(1,021)
Profit attributable to members		<u>1,747</u>	<u>2,369</u>
Other comprehensive income			
Business combination	5	4,838	-
Total comprehensive income for the year		<u><u>6,585</u></u>	<u><u>2,369</u></u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

	2011 \$'000	2010 \$'000
ASSETS		
Cash and cash equivalents	79,557	80,164
Placements with other financial institutions	97	50
Loans and advances to members	390,519	351,358
Other receivables	269	978
Financial assets	48	48
Intangible assets	262	402
Property, plant and other equipment	3,107	2,953
Deferred tax assets	309	403
Total Assets	<u>474,168</u>	<u>436,356</u>
LIABILITIES		
Deposits from other financial institutions	6,161	14,765
Deposits due to members	370,630	310,572
Other borrowed funds	68,433	88,808
Payables	901	493
Current tax liabilities	(168)	152
Provisions	660	588
Deferred tax liabilities	244	256
Total Liabilities	<u>446,861</u>	<u>415,634</u>
Net Assets	<u>27,307</u>	<u>20,722</u>
EQUITY		
Reserves	15,620	5,510
Retained earnings	6,959	15,212
Contributed equity	4,728	-
Total Equity	<u>27,307</u>	<u>20,722</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

2011

	Contributed Equity	Retained Earnings	General Reserve	Reserve for Credit Losses	Total
	000's	000's	000's	000's	000's
Note	\$	\$	\$	\$	\$
Balance at 1 July 2010	-	15,212	5,000	510	20,722
Profit attributable to members	-	1,747	-	-	1,747
Business combination	5	4,728	-	110	4,838
Transfers to / (from)	-	(10,000)	10,000	-	-
Balance at 30 June 2011	4,728	6,959	15,000	620	27,307

2010

	Contributed Equity	Retained Earnings	General Reserve	Reserve for Credit Losses	Total
	000's	000's	000's	000's	000's
Note	\$	\$	\$	\$	\$
Balance at 1 July 2009	-	12,843	5,000	510	18,353
Profit attributable to members	-	2,369	-	-	2,369
Balance at 30 June 2010	-	15,212	5,000	510	20,722

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2011

	2011	2010
	\$'000	\$'000
Cash flows from operating activities		
Interest received	27,826	23,865
Fees and commissions received	1,224	1,262
Other revenue	120	59
Interest paid	(18,044)	(14,633)
Fees and commissions paid	(581)	(524)
Payments to employees and suppliers (incl. GST)	(6,411)	(6,258)
Income taxes paid	(991)	(1,170)
Net (increase)/decrease in loans and advances to members	1,096	35,668
Net increase/(decrease) in deposits due to members/from financial institutions	5,447	(12,558)
Net cash provided by (used in) operating activities	9,686	25,711
Cash flows from investing activities		
Proceeds from sale of plant and equipment	-	126
Acquisition of property, plant and equipment and intangibles	(558)	(531)
Net cash acquired on business combination	5	11,378
Net cash provided by (used in) investing activities	10,820	(405)
Cash flows from financing activities		
Net proceeds from debt securities issued, other deposits and other borrowed funds	(21,113)	(28,996)
Net cash provided by (used in) financing activities	(21,113)	(28,996)
Other activities		
Net increase (decrease) in cash held	(607)	(3,690)
Cash at the beginning of the financial year	80,164	83,854
Cash at the end of financial year	79,557	80,164

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 ACCOUNTING POLICIES

The summary financial statements have been prepared from the audited financial report of Maitland Mutual Building Society Limited for the year ended 30 June 2011. The audited report for the year ended 30 June 2011 is available at request from Maitland Mutual Building Society Limited.

The financial statements, specific disclosures and the other information included in the summary financial statements are derived from and are consistent with the full financial statements of Maitland Mutual Building Society Limited. The summary financial statements cannot be expected to provide as detailed an understanding of the financial performance, financial position and financing and investing activities of Maitland Mutual Building Society Limited as the full financial statements.

The accounting policies have been consistently applied to Maitland Mutual Building Society Limited and are consistent with those of the financial year in their entirety.

The presentation currency used in the financial report is Australian dollars.

There have been no changes to the accounting policies of the Society from last year.

2 ANALYSIS OF INTEREST REVENUE AND INTEREST EXPENSE

	2011		
	Average balance \$'000	Interest \$'000	Average rate %
Interest revenue			
Cash and cash equivalents	75,684	4,777	6.31
Loans and advances to members	357,227	26,409	7.39
	<u>432,911</u>	<u>31,186</u>	<u>7.20</u>
Interest expense			
Deposits from other financial institutions	3,625	197	5.43
Deposits due to members	335,356	17,562	5.24
Other borrowed funds	76,859	4,425	5.76
	<u>415,840</u>	<u>22,184</u>	<u>5.33</u>
Net interest income		<u>9,002</u>	

	2010		
	Average balance \$'000	Interest \$'000	Average rate %
Interest revenue			
Cash and cash equivalents	80,338	3,849	4.79
Loans and advances to members	357,494	25,268	7.07
	<u>437,832</u>	<u>29,117</u>	<u>6.65</u>
Interest expense			
Deposits from other financial institutions	16,692	861	5.16
Deposits due to members	315,584	13,637	4.33
Other borrowed funds	95,213	5,744	6.03
	<u>427,489</u>	<u>20,242</u>	<u>4.74</u>
Net interest income		<u>8,875</u>	

3 NON-INTEREST REVENUE

	2011 \$'000	2010 \$'000
Fee and commission income		
Management fees	617	711
Transaction fees	256	229
ATM fees	172	138
Commissions	<u>179</u>	<u>184</u>
	<u>1,224</u>	<u>1,262</u>
Other operating income		
Rental income	34	33
Net gain/(loss) on disposal of plant and equipment	(24)	53
Other income	<u>86</u>	<u>25</u>
	<u>96</u>	<u>112</u>

4 NON-INTEREST EXPENSE

Fee and commission expense		
Brokerage and trailing fees paid	51	75
Other	<u>530</u>	<u>449</u>
Total	<u>581</u>	<u>524</u>

Significant revenue and expenses

The following significant expense item is relevant in explaining the financial performance:

Amendment to prior year's unpaid trust distributions in respect of the securitisation of mortgage loans	-	435
Costs associated with Business Combination (note 5)	<u>751</u>	<u>-</u>

5 BUSINESS COMBINATIONS

(a) Merger with Phoenix (NSW) Credit Union Limited

On 1 March 2011, Maitland Mutual Building Society Limited merged with Phoenix (NSW) Credit Union (PCU). On this date the assets and liabilities of PCU were transferred to Maitland Mutual at carrying value. The difference between fair value and carrying value was insignificant. The principal activities of PCU comprised of raising funds by deposit and the provision of loans and associated services to members, predominantly current and former employees of OneSteel.

The transfer of business was considered beneficial to The Mutual due to providing a range of additional benefits to members of both The Mutual and Phoenix including access to an expanded branch and ATM access network, enhanced products and services along with an increased capacity to meet the needs of members and communities we support.

(b) Fair value of assets acquired and liabilities assumed

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	Fair value 000's \$	Carrying amount 000's \$
Assets		
Cash and cash equivalents	1,767	1,767
Placements with other financial institutions	9,611	9,611
Loans and advances to members	40,259	40,259
Other receivables	22	22
Financial assets	48	48
Intangible assets	35	35
Property, Plant and Equipment	3	3
Deferred tax liabilities	37	37
Total Assets	<u>51,782</u>	<u>51,782</u>
Liabilities		
Deposits from members	46,008	46,008
Other borrowed funds	728	728
Payables	69	69
Current tax liabilities	59	59
Provisions	80	80
Total Liabilities	<u>46,944</u>	<u>46,944</u>
Provisional fair values of identifiable assets	4,838	4,838
Deemed consideration		4,838

(c) Acquired Receivables

The fair value of acquired loans and advances to members is \$40,258,930. The gross contractual amount for loans and advances is \$40,285,372 with a provision for impairment being \$26,442. The fair value of trade and other receivables is \$22,613 which is equal to the gross contractual amount.

(d) Acquisition related costs

Acquisition related costs are included within the following accounts in the statement of comprehensive income:

Employee costs	\$312,130
Printing & Stationery	\$71,055
Marketing expenses	\$4,537
Other expenses	<u>\$363,349</u>
	\$751,071

(e) Revenue and Profit Contribution

Disclosure of the amount of the acquiree's revenue and profit or loss since the acquisition date included in the acquirer's statement of comprehensive income for the period would be impracticable. This is because of the overlapping nature of the Society and PCU's business which results in difficulties in attributing revenue and profit or loss to either entity.

Based on monthly trading leading up to the merger, it is estimated that the PCU business post-merger would have contributed approximately \$60,000 before tax to the Society's operating profit as reported in the current year.

INFORMATION ON MAITLAND MUTUAL BUILDING SOCIETY LIMITED FINANCIAL STATEMENTS

The financial statements and disclosures in the summary financial statements have been derived from the 2011 financial statements of Maitland Mutual Building Society Limited.

A copy of the full financial statements and auditors' report will be sent to any member, free of charge, upon request.

The discussion and analysis is provided to assist members in understanding the summary financial statements. The discussion and analysis is based on Maitland Mutual Building Society Limited's financial statements and the information contained in the summary financial statements report has been derived from the 2011 financial statements of Maitland Mutual Building Society Limited.

STATEMENT OF COMPREHENSIVE INCOME

Total interest income increased by \$2.069 million to \$31.19 million representing an increase of 7%. Interest income has mainly grown due to the increase in the average interest rates charged to borrowers and the growth in the balance of loans and advances to members, mainly resulting from the merger with Phoenix Credit Union.

Net interest income increased by \$0.127 million to \$9.002 million. The increase in the Society's net interest income was mainly due to borrowers choosing the variable home loan rate option and the fact that interest rates for fixed term deposits were locked in for the full period of the investment.

Net fee and commission income decreased slightly over the corresponding period to June 2011 due mainly to the reduction in economic break costs and the increase in EFT transaction fees.

Impairment losses on loans, ie provisioning for potential loan write offs, reduced due to a significant improvement in the arrears provisions. The Society was also more proactive in following up borrowers who were falling behind with their loan repayments.

Employee costs increased over that of the previous year due to the opening of a new branch at Mayfield and additional staff numbers resulting from the merger with Phoenix Credit Union. Increase in employee costs can also be associated with incremental wage increases from annual reviews.

STATEMENT OF FINANCIAL POSITION

Total assets of the Society increased by \$37.81 million which represents an increase of 8.7%. The increase was due principally to the Society's higher asset levels resulting from the merger with Phoenix Credit Union as well as increased lending volumes. Partially offsetting this increase was the Society's reduced participation in the securitisation program from \$84.21 million to \$64.44 million.

Total loans to members increased by 11.1% to \$390.5 million.

Total liabilities increased by 7.5% to \$446.9 million. This was mainly due to the merger with Phoenix Credit Union.

The ratio of net assets to total assets increased from 4.75% to 5.76% due to the reserves transferred to the Society resulting from the merger with Phoenix Credit Union.

STATEMENT OF CHANGES IN EQUITY

At 30 June 2011, total equity for the Society increased by \$6.585 million to \$27.307 million. The increase in total equity was due partly to the Society's net profit for the year as well as the transfer of equity from the merger with Phoenix Credit Union.

STATEMENT OF CASH FLOWS

The statement of cash flows shows that there has been a decrease in cash during the year of \$0.61 million

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Branches

MAITLAND	417 High St, Maitland	Ph 4933 8044	Fax 4933 8996
EAST MAITLAND	110 George St, East Maitland	Ph 4934 5100	Fax 4934 6100
MAYFIELD	230 Maitland Rd, Mayfield	Ph 4967 4396	Fax 4967 4300
RAYMOND TERRACE	24 William St, Raymond Terrace	Ph 4987 6199	Fax 4987 6235
RUTHERFORD	Shop 1, Rutherford Marketplace	Ph 4932 1000	Fax 4932 9111

Agency

DUNGOG Addison Partners, 188 Dowling St, Dungog

Email info@themutual.com.au

Web www.themutual.com.au