

**DIRECTORS OF
LABORATORIES CREDIT UNION
1954 - 2014**

FOUNDATION DIRECTORS

R.J.P. Armstrong 1954 – 1955 2 years service			
R.P. Bowman 1954 – 55 2 yrs	W.R. Webster 1954 – 57 4 yrs	R. Kenna 1954 – 56 3 yrs	J.R. Morris 1954 – 72 19 yrs
F.C. Hawes 1954 – 56 3 yrs		K.J. Loughry 1954 – 90 37 yrs	R. Nicholls 1954 – 55 2 yrs

DIRECTORS

G.A. Wildman 1955 – 58 4 yrs	T.C. Clark 1955 – 95 41 yrs	S.A. Ryan 1955 – 59 1973 - 86 19 yrs	H.F. Peddie 1956 – 74 19 yrs	R. Partidge 1956 – 59 4 yrs
R.J. Taylor 1956 – 87 32 yrs	F.O. Cox 1957 – 59 3 yrs	A.J. Tolliday 1957 – 59 3 yrs	T.G. Brock 1959 – 67 2 yrs	K. Wasson 1959 – 72 13 yrs
J.W. Smyth 1959 – 77 18 yrs	G.K. Johnson 1967 – 72 6 yrs	B.L. Sheldon 1972 – 94 23 yrs	T.A. Cahalan 1973 – 82 10 yrs	D.W. Shaw 1974 – 09 35 yrs
P.V. Baston 1977 – 80 4 yrs	P.E. Robinson 1980 – 83 4 yrs	G.W. Rae 1983 – 88 6 yrs	G.W. Goodfellow 1987 – 89 2 yrs	D.W. Pendergast 1989 – 96 8 yrs
G.F. Taylor 1989 – 96 7 yrs	J.F. Gannon 1993 – 97 5 yrs	W.D. King 1988 – 99 11 yrs	D. Stevens 1991 – 99 9 yrs	R.H. Brittain 1994 – 03 9 yrs
A.D. Hocking 1994 – 06 12 yrs	R.J. Steele 2003 - 12 8 yrs	F. Cameron 2012 1 month	J. E. Clark 2003 - 12 9 yrs	

CURRENT DIRECTORS

A.S. Andrew 2010			
I.R. McDonald 1982	P.B. Steele 1989	A.B. Murphy 1995	K.J. Greene 1997
F. Benito de Valle 1998		A.S. Martin 2012	A. J. Smart 2012

Chairman's Report

Financial Year 2014 – 2015

On behalf of the Board, I am pleased to present to Members the 2014 Annual Report for Laboratories Credit Union Limited in our 60th year.

Love and Credit Unions ¹

In our need for focus on our bottom line we can overlook the bigger picture. In July 2014, the World Council of Credit Unions (WOCCU; www.woccu.org) held their annual congress on the Gold Coast. This was an opportunity to hear about the challenges and most importantly of the achievements of the credit union movement worldwide. While the challenges we face (membership, competition, etc.) are felt by credit unions in most countries, the achievements of the movement empower us all. In 2013 worldwide there were almost 208 million credit union members (4.5M in Australia), with almost 57,000 different credit unions in 103 countries and more than \$US1.7T in assets. In the last decade, the worldwide movement has grown by almost 80,000 new members, 15,000 new credit unions, 21 new countries and a doubling of assets.

By comparison by market capitalisation, the largest bank in the world, Wells Fargo & Co has 70 million customers, 9000 locations and \$US1.5T (2014) in assets. The Commonwealth Bank of Australia is no. 10 with 1100 locations and assets of \$A782B (2013).

Worldwide credit unions offer members from all walks of life much more than financial services, providing them with a chance to own their own financial institution and help create opportunities such as starting small businesses, growing farms, building family homes and educating their children. As democratic institutions, commonly located in countries with limited democracy, credit union members can run for the volunteer board of directors and cast a vote in elections; for many members this may be their first taste of democratic decision-making as well as providing the opportunity to develop their local communities. Through their local credit unions people in rural and remote areas gain access to financial institutions for saving and loans that would otherwise be unavailable. Local credit unions have provided small producers and vendors financial products to market and encourage fair commercialisation. Using savings from their community, the local credit unions provide microfinance to allow a family to set up a small business.

¹ If love is wise, it can find ways of working in accordance with provident and just expediency, as is illustrated in a significant way by much of the experience of credit unions. (From Encyclical Letter *Caritas In Veritate* Of The Supreme Pontiff Benedict XVI June 29, 2009)

For example, with help from the global movement, a credit union system has been built from the ground up in Afghanistan, where members have access to financial products and services compliant with Islamic Law. Many other examples can be found on the WOCCU website and in the Asia-Pacific area on the CUFA website (www.cufa.org.au).

Your LCU Board remains strong supporters of the mutual or customer owned banking model. Credit Unions and other Mutuals provide a vital alternative to the major banks in Australia. Mutuals are, by definition, better able to place the interests of their customers first with customer satisfaction akin to taking care of a family member – their interests are paramount. We believe the mutual sector has a strong future in Australia.

Our industry body, Customer Owned Banking Association (COBA, formally ABACUS) is a powerful advocate for a level playing field in the Australian banking sector and most recently via submissions to the Financial System Enquiry. For more information see www.customerownedbanking.asn.au.

While examining the LCU financial statements in this annual report, keep in mind the bigger picture and the importance of credit unions in the world economy.

Financial and Operating Performance

LABORATORIES CREDIT UNION LTD

ABN 77 087 650 217

2014 Annual Financial Report

LCU remains strong and focused on serving the needs of its customers. In 2014 LCU achieved a modest overall asset growth of 6.47% despite a market characterised by slow demand for home lending, slowing of credit demand and the rapidly increasing savings levels of Australians (particularly our Members). Our total deposits grew by 6.7%.

LCU has, despite a tough business environment, continued its long-standing record of strong financial performance over the past year. LCU's net profit after tax is \$622,125, a return on assets of 0.37%. Collectively owned by our members, this profit is reinvested into LCU for the benefit of all members. The result is particularly pleasing considering the challenging market conditions of the past year.

Increased competition for consumer business has not weakened the hold that the Big 4 banks have on household deposits and lending, which continues to sit around 80% overall and 90% for new housing finance commitments. LCU continues to offer a viable competitive alternative to all our existing and new members. We invest in the future that will see us adapting to the rapidly changing external environment that is dominated by innovative technology, competitive pressures, regulatory imposts and the changing needs of our customers. Our new banking system will see the introduction of a mobile banking app for members in 2015.

LCU continues to offer competitive term deposit rates helping our members earn good returns in one of the safest banking environments in the world. Additionally, LCU's low operating costs and minimal impaired loans and fraud costs contributed to a strong capital adequacy of 16.93% as at June 30. Capital adequacy measures LCU's ability to meet its obligations relative to our exposure to risk. LCU's capital adequacy is in excess of prudential requirements and well above that of all the big four banks.

Economic landscape

The Reserve Bank of Australia reduced the cash rate from 2.75% in August 2013 to 2.50% where it remained for the rest of the FY. As a result, the financial services marketplace has remained highly competitive over the year. Subdued consumer demand for credit and strong saving over spending has meant that competition for customers – in both lending and saving – has remained fierce. This is good for borrowers but it has put real pressure on smaller lenders including LCU.

Compliance and Regulatory changes

LCU continued to manage more changes in compliance with the EFT Code being replaced by the E-Payments Code, implementation of the Financial Claims Scheme, and changes required by Basel III for Capital and Liquidity reporting. Recent changes to the Privacy laws allow 'positive' credit reporting.

Member Services and Marketing

2013/14 was another busy year with many changes and improvements to member services, with just but a few examples:

- Working towards the introduction of a new internet banking site
- Ultracs 4 is a new banking system that will allow mobile banking and new payment facilities
- Visa debit cards now allow payWave
- International payments through Western Union
- Family Banking – off-set account and home loan product

Scholarships

LABORATORIES CREDIT UNION LTD

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As part of its commitment to the community and education, LCU has been awarding Scholarships since 1991, and this year each scholarship was worth \$950. Scholarships are awarded to members or their children and grandchildren, who have completed the HSC and are progressing to a tertiary institution or who have completed a TAFE Associate Diploma or Certificate. In February 2014, LCU hosted the annual luncheon to celebrate the achievements of our 2014 Tertiary Scholarship winners. Our 2014 winners were Olivia Bouchier, Margaret Chen, Romy Lester, Nicholas Frankland, Natalie Li, Kate Manus, Tristan McInnes, Heather Stockwell, Emily Vohralik and Karen Zwingmann.

On 21 March 2013 the science community lost four eminent CSIRO physicists in a tragic accident. In honour of the distinguished CSIRO scientists, Drs. John Dunlop, Tony Farmer, Gerry Haddad and Don Price, who died (in a helicopter accident on 21 March 2013). The NSW Chapter of the CSIRO Alumni's scholarship established a scholarship fund with the inaugural scholarship to be awarded in early 2015 as a travelling award in the field of physics. LCU has agreed to contribute \$1,000 pa.

Board and Staff

I would like to take this opportunity of publicly thanking my colleagues on the Board, Management and all staff for their dedication and work during the past year.

Thanks to all our staff, Michael Sinclair (General Manager), Leanne Harris (Assistant General Manager), Eileen Thoms, Lyn Slatter, Kerrie Griffiths, Rhonda Hatton, Susanne Tran, Jenny Vote, Nalini Mannie, Deepthi Satheesan and Elizabeth Sinclair for continuing to provide a friendly yet efficient banking services alternative.

I would like to thank my fellow Directors, Frank Benito (Deputy Chair), Kieran Greene, Ian McDonald, Tony Murphy, Peter Steele (Chair of the Board Audit Committee), Scott Martin and Allison Smart (Chair of the Board Risk Committee), for their valuable contribution to the governance of LCU over the past year. I would also like to thank our Associate Directors Eve Roberts and David Mitchell, who attend Board meetings by invitation and provide invaluable service and views to the Board.

Looking Forward

As I have mentioned, it is a highly competitive marketplace for financial services. Management, staff and the Board, are focused on improving the service to members and continuing to provide financial products that will keep up with market demands. Investment in marketing, service and product innovations will continue as these are seen as vital and importantly set LCU up for the future.

Of course LCU members are integral to the future success of our credit union – your recommendations to family and friends are important to us. So thank you for your continuing support of LCU and for the trust you place in the Board, Management and Staff.

Anita Andrew

Chairman

18 September 2014

DIRECTORS' REPORT

LABORATORIES CREDIT UNION LTD

ABN 77 087 650 217

2014 Annual Financial Report

Your directors present their report on the credit union for the financial year ended 30 June 2014.
The credit union is a company registered under the Corporations Act 2001.

INFORMATION ON DIRECTORS

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

<i>NAME</i>	<i>Position</i>	<i>Qualifications</i>	<i>Experience</i>
A.S. Andrew	Chairman	BSc(Hons), PhD, MEnv Mgt	Director – since January 2010 Audit committee – since November 2008, ceased December 2011 Risk committee – since January 2012 Chairman since – November 2013
F. Benito de Valle	Deputy Chairman	B Econ, FAIDC, Dip. FCIS, FCPA	Director -- since January 2000 Audit Committee -- since November 2005, ceased December 2011 Risk committee – since January 2012 Finance committee – since November 2011
K.J. Greene	Director	BA	Director – since January 2000 Risk Committee - since November 2005 Audit Committee – since November 2013 Risk Committee – resigned November 2013
A.B. Murphy	Director	BSc (Hons) PhD	Director – since January 1998 Risk Committee - since November 2005
I.R. McDonald	Director	BComm	Director – since June 1982 Finance Committee - since November 2000. Audit Committee since January 2012
P.B. Steele	Director	CPA, Grad Dip Tech Management	Director – since January 1990 Finance Committee - since November 2005 Audit Committee - since November 2005
A.S. Martin	Director	BSc (Hons), PhD, MINST P, FAIP, GAICD.	Appointed Director June 2012. Finance committee - since November 2011 Audit Committee – since January 2012
A.J. Smart	Director	B Comm, LLB, LLM, FICS.	Appointed Director December 2012. Audit Committee- since November 2009 ceased November 2013 Risk Committee – since November 2013 Risk Committee Chair – since February 2014.

LABORATORIES CREDIT UNION LTD

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2014 Annual Financial Report

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

NAME	Qualifications	Experience
M. Sinclair	Dip. Fin. Services, FIPA	Company Secretary – since 1986

Directors' Meeting Attendance

H = Meetings Held in the period of appointment.

A= Attended

Director	Board		Finance		Audit		Risk		Comments
	H	A	H	A	H	A	H	A	
A. Andrew	13	10					6	5	
F. Benito de Valle	13	12	2				6	4	
K.J. Greene	13	13			3	3	3	3	
A.S .Martin	13	11			7	5			
I.R. McDonald	13	13	2	2	7	7			
A.B Murphy	13	10	2				6	6	
P.B. Steele	13	13	2	2	7	7			
A. Smart	13	10			4	4	4	3	

DIRECTORS' BENEFITS

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

INDEMNIFYING OFFICER OR AUDITOR

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

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

FINANCIAL PERFORMANCE DISCLOSURES

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

The net profit of the credit union for the year after providing for income tax was \$ 622,125 [2013 \$ 589,017]

DIVIDENDS

Dividends relating to Tier 1 preference shares have been paid or declared during and since the end of the financial year amounted to \$ 40,142 [2013 \$ 56,689].

LABORATORIES CREDIT UNION LTD

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REVIEW OF OPERATIONS

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

The Result for the year was affected by :

Trading conditions during the financial year were extremely difficult due to the increase in deposits, the high cost of deposits and reduced loan funding resulting in extremely tight margins for the first two quarters of the financial year. The cash rate determined by the Reserve Bank of Australia was at an historical low of 2.5% as at June 30th.

These conditions are expected to ease when consumer confidence improves.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Apart from this, there were no significant changes in the state of the affairs of the credit union during the year.

EVENTS OCCURRING AFTER BALANCE DATE

No other matters of circumstance have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the credit union in subsequent financial years.

LIKELY DEVELOPMENTS AND RESULTS

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


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


in the financial years subsequent to this financial year.

AUDITORS' INDEPENDENCE

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001.

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

Anita Andrew 
Chairman

Peter Steele 
Director

Signed and dated this 17 day of September 2014.



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**Auditor's Independence Declaration
To the Directors of Laboratories Credit Union Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Laboratories Credit Union Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in blue ink that reads "A Sheridan".

A Sheridan
Partner - Audit & Assurance

Sydney, 17 September 2014

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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**Independent Auditor's Report
To the Members of Laboratories Credit Union Limited**

We have audited the accompanying financial report of Laboratories Credit Union Limited (the "Company"), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a the financial report of Laboratories Credit Union Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

A handwritten signature in blue ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in blue ink that reads "A Sheridan".

A Sheridan
Partner - Audit & Assurance

Sydney, 17 September 2014

LABORATORIES CREDIT UNION LTD

ABN 77 087 650 217

2014 Annual Financial Report

DIRECTORS' DECLARATION

In the opinion of the directors of Laboratories Credit Union Limited:

1. The financial statements and notes of Laboratories Credit Union Limited are in accordance with the *Corporations Act 2001* and:
 - (a) Comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) Give a true and fair view of the financial position of the credit union as at 30 June 2014 and of its performance for the year ended on that date.
2. There are reasonable grounds to believe that Laboratories Credit Union Limited will be able to pay its debts as and when they become due and payable.
3. The financial statements comply with International Financial Reporting Standards.

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

Anita Andrew  Peter Steele 
Chairman Director

Signed and dated this 17th day of September 2014.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$	2013 \$
Interest revenue	2.a	7,022,634	7,713,907
Interest expense	2.c	4,335,115	5,048,781
Net interest income		2,687,519	2,665,126
Fee commission and other income	2.b	231,116	228,501
		2,918,635	2,893,627
Less:			
Non-interest expenses			
Impairment losses on loans receivable from members	2.d	30,000	30,000
Fee and commission expenses		168,700	173,352
General administration			
- Employees compensation and benefits		860,193	829,143
- Depreciation and amortisation	2.e	72,636	122,978
- Information technology		347,565	318,731
- Office occupancy		99,122	96,391
- Other administration		108,868	116,860
Total General Administration		1,488,384	1,484,103
Other operating expenses		362,785	384,036
Total non-interest expenses		2,049,869	2,071,491
Profit before income tax		868,766	822,136
Income tax expense	3	246,641	233,119
Profit after income tax		622,125	589,017

**STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2014**

	Capital	Reserve for Credit Losses	Retained Earnings	Other Reserve s	Total
	\$	\$	\$	\$	\$
Total at 1 July 2012	866,600	729,552	8,986,118	18,110	10,600,380
Profit for the year	-	-	589,017	-	589,017
Dividends Paid	-	-	(56,689)	-	(56,689)
Transfer to capital reserve on redemption of shares	-	-	(1,360)	1,360	-
Total at 30 June 2013	866,600	729,552	9,517,086	19,470	11,132,708
Profit for the year	-	-	622,125	-	622,125
Dividends Paid	-	-	(40,142)	-	(40,142)
Transfer to capital reserve on redemption of shares	-	-	(1,360)	1,360	-
Total as at 30 June 2014	866,600	729,552	10,097,709	20,830	11,714,691

STATEMENT OF FINANCIAL POSITION**AS AT 30 JUNE 2014**

	Note	2014	2013
		\$	\$
ASSETS			
Cash	4	3,654,273	4,026,884
Receivables from financial institutions	5	38,688,325	35,682,485
Receivables	6	134,043	117,047
Loans to members	7 & 8	113,306,507	106,496,330
Available for sale investments	9	235,300	235,300
Property, plant and equipment	10	82,270	68,800
Taxation assets	11	240,029	231,059
Intangible assets	13	85,745	56,907
TOTAL ASSETS		<u>156,426,492</u>	<u>146,914,812</u>
LIABILITIES			
Deposits from members	14	141,606,934	132,720,788
Creditor accruals and settlement accounts	15	1,575,006	1,556,949
Taxation liabilities	16	98,350	104,431
Provisions	17	431,511	399,936
Subordinated debt	18	1,000,000	1,000,000
TOTAL LIABILITIES		<u>144,711,801</u>	<u>135,782,104</u>
NET ASSETS		<u>11,714,691</u>	<u>11,132,708</u>
MEMBERS' EQUITY			
Share capital - preference shares	19	866,600	866,600
Capital reserve account	20	20,830	19,470
General reserve for credit losses	21	729,552	729,552
Retained earnings		10,097,709	9,517,086
TOTAL MEMBERS' EQUITY		<u>11,714,691</u>	<u>11,132,708</u>

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**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 June 2014**

	Note	2014 \$	2013 \$
OPERATING ACTIVITIES			
Revenue inflows			
Interest received		7,005,638	7,831,355
Fees and commissions		172,950	173,228
Dividends		43,137	42,745
Other income		14,651	11,321
Revenue outflows			
Interest paid		(4,369,622)	(5,288,124)
Suppliers and employees		(1,959,988)	(1,917,273)
Income taxes paid		(261,692)	(164,802)
Net cash flow from revenue activities	32	645,074	688,450
Inflows/(outflows) from other operating activities			
(Increase) Decrease in member loans (net movement)		(6,840,177)	(8,396,966)
(Increase)/Decrease in member deposits & shares (net movement)		8,983,040	7,419,349
(Increase)/Decrease in deposits to other financial institutions (net)		(3,005,840)	59,450
Net cash flows from operating activities		(217,903)	(229,717)
INVESTING ACTIVITIES			
Inflows			
Proceeds on redemption of shares		-	15
Proceeds on sale of property, plant and equipment		20,000	15,334
Outflows			
Purchase of intangible assets		(73,617)	(28,640)
Purchase of property plant and equipment		(60,949)	(43,284)
Net cash flows from investing activities		(114,566)	(56,575)
FINANCING ACTIVITIES			
Inflows/(outflows)			
Dividends paid		(40,142)	(56,688)
Subordinated Debt Loans to Capital investors		-	100,000
Net cash flows from financing activities		(40,142)	43,312
Net decrease in cash		(372,611)	(242,980)
Cash at beginning of year		4,026,884	4,269,864
Cash at end of year	4	3,654,273	4,026,884

1. STATEMENT OF ACCOUNTING POLICIES

This financial report is prepared for Laboratories Credit Union Limited as a single credit union, for the year ended the 30th June 2014. The report was authorised for issue on 17th September 2014 in accordance with a resolution of the board of directors. The financial report is presented in Australian dollars.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements for the **Corporation Act 2001**, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Laboratories Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of Measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non-current assets. The accounting policies are consistent with the prior year unless otherwise stated.

b. Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables which is presented within other expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Credit Union's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Credit Unions, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified Credit Union.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Credit Union has the intention and ability to hold them until maturity. The Credit Union currently holds Term deposits, Negotiable Certificates of Deposit (NCD), Floating Rate Notes, and Bank accepted Bills Of Exchange in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available For Sale financial assets.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Available For Sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's AFS financial asset is the equity investment in Cuscal Limited.

The equity investment in Cuscal Limited is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

c. Loans to Members**(i) Basis of recognition**

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the credit union at balance date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the board of directors.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(ii) Interest earned

Term loans - interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Overdraft –interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

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

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

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

(v) Fees on loans

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

(vi) Net gains and losses

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

d. Loan Impairment

(i) Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8. Note 22 details the credit risk management approach for loans.

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

ii) **General reserve for credit losses**

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

- The level of security taken as collateral.

iii) **Renegotiated loans**

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

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

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

f. **Property, plant and equipment**

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

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

g. **Receivables from other financial institutions**

Term deposits, Bank bonds and Negotiable Certificates of deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the Statement of Financial Position.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

h. Equity investments and other securities

Investments in marketable financial instruments

Available for sale financial instruments are measured at fair value.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal

Investments in shares

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

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

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

All investments are in Australian currency.

i. Member Deposits

(i) Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at the balance date.

(ii) Interest payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on amount of money owing to depositors on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

j. Borrowings

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

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

k. Provision for Employee Benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the Group does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period. Annual leave liability is still presented as current liability for presentation purposes under AASB 101 *Presentation of Financial Statements*

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the credit union based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by the credit union to an employee's superannuation fund and are charged to the income statement as incurred.

l. Leasehold on Premises

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

m. Income Tax

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

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

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

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

n. Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the credit union are classified as intangible assets. Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

o. Goods and Services Tax

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

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

p. Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

q. Impairment of Assets

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

r. Accounting Estimates and Judgements

Management have made judgements when applying the credit union's accounting policies with respect to

- i. The classification of preference shares as equity instruments – refer note 19

Management have made critical accounting estimates when applying the credit union's accounting policies with respect to the impairment provisions for loans - refer note 8.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

s. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The credit union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Credit Union have not been reported.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 Financial Instruments (issued December 2009 and amended December 2010)	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to: Classification and measurement of financial liabilities; and Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2017	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2018 year end, the entity has not yet made an assessment of the impact of these amendments. The entity does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.

New standards applicable for the current year

AASB 13 (issued September 2012. Fair Value Measurement	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.	Annual reporting periods commencing on or after 1 January 2013	When this standard was adopted for the first time on 1 July 2013, additional disclosures were required about fair values. The assets impacted relate to the shares in Cuscal which were not material to the financial statements.
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2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2014 \$	2013 \$
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	83,293	124,390
Receivables from financial institutions	1,371,820	1,539,453
Loans to members	5,567,521	6,050,064
TOTAL INTEREST REVENUE	<u>7,022,634</u>	<u>7,713,907</u>
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	1,700	2,864
Other fee income	98,100	103,718
Insurance commissions	9,067	3,555
Other commissions	64,083	63,091
	<u>172,950</u>	<u>173,228</u>
Other income		
Dividends received on available for sale assets	43,137	42,745
Bad debts recovered	6,237	5,693
Gain on disposal of assets		
- Property, plant and equipment	378	1,207
Miscellaneous revenue	8,414	5,628
	<u>58,166</u>	<u>55,273</u>
TOTAL FEE COMMISSION AND OTHER INCOME	<u>231,116</u>	<u>228,501</u>
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Short term borrowings - overdraft	18,242	17,639
Deposits from members	4,231,873	4,947,382
Subordinated Debt	85,000	83,760
TOTAL INTEREST EXPENSE	<u>4,335,115</u>	<u>5,048,781</u>
d. Impairment losses		
Loans and advances		
Increase in provision for impairment	20,000	30,000
Bad debts written off directly against profit	-	-
TOTAL IMPAIRMENT LOSSES	<u>20,000</u>	<u>30,000</u>

2. INCOME STATEMENT Continued**e. Other prescribed disclosures****General administration***Depreciation and amortisation*

• plant and equipment	27,857	39,387
• leasehold improvements	-	20,383
• amortisation of software	44,779	63,208
	<u>72,636</u>	<u>122,978</u>

Office occupancy

property operating lease payments	<u>95,567</u>	<u>91,677</u>
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Other operating expenses

Auditor's remuneration (excluding GST)

- Audit fees	35,911	34,865
- Other Services – taxation	3,500	3,000
- Other Services – compliance	2,850	3,150
- Other Services – other	-	6,000
	<u>42,261</u>	<u>47,015</u>

Defined contribution superannuation expenses	<u>119,507</u>	<u>111,591</u>
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Loss on Disposal of Assets

property, plant, equipment	-	1207
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3. INCOME TAX EXPENSE**a.** The income tax expense comprises amounts set aside as:-

Current tax charge – (Note 16)	255,717	246,927
Adjustments for prior years	(106)	(1,599)

Deferred tax:

Movement in temporary differences (Note 11)	(8,970)	(12,209)
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Total income tax expense in income statement	<u>246,641</u>	<u>233,119</u>
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	2014	2013
	\$	\$
b.		
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	868,766	822,136
Prima facie tax payable on profit before income tax at 30%	260,630	246,641
Add tax effect of expenses not deductible		
- Dividend imputation	5,546	5,496
Subtotal	266,176	252,137
Less		
- Tax deductions not in accounting profit	-	(89)
- Franking rebate	(18,487)	(18,319)
Income tax expense attributable to current year profit	247,689	233,729
Adjustments for previous years	(1048)	(610)
Movement in temporary differences – prior year	-	-
Total income tax expense in income statement	246,641	233,119
c.		
Franking credits		
Franking credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year, dividends received and dividends paid is :	4,403,654	4,129,432
Franking credits are available to the Tier 1 preference shareholders but not to the holders of member shares.		
4. CASH		
Cash on hand	74,553	93,283
Deposits at call	3,579,720	3,933,601
	3,654,273	4,026,884
5. RECEIVABLES FROM FINANCIAL INSTITUTIONS		
a. Investments at amortised cost		
Hold to Maturity		
Bonds	21,588,325	19,082,485
Receivables		
Deposits with financial institutions (5b)	17,100,000	16,600,000
	38,688,325	35,682,485
b. Dissection of receivables		
Deposits with industry bodies - Cuscal (note 28)	3,600,000	4,600,000
Deposits with other societies	6,000,000	5,000,000
Deposits with banks	7,500,000	7,000,000
	17,100,000	16,600,000
6. RECEIVABLES		
Interest receivable on deposits with other financial institutions	134,043	117,047
7. LOANS TO MEMBERS		

a. Amount due comprises:

Overdrafts and revolving credit	470,791	509,230
Term loans	112,871,323	106,018,983
Subtotal	113,342,114	106,528,213
Less: Provision for impaired loans (Note 8)	(35,607)	(31,883)
	<u>113,306,577</u>	<u>106,496,330</u>

b. Credit quality - Security held against loans

Secured by mortgage over real estate	110,083,190	103,247,032
Partly secured by goods mortgage	808,572	1,265,305
Wholly unsecured	2,450,352	2,015,876
	<u>113,342,114</u>	<u>106,528,213</u>

It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

Security held as mortgage against real estate is on the basis of:

- loan to valuation ratio of less than 80%	102,127,908	97,101,635
- loan to valuation ratio of more than 80% but mortgage insured	3,080,384	3,584,861
- loan to valuation ratio of more than 80% and not mortgage insured	4,874,898	2,560,536
	<u>110,083,190</u>	<u>103,247,032</u>

c. Concentration of loans

The values discussed below include on balance sheet values.

- (i) Loans to Individual or related groups of members which exceed 10% of reserves in aggregate
- | | | |
|--|-----------|-----------|
| | 4,134,027 | 3,700,728 |
|--|-----------|-----------|
- (ii) Loans to members are concentrated to individuals employed primarily in the technology and scientific research industries
- (iii) Geographical concentrations

2014	Housing	Personal	Business	Total
Australia				
NSW	93,427,532	2,867,044	3,595,350	99,889,926
Victoria	3,081,061	49,352	-	3,130,413
Queensland	3,128,470	125,876	-	3,254,346
South Australia	739,573	-	178,094	917,667
Western Australia	1,233,429	6,845	-	1,240,274
Tasmania	1,165,561	13,944	-	1,179,505
Northern Territory	221,047	-	-	221,047
ACT	2,534,241	-	-	2,534,241
Other	938,181	906	-	939,088
Total per balance sheet	<u>106,469,096</u>	<u>3,063,967</u>	<u>3,773,444</u>	<u>113,306,507</u>

2013	Housing	Personal	Business	Total
Australia				
NSW	86,824,932	3,453,674	2,602,900	92,881,506
Victoria	2,836,283	27,521	-	2,863,804
Queensland	3,252,350	162,690	-	3,415,040
South Australia	772,292	-	182,849	955,141
Western Australia	859,105	10,734	-	869,839
Tasmania	1,319,682	13,461	-	1,333,143
Northern Territory	302,821	-	-	302,821
ACT	2,479,665	4,397	-	2,484,062
Other	1,412,804	10,053	-	1,422,857
Total per balance sheet	<u>100,059,934</u>	<u>3,682,530</u>	<u>2,785,749</u>	<u>106,528,213</u>

2014	2013
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\$

\$

8. PROVISION ON IMPAIRED LOANS**a. Total provision comprises**

Individual specific provisions

35,60731,883**b. Movement in the provision for impairment**

Opening balance

31,883

43,048

Add (deduct):

Transfers from income statement

30,000

30,000

Bad debts written off provision

(26,275)(41,165)**Closing balance**35,60731,883

Details of credit risk management are set out in Note 22.

c. Impaired loans written off

Amounts written off against the provision for impaired loans

26,27541,165

8. PROVISION ON IMPAIRED LOANS Continued

d. Analysis of loans that are impaired or potentially impaired by class

In the Note below -

- Carrying Value is the amount of the balance sheet
- Impaired loans value is the 'on balance sheet' loan balances which are past due by 90 days or more
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2014			2013		
	Carrying value	Value of Impaired Loans	Provision for impairment	Carrying value	Value of Impaired Loans	Provision for impairment
	\$	\$	\$	\$	\$	\$
Loans to members						
Mortgages	110,083,190	-	-	103,247,032	-	-
Personal – secured by MV	772,965	15,349	3,107	1,265,305	28,704	30,427
Personal Unsecured	2,015,168	53,496	32,191	1,506,646	59,479	-
Overdrafts	470,791	772	309	509,230	2,412	1,456
Total	113,342,114	69,617	35,607	106,528,213	90,595	31,883

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

	2014		2013	
	Carrying Value	Provision	Carrying Value	Provision
	\$	\$	\$	\$
30 to 90 days in arrears	26,760	8,502	59,479	11,408
90 to 180 days in arrears	19,831	7,933	2,601	1,040
180 to 270 days in arrears	8,475	5,084	20,309	12,186
270 to 365 days in arrears	-	-	-	-
Over 365 days in arrears	13,779	13,779	5,793	5,793
Over limit facilities over 14 days	772	309	2,412	1,456
Total	69,617	35,607	90,595	31,883

The table above exclude the well secured mortgage loans of \$Nil

The impaired loans are generally not secured against residential property. Some impaired loans for motor vehicles or other assets of varying value are listed in the Personal Property Security Register. It is not practicable to determine the fair value all collateral as at the balance date due to the variety of assets and condition.

8. PROVISION ON IMPAIRED LOANS Continued

f. Loans with repayments past due but not regarded as impaired

There are mortgage secured loans with a value of \$Nil (2013 –\$1,147,962) past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not

practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

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

Loans to members

2014	1- 3 Months	3-6 Months	6-12 Months	> 1 Year	Total
	\$	\$	\$	\$	\$
Mortgage secured	-	-	-	-	-
Personal loans	10,171	-	-	-	10,171
Overdrafts	3,330	-	-	-	3,330
Total	13,501	-	-	-	13,501

2013	1- 3 Months	3-6 Months	6-12 Months	> 1 Year	Total
	\$	\$	\$	\$	\$
Mortgage secured	639,571	508,391	-	-	1,147,962
Personal loans	59,479	-	-	-	59,479
Overdrafts	2,819	-	-	-	2,819
Total	701,869	508,391	-	-	1,210,260

g. Key assumptions in determining the provision for impairment

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

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

2014
\$ **2013**
\$

9. AVAILABLE FOR SALE INVESTMENTS

Shares in unlisted companies – at cost
- Cuscal

235,300 235,300

9. AVAILABLE FOR SALE INVESTMENTS Continued

Cuscal Limited

The shareholding in Cuscal is measured at cost, as its fair value could not be measured reliably. This company supplies services to credit union organisations. These shares are held to enable the Credit Union to receive essential banking services. The shares are able to be traded.

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

The Credit Union is not intending to dispose of these shares.

2014	2013
\$	\$

10. PROPERTY, PLANT AND EQUIPMENT

a. Fixed assets

Plant and equipment - at cost	312,154	323,420
Less: provision for depreciation	(229,884)	(254,620)
	82,270	68,800
 Capitalised leasehold improvements - at cost	 271,778	 271,778
Less: provision for amortisation	(271,778)	(271,778)
	-	-
 Closing balance	82,270	68,800

b. Movement in the assets balances during the year were :

	2014			2013		
	<i>Plant & equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>	<i>Plant & equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$
Opening balance	68,800	-	68,800	79,030	20,383	99,413
Purchases	60,949	-	60,949	43,283	-	43,283
Assets disposed	(19,622)	-	(19,622)	(59,925)	-	(59,925)
Depreciation charge	(27,857)	-	(27,857)	(39,387)	(20,383)	(59,770)
Depreciation On disposals	-	-	-	45,799	-	45,799
Closing balance	82,270	-	82,270	68,800	-	68,800

	2014 \$	2013 \$
11. TAXATION ASSETS		
Deferred Tax Assets	240,029	231,059
Deferred tax assets comprise:		
Accrued expenses not deductible until incurred	37,388	40,031
Provisions for impairment on loans	10,682	9,565
Provisions for employee benefits	133,045	123,663
Depreciation on fixed assets	54,354	52,520
Black hole expenses for otherwise capital costs	4,560	5,903
Other	-	(623)
	<u>240,029</u>	<u>231,059</u>
12. INTANGIBLE ASSETS		
Computer software	420,439	364,026
Less provision for amortisation	(334,694)	(307,119)
	<u>85,745</u>	<u>56,907</u>
Movement in the assets balances during the year were :		
Opening balance	56,907	91,475
Purchases	73,617	28,640
Assets disposed	-	-
Depreciation charge	(44,779)	(63,207)
Closing balance	<u>85,745</u>	<u>56,907</u>
13. DEPOSITS FROM MEMBERS		
Member Deposits		
- at call	60,878,454	55,762,837
- term	80,695,590	76,924,781
Member withdrawable shares	32,890	33,170
	<u>141,606,934</u>	<u>132,720,788</u>

	2014	2013
	\$	\$
14. DEPOSITS FROM MEMBERS Continued		
Concentration of member deposits		
(i) Significant individual member deposits which in aggregate represent more than 10 % of the total liabilities:	-	-
Geographical concentrations		
<u>Australia</u>		
NSW	127,486,657	122,612,789
Victoria	2,318,806	1,489,025
Queensland	3,563,004	2,666,640
South Australia	602,520	809,739
Western Australia	959,717	1,133,248
Tasmania	709,742	404,653
Northern Territory	3,086	14,189
ACT	731,084	815,244
Other	5,199,428	2,742,091
	<u>141,574,044</u>	<u>132,687,618</u>
15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS		
Annual leave	72,154	61,981
Creditors and accruals	135,265	189,771
Interest payable on deposits	1,158,725	1,193,232
Sundry creditors	208,859	111,965
	<u>1,575,006</u>	<u>1,556,949</u>
16. TAXATION LIABILITIES		
Current income tax liability See Note 11	<u>98,350</u>	<u>104,431</u>
Current income tax liability comprises:		
Opening balance	104,431	23,905
Less: Amounts paid	104,325	22,306
(Over)/understatement of prior year	(106)	(1,599)
Liability for income tax	255,717	246,927
Less: Instalments paid during year	157,367	142,496
Closing balance	<u>98,350</u>	<u>104,431</u>

	2014	2013
	\$	\$
17. PROVISIONS		
Long service leave	317,688	296,590
Provisions – other	113,823	103,346
	<u>431,511</u>	<u>399,936</u>
18. SUBORDINATED DEBT		
Balance at the beginning of the year	1,000,000	1,000,000
Increase due to debt issued	-	-
Amortisation of Cost of debt	-	-
	<u>1,000,000</u>	<u>1,000,000</u>

The Series 1 notes were redeemed in October 2012 and a new series 2 Notes were issued. The new notes are redeemable in 2022.

The credit union entered into an agreement to issue subordinated debt in the year which was approved at the members meeting held in 2006.

The notes are unsecured interest with interest payable quarterly at AUD[BBR/BBSW] plus 5.93%.

19. PREFERENCE SHARES

Preference shares	866,600	866,600
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The credit union issued 10,000 redeemable preference shares with a face value of \$100 each to Australian Mutual T1 Capital Funding Trust. The shares may be redeemable after June 2016.

	1,000,000	1,000,000
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Less: Capital raising costs associated with the issue

	(33,400)	(33,400)
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As part of the capital raising scheme, the credit union was required to provide a limited recourse unsecured subordinated loan to the Trustee for 10% of the face value of shares issued. The loan is repayable upon the redemption of the shares.

	<u>(100,000)</u>	<u>(100,000)</u>
	<u>866,600</u>	<u>866,600</u>

Key Assumptions

The structure of the share issue agreement and the T1 Loss Reserve are considered to be effectively one transaction to raise capital.

20. CAPITAL RESERVE ACCOUNT

Opening balance	19,470	18,110
Transfer from retained earnings on share redemptions	1,360	1,360
	<u>20,830</u>	<u>19,470</u>

Share Redemption

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

	2014 \$	2013 \$
21. GENERAL RESERVE FOR CREDIT LOSSES		
General reserve for credit losses	729,552	729,552
Other reserve for credit losses	-	-
	729,552	729,552

General reserve for credit losses

This reserve records amount previously set aside as a General provision against loans and is maintained to comply with the Prudential Standards set down by APRA.

Opening balance	729,552	729,552
Increase/(decrease) transferred from retained earnings	-	-
Closing balance	729,552	729,552

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

MARKET RISK AND HEDGING POLICY

The objective of the credit union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the credit union's financial condition or results. The credit union is not exposed to currency risk, and other significant price risk. The credit union does not trade in the financial instruments it holds on its books. The credit union is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of the Management, which reports directly to the board.

(i) INTEREST RATE RISK

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within its Treasury operations. This credit union does not have a treasury operation and does not trade in financial instruments.

Interest rate risk in the banking book

The credit union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

The interest rate risk on the banking book is measured daily, reported to the board monthly.

In the banking book the most common risk the credit union faces arises from fixed rate assets and liabilities. This exposes the credit union to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 25 below. The table set out at Note 25 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**Method of managing risk**

The credit union manages its interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

Interest rate sensitivity

The credit union's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the credit union to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The Gap is measured quarterly to identify potentially large exposures to interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the credit union is not to undertake derivatives to match the interest rate risks. The credit union's exposure to interest rate risk is set out in Note 25 which details the contractual interest change profile.

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

Based on the calculations as at balance date a 1% upwards movement in interest rates would result in an increase (decrease) in net profit of \$140,224 [2013 \$134,492]. Conversely, a 1% downwards movement in interest rates would result in an equivalent decrease in annual net profit.

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

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would reprice in the event of a rate change ;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate at the within 28 days;
- personal loans would reprice within 28 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of at call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

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

A. LIQUIDITY RISK

Liquidity risk is the risk that the credit union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands.

It is the policy of the board of directors that the credit union maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

The credit union manages liquidity risk by:

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

The credit union has a longstanding arrangement with the industry liquidity support scheme, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the credit union should be necessary at short notice.

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The credit union policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 28 describe the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in the specific note 24.

B. CREDIT RISK

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

(i) CREDIT RISK – LOANS

The analysis of the credit union's loans by class is set out in Note 7.

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (Loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities). The details are shown in note 27.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in note 7.c.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

The credit union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non-mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies;

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**Past due and impaired**

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the credit union that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the income statement. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, the credit union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

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

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in country risk, changes in counterparty's industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

The provisions for impaired and past due exposures relate to loans to members. Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are as set out in Note 8.

Bad debts

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

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

Reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 8.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

Collateral securing loans

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

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board policy is to maintain the majority of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 7.b describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – individuals

Concentration risk is a measurement of the credit union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the credit union's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but the APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The aggregate value of large exposure loans are set out in note 7. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

The credit union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of at least 80 per cent, unless the loan is covered by Lenders Mortgage Insurance. Reviews of compliance with this policy are conducted.

Concentration risk – industry

The credit union has a concentration in the retail lending for members who comprise employees and family in the scientific research and technology industry. This concentration is considered acceptable on the basis that the credit union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 7.

(i) CREDIT RISK – LIQUID INVESTMENTS

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the credit union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the credit union.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that limit the amount that can be invested with any one financial institution at a time.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one credit union. Also the relative size of the credit union as compared to the industry is relatively low and as such the risk of loss is reduced.

Under the liquidity support scheme at least 3.2% of the total assets must be invested in Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed. The board policy is to maintain investments in Cuscal Limited, a company set up to support the member credit unions and which has an AA rating.

The policies of the board limit the investments outside Cuscal to Authorised Deposit taking Institutions (ADI's).

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises

- Preference share capital
- Retained profits
- Realised reserves.

The preference shares issued are approved by APRA and qualify as Tier 1 capital.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibits some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises:

- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital.
- A General Reserve for Credit Losses.
- Approved subordinated loans.

Capital in the credit union is made up as follows:

	2014	2013	2012	2011
Tier 1				
Share capital	866,600	866,600	866,600	866,600
Capital reserve	20,830	18,110	18,110	16,650
General reserve			-	-
Retained earnings	10,097,709	9,518,363	8,986,117	8,416,909
	<u>10,985,139</u>	<u>10,403,073</u>	<u>9,870,827</u>	<u>9,300,159</u>
Less: Prescribed deductions	(727,672)	(495,605)	(527,975)	(440,147)
Net tier 1 capital	<u>10,257,467</u>	<u>9,907,468</u>	<u>9,342,852</u>	<u>8,860,012</u>

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued

Tier 2				
Subordinated debt	1,000,000	1,000,000	1,000,000	1,000,000
Reserve for credit losses	729,552	729,552	729,552	680,844
	<u>1,729,552</u>	<u>1,729,552</u>	<u>1,729,552</u>	<u>1,680,844</u>
Less: Prescribed deductions	(233,400)	(133,400)	(251,050)	(251,050)
Net tier 2 capital	<u>1,496,152</u>	<u>1,596,152</u>	<u>1,478,502</u>	<u>1,429,794</u>
Total Capital	<u>11,753,619</u>	<u>11,503,620</u>	<u>10,821,354</u>	<u>10,289,806</u>

The credit union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

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

2014	2013	2012	2011	2010
16.93%	17.41%	17.96%	18.22%	19.50%

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

To manage the credit unions capital the credit union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the regulator if the capital ratio falls below 12%. Further a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

23. CATEGORIES OF FINANCIAL INSTRUMENTS.**Pillar 2 Capital on Operational Risk**

This capital component was introduced as from the 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

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

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

- Operational risk regulatory capital \$ 663,018 (2013 - \$ 593,408).

It is considered that the Standardised approach accurately reflects the credit union's operational risk.

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

	Fair value through Equity \$	Held to maturity \$	Amortised cost \$	Total \$
2014				
<u>Financial assets</u>				
Cash	-	-	3,654,273	3,654,273
Receivables	-	-	134,043	134,043
Receivables from financial institutions	-	38,600,000	-	38,600,000
Loans to members	-	-	113,342,114	113,342,114
Available for sale investments	235,300	-	-	235,300
Loans to capital investors	-	-	-	-
	235,300	38,600,000	117,130,430	155,965,730
<u>Financial liabilities</u>				
Creditors	-	-	1,502,849	1,502,849
Deposits from members	-	-	141,606,934	141,606,934
Subordinated debt	-	-	1,000,000	1,000,000
	-	-	144,109,783	144,109,783
2013				
<u>Financial assets</u>				
Cash	-	-	4,026,884	4,026,884
Receivables	-	-	117,047	117,047
Receivables from financial institutions	-	35,600,000	-	35,600,000
Loans to members	-	-	106,528,213	106,528,213
Available for sale investments	235,300	-	-	235,300
Loans to capital investors	-	-	-	-
	235,300	35,600,000	110,672,144	146,507,444

<u>Financial liabilities</u>				
Creditors	-	-	1,494,968	1,494,968
Deposits from members	-	-	132,720,787	132,720,787
Subordinated debt	-	-	1,000,000	1,000,000
	-	-	135,215,755	135,215,755
Cash	-	-	4,026,884	4,026,884

b. Assets measured at fair value through profit or loss

Fair value measurement at end of the reporting period using:

	2014		2013	
	Level 3	Total	Level 3	Total
	\$	\$	\$	\$
Available for sale investments	235,300	235,300	235,300	235,300

The fair value hierarchy has the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level 3 investments are held at cost and relate to the shares in the trade association body CUSCAL Limited. These shares are held to maintain services for the settlement with other financial institutions, treasury, and support services. They are not readily realisable by way of sale or transfer.

24 (a). MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the balance sheet.

LABORATORIES CREDIT UNION LTD

ABN 77 087 650 217

2014 financial statements

2014	Book value	Up to 3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total cash flows
	\$	\$	\$	\$	\$	\$	\$
ASSETS							
Cash	3,654,273	3,579,720	-	-	-	74,553	3,654,273
Advance to financial Institutions	38,688,325	14,456,982	2,750,346	23,848,316	-	-	41,055,644
Loans & advances	113,342,114	2,701,191	7,687,438	37,702,645	130,538,121	-	178,629,395
Total financial assets	155,684,712	20,737,893	10,437,784	61,550,961	130,538,121	74,553	223,339,312
LIABILITIES							
Creditors	1,575,006	416,281	-	-	-	-	416,281
Deposits from members	141,606,934	97,424,756	42,293,913	2,845,020	-	-	142,563,689
Subordinated debt	1,000,000	-	-	-	1,000,000	-	1,000,000
	144,181,940	97,841,037	42,293,913	2,845,020	1,000,000	-	143,979,970
Undrawn loan commitments	30,036,092	30,036,092	-	-	-	-	30,036,092
Total financial liabilities	174,218,032	127,877,129	42,293,913	2,845,020	1,000,000	-	174,016,062
2013							
ASSETS							
Cash	4,026,884	3,933,601	-	-	-	93,283	4,026,884
Advance to financial Institutions	35,600,000	15,354,781	4,441,341	19,563,167	-	-	39,359,289
Loans & advances	106,528,213	3,174,369	7,616,174	37,304,240	124,522,923	-	172,617,706
Total financial assets	146,155,097	22,462,751	12,057,515	56,867,407	124,522,923	93,283	216,003,879
LIABILITIES							
Creditors	1,556,949	363,717	-	-	-	-	363,717
Deposits from members –	132,720,788	87,356,795	43,023,106	2,731,630	-	-	133,111,531
Subordinated debt	1,000,000	-	-	-	1,000,000	-	1,000,000
	135,277,737	87,720,512	43,023,106	2,731,630	1,000,000	-	134,475,248
Undrawn loan commitments	26,674,220	26,674,220	-	-	-	-	26,674,220
Total financial Liabilities	161,951,957	114,394,732	43,023,106	2,731,630	1,000,000	-	161,149,468

24 (b). NON-CURRENT PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by members choosing to repay loans earlier. These advance repayments are at the discretion of the members and not able to be reliably estimated.

	2014			2013		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	\$	\$	\$	\$	\$	\$
FINANCIAL ASSETS						
Cash	3,654,274	-	3,654,274	4,026,884	-	4,026,884
Liquid Investments	36,600,000	2,000,000	38,600,000	19,100,000	16,500,000	35,600,000
Loans & advances	4,752,372	108,589,742	113,342,114	5,193,602	101,334,611	106,528,213
Total financial assets	45,006,646	110,589,742	155,596,388	28,320,486	117,834,611	146,155,097
FINANCIAL LIABILITIES						
Creditors	416,281	-	416,281	363,717	-	363,717
Deposit from members	138,875,711	2,731,223	141,606,934	130,191,910	2,528,877	132,720,787
Subordinated debt	-	1,000,000	1,000,000	-	1,000,000	1,000,000
Total financial liabilities	139,291,992	3,731,223	143,023,215	130,555,627	3,528,877	134,084,504

25. INTEREST RATE CHANGE PROFILE OF FINANCIAL LIABILITIES

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

	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Non-interest bearing \$	Total \$
2014						
<u>ASSETS</u>						
Cash	3,579,720	-	-	-	74,553	3,654,273
Receivables	-	-	-	-	134,043	134,043
Advances to other financial Institutions	4,000,000	31,600,000	1,000,000	2,000,000	-	38,600,000
Loans & advances	92,901,121	-	8,403,312	12,037,681	-	113,342,114
Investments	-	-	-	-	235,300	235,300
Total financial assets	100,480,841	31,600,000	9,403,312	14,037,681	443,896	155,965,730
<u>LIABILITIES</u>						
Creditors	-	-	-	-	1,502,849	1,502,849
Deposits from members	75,215,892	19,395,966	45,849,177	1,113,009	32,890	141,606,934
Subordinated debt	1,000,000	-	-	-	-	1,000,000
	76,215,892	19,395,966	45,849,177	1,113,009	1,535,739	144,109,783
Undrawn loan commitments	30,036,093	-	-	-	-	30,036,093
Total financial liabilities	106,251,984	19,395,966	45,849,177	1,113,009	1,535,739	174,145,875
2013						
<u>ASSETS</u>						
Cash	3,933,601	-	-	-	93,283	4,026,884
Receivables	-	-	-	-	117,047	117,047
Advances to other financial Institutions	2,000,000	13,100,000	4,000,000	16,500,000	-	35,600,000
Loans & advances	88,700,493	2,028,936	7,349,905	8,448,880	-	106,528,214
Investments	-	-	-	-	235,300	235,300
Total financial assets	94,634,094	15,128,936	11,349,905	24,948,880	445,630	146,507,445
<u>LIABILITIES</u>						
Creditors	-	-	-	-	1,494,968	1,494,968
Deposits from members	69,613,269	18,807,933	41,737,538	2,528,877	33,170	132,720,787
Subordinated debt	1,000,000	-	-	-	-	1,000,000
	70,613,269	18,807,933	41,737,538	2,528,877	1,528,138	135,215,755
Undrawn loan commitments	26,674,220	-	-	-	-	26,674,220
Total financial liabilities	97,287,489	18,807,933	41,737,538	2,528,877	1,528,138	161,889,975

26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

	Fair Value	2014 Carrying Value	Variance	Fair Value	2013 Carrying Value	Variance
	\$	\$	\$	\$	\$	\$
<u>FINANCIAL ASSETS</u>						
Cash	3,654,273	3,654,273	-	4,026,884	4,026,884	-
Advances to other financial institutions	38,688,623	38,688,325	298	35,606,227	35,600,000	6,227
Receivables	134,043	134,043	-	117,047	117,047	-
Loans to members	113,258,996	113,306,507	(47,511)	106,528,187	106,528,213	(26)
Investments	235,300	235,300	-	235,300	235,300	-
Subordinated loans	-	-	-	-	-	-
Total financial assets	155,971,235	156,018,448	(47,213)	146,513,645	146,507,444	6,201
<u>FINANCIAL LIABILITIES</u>						
Creditors	1,575,006	1,575,006	-	1,494,968	1,494,968	-
Deposits from members	141,666,922	141,606,934	(59,988)	132,804,009	132,720,788	83,221
Subordinated debt	1,000,000	1,000,000	-	1,000,000	1,000,000	-
Total financial liabilities	144,241,928	144,181,940	(59,988)	135,298,977	135,215,756	83,221

Assets where the fair value is lower than the book value have not been written down in the accounts of the credit union on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES Continued

The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Deposits from members

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

	2014 \$	2013 \$
27. FINANCIAL COMMITMENTS		
a. Outstanding loan commitments		
Loans approved but not funded	237,917	895,461
b. Loan redraw facilities		
Loan redraw facilities available	27,666,114	24,247,879
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	2,602,852	2,620,068
Less: Amount advanced	(470,791)	(1,089,188)
Net undrawn value	2,132,061	1,530,880
	30,036,092	26,674,220
d. Computer Licence commitments		
The costs committed under contracts with Ultradata are as follows:		
Not later than one year	187,404	-
Later than 1 year but not 5 years	749,616	-
Later than 5 years	438,987	-
	1,376,007	-
e. Lease expense commitments		
Not later than one year	89,007	85,056
Later than 1 year but not 5 years	378,503	425,280
Later than 5 years	335,386	312,817
	802,896	823,153

These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the lease was extended to 10 years in January 2013.

There are no restrictions imposed on the credit union so as to limit the ability to undertake further leases, borrow funds or issue dividends.

28. STANDBY BORROWING FACILITIES

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

	Gross	Current	Net
	\$	Borrowing	Available
		\$	\$
2014			
Loan facility	1,200,000	-	1,200,000
Overdraft facility	500,000	-	500,000
TOTAL STANDBY BORROWING FACILITIES	1,700,000	-	1,700,000
2013			
Loan Facility	1,200,000	-	1,200,000
Overdraft Facility	500,000	-	500,000
TOTAL STANDBY BORROWING FACILITIES	1,700,000	-	1,700,000

Withdrawal of the loan facility is subject to the availability of funds at Cuscal.

Cuscal holds an equitable mortgage charge over all of the assets of the credit union as security against loan and overdraft amounts drawn under the facility arrangements.

29. CONTINGENT LIABILITIES

Liquidity support scheme

The credit union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member credit unions in the event of a liquidity or capital problem. As a member, the credit union is committed to maintaining 3.2% of the total assets as deposits with Cuscal Limited.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.2% of the credit union's total assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

30. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

a. Remuneration of key management persons

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

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

The aggregate Compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

30. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL Continued

Note the AASB 124 standard does not specifically require the separation of the directors and executive remuneration. The table below represents the aggregate remuneration for the key management personnel.

	2014 Total	2013 Total
	\$	\$
(a) short-term employee benefits;	331,567	322,561
(b) post-employment benefits - superannuation contributions	48,971	45,267
(c) other long-term benefits – net increases in long service leave provision	12,052	10,138
(d) termination benefits;	-	-
(e) share-based payment.	-	-
Total	392,590	377,966

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

All remuneration to directors was approved by the members at the previous Annual General Meeting of the credit union.

Loans to Directors and other Key Management Persons

The credit union’s policy for lending to directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit.

There are no loans which are impaired in relation to the loan balances with director’s or other KMP. There are no benefits or concessional terms and conditions applicable to the Close family members of the KMP. There are no loans which are impaired in relation to the loan balances with close family relatives of directors and other KMP.

The detail of transactions during the year is as follows:

	2014			2013		
	Mortgage secured	Other term loans	Revolving Credit	Mortgage secured	Other term loans	Revolving Credit
Funds available to be drawn	-	-	20,500	-	-	19,000
Balance	908,703	-	14,774	802,245	-	13,255
Amounts disbursed or facilities increased in the year	395,047	-	5,726	57,619	-	5,745
Interest and other revenue earned	40,431	-	-	50,649	-	-

30. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL Continued

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

	2014 \$	2013 \$
Total value term and savings deposits from KMP	1,214,079	782,109
Total interest paid on deposits to KMP	22,863	22,383

The credit union's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

c. Transactions with Other Related Parties

Other transactions between related parties include deposits from director related entities or close family members of directors, and other KMP.

The credit union's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

There are no benefits paid or payable to the close family members of the key management persons.

There are no service contracts to which key management persons or their close family members are an interested party.

31. SUPERANNUATION LIABILITIES

The credit union contributes to the NGS Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee.

The credit union has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

	2014 \$	2013 \$
32. NOTES TO STATEMENT OF CASH FLOWS		
Reconciliation of cash		
Cash comprises:		
Cash on hand	74,553	93,283
Deposits at call with other financial institutions	3,579,720	3,933,601
Total cash	<u>3,654,273</u>	<u>4,026,884</u>

Reconciliation of net cash flows from revenue activities to accounting profit

32. NOTES TO STATEMENT OF CASH FLOWS Cont.

The net cash flows from revenue activities is reconciled to the profit after tax:

Profit after income tax	622,125	589,017
Add/(Deduct):		
Increase in provision for loans	30,000	(11,165)
Depreciation expense	27,857	59,770
Amortisation of intangible assets	44,779	63,208
(Gain)/Loss on sale of assets	(378)	(1,207)
Increase in provisions for staff leave	31,274	20,370
(Decrease)/Increase in provision for income tax	(6,081)	80,526
Increase in accrued expenses	(44,029)	22,036
(Decrease)/Increase in interest payable	(34,507)	(239,343)
Increase in deferred tax assets	(8,970)	(12,210)
Decrease in interest receivable	(16,996)	117,448
Net cash from revenue activities	<u>645,074</u>	<u>688,450</u>

33. CORPORATE INFORMATION

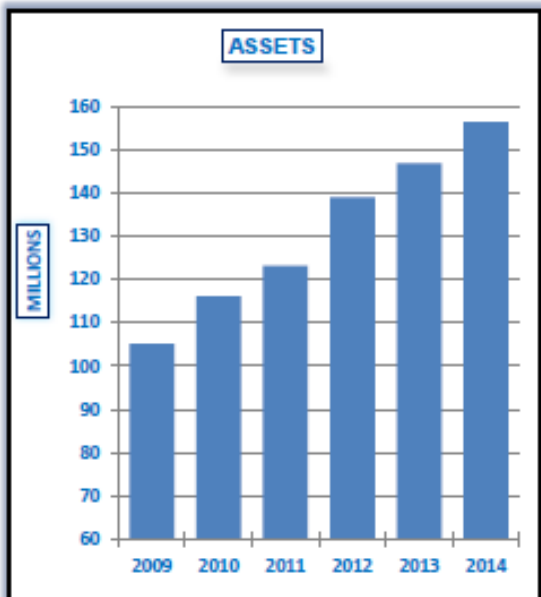
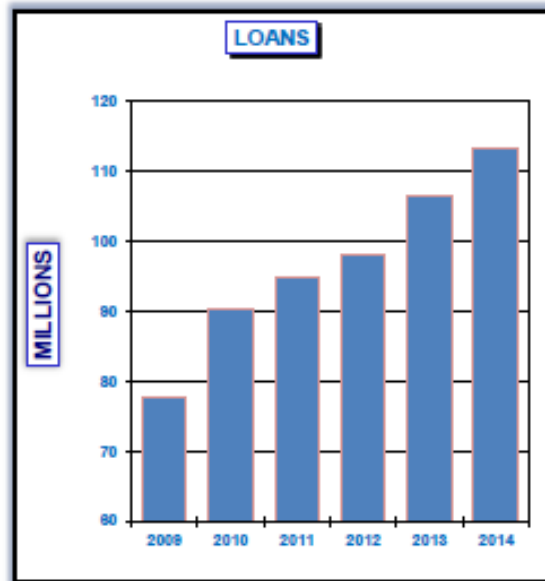
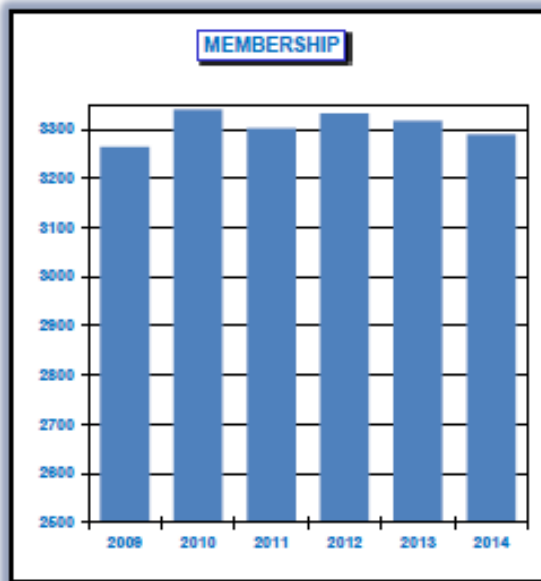
The credit union is a company limited by shares, and is registered under the Corporations Act 2001.

The address of the registered office is: No. 1 The Village, Riverside Corporate Park, 3
 Julius Ave
 NORTH RYDE NSW 2113

The address the principal place of business is: No. 1 The Village, Riverside Corporate Park, 3
 Julius Ave
 NORTH RYDE NSW 2113

The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the credit union.

AS AT 30th JUNE, 2014



CREDIT UNION PROFILE

REGISTERED OFFICE	1 The Village, Riverside Corporate Park, Julius Avenue Nth Ryde
BRANCH OFFICES	N.M.I. <i>Bradfield Road, Lindfield</i>
STAFF	M.F. Sinclair (FIPA) General Manager L. Harris(MBA) Assistant Manager E.R. Thoms, Office Manager L.E. Slatter, Loans Officer D. Satheesan (BComBSc) Marketing and Business Development Officer K.P. Griffiths, Member Services Officer R.K. Hatton, Member Services Officer S. Tran(CPA) Finance Officer J.R. Vote, Member Service Officer N. Mannie, Member Service Officer E.A. Sinclair, Administration Assistant
BANKERS	CUSCAL Central Banking National Australia Bank
AUDITORS	EXTERNAL: Grant Thornton Australia INTERNAL: Step Ahead Consultancy
SOLICITOR	Williams, Woolf & Zuur Daniels Bengtsson Pty Ltd
AFFILIATIONS	CUSCAL - Credit Union Services Corporation Limited COBA - Customer Owned Banking Association