# Laboratories Credit Union

## 61st ANNUAL REPORT

## 2014-2015

LCU

banking you can trust

Laboratories Credit Union Limited

ABN 77 087 650 217 AFSL/Australian Credit Licence 240807

# DIRECTORS OF LABORATORIES CREDIT UNION 1954 - 2015

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* | I.R. McDonald 1982 - *15 33 yrs* |

## CURRENT DIRECTORS

A.S. Andrew
2010

| | | | |
|---|---|---|---|
| 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 2014-15

On behalf of the Board, I am pleased to present to Members the 2015 Annual Report for Laboratories Credit Union Limited in our 61st year.

**End of an Era — Start of the New**
In the past year, the retirement of our GM Michael Sinclair and long-term board member Ian McDonald marked the end on of an era for LCU.

Michael was appointed as Secretary/Manager on 1st September 1986, following the retirement of Joan Ryan (Secretary/Manager) who joined LCU a part-time Clerical Assistant in 1960 and Stan Ryan (Director/Treasurer), a director since the first AGM in 1955. Under Michael's leadership LCU grew from 1341 to 3251 members, with assets increasing from $3.6 million (July 1986) to $166 million (June 2015), relocated from CSIRO's RAO office in Sydney to North Ryde, staff increased from 2 to 10, membership opened to CSIRO staff families (1987) and later unrestricted (1989), all in an environment of increased regulation and supervision.

LCU maintained its strong bond with members providing banking services and support of members through schemes such as the LCU Tertiary Scholarships (since 1990) and the sponsoring the CSIRO Alumni (since 2012) and the CSIRO Alumni NSW Chapter Scholarship (since 2014) and the community through support of charity events (e.g. Tour of Lindfield, CUFA, Relationships Australia) and staff charities (e.g. Daffodil Day, CanTeen, Exodus Foundation, World Vision).

In March 2015, long-term director and "father of the house", Ian Macdonald retired from the board after 34 years of service that included mentoring of staff and new directors on the workings of credit unions. As Executive Officer for the Board Ian oversaw a total rewriting of all the LCU policies. Ian was a Board member when Michael and Leanne were appointed and can share credit for the achievements under Michael's stewardship.

With the exception of the first few months, Michael was ably supported by Leanne Harris as Clerical Assistant. In recent years Leanne has been the Assistant General Manager and with assistance from LCU completed a MBA in 2010. Although the Board's succession plan identified Leanne as a suitable successor, with Michael's retirement announcement in October 2014 the Board took the opportunity to review its plans for senior management. Leanne was offered the position of General Manager to begin in May 2015. Following Leanne's appointment the Board also reviewed the LCU staff structure to begin in May 2015. These changes included the promotion of Eileen Thoms to the position of Operations Manager and AGM, Susanne Tran-Lowder to Finance Manager and to advertise for a Risk and Compliance Officer. Following interviews, Joanne O'Donnell, who has extensive senior management experience in a range of credit unions, was appointed to the position. The appointment of a Risk and Compliance Officer allows us to clearly demonstrate our strategies to manage risk both to APRA and our members.

**Financial and Operating Performance**
LCU remains strong and focused on serving the needs of its members. In 2015 LCU achieved a modest overall asset growth of 6.29% in a market characterised by a slowing of credit demand and the rapidly increasing savings levels (particularly of our Members). Our total deposits grew by 6.46%.

LCU has continued its long-standing record of strong financial performance over the past year. LCU's net surplus after tax is $672,714, a return on assets of 0.36%. Because we are owned only by our members, this surplus is reinvested into LCU for the benefit of all. The result is particularly pleasing considering the challenging market conditions of the past year.

Increased competition for consumer business sees the Big 4 banks dominating household deposits and lending, with around 80% overall and 90% for new housing finance commitments. LCU continues to offer a viable competitive alternative for 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 members. The introduction of a mobile banking app for members in 2016 is still on track although you may have read about difficult negotiations between the CBA and Apple on charges. These charges will affect all card providers and we wish the CBA well in their negotiations.

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 16.81% 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 has maintained a low cash rate of 2.5% from August 2013 falling to 2.25% in February 2015 and to 2% in May 2015, where it remains. The financial services marketplace has remained highly competitive over the year and in our primary market Sydney house prices have surged. As a response to APRA's concerns of risk associated with the growing number of interest-only loans to property investors, the Big 4 banks have raised interest rates for loans on investment properties and are monitoring their growth. LCU has a significant sum available immediately for lending to owner occupiers or for investor mortgages and new motor vehicle loans. LCU's investor mortgages are a small part of our portfolio and we will for now continue to offer the same interest rates as for home-owner mortgages.

**Compliance and Regulatory Changes**
LCU continued to manage more changes in compliance with the implementation of the reporting requirements of the Financial Claims Scheme and changes required by Anti-Money Laundering and Counter-Terrorist Financing legislation.

**Member Services and Marketing**
Improvements to member services in 2014/15 included:

- Conversion of Internet Banking from NetTeller to My Viewpoint;
- Introduction of the Young and Free Student savings account;
- Refining E-Newsletters and other forms of electronic communication including a weekly blog; and
- Increased use of social media especially Facebook, Twitter and LinkedIn to communicate with members.

**Scholarships**
As part of its commitment to the community and education, LCU has been awarding Scholarships since 1991, and this year each scholarship is $1000. 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 2015, LCU hosted the annual luncheon to celebrate the achievements of our 2015 Tertiary Scholarship winners. Our 2015 winners were Thomas Ross, Marlon Randeniya, Tanith King, Tony Sebastian, Hannah Guihot, Anna Richards, Mackenzie Brown and Emily Godden.

In 2014 the NSW Chapter of the CSIRO Alumni established a scholarship fund 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. Two years after the tragic accident, the inaugural scholarship was awarded to Claire-Elise Green as a travelling award in the field of physics. Claire-Elise visited the Max-Planck Institute for Radio Astronomy in Germany, working in the Millimetre and Sub-millimetre Astronomy Group under the supervision of Prof. Dr. Karl Menten, to expand her knowledge and research in radio astronomy, specifically star formation, molecular clouds, black holes/ active galactic nucleus (AGN) and magnetic fields in space. LCU sponsored the ceremony held in Lindfield and contributes to the fund annually.

**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: Leanne Harris, Eileen Thoms, Lyn Slatter, Kerrie Griffiths, Rhonda Hatton, Susanne Tran-Lowder, Jenny Vote, Nalini Mannie, Deepthi Satheesan, Joanne O'Donnell and Elizabeth Sinclair for continuing to provide a friendly yet efficient banking services alternative.
I would like to thank my fellow Directors, Scott Martin (Deputy Chair; Chair of Audit Committee 2015), Frank Benito de Valle, Kieran Greene, Tony Murphy (Chair of the Board Risk Committee 2015), Allison Smart (Chair of the Board Risk Committee 2014) and Peter Steele (Chair of the Board Audit Committee 2014) for their valuable contribution to the governance of LCU over the past year. I would also like to thank our Associate Directors: Eve Roberts, John Stephens and David Mitchell, who attend Board meetings by invitation and provide invaluable service and views to the Board.
I particularly want to acknowledge our former GM Michael Sinclair and former director Ian McDonald for their combined 63 years of service to LCU.

**Looking Forward**
Over the last year COBA, our industry body (http://www.customerownedbanking.asn.au ), has been working with credit unions, building society and mutual bank members, to develop a model for collaboration within the movement to improve our market penetration, service offerings and future financial viability across the sector. The wide-ranging consultation has focussed on development of a shared value proposition and opportunities for shared service provision, key areas for innovation, improved performance measurement and governance. LCU has been closely involved in the consultations and looks forward to the final proposition to be released in late 2015.
Financial services operate in a highly competitive marketplace that is undergoing regulatory and technological change. Management, Staff and the Board, are focused on improving our service to members and continuing to provide financial products that will keep up with market demands in an ethical and sustainable manner. 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
16 September 2015

## DIRECTORS' REPORT

Your directors present their report on the credit union for the financial year ended 30 June 2015.

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:-

| **Name** | ***Position*** | ***Qualifications*** | ***Experience*** |
|---|---|---|---|
| A.S. Andrew | Chairman | BSc(Hons),PhD, MEnv Mgt | Director – since January 2010<br>Risk Committee – since January 2012<br>Chairman - since November 2013<br>Remuneration and Nominations Committee – since November 2014 |
| A.S. Martin | Deputy Chairman | BSc(Hons), PhD, FAIP, GAICD | Director – since June 2012.<br>Audit Committee – since January 2012<br>Audit Committee Chair – since November 2014<br>Remuneration and Nominations Committee – since November 2014 |
| F.J Benito de Valle | Director | B Econ, FAIDC, Dip. FCIS, FCPA, JP | Director -- since January 2000<br>Risk Committee – since January 2012<br>Finance Committee – since November 2011<br>Remuneration and Nominations Committee – since November 2014 |
| K.J. Greene | Director | BA | Director – since January 2000<br>Audit Committee – since November 2013<br>Remuneration and Nominations Committee – since November 2014 |
| A.B. Murphy | Director | BSc (Hons) PhD | Director – since January 1998<br>Risk Committee - since November 2005<br>Risk Committee Chair – since November 2014<br>Finance Committee – since November 2014 |
| I.R. McDonald | Director | BCom | Director – since June 1982<br>Finance Committee - since November 2000.<br>Audit Committee - since January 2012<br>Resigned 31 March 2015 |
| P.B. Steele | Director | CPA, Grad Dip Tech Management, JP | Director – since January 1990<br>Finance Committee - since November 2005<br>Audit Committee Chairman – to November 2014<br>Audit Committee - since November 2005 |
| A.J. Smart | Director | BComm, LLB, LLM, FICS. | Director – since December 2012.<br>Risk Committee – since November 2013<br>Risk Committtee Chairman – to November 2014 |

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

| Name | *Qualifications* | *Experience* |
|---|---|---|
| L Harris | Dip. Fin. Services, MBA | Company Secretary – since May 2015 |

**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.S. Andrew | 14 | 13 | | | | | 4 | 4 | |
| F.J. Benito de Valle | 14 | 13 | 1 | 1 | | | 4 | 4 | |
| K.J. Greene | 14 | 14 | | | 6 | 6 | | | |
| A.S. Martin | 14 | 12 | | | 6 | 6 | | | |
| I.R. McDonald | 11 | 11 | 0 | 0 | 5 | 5 | | | Resigned March 2015 |
| A.B Murphy | 14 | 12 | 1 | 1 | | | 4 | 4 | |
| P.B. Steele | 14 | 14 | 1 | 1 | 6 | 6 | | | |
| A.J. Smart | 14 | 11 | | | | | 4 | 4 | |

## DIRECTORS' BENEFITS

No director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the credit union, a controlled credit union, or a related body corporate with a director, a firm of which a director is a member or a credit union in which a director has a substantial financial interest, other than that disclosed in note 29 of 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 **$672,714**
**[2014 $ 622,125]**

### DIVIDENDS

Dividends relating to Tier 1 preference shares have been paid or declared during and since the end of the financial year amounted to $ **39,200** [2014 $ 40,142].

## 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 and reduced loan funding resulting in extremely tight margins for the financial year. The cash rate determined by the Reserve Bank of Australia was at an historical low of 2% as at June 30th.

## 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 or 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 ______________________<br>Chairman | Alistair Scott Martin______________________<br>Director |

Signed and dated this 16 day of September 2015.

Grant Thornton

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Sydney NSW 2000

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## Auditor's Independence Declaration
## To the Directors of Laboratories Credit Union Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Laboratories Credit Union Ltd for the year ended 30 June 2015, 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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner - Audit & Assurance

Sydney, 16 September 2015

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# Independent Auditor's Report
# To the Members of Laboratories Credit Union Ltd

We have audited the accompanying financial report of Laboratories Credit Union Ltd (the "Company"), which comprises the statement of financial position as at 30 June 2015, 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.

Grant Thornton

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 Ltd 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 2015 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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner - Audit & Assurance

Sydney, 16 September 2015

## 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 2015 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 ______________________ | Alistair Scott Martin______________________ |
| Chairman | Director |

Signed and dated this 16 day of September 2015.

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2015

| | Note | 2015<br>$ | 2014<br>$ |
|---|---|---|---|
| Interest revenue | 2.a | 7,056,552 | 7,022,634 |
| Interest expense | 2.c | 4,141,823 | 4,335,115 |
| **Net interest income** | | 2,914,729 | 2,687,519 |
| Fee commission and other income | 2.b | 225,776 | 231,116 |
| | | 3,140,505 | 2,918,635 |
| Less: | | | |
| **Non-interest expenses** | | | |
| Impairment losses on loans receivable from members | 2.d | 34,800 | 30,000 |
| Fee and commission expenses | | 185,748 | 168,700 |
| General administration | | | |
| - Employees compensation and benefits | | 954,770 | 860,193 |
| - Depreciation and amortisation | 2.e | 82,776 | 72,636 |
| - Information technology | | 338,416 | 347,565 |
| - Office occupancy | | 104,264 | 99,122 |
| - Other administration | | 125,443 | 108,868 |
| Total General Administration | | 1,605,669 | 1,488,384 |
| Other operating expenses | | 368,676 | 362,785 |
| Total non-interest expenses | | 2,194,893 | 2,049,869 |
| **Profit before income tax** | | 945,612 | 868,766 |
| Income tax expense | 3 | 272,898 | 246,641 |
| **Profit after income tax** | | 672,714 | 622,125 |

The above statement should be read in conjunction with the accompanying notes

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2015

| | Capital | Reserve for Credit Losses | Retained Earnings | Other Reserves | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Total at 1 July 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 at 30 June 2014** | 866,600 | 729,552 | 10,097,709 | 20,830 | 11,714,691 |
| Profit for the year | - | - | 672,714 | - | 672,714 |
| Dividends Paid | - | - | (39,200) | - | (39,200) |
| Transfer to capital reserve on redemption of shares | - | - | (1,190) | 1,190 | - |
| **Total as at 30 June 2015** | 866,600 | 729,552 | 10,730,033 | 22,020 | 12,348,205 |

The above statement should be read in conjunction with the accompanying notes

## STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2015

| | Note | 2015<br>$ | 2014<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | 4 | 4,139,859 | 3,654,273 |
| Receivables from financial institutions | 5 | 46,585,957 | 38,688,325 |
| Receivables | 6 | 178,703 | 134,043 |
| Loans to members | 7 & 8 | 114,606,838 | 113,306,507 |
| Available for sale investments | 9 | 235,300 | 235,300 |
| Property, plant and equipment | 10 | 75,501 | 82,270 |
| Taxation assets | 11 | 251,653 | 240,029 |
| Intangible assets | 12 | 227,115 | 85,745 |
| **TOTAL ASSETS** | | 166,300,926 | 156,426,492 |
| | | | |
| **LIABILITIES** | | | |
| Deposits from members | 13 | 150,751,859 | 141,606,934 |
| Creditor accruals and settlement accounts | 14 | 1,604,558 | 1,575,006 |
| Taxation liabilities | 15 | 111,306 | 98,350 |
| Provisions | 16 | 484,998 | 431,511 |
| Subordinated debt | 17 | 1,000,000 | 1,000,000 |
| **TOTAL LIABILITIES** | | 153,952,721 | 144,711,801 |
| | | | |
| **NET ASSETS** | | 12,348,205 | 11,714,691 |
| | | | |
| **MEMBERS' EQUITY** | | | |
| Share capital - preference shares | 18 | 866,600 | 866,600 |
| Capital reserve account | 19 | 22,020 | 20,830 |
| General reserve for credit losses | 20 | 729,552 | 729,552 |
| Retained earnings | | 10,730,033 | 10,097,709 |
| **TOTAL MEMBERS' EQUITY** | | 12,348,205 | 11,714,691 |

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The above statement should be read in conjunction with the accompanying notes

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 June 2015

| | Note | 2015 $ | 2014 $ |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Revenue inflows** | | | |
| Interest received | | 7,042,561 | 7,005,638 |
| Fees and commissions | | 176,403 | 172,950 |
| Dividends | | 33,333 | 43,137 |
| Other income | | 16,040 | 14,651 |
| **Revenue outflows** | | | |
| Interest paid | | (4,262,644) | (4,369,622) |
| Suppliers and employees | | (2,036,908) | (1,959,988) |
| Income taxes paid | | (271,566) | (261,692) |
| Net cash flow from revenue activities | 31 | 697,219 | 645,074 |
| **Inflows/(outflows) from other operating activities** | | | |
| (Increase) Decrease in member loans (net movement) | | (1,335,131) | (6,840,177) |
| (Increase)/Decrease in member deposits & shares (net movement) | | 9,277,707 | 8,983,040 |
| (Increase)/Decrease in deposits to other financial institutions (net) | | (7,897,632) | (3,005,840) |
| **Net cash flows from operating activities** | | **742,163** | **(217,903)** |
| **INVESTING ACTIVITIES** | | | |
| **Inflows** | | | |
| Proceeds on sale of property, plant and equipment | | - | 20,000 |
| **Outflows** | | | |
| Purchase of intangible assets | | 194,133 | (73,617) |
| Purchase of property plant and equipment | | 23,244 | (60,949) |
| **Net cash flows used in investing activities** | | 217,377 | (114,566) |
| **FINANCING ACTIVITIES** | | | |
| **Inflows/(outflows)** | | | |
| Dividends paid | | (39,200) | (40,142) |
| Subordinated Debt Loans to Capital investors | | - | - |
| **Net cash flows used in financing activities** | | (39,200) | (40,142) |
| Net decrease in cash | | 485,586 | (372,611) |
| Cash at beginning of year | | 3,654,273 | 4,026,884 |
| Cash at end of year | 4 | 4,139,859 | 3,654,273 |

The above statement should be read in conjunction with the accompanying notes

## 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 2015. The report was authorised for issue on **16th September 2015** 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 ***Corporations 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 liquid investments, 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.

***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 21 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 considers 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 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 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 Credit Union 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 Credit Union 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-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 18

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 2015 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 2014) | Amends the requirements for classification and measurement of financial assets.<br>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 De-recognition requirements for financial assets and liabilities.<br>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.<br>Recognition of credit losses are to no longer be dependent on the credit union first identifying a credit loss event. The credit union will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments. | Periods beginning on or after 1 January 2018 | Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2019 year end, the entity has not yet made an assessment of the impact of these amendments.<br>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. |
| AASB 15 Revenue from Contracts with Customers | Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue. | Periods beginning on or after 1 January 2017. | The credit union is yet to make a detailed assessment of the impact of AASB 15. However, based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted. |

## 2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | 2015 $ | 2014 $ |
|---|---|---|---|
| **a.** | **Analysis of interest revenue** | | |
| | **Interest revenue on assets carried at amortised cost** | | |
| | Cash – deposits at call | 77,112 | 83,293 |
| | Receivables from financial institutions | 1,551,456 | 1,371,820 |
| | Loans to members | 5,427,984 | 5,567,521 |
| | **TOTAL INTEREST REVENUE** | 7,056,552 | 7,022,634 |
| **b.** | **Fee, commission and other income** | | |
| | **Fee and commission revenue** | | |
| | Fee income on loans – other than loan origination fees | 2,541 | 1,700 |
| | Other fee income | 88,935 | 98,100 |
| | Insurance commissions | 18,738 | 9,067 |
| | Other commissions | 66,189 | 64,083 |
| | | 176,403 | 172,950 |
| | **Other income** | | |
| | Dividends received on available for sale assets | 33,333 | 43,137 |
| | Bad debts recovered | 9,602 | 6,237 |
| | Gain on disposal of assets | | |
| | - Property, plant and equipment | 0 | 378 |
| | Miscellaneous revenue | 6,438 | 8,414 |
| | | 49,373 | 58,166 |
| | **TOTAL FEE COMMISSION AND OTHER INCOME** | 225,776 | 231,116 |
| **c.** | **Interest expenses** | | |
| | **Interest expense on liabilities carried at amortised cost** | | |
| | Short term borrowings - overdraft | 14,438 | 18,242 |
| | Deposits from members | 4,041,987 | 4,231,873 |
| | Subordinated Debt | 85,398 | 85,000 |
| | **TOTAL INTEREST EXPENSE** | 4,141,823 | 4,335,115 |
| **d.** | **Impairment losses** | | |
| | **Loan’s and advance’s** | | |
| | Increase in provision for impairment | 34,800 | 30,000 |
| | Bad debts written off directly against profit | - | - |
| | **TOTAL IMPAIRMENT LOSSES** | 34,800 | 20,000 |

| | 2015 $ | 2014 $ |
|---|---|---|
| **2. INCOME STATEMENT Continued** | | |
| **e. Other prescribed disclosures** | | |
| **General administration** | | |
| *Depreciation and amortisation* | | |
| - plant and equipment | 30,013 | 27,857 |
| - amortisation of Intangible - software | 52,763 | 44,779 |
| | 82,776 | 72,636 |
| *Office occupancy* | | |
| property operating lease payments | 99,584 | 95,567 |
| **Other operating expenses** | | |
| Auditor's remuneration (excluding GST) | | |
| - Audit fees | 40,500 | 35,911 |
| - Other Services – taxation | 5,000 | 3,500 |
| - Other Services – compliance | 2,200 | 2,850 |
| - Other Services – other | - | - |
| | 47,700 | 42,261 |
| Defined contribution superannuation expenses | 155,245 | 119,507 |

## 3. INCOME TAX EXPENSE

a. The income tax expense comprises amounts set aside as:-

| | 2015 $ | 2014 $ |
|---|---|---|
| Current tax charge – (Note 15) | 283,129 | 255,717 |
| Adjustments for prior years | 1,393 | (106) |
| Deferred tax: | | |
| Movement in temporary differences (Note 11) | (11,624) | (8,970) |
| **Total income tax expense in income statement** | 272,898 | 246,641 |

| | 2015 $ | 2014 $ |
|---|---|---|
| b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows: | | |
| Profit | 945,612 | 868,766 |
| Prima facie tax payable on profit before income tax at 30% | 283,684 | 260,630 |
| Add tax effect of expenses not deductible | | |
| - Dividend imputation | 4,286 | 5,546 |
| **Subtotal** | 287,970 | 266,176 |
| Less | | |
| - Franking rebate | (14,286) | (18,487) |
| Income tax expense attributable to current year profit | 273,684 | 247,689 |
| Adjustments for previous years | (786) | (1048) |
| **Total income tax expense in income statement** | 272,898 | 246,641 |

**c. Franking credits**

| | 2015 $ | 2014 $ |
|---|---|---|
| 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 : | 4,689,521 | 4,403,654 |

Franking credits are available to the Tier 1 preference shareholders but not to the holders of member shares as no dividends are paid on member shares.

## 4. CASH

| | 2015 $ | 2014 $ |
|---|---|---|
| Cash on hand | 77,221 | 74,553 |
| Deposits at call | 4,062,638 | 3,579,720 |
| | 4,139,859 | 3,654,273 |

## 5. RECEIVABLES FROM FINANCIAL INSTITUTIONS

**a. Investments at amortised cost**

| | 2015 $ | 2014 $ |
|---|---|---|
| **Hold to Maturity** | | |
| Bonds | 22,585,957 | 21,588,325 |
| **Receivables** | | |
| Deposits with financial institutions (5b) | 24,000,000 | 17,100,000 |
| | 46,585,957 | 38,688,325 |

**b. Dissection of receivables**

| | 2015 $ | 2014 $ |
|---|---|---|
| Deposits with industry bodies - Cuscal (note 27) | 3,500,000 | 3,600,000 |
| Deposits with other societies | 5,500,000 | 6,000,000 |
| Deposits with banks | 15,000,000 | 7,500,000 |
| | 24,000,000 | 17,100,000 |

## 6. RECEIVABLES

| | 2015 $ | 2014 $ |
|---|---|---|
| Prepayments | 30,669 | |
| Interest receivable on deposits with other financial institutions | 148,034 | 134,043 |
| | 178,703 | 134,043 |

## 7. LOANS TO MEMBERS

### a. Amount due comprises:

| | | |
|---|---|---|
| Overdrafts and revolving credit | 513,469 | 470,791 |
| Term loans | 114,107,346 | 112,871,323 |
| **Subtotal** | 114,620,815 | 113,342,114 |
| Less: Provision for impaired loans (Note 8) | (13,977) | (35,607) |
| | 114,606,838 | 113,306,507 |

### b. Credit quality - Security held against loans

| | | |
|---|---|---|
| Secured by mortgage over real estate | 109,377,692 | 107,036,527 |
| Partly secured by goods, mortgage | 3,659,971 | 3,855,235 |
| Wholly unsecured | 1,583,152 | 2,450,352 |
| | 114,620,815 | 113,342,114 |

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% | 104,385,533 | 102,127,908 |
| - loan to valuation ratio of more than 80% but mortgage insured | 2,169,743 | 3,080,384 |
| - loan to valuation ratio of more than 80% and not mortgage insured | 2,822,416 | 4,874,898 |
| | 109,377,692 | 110,083,190 |

### 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 | 4,319,895 | 4,134,027 |

(ii) Loans to members are concentrated to individuals employed primarily in the technology and scientific research industries

Geographical concentrations

| **2015** | Housing | Personal | Business | Total |
|---|---|---|---|---|
| Australia | | | | |
| NSW | 92,782,812 | 2,264,154 | 3,455,830 | 98,502,796 |
| Victoria | 1,908,778 | 16,681 | - | 1,925,459 |
| Queensland | 3,161,478 | 104,792 | - | 3,266,270 |
| South Australia | 1,881,937 | - | 175,940 | 2,057,877 |
| Western Australia | 1,484,884 | 29,939 | - | 1,514,823 |
| Tasmania | 1,228,363 | 6,886 | 91,427 | 1,326,676 |
| Northern Territory | 343,867 | - | - | 343,867 |
| ACT | 4,486,373 | 69,814 | 2 | 4,556,189 |
| Other | 1,115,020 | 11,838 | - | 1,126,858 |
| Total per balance sheet | 108,393,512 | 2,504,104 | 3,723,199 | 114,620,815 |

| **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 | - | 974,695 |
| Total per balance sheet | 106,504,703 | 3,063,967 | 3,773,444 | 113,342,114 |

| | **2015 $** | **2014 $** |
|---|---|---|
| **8. PROVISION ON IMPAIRED LOANS** | | |
| **a. Total provision comprises** | | |
| Individual specific provisions | 13,977 | 35,607 |
| **b. Movement in the provision for impairment** | | |
| Opening balance | 35,607 | 31,882 |
| Add (deduct): | | |
| Transfers from income statement | 34,800 | 30,000 |
| Bad debts written off provision | (56,430) | (26,275) |
| **Closing balance** | 13,977 | 35,607 |

Details of credit risk management are set out in Note 21.

| | | |
|---|---|---|
| **c. Impaired loans written off** | | |
| Amounts written off against the provision for impaired loans | 56,430 | 26,275 |

## 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

| | 2015 | | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| | **Carrying value** | **Value of Impaired Loans** | **Provision for impairment** | | **Carrying value** | **Value of Impaired Loans** | **Provision for impairment** |
| | **$** | **$** | **$** | | **$** | **$** | **$** |
| **Loans to members** | | | | | | | |
| Mortgages | 109,377,692 | | - | | 107,036,527 | - | - |
| Personal – secured by MV | 3,146,502 | - | - | | 3,384,444 | 15,349 | 3,107 |
| Personal Unsecured | 1,583,152 | 50,527 | 13,339 | | 2,450,352 | 53,496 | 32,191 |
| Overdrafts | 513,469 | 1,303 | 638 | | 470,791 | 772 | 309 |
| **Total** | **114,620,815** | **51,830** | **13,977** | | **113,342,114** | **69,617** | **35,607** |

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Carrying Value** | **Provision** | **Carrying Value** | **Provision** |
| | **$** | **$** | **$** | **$** |
| 30 to 90 days in arrears | 36,903 | - | 26,760 | 8,502 |
| 90 to 180 days in arrears | 475 | 190 | 19,831 | 7,933 |
| 180 to 270 days in arrears | - | - | 8,475 | 5,084 |
| 270 to 365 days in arrears | - | - | - | - |
| Over 365 days in arrears | 13,149 | 13,149 | 13,779 | 13,779 |
| Over limit facilities over 14 days | 1,303 | 638 | 772 | 309 |
| Total | 51,830 | 13,977 | 69,617 | 35,607 |

The table above includes the well secured mortgage loans of $244,671 (2014 $0)

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 of 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 $**244,671 (2014 – NIL)** 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

| **2015** | 1- 3 Months | 3-6 Months | 6-12 Months | > 1 Year | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Mortgage secured | 244,671 | - | - | - | 244,671 |
| Personal loans | 36,903 | - | - | - | 36,903 |
| Overdrafts | 2,506 | - | - | - | 2,506 |
| **Total** | **284,080** | **-** | **-** | **-** | **284,080** |

| **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** |

**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 |

| | **2015** | **2014** |
|---|---|---|
| | **$** | **$** |
| **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 but only within a market limited to other mutual ADIs. There have been few shares traded over the last 3 years.

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 net dividend return in 2014 was 11 cents per share. Management has determined that the cost value of $0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale.

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

## 10. PROPERTY, PLANT AND EQUIPMENT

### a. Fixed assets

| | 2015 $ | 2014 $ |
|---|---|---|
| **Plant and equipment - at cost** | 303,284 | 312,154 |
| Less: provision for depreciation | (227,783) | (229,884) |
| | 75,501 | 82,270 |
| **Capitalised leasehold improvements - at cost** | 271,778 | 271,778 |
| Less: provision for amortisation | (271,778) | (271,778) |
| | - | - |
| **Closing balance** | 75,501 | 82,270 |

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | *Plant & equipment* | *Total* | *Plant & equipment* | *Total* |
| | *$* | *$* | *$* | *$* |
| Opening Balance | 82,270 | 82,270 | 68,800 | 68,800 |
| Purchases | 23,244 | 23,244 | 60,949 | 60,949 |
| Assets disposed | - | - | (19,622) | (19,622) |
| Depreciation Charge | (30,013) | (30,013) | (27,857) | (27,857) |
| Depreciation On disposals | - | - | - | - |
| **Closing Balance** | **75,501** | **75,501** | **82,270** | **82,270** |

| | 2015 $ | 2014 $ |
|---|---|---|

## 11. TAXATION ASSETS

| | 2015 $ | 2014 $ |
|---|---|---|
| Deferred Tax Assets | 251,653 | 240,029 |
| | | |
| Deferred tax assets comprise: | | |
| Accrued expenses not deductible until incurred | 44,274 | 37,388 |
| Provisions for impairment on loans | 4,193 | 10,682 |
| Provisions for employee benefits | 150,249 | 133,045 |
| Depreciation on fixed assets | 49,721 | 54,354 |
| Black hole expenses for otherwise capital costs | 3,216 | 4,560 |
| | 251,653 | 240,029 |

## 12. INTANGIBLE ASSETS

| | 2015 $ | 2014 $ |
|---|---|---|
| Computer software | 539,917 | 420,439 |
| Less provision for amortisation | (312,802) | (334,694) |
| | 227,115 | 85,745 |

**Movement in the assets balances during the year were :**

| | 2015 $ | 2014 $ |
|---|---|---|
| Opening balance | 85,745 | 56,907 |
| Purchases | 194,133 | 73,617 |
| Assets disposed | - | - |
| Depreciation charge | (52,763) | (44,779) |
| **Closing balance** | 227,115 | 85,745 |

## 13. DEPOSITS FROM MEMBERS

| | 2015 $ | 2014 $ |
|---|---|---|
| Member Deposits | | |
| - at call | 69,242,812 | 60,878,454 |
| - term | 81,476,537 | 80,695,590 |
| Member withdrawable shares | 32,510 | 32,890 |
| | 150,751,859 | 141,606,934 |

| | 2015 $ | 2014 $ |
|---|---|---|

## 13. DEPOSITS FROM MEMBERS Continued

**Concentration of member deposits**

| | 2015 $ | 2014 $ |
|---|---|---|
| (i) Significant individual member deposits which in aggregate represent more than 10 % of the total liabilities: | - | - |

(ii) Geographical concentrations

| Australia | | |
|---|---|---|
| NSW | 139,373,973 | 127,492,381 |
| Victoria | 1,387,955 | 2,318,910 |
| Queensland | 3,622,002 | 3,563,164 |
| South Australia | 759,349 | 602,547 |
| Western Australia | 945,718 | 959,760 |
| Tasmania | 765,101 | 709,774 |
| Northern Territory | 6,570 | 3,086 |
| ACT | 748,284 | 731,117 |
| Other | 3,142,907 | 5,226,195 |
| | 150,751,859 | 141,606,934 |

## 14. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

| | 2015 $ | 2014 $ |
|---|---|---|
| Annual leave | 88,685 | 72,157 |
| Creditors and accruals | 136,328 | 135,265 |
| Interest payable on deposits | 1,037,904 | 1,158,725 |
| Sundry creditors | 341,641 | 208,859 |
| | 1,604,558 | 1,575,006 |

## 15. TAXATION LIABILITIES

| | 2015 $ | 2014 $ |
|---|---|---|
| Current income tax liability | 111,306 | 98,350 |
| **Current income tax liability comprises:** | | |
| Opening balance | 98,350 | 104,431 |
| Less: Amounts paid | 100,583 | 104,325 |
| (Over)/understatement of prior year | 2,233 | (106) |
| Liability for income tax | 283,129 | 255,717 |
| Less: Instalments paid during year | 171,823 | 157,367 |
| Closing balance | 111,306 | 98,350 |

| | 2015 $ | 2014 $ |
|---|---|---|

## 16. PROVISIONS

| | 2015 $ | 2014 $ |
|---|---|---|
| Long service leave | 358,509 | 317,688 |
| Provisions – other | 126,489 | 113,823 |
| | 484,998 | 431,511 |

## 17. SUBORDINATED DEBT

| | 2015 $ | 2014 $ |
|---|---|---|
| Balance at the beginning of the year | 1,000,000 | 1,000,000 |
| Increase due to debt issued | - | - |
| Amortisation of Cost of debt | - | - |
| Balance at the end of year | 1,000,000 | 1,000,000 |

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 notes are unsecured interest with interest payable quarterly at AUD BBSW **plus 5.93%.**

## 18. PREFERENCE SHARES

| | 2015 $ | 2014 $ |
|---|---|---|
| Preference shares | 866,600 | 866,600 |
| 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 |
| Less: Capital raising costs associated with the issue | (33,400) | (33,400) |
| 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. | (100,000) | (100,000) |
| | 866,600 | 866,600 |

### Key Assumptions

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

## 19. CAPITAL RESERVE ACCOUNT

| | 2015 $ | 2014 $ |
|---|---|---|
| Opening balance | 20,830 | 19,470 |
| Transfer from retained earnings on share redemptions | 1,190 | 1,360 |
| Closing balance | 22,020 | 20,830 |

### 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.

| | 2015 $ | 2014 $ |
|---|---|---|
| **20. GENERAL RESERVE FOR CREDIT LOSSES** | | |
| General reserve for credit losses | 729,552 | 729,552 |
| Other reserve for credit losses | - | - |
| | 729,552 | 729,552 |

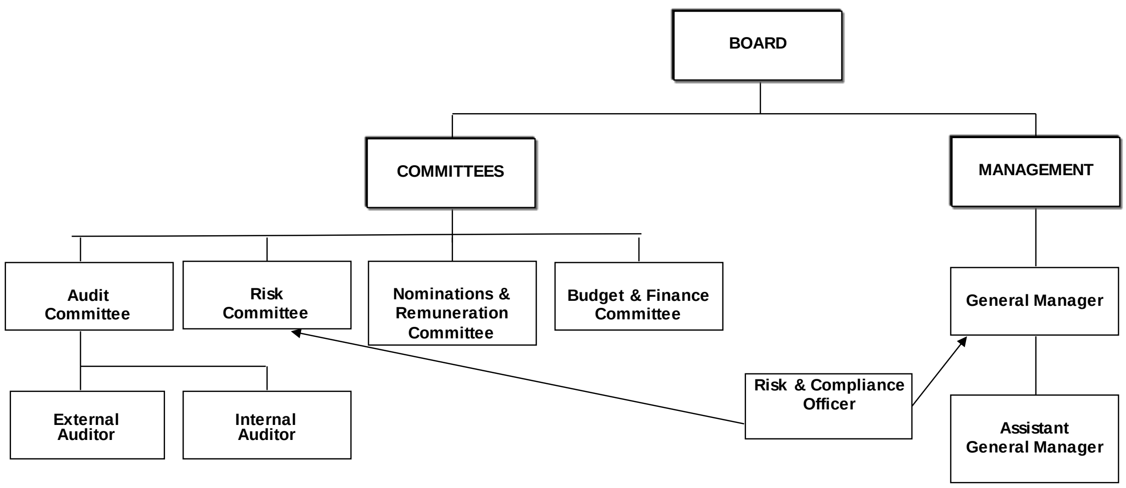
**General reserve for credit losses**

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 |

## 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union. The Credit Union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Risk Committee and to the Audit Committee which is integral to the management of risk. The following diagram gives an overview of the structure.




The main elements of risk governance are as follows:

**Board:** This is the primary governing body. It approved the level of risk that the Credit Union is exposed to and the framework for reporting and mitigating those risks.

**Risk Committee:** This is a key body in the control of risk. The Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by management through the monthly review of operational reports and the controls are reviewed by the Committee quarterly to confirm whether risks are within the parameters outlined by the Board.

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**

The Committee carries out a regular review of all operational areas to ensure that Operational Risks are being properly controlled and reported on. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Committee monitors compliance with the framework laid out in the policy on a quarterly basis and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

**Audit Committee:** The Audit Committee considers and confirms that significant risks and controls to be assessed are with the internal audit plan. The Audit Committee receives the internal audit reports on the assessment and compliance with the controls and provides feedback to the Board for their consideration.

**Credit Risk:** Senior management has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. It also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be put in place regarding the authorisation of new loans.

The General Manager has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All large credit exposure facilities above policy limits are approved by the Board.

All loans are managed weekly through the monitoring of scheduled repayments. Accounts where the arrears balances are over 90 days or over limit facilities over 14 days have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Board monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated credit control team, which reports to the General Manager, implements the Credit Union's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the balance sheet date.

The General Manager has responsibility for liaising with the operational function to ensure timely production of information for the Audit and Risk Committees and ensuring that instructions passed down from the Board via the Committees are implemented.

**Market Risk:** Senior management meets regularly and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rates.

**Internal Audit:** Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

Key risk management policies included in the overall risk management framework consist of:

- Interest rate risk management;
- Liquidity management;
- Credit risk management; and
- Operations risk management including data risk management.

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**

### A. 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.

### B. INTEREST RATE RISK

Interest rate risk is the risk of variability of the fair value of 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 24 below**.** The table set out at Note 24 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.

**Method of managing risk**

The credit union manages it 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 unions exposure to interest rate risk is set out in Note 24 which details the contractual interest change profile.

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

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**

Based on the calculations as at balance date a 1% upwards movement in interest rates would result in an increase (decrease) in net income of **$132,328** [2014 $140,224]. Conversely, a 1% downwards movement in interest rates would result in an equivalent decrease in annual net income.

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 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.

**C. 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.

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 it be necessary at short notice. LCU has not had any need to access funds from this service.

The Credit Union is required to maintain at least 12% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours as determined by APRA under the minimum liquidity holding [MLH] regime. As a minimum the Credit Union policy is to hold 15.00% MLH 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 27 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 23.

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**

**D. 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 and investment assets.

**(i) CREDIT RISK – LOANS**

| | | **2015** | | | **2014** | |
|---|---|---|---|---|---|---|
| **Loans** | **Carrying Value** | **Off balance sheet** | **Max exposure** | **Carrying Value** | **Off balance sheet** | **Max exposure** |
| | $ | $ | $ | $ | $ | $ |
| Mortgage | 109,131,677 | 24,989,461 | 134,121,138 | 107,582,693 | 27,666,114 | 135,248,807 |
| Personal | 1,814,306 | - | 1,814,306 | 2,346,415 | | 2,346,415 |
| Overdrafts | 137,373 | 2,065,463 | 2,202,836 | 103,938 | 2,132,061 | 2,235,999 |
| Total to natural persons | 111,083,356 | 27,054,924 | 138,138,280 | 110,033,046 | 29,798,175 | 139,831,221 |
| Corporate borrowers | 3,537,459 | - | 3,537,459 | 3,309,068 | - | 3,309,068 |
| **Total** | **114,620,815** | **27,054,924** | **141,675,739** | **113,342,114** | **29,798,175** | **143,140,289** |

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 26.

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 and 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; and
- Review of compliance with the above policies.

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

**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,

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**

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 geographic 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.

**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.

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**

**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 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 less than 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.

**(ii) 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 APRA regulated. Directors have established policies that limit the amount that can be invested with any one financial institution at a time.

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 its Member Credit Unions and which has an A + (long term) rating.
All MLH investments must be with a Financial Institution with a rating in excess of BBB. The Credit Union may invest excess liquidity with unrated Mutual ADIs.

**External Credit Assessments for Institution Investments**
The credit union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN112. The credit quality assessment scale within this standard has been complied with.

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **Investments with** | **Carrying Value** | **Past due value** | **Provision** | **Carrying Value** | **Past due value** | **Provision** |
| | $ | $ | $ | $ | $ | $ |
| Cuscal - rated AA | 3,500,000 | - | - | 3,600,000 | - | - |
| Banks rated A and above | 20,500,000 | - | - | 19,000,000 | - | - |
| Banks rated above BBB | 6,500,000 | - | - | 4,500,000 | - | - |
| Unrated institutions – Credit Unions/Mutuals | 16,000,000 | - | - | 11,500,000 | - | - |
| **Total** | **46,500,000** | - | - | **38,600,000** | - | - |

**E. OPERATIONAL RISK**

Operational Risk is the risk of loss to the credit union resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the credit union relate mainly to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- implementation of the whistleblowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to the credit union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses; and
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

**Fraud**

Fraud can arise from member card PINS and internet passwords being compromised where not protected adequately by the member. It can also arise from other system failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud can potentially be a major cost to the Credit Union. Fraud losses have previously arisen from stolen cards and card skimming.

**IT Systems**

The worst case scenario would be the failure of the credit union's core banking and IT network suppliers, to meet customer obligations and service requirements. The credit union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC). This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the credit union by the industry body Cuscal to service the settlements with other financial institutions for direct entry, ATM & Visa Cards, and BPAY facilities.

A full disaster recovery plan is in place to cover medium to long term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**

**F. CAPITAL MANAGEMENT**

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit Risk
- Market Risk (trading book)
- Operations Risk

The Market Risk component is not required as the credit union is not engaged in trading book activities.

**Capital resources**

**Tier 1 Capital**

The vast majority of Tier 1 capital comprises

- Retained profits
- Realised reserves.

**Additional Tier 1 Capital**

This is a new classification of capital and includes preference share capital 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:

- A General Reserve for Credit Losses.
- Approved subordinated loans

Capital in the credit union is made up as follows:

| | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|
| **Tier 1** | | | | |
| Share capital | 866,600 | 866,600 | 866,600 | 866,600 |
| Capital reserve | 22,020 | 20,830 | 18,110 | 18,110 |
| General reserve | | | - | - |
| Retained earnings | 10,733,392 | 10,097,709 | 9,518,363 | 8,986,117 |
| | 11,622,012 | 10,985,139 | 10,403,073 | 9,870,827 |
| Less: Prescribed deductions | (979,228) | (727,672) | (495,605) | (527,975) |
| Net tier 1 capital | 10,642,784 | 10,257,467 | 9,907,468 | 9,342,852 |
| **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 | 729,552 |
| | 1,729,552 | 1,729,552 | 1,729,552 | 1,729,552 |
| Less: Prescribed deductions | (333,400 ) | (233,400) | (133,400) | (251,050) |
| Net tier 2 capital | 1,396,152 | 1,496,152 | 1,596,152 | 1,478,502 |
| **Total Capital** | **12,038,936** | **11,753,619** | **11,503,620** | **10,821,354** |

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Continued**

As at the balance date, the credit union's capital ratio stood at 16.81%. The Board's minimum capital adequacy requirement is 12%.

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

| 2015 | 2014 | 2013 | 2012 | 2011 | 200 |
|---|---|---|---|---|---|
| **16.81%** | **16.93%** | **17.41%** | **17.96%** | **18.22%** | **20.6** |

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 union's 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 14.5%. Further a 5 year capital projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

**Pillar 2 Capital on Operational Risk**

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 capital $ **704,280** (2014 - $ 663,018).

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

**Internal Capital Adequacy Management**

The credit union manages its internal capital levels for both current and future activities through the functions of the Board. The capital required for any change in the credit union's forecast for asset growth, or unforeseen circumstances, are assessed by the board.

The optional additional capital charge recognised by the Board equates to $Nil (2014: Nil)

## 22. CATEGORIES OF FINANCIAL INSTRUMENTS

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

| 2015 | Fair value through Equity $ | Held to maturity $ | Amortised cost $ | Total $ |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash | - | - | 4,139,859 | 4,139,859 |
| Receivables | - | - | 178,703 | 178,703 |
| Receivables from financial institutions | - | 46,500,000 | - | 46,500,000 |
| Loans to members | - | - | 114,606,838 | 114,606,838 |
| Available for sale investments | 235,300 | - | - | 235,300 |
| Loans to capital investors | - | - | - | - |
| | 235,300 | 46,500,000 | 118,925,400 | 165,660,700 |
| Financial liabilities | | | | |
| Creditors | - | - | 1,515,900 | 1,515,900 |
| Deposits from members | - | - | 150,751,859 | 150,751,859 |
| Subordinated debt | - | - | 1,000,000 | 1,000,000 |
| | - | - | 153,267,759 | 153,267,759 |

| 2014 | Fair value through Equity $ | Held to maturity $ | Amortised cost $ | Total $ |
|---|---|---|---|---|
| Financial assets | | | | |
| 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 |
| Financial liabilities | | | | |
| 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 |

### b. Assets measured at fair value through profit or loss

Fair value measurement at end of the reporting period using:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 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.

## 23 (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.

| 2015 | Book value | Up to 3 months | 3-12 months | 1-5 years | After 5 years | No Maturity | Total cash flows |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| ASSETS | | | | | | | |
| Cash | 4,139,859 | 4,062,638 | - | - | - | 77,221 | 4,139,859 |
| Advance to financial Institutions | 46,585,957 | 21,665,427 | 7,284,833 | 19,816,567 | - | - | 48,766,827 |
| Loans & advances | 114,606,838 | 1,185,059 | 9,270,630 | 36,108,051 | 127,718,574 | - | 174,282,314 |
| **Total financial assets** | **165,332,654** | **26,913,124** | **16,555,463** | **55,924,618** | **127,718,574** | **77,221** | **227,189,000** |
| LIABILITIES | | | | | | | |
| Creditors | 1,604,558 | 566,654 | - | - | - | - | 566,654 |
| Deposits from members | 150,751,859 | 98,841,036 | 50,530,730 | 1,517,061 | - | - | 150,888,827 |
| Subordinated debt | 1,000,000 | | | | 1,000,000 | | 1,000,000 |
| | 153,356,417 | 99,407,690 | 50,530,730 | 1,517,061 | | | 152,455,481 |
| Undrawn loan commitments | 27,179,954 | 27,179,954 | - | - | - | - | 27,179,954 |
| **Total financial liabilities** | **180,536,371** | **126,587,644** | **50,530,730** | **1,517,061** | **1,000,000** | **-** | **179,635,435** |

| 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** |

## 23 (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

| 2015 | | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Within 12 months | After 12 months | Total | Within 12 months | After 12 months | Total |
| | $ | $ | $ | $ | $ | $ |
| **FINANCIAL ASSETS** | | | | | | |
| Cash | 4,139,859 | - | 4,139,859 | 3,654,274 | - | 3,654,274 |
| Liquid Investments | 28,000,000 | 18,500,000 | 46,500,000 | 36,600,000 | 2,000,000 | 38,600,000 |
| Loans & advances | 5,242,448 | 109,378,367 | 114,620,815 | 4,752,372 | 108,589,742 | 113,342,114 |
| | | | | | | |
| **Total financial assets** | **37,382,307** | **127,878,367** | **165,260,674** | **45,006,646** | **110,589,742** | **155,596,388** |
| | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Creditors | 566,654 | - | 566,654 | 416,281 | - | 416,281 |
| Deposit from members | 148,798,918 | 1,952,941 | 150,751,859 | 138,875,711 | 2,731,223 | 141,606,934 |
| Subordinated debt | - | 1,000,000 | 1,000,000 | - | 1,000,000 | 1,000,000 |
| | | | | | | |
| **Total financial liabilities** | **149,365,572** | **2,952,941** | **152,318,513** | **139,291,992** | **3,731,223** | **143,023,215** |

## 24. 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 | Noninterest bearing | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **2015** | | | | | | |
| ASSETS | | | | | | |
| Cash | 4,062,638 | - | - | - | 77,221 | 4,139,859 |
| Receivables | - | - | - | - | 178,703 | 178,703 |
| Advances to other financial Institutions | 8,500,000 | 13,000,000 | 6,500,000 | 18,500,000 | - | 46,500,000 |
| Loans & advances | 87,504,110 | 2,618,859 | 15,331,666 | 9,166,180 | - | 114,620,815 |
| Investments | - | - | - | - | 235,300 | 235,300 |
| **Total financial assets** | **100,066,748** | **15,618,859** | **21,831,666** | **27,666,180** | **491,224** | **165,674,677** |
| LIABILITIES | | | | | | |
| Creditors | - | - | - | - | 1,515,873 | 1,515,873 |
| Deposits from members | 82,165,623 | 26,045,905 | 41,002,407 | 1,505,414 | 32,510 | 150,751,859 |
| Subordinated debt | 1,000,000 | - | - | - | - | 1,000,000 |
| | 83,165,623 | 26,045,905 | 41,002,407 | 1,505,414 | 1,548,383 | 153,267,732 |
| Undrawn loan commitments | 27,179,954 | **-** | **-** | **-** | **-** | 27,179,954 |
| **Total financial liabilities** | **110,345,577** | 26,045,905 | 41,002,407 | 1,505,414 | 1,548,383 | **180,447,686** |
| **2014** | | | | | | |
| ASSETS | | | | | | |
| 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** |
| LIABILITIES | | | | | | |
| 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** |

## 25. 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 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.

| | 2015 Fair Value | 2015 Carrying Value | 2015 Variance | 2014 Fair Value | 2014 Carrying Value | 2014 Variance |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| FINANCIAL ASSETS | | | | | | |
| Cash | 4,139,859 | 4,139,859 | - | 3,654,273 | 3,654,273 | - |
| Advances to other financial institutions | 46,585,957 | 46,585,957 | - | 38,688,623 | 38,688,325 | 298 |
| Receivables | 178,703 | 178,703 | - | 134,043 | 134,043 | - |
| Loans to members | 114,567,470 | 114,606,838 | (39,368) | 113,258,996 | 113,306,507 | (47,511) |
| Investments | 235,300 | 235,300 | - | 235,300 | 235,300 | - |
| Subordinated loans | - | - | - | - | - | - |
| **Total financial assets** | 165,707,289 | 165,746,657 | (39,368) | 155,971,235 | 156,018,448 | (47,213) |
| FINANCIAL LIABILITIES | | | | | | |
| Creditors | 1,604,558 | 1,604,558 | - | 1,575,006 | 1,575,006 | - |
| Deposits from members | 150,888,827 | 150,751,859 | (136,968) | 141,666,922 | 141,606,934 | (59,988) |
| Subordinated debt | 1,000,000 | 1,000,000 | - | 1,000,000 | 1,000,000 | - |
| **Total financial liabilities** | 153,493,385 | 153,356,417 | (136,968) | 144,241,928 | 144,181,940 | (59,988) |

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.

**25. 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.

| | | 2015 $ | 2014 $ |
|---|---|---|---|
| **26.** | **FINANCIAL COMMITMENTS** | | |
| **a.** | **Outstanding loan commitments** | | |
| | Loans approved but not funded | 125,030 | 237,917 |
| **b.** | **Loan redraw facilities** | | |
| | Loan redraw facilities available | 24,989,461 | 27,666,114 |
| **c.** | **Undrawn loan facilities** | | |
| | Loan facilities available to members for overdrafts and line of credit loans are as follows: | | |
| | Total value of facilities approved | 2,578,932 | 2,602,852 |
| | Less: Amount advanced | (513,469) | (470,791) |
| | Net undrawn value | 2,065,463 | 2,132,061 |

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

| | | 2015 $ | 2014 $ |
|---|---|---|---|
| | **Total financial commitments** | **27,179,954** | **30,036,092** |
| **d.** | **Computer Licence commitments** | | |
| | The costs committed under contracts with Ultradata are as follows: | | |
| | Not later than one year | 187,404 | 187,404 |
| | Later than 1 year but not 5 years | 749,616 | 749,616 |
| | Later than 5 years | 251,583 | 438,987 |
| | | 1,188,603 | 1,376,007 |
| **e.** | **Lease expense commitments** | | |
| | Not later than one year | 92,316 | 89,007 |
| | Later than 1 year but not 5 years | 392,574 | 378,503 |
| | Later than 5 years | 347,853 | 335,386 |
| | | 832,743 | 802,896 |

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.

## 27. STANDBY BORROWING FACILITIES

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

| | Gross $ | Current Borrowing $ | Net Available $ |
|---|---|---|---|
| **2015** | | | |
| Loan facility | 1,200,000 | - | 1,200,000 |
| Overdraft facility | 500,000 | - | 500,000 |
| **TOTAL STANDBY BORROWING FACILITIES** | 1,700,000 | - | 1,700,000 |
| | | | |
| **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 |

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.

## 28. 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.

## 29. 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:

## 29. 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.

| | | 2015 Total $ | 2014 Total $ |
|---|---|---|---|
| (a) | short-term employee benefits; | 349,626 | 331,567 |
| (b) | post-employment benefits - superannuation contributions | 51,851 | 48,971 |
| (c) | other long-term benefits – net increases in long service leave provision | 11,644 | 12,052 |
| (d) | termination benefits; | - | - |
| (e) | share-based payment. | - | - |
| | **Total** | **413,121** | **392,590** |

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.

### b. 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:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Mortgage secured | Other term loans | Revolving Credit | Mortgage secured | Other term loans | Revolving Credit |
| Funds available to be drawn | - | - | 15,500 | - | - | 20,500 |
| Balance | 767,180 | - | - | 908,703 | - | 14,774 |
| Amounts disbursed or facilities increased in the year | 18,000 | - | - | 395,047 | - | 5,726 |
| Interest and other revenue earned | 33,909 | - | - | 40,431 | - | - |

## 29. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL Continued

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

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Total value term and savings deposits from KMP | 1,144,102 | 1,214,079 |
| Total interest paid on deposits to KMP | 34,793 | 22,863 |

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.

## 30. 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.

## 31. NOTES TO STATEMENT OF CASH FLOWS

**Reconciliation of cash**

Cash comprises:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Cash on hand | 77,221 | 74,553 |
| Deposits at call with other financial institutions | 4,062,638 | 3,579,720 |
| **Total cash** | 4,139,859 | 3,654,273 |

**Reconciliation of net cash flows from revenue activities to accounting profit**

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

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Profit after income tax | 672,714 | 622,125 |
| **Add/(Deduct):** | | |
| Increase in provision for loans | 34,800 | 30,000 |
| Depreciation expense | 30,013 | 27,857 |
| Amortisation of intangible assets | 52,763 | 44,779 |

## 31. NOTES TO STATEMENT OF CASH FLOWS Con't

| | | |
|---|---:|---:|
| (Gain)/Loss on sale of assets | 0 | (378) |
| Increase in provisions for staff leave | 57,349 | 31,274 |
| Increase /(Decrease) in provision for income tax | 12,956 | (6,081) |
| Increase in accrued expenses | (16,940) | (44,029) |
| (Decrease)/Increase in interest payable | (120,821) | (34,507) |
| Increase in deferred tax assets | (11,624) | (8,970) |
| Decrease in interest receivable | (13,991) | (16,996) |
| **Net cash from revenue activities** | 697,219 | 645,074 |

## 32. OUTSOURCING ARRANGEMENTS

The credit union has arrangements with other organisations to facilitate the supply of services to members.

**a. Cuscal Limited**

Cuscal is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. The credit union has equity in the company. This organisation:

- provides the license rights to Visa Card in Australia and settlement to other institutions for ATM, Visa Card and cheque transactions, direct entry transactions, as well as the production of Visa Cards for use by members;
- operates the computer network used to link Visa cards operated through rediATMs and other approved ATM providers to the credit union's EDP system; and
- provides treasury and money market facilities to the credit union. The credit union invests part of its liquid assets with Cuscal to comply with the Liquidity Support Scheme requirements.

**b. Ultradata Australia Pty Ltd**

Provides and maintains the application software utilised by the credit union

**c. The System Works Group**

This company operates the computer facility on behalf of the credit union in conjunction with other credit unions. The credit union has a management contract with the company to supply computer support staff and services to meet the day to day needs of the credit union and compliance with the relevant prudential standards.

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