LCU
banking you can trust

Laboratories Credit Union

ABN 77 087 650 217 AFSL/Australian Credit License 240807

64th Annual Report 2017/18

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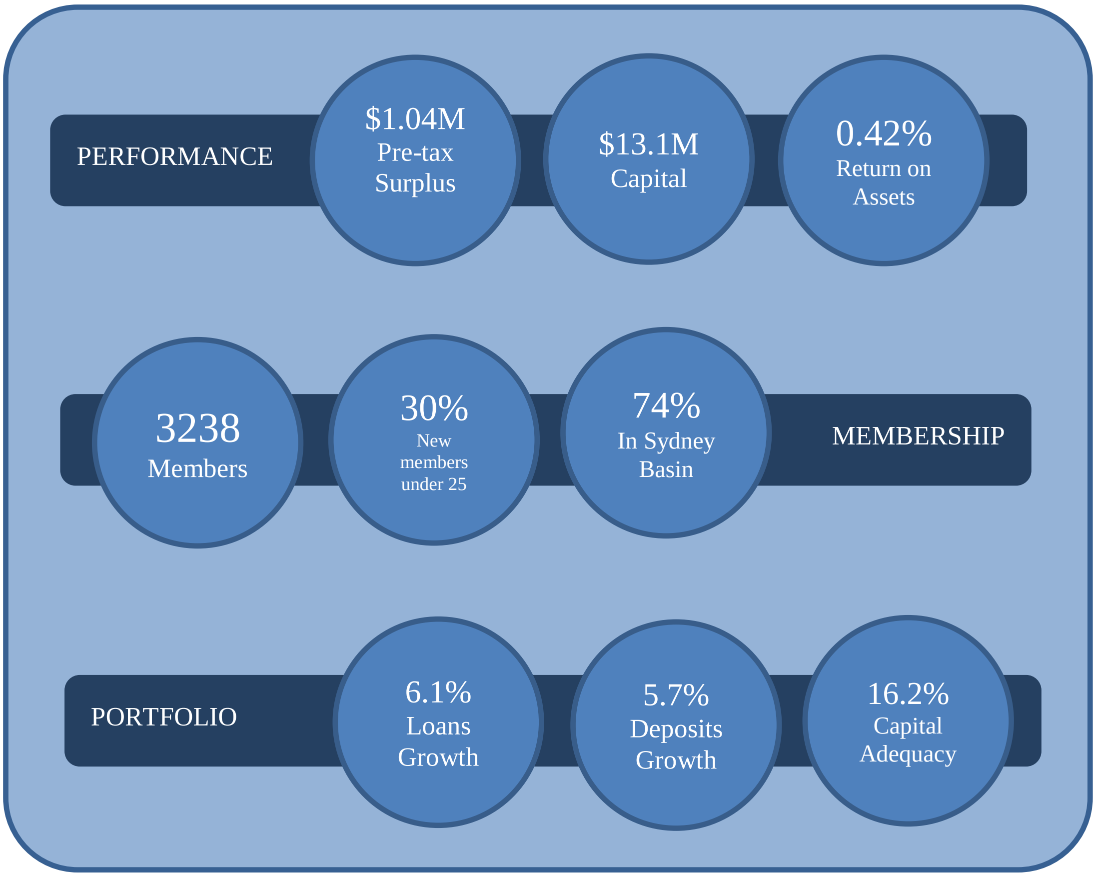

On behalf of the Board, I am pleased to present to Members the 2018 Annual Report for Laboratories Credit Union Limited in our 64th year.

Financial and Operating Performance

2018 has been another year of very healthy growth and pleasing financial performance in all areas:

- Reflecting another year of careful cost control, LCU achieved a net interest margin (the average difference between lending and borrowing rates) of 1.95%, which compares to 1.97% in 2017, and an industry average of 2.5%
- Despite keeping LCU fees and charges at sector-leading low levels, our 64th consecutive pre-tax surplus was both pleasing and on-target at $1,040,704, compared with $1,123,632 in 2017. This surplus grows LCU member total capital to $13.1 million, and generating a healthy Return on Assets of 0.42% (similar to 2017's 0.47%);
- Our critical financial resilience metrics remain within our target comfort zones and well in excess of prudential requirements: Capital Adequacy was 16.2% (cf 16.54% 2017) and Minimum Liquid Holdings 16.16% (cf 18.85% 2017).
- After the unusually strong loan growth experienced in 2017, this year we have achieved more normal level of loan growth of 6.1%, which combined with 5.7% deposit growth.

These excellent financial results rest on long-established foundations. Prudent and frugal operations lie at the core of LCU's ability to offer industry-leading value and still return earnings to boost capital. LCU's cost base is improved by having a single branch, by having efficient and engaged staff cross-trained over multiple functions and through the effective use of technology. However, the inexorable cost of technology is a factor that LCU will always be exposed to as one of the smallest players in the prudential sector.

In summary, LCU has delivered another excellent result from strong financial fundamentals, which place us well entering the 2019 year.

Member Services and Marketing

2018 has been another year of strong member service performance, reflecting our focus on friendly personalized service, innovation in our service offer, and planning for the future needs of our evolving membership.

Consistent with our CSIRO roots, LCU has aimed to be at the forefront of technological developments for members and has been amongst the first to offer ApplePay, AndroidPay and, more recently, Osko, Australia's new almost instantaneous payments platform. In 2017 we undertook a project to migrate the hosting of LCU's core banking system to an alternate supplier – one that offers more longevity (more credit unions are using it) as well as lower costs. The migration placed significant demands on staff for many months (testing and validating) and I commend them for delivering the upgrade without any inconvenience to members.

LCU has also revamped our car loan product offer, which has led to a pleasing uptick in loans.

In line with LCU's member-centred approach, Your Financial Wellness has been released to members as a powerful aid to help members understand their current and future financial positions.

The team at LCU is committed to spreading the footprint of the credit union and had led and participated in a diverse set of professional, community and member events and initiatives in the 2018 year. A key example was hosting the Riverside Business Chamber networking event in February in addition to several organisation-specific events in the Riverside Corporate Park.

Our connection with CSIRO and NMI was vibrantly supported via sponsorship of events, scholarships and amenities across sites, and as a CSIRO employee myself, I can attest to how LCU's local support is appreciated by staff. For example, LCU contributed to the purchase of some new gym equipment at the Lindfield site, which is giving a substantial boost to site vibrancy.

LCU's campaign to 18-35-year-old members was reinvigorated under a program with Natural Mind Concepts working with staff. We've already seen an uptick in membership in this demographic linked to additional deposits more than $800k.

Economic Landscape

Smaller, non-diversified financial institutions historically experience an operational squeeze during times of low interest rates – it's simply harder to maintain the net interest margin. When interest rates were reducing some years ago, our strategy was to tighten the belt on spending and weather the coming lean time. None of us expected it to last this long! The previous and current senior management of LCU are to be congratulated in not only weathering this transition but having established an operating configuration in which LCU not only survives, but thrives during low interest periods. Our 2018 figures are strong despite not a single official Reserve Bank interest rate change in the year.

System-Wide Machinations

I don't intend to say much about the Royal Commission, suffice to say that thus far it has shone a positive light on the customer-owned banking sector as a real alternative to the large banks. Notwithstanding the disgust of customers of big banks to the public revelations there has yet to be a substantial exodus and is, perhaps, indicative of the populace indifference to banking, which is I believe partially responsible for enabling the poor business practices in the first place.

Compliance and Regulation

Compliance and regulation are aspects of LCU's operation that should not be apparent to the member, but from a board perspective, they are arguably our highest demands on time and effort. In this context, I would like to acknowledge Joanne O'Donnell for her work establishing the TriLine Risk Management System at LCU, ably supported by management and staff. This marks a significant evolution for LCU from a landscape of manual spreadsheets to an integrated system across the organization, making welcomed efficiencies!

In contrast to the past couple of years, APRA has alleviated some of the investor lending constraints for mutuals. This is a welcome development and one that we interpret as an acknowledgement of the lower actual risks in the system from the mutual sector. However, LCU business-as-usual was not constrained by APRA's previous limits so, equally, their removal confers no immediate benefit.

Scholarships

It was my great pleasure to present LCU Tertiary Scholarships for 2018 to recipients Dibyendu Roy, Alice Warrington, Annika Rees, Ethan Kalms, Amy Bendixsen, Sabrina Colatosti, Maya Robertson, Alex Wieringa, Brett Whittard, Tafyd Love, Lachlan Sinclair and Jaqueline Albert. LCU's tertiary scholarship scheme was instigated by former director Don Pendergast, who attended the luncheon ceremony, which remains an event central to LCU's bond.

Since the inception of the CSIRO Alumni Scholarship in Physics in 2015, LCU has been the major sponsor, in the memory of Drs Gerry Haddad, Tony Farmer, John Dunlop and Don Price. As an ex-colleague of these fine gentlemen at CSIRO Lindfield I am particularly proud of the support LCU provides to this prestigious award. LCU directors Dr Tony Murphy and Dr Anita Andrew and former director Dr Warren King are members of the selection panel for the scholarship.

This year, the scholarship was awarded to Naomi Paxton from QUT. In a truly invigorating ceremony, Professor Michelle Simmons, Australian of the Year, congratulated Naomi via recorded video[1] and CSIRO's Dr Martin Cole made the presentation in person. Naomi presented an overview of the research she will undertake in the bio-fabrication for repair and replacement of human tissues.

Board and Staff

I would like to thank my fellow Directors, Anita Andrew (Deputy Chair and Chair of the Board Risk Committee), Frank Benito de Valle, Tony Murphy, Allison Smart, Peter Steele, John Stephens (Chair of the Board Audit Committee) and Paul Swan for their valuable contribution to the governance of LCU over the past year. I would also like to thank our Associate Director Amber O'Connell, who attends Board meetings by invitation and provides invaluable service and views to the Board – Amber has made unprecedented contributions to the strategic planning activities of the Board and governance.

This year we said farewell to Kieran Greene from LCU's Board of Directors. Kieran served as director since 2000 and as Chairman between 2006 and 2009. We marked the occasion with a wonderful dinner during which appreciation for Kieran's attributes as a gentleman and a director resounded around a packed room. On behalf of LCU, I gratefully acknowledge and thank Kieran for his years of service; particular, his dignity, integrity and generous votes of gratitude towards others over the years. His positive influences on board culture and respectful discourse have set a precedent for decades to come.

The Board gratefully acknowledges the friendly service and commitment of our staff Leanne Harris, Eileen Thoms, Lyn Slatter, Kerrie Griffiths, Rhonda Hatton, Susanne Tran-Lowder, Nalini Mannie, Deepthi Satheesan, Matthew Thoms, Joanne O'Donnell and Betty Ho. Personal service and member value are the cornerstones of LCU's success. We wish a successful and happy future for Dee, who left LCU this year to pursue a career closer to her new home on the central coast. From a personal perspective, it has been a pleasure collaborating in joint events in my role at CSIRO.

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[1] Michelle Simmons video link: https://vimeo.com/274608003 More about Naomi Paxton: https://research.qut.edu.au/biofabrication/team/naomi-paxton/

Looking Forward

Last year, in this section I listed the Risk Management System, the Osko payment system, involvement in SocietyOne, APRA CET1 capital approval and LCU's participation in the loan sharing scheme and coming developments. It is wonderful to be able to say that all of those exciting initiatives have come to pass and I commend management and staff for their dedication to LCU. It is testament to the able and committed leadership of Leanne Harris that LCU has been able to complete so many challenging projects in addition to business as usual and maintaining LCU's exemplary hallmark customer service.

Except for the launch of a new mobile banking app, there are no other significant IT projects in 2019. So much has been undertaken and accomplished in this area in the past two to three years that we now find LCU in a position well prepared for years to come.

In its entire 64-year history, LCU has returned a surplus and today LCU has a solid model for sustained business even under low official interest rates. Our banking and operating systems are recently upgraded. I have strong confidence for LCU in coming years. One persisting concern (for the entire sector) is attracting younger members by offering a relevant and appealing proposition – not only in financial services, but being able to capitalise on the resurgence in authenticity and social responsibility. In many ways, that's where mutuals originated – we are akin to craft-banking or artisan-banking – we (collectively) face the challenge of how to get the message out there! LCU's sustained strength can be attributed to members' enthusiasm to promote and recommend LCU to friends and family – it is a powerful channel. On behalf of LCU, I thank all members for advancing our mutual cause and implore you to keep up the great work!

Scott Martin
Chairman 19 September 2018

Directors' Report

Your directors present their report on the Credit Union for the financial year ended 30 June 2018.
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:

A.S. Martin	Chairman	BSc(Hons),PhD, FAIP, GAICD	Director - since June 2012 Chairman since November 2016 Risk Committee - since November 2017 Remuneration and Nominations Committee - since November 2014
A.J. Smart	Deputy Chairman	BComm, LLB, LLM, FCIS.	Director - since December 2012 Audit Committee - since November 2017 Remuneration and Nominations Committee since November 2015
A.S. Andrew	Director	BSc(Hons),PhD, MEnv Mgt	Director - since January 2010 Remuneration and Nominations Committee - since November 2013 Risk Committee Chairman - since November 2017
F.J Benito de Valle	Director	B Econ, FAICD, Dip. FCIS, FCPA, JP	Director - since January 2000 Risk Committee - since January 2012 Budget/Finance Committee - since November 2011
A.B. Murphy	Director	BSc(Hons), PhD	Director - since January 1998 Risk Committee - since November 2005 Budget/Finance Committee - since November 2014
P.B. Steele	Director	CPA, Grad Dip Tech Management, JP	Director - since January 1990 Budget/Finance Committee - since November 2005 Audit Committee - since November 2005
R.J. Stephens	Director	M.Tax, FCA	Director – since February 2016 Audit Committee Chairman since November 2016 Remuneration and Nominations Committee since November 2017
P.G.Swan	Director	BSc(Hons), PhD GAICD	Director – since November 2017 Audit Committee – since November 2017

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

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

Directors' meeting attendance

***H** = Meetings Held in the period of appointment.* ***A**= Attended*

Director	Board		Budget		Audit		Risk	
	H	**A**	**H**	**A**	**H**	**A**	**H**	**A**
A.S. Andrew	11	10					7	7
F.J. Benito de Valle	11	7	2	2			7	4
A.S. Martin	11	11			3	3	4	4
A.B Murphy	11	6	2	2			7	6
P.B. Steele	11	11	2	2	5	5		
A.J. Smart	11	9			2	2	3	3
R.J. Stephens	11	11			5	5		
P.G.Swan	11	10			2	2		

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.

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 $766,695 [2017: $804,507].

Dividends

No dividends have been paid or declared on members shares since the end of the financial year and no dividends have been recommended or provided for by the directors of the Credit Union.

Review of results

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 positive. Deposits and loan funding was strong. There was no change to the cash rate as determined by the Reserve Bank of Australia. As of 30th June it was at an historical low of 1.5%.

Significant changes in state of affairs

The Credit Union Tier 2 Subordinated debt was repaid in December 2017. Apart from this, there were no significant changes in the state of the affairs of the Credit Union during the year.

Events occurring after the end of the reporting period

No matters or circumstances 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 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:

1. The operations of the Credit Union;
2. The results of those operations; or
3. 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:

Alistair Scott Martin ______________ Director	Richard John Stephens ______________ Director

Signed and dated this 19th day of September 2018.

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Auditor's Independence Declaration

To the Directors of Laboratories Credit Union Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Laboratories Credit Union Limited for the year ended 30 June 2018, 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

G S Layland
Director – Audit & Assurance

Sydney, 19 September 2018

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Independent Auditor's Report

To the Members of Laboratories Credit Union Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Laboratories Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in member equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' 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.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

G S Layland
Director – Audit & Assurance

Sydney, 19 September 2018

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) Give a true and fair view of the financial position of the Credit Union as at 30 June 2018 and of its performance for the year ended on that date; and

   (b) Comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

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:

Alistair Scott Martin ______________________ Richard John Stephens ______________________

Director Director

Signed and dated this 19th day of September 2018.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Note	2018 $	2017 $
Interest revenue	2.a	6,356,196	6,235,165
Interest expense	2.c	2,929,386	2,931,113
Net interest income		3,426,810	3,304,052
Fee commission and other income	2.b	189,204	217,180
		3,616,014	3,521,232
Less:			
Non-interest expenses			
Impairment losses on loans receivable from members	2.d	(30)	(232)
Impairment losses on loans receivable from other loans		24,486	6,000
Fee and commission expenses		210,725	183,614
General administration			
- Employees compensation and benefits		997,930	980,707
- Depreciation and amortisation	2.e	158,988	112,150
- Information technology		355,202	387,463
- Office occupancy		108,866	107,510
- Other administration		212,152	129,406
Other operating expenses		506,991	490,982
Total non-interest expenses		2,575,310	2,397,600
Profit before income tax		1,040,704	1,123,632
Income tax expense	3	274,009	319,125
Profit after income tax		766,695	804,507

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

Statement of Financial Position

As of 30 June 2018

	Note	2018 $	2017 $
ASSETS			
Cash and cash equivalents	4	6,993,147	6,097,609
Receivables from financial institutions	5	34,942,397	34,964,788
Receivables	6	208,941	172,023
Loans to members	7 & 8	137,519,633	131,445,899
Other loans	9	2,543,612	594,827
Available-for-sale investments	10	255,300	235,300
Property, plant and equipment	11	52,237	42,835
Taxation assets	12	165,332	180,140
Intangible assets	13	325,611	286,547
TOTAL ASSETS		183,006,210	174,019,968
LIABILITIES			
Deposits from members	14	167,522,188	158,569,232
Creditor accruals and settlement accounts	15	1,205,512	855,150
Taxation liabilities	16	57,887	88,146
Provisions	17	354,711	408,223
Subordinated debt	18	-	1,000,000
TOTAL LIABILITIES		169,140,298	160,920,751
NET ASSETS		13,865,912	13,099,217
MEMBERS' EQUITY			
Capital reserve account	19	25,170	23,980
General reserve for credit losses	20	729,552	729,552
Retained earnings		13,111,190	12,345,685
TOTAL MEMBERS' EQUITY		13,865,912	13,099,217

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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 2018

	Note	2018 $	2017 $
OPERATING ACTIVITIES			
Revenue inflows			
Interest received		6,322,591	6,311,583
Fees and commissions		155,934	173,445
Dividends		19,608	33,333
Other income		13,662	9,702
Revenue outflows			
Interest paid		(2,649,584)	(3,106,359)
Suppliers and employees		(2,324,821)	(2,264,255)
Income taxes paid		(289,460)	(318,230)
Net cash flow from revenue activities		1,247,930	839,219
Inflows/(outflows) from other operating activities			
(Increase) in member loans (net movement)		(6,097,828)	(10,557,610)
(Increase) in other loans (net movement)		(1,949,147)	(600,827)
Decrease in member deposits & shares (net movement)		8,935,013	807,482
Decrease in deposits to other financial institutions (net)		22,391	14,178,135
Net cash flows from/(used in) operating activities	31	**2,158,359**	**(4,666,399)**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of property, plant and equipment		-	1,200
Outflows			
Purchase of intangible assets	13	(209,223)	(182,458)
Purchase of property plant and equipment	11	(33,598)	(6,298)
Shared Lending capital contribution	10	(20,000)	-
Net cash flows used in investing activities		(262,821)	(187,556)
FINANCING ACTIVITIES			
Inflows/(outflows)			
Subordinated Debt payback	18	(1,000,000)	-
Net cash flows used in financing activities		(1,000,000)	-
Net increase in cash		895,538	4,478,843
Cash at beginning of year		6,097,609	1,618,766
Cash at end of year	4	6,993,147	6,097,609

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

Notes to the Financial Statements

For the year ended 30 June 2018

1. Statement of significant accounting policies

This financial report is prepared for Laboratories Credit Union Limited as a single Credit Union, for the year ended the 30th June 2018. The report was authorised for issue on 19th September 2018 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

Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

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.

1. Statement of significant accounting policies (continued)

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).

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) and Floating Rate Notes 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 and Shared Lending Propriety Limited.

The equity investments in both Cuscal Limited and Shared Lending Propriety Limited is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in the statement of profit or loss and other comprehensive income.

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

1. Statement of significant accounting policies (continued)

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 the statement of profit or loss and other comprehensive income 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 profit or loss 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 the reporting 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.

(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.

1. Statement of significant accounting policies (continued)

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 reporting 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.

ii) General reserve for credit losses

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

- The level of security taken as collateral; and
- The concentration of loans taken by employment type.

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 statement of profit or loss and other comprehensive income.

1. Statement of significant accounting policies (continued)

f. Property, plant and equipment

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

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

g. Receivables from other financial institutions

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

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

h. Equity investments and other securities

Investments in marketable financial instruments

Available-for-sale financial instruments held for trading are measured at fair value.

Realised net gains and losses on available-for- sale financial assets taken to the statement of profit and loss and other comprehensive income 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 statement of profit and loss and other comprehensive income 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 reporting 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.

1. Statement of significant accounting policies (continued)

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 statement of profit or loss and other comprehensive income over the period of the loans and borrowings using the effective interest method.

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.

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 profit or loss 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 profit or loss on a straight-line basis over the period of the lease.

1. Statement of significant accounting policies (continued)

m. Income tax

The income tax expense shown in the profit or loss 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 statement of financial position 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 27.5%.

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.

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 (GST)

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 statement of financial position. 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 ATO are classified as operating cash flows.

1. Statement of significant accounting policies (continued)

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 statement of profit or loss and other comprehensive income 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 the 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 the classification of preference shares as equity instruments – refer Note 19.

Management have made critical accounting estimates when applying the Credit Union’s accounting policies with respect to the impairment provisions for loans - refer Note 8.

1. Statement of significant 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 2018 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 (December 2014)	The new standard replaces AASB 139 and supersedes AASB 9 versions previously issued in December 2009 and December 2010. It amends the requirements for classification and measurement of financial assets. AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements. Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. 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.	A detailed assessment has been done; there will be no material impact on the transactions and balances recognised in the financial statements. No additional provision is expected to be required.
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. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard replaces AASB 118 Revenue, AASB 111 Construction Contracts and related revenue interpretations.	Periods beginning on or after 1 January 2018.	The Standard is not expected to have a material impact upon the transactions and balances, as most of the Credit Unions' revenue arises from the provision of financial services which are governed by AASB 9 Financial Instruments. Few revenue transactions of the Credit Union are impacted by the new standard.
AASB 16 *Leases Replaces AASB 117*	AASB 16: replaces AASB 117 *Leases* and some lease-related Interpretations; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and ; requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019	A general assessment has been made, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements. The Credit Union lease commitments are detailed in Note 26.

2. Statement of profit or loss and other comprehensive income

		2018 $	2017 $
a.	**Analysis of interest revenue**		
	Interest revenue on assets carried at amortised cost		
	Cash – deposits at call	84,772	70,113
	Receivables from financial institutions	862,300	1,096,961
	Loans to members and other loans	5,409,124	5,068,091
	Total interest revenue	6,356,196	6,235,165
b.	**Fee, commission and other income**		
	Fee and commission revenue		
	Fee income on loans – other than loan origination fees	1,182	10,477
	Other fee income	84,376	84,415
	Insurance commissions	4,670	4,139
	Other commissions	65,706	73,914
	Total fee and commission income	155,934	172,945
	Other income		
	Dividends received on available-for-sale assets	19,608	33,333
	Bad debts recovered	10,020	6,124
	Gain on disposal of assets		
	- Property, plant and equipment	-	1,200
	Miscellaneous revenue	3,642	3,578
		33,270	44,235
	Total fee, commission and other income	189,204	217,180
c.	**Interest expenses**		
	Interest expense on liabilities carried at amortised cost		
	Short term borrowings - overdraft	171	320
	Deposits from members	2,891,132	2,853,217
	Subordinated debt	38,083	77,576
	Total interest expense	2,929,386	2,931,113
d.	**Impairment losses**		
	Loans and advances		
	Member Loans		
	Increase in provision for impairment	(72)	(12,583)
	Bad debts written off directly against profit	42	12,351
		(30)	(232)
	Other Loans		
	Increase in provision for impairment	362	6,000
	Bad debts written off directly against profit	24,124	-
		24,486	6,000
	Total Impairment Losses	24,456	5,768

2. Statement of profit or loss and other comprehensive income (continued)

	Note	2018 $	2017 $
e. Other prescribed disclosures			
General administration			
Depreciation and amortisation			
- plant and equipment	**11**	24,196	27,310
- amortisation of Intangible - software	13	134,792	84,840
		158,988	112,150
Office occupancy			
Property operating lease payments		105,234	103,743
Other operating expenses			
Auditor's remuneration (excluding GST)			
- Audit fees		45,710	45,365
- Other Services – taxation		6,500	6,500
- Other Services – compliance		770	770
- Other Services – other		114	439
		53,094	53,074
Defined contribution superannuation expenses		170,636	207,108

3. Income tax expense

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

	2018	2017
Current tax charge – (Note 16)	261,557	285,786
Adjustments for prior years	(6,092)	2,458
Deferred tax:		
Movement in temporary differences (Note 12)	18,544	30,881
Total income tax expense in income statement	274,009	319,125

b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:

	2018	2017
Profit	1,040,704	1,123,632
Prima facie tax payable on profit before income tax at 27.5%	286,194	308,999
Add tax effect of expenses not deductible		
- Dividend imputation	2,311	3,929
- Other non-deductible expenses	-	18,025
Subtotal	288,505	330,953
Less		
- Franking rebate	(8,404)	(14,286)
- Non Deductible Items	-	-
Income tax expense attributable to current year profit	280,101	316,667
Adjustments for previous years	(6,092)	2,458
Total income tax expense in income statement	274,009	319,125

3. Income tax expense (continued)

		2018 $	2017 $
c.	**Franking credits**		
	Franking credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year, dividends received and dividends paid is:	4,558,099	4,107,629
	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 and cash equivalents**		
	Cash on hand	93,989	132,037
	Deposits at call	6,899,158	5,965,572
		6,993,147	6,097,609
5.	**Receivables from financial institutions**		
a.	**Investments at amortised cost**		
	Hold to Maturity		
	Bonds	19,555,979	23,583,140
	Receivables		
	Deposits with financial institutions (5b)	15,386,418	11,381,648
		34,942,397	34,964,788
b.	**Dissection of receivables**		
	Deposits with industry bodies - CUSCAL (Note 32a)	3,240,000	3,240,000
	Deposits with other societies	7,000,000	4,000,000
	Deposits with banks	5,146,418	4,141,648
		15,386,418	11,381,648
6.	**Receivables**		
	Prepayments	41,023	37,710
	Interest receivable on deposits with other financial institutions	167,918	134,313
		208,941	172,023
7.	**Loans to members**		
a.	**Amount due comprises:**		
	Overdrafts and revolving credit	744,882	827,765
	Term loans	136,774,751	130,618,206
	Subtotal	137,519,633	131,445,971
	Less: Provision for impaired loans (Note 8)	-	(72)
		137,519,633	131,445,899
b.	**Credit quality - Security held against loans**		
	Secured by mortgage over real estate	132,344,104	125,102,849
	Partly secured by goods, mortgage	3,736,533	3,548,639
	Wholly unsecured	1,438,996	2,794,483
		137,519,633	131,445,971

7. Loans to members (continued)

It is not practicable to value all collateral as at the reporting 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:

	2018	2017
	$	$
• loan to valuation ratio of less than 80%	129,881,336	119,599,176
• loan to valuation ratio of more than 80% but mortgage insured	1,197,120	1,776,158
• loan to valuation ratio of more than 80% and not mortgage insured	1,265,648	3,727,515
	132,344,104	125,102,849

c. Concentration of loans

The values discussed below include on statement of financial position values.

		2018	2017
(i)	Loans to Individual or related groups of members which exceed 10% of reserves in aggregate	8,668,719	5,942,448

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

Geographical concentrations:

2018	**Housing**	**Personal**	**Business**	**Total**
Australia	**$**	**$**	**$**	**$**
NSW	111,363,055	2,048,692	3,365,568	116,777,315
Victoria	5,044,461	43,481	-	5,087,942
Queensland	3,534,938	396,410	-	3,931,348
South Australia	1,683,939	-	508,776	2,192,715
Western Australia	1,170,790	2,590	-	1,173,380
Tasmania	2,360,183	1,940	217,876	2,579,999
Northern Territory	361,806	-	-	361,806
ACT	2,436,203	62,286	-	2,498,489
Other	2,914,510	2,129	-	2,916,639
Total per statement of financial position	130,869,885	2,557,528	4,092,220	137,519,633

2017	**Housing**	**Personal**	**Business**	**Total**
Australia	**$**	**$**	**$**	**$**
NSW	107,755,354	2,103,633	3,477,262	113,336,249
Victoria	2,629,238	16,467	57	2,645,762
Queensland	3,032,319	516,052	-	3,548,371
South Australia	1,724,711	-	515,185	2,239,896
Western Australia	1,307,833	2,989	-	1,310,822
Tasmania	1,695,644	9,580	226,277	1,931,501
Northern Territory	381,226	-	-	381,226
ACT	3,481,695	145,396	-	3,627,091
Other	2,425,053	-	-	2,425,053
Total per statement of financial position	124,433,073	2,794,117	4,218,781	131,445,971

		2018 $	2017 $
8.	**Provision on impaired loans**		
a.	**Total provision comprises**		
	Individual specific provisions	-	72
b.	**Movement in the provision for impairment**		
	Opening balance	72	12,655
	Add (deduct):		
	Transfers from (to) profit or loss	(72)	(12,583)
	Bad debts written off provision	-	-
	Closing balance	-	72

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

		2018 $	2017 $
c.	**Impaired loans written off**		
	Amounts written off against the provision for impaired loans	-	-
	Amounts written off directly to expense	42	12,351
	Total bad debts	42	12,351
	Bad debts recovered in the period	7,182	6,124

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

In the Note below:

- Carrying Value is the amount of the statement of financial position
- Impaired loans value is the ‘on statement of financial position’ 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

	Carrying value	**Value of Impaired Loans**	**Provision for impairment**		**Carrying value**	**Value of Impaired Loans**	**Provision for impairment**
	2018	**2018**	**2018**		**2017**	**2017**	**2017**
	$	**$**	**$**		**$**	**$**	**$**
Loans to members							
Mortgages	132,344,104	-	-		125,102,849	-	-
Personal-secured by MV	1,053,701	-	-		953,292	-	-
Personal Unsecured	3,376,946	-	-		4,562,065	-	-
Overdrafts	744,882	-	-		827,765	180	72
Total	**137,519,633**	**-**	**-**		**131,445,971**	**180**	**72**

8. Provision on impaired loans (continued)

Past due value is the ‘on statement of financial position’s loan balances which are past due by 90 days or more.

It is not practicable to determine the fair value of all collateral as at the reporting date due to the variety of assets and condition.

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

	2018		2017	
	Carrying Value	Provision	Carrying Value	Provision
	$	$	$	$
30 to 90 days in arrears	14,231	-	32,689	-
90 to 180 days in arrears	-	-	-	-
180 to 270 days in arrears	-	-	-	-
270 to 365 days in arrears	-	-	-	-
Over 365 days in arrears	-	-	-	-
Over limit facilities over 14 days	-	-	180	72
Total	14,231	-	32,869	72

The table above excludes the well secured mortgage loans of $188,387 (2017: $693,459).

The impaired loans are generally not secured against residential property. Some impaired loans are secured by 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 reporting date due to the variety of assets and condition.

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

There are mortgages secured loans with a value of $188,387 (2017: $693,459) 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 reporting date due to the variety of assets and conditions.

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

2018	1-3 Months	3-6 Months	6-12 Months	> 1 Year	Total
	$	$	$	$	$
Mortgage secured	64,283	124,104	-	-	188,387
Personal loans	-	14,231	-	-	14,231
Overdrafts	353	-	-	-	353
Total	**64,636**	**138,335**	**-**	**-**	**202,971**

2017	1-3 Months	3-6 Months	6-12 Months	> 1 Year	Total
	$	$	$	$	$
Mortgage secured	449,448	244,101	-	-	693,549
Personal loans	15,011	17,678	-	-	32,689
Overdrafts	1,417	-	-	-	1,417
Total	**465,876**	**261,779**	**-**	**-**	**727,655**

8. Provision on impaired loans (continued)

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 and less than 182 days	40
182 days and less than 273 days	60
273 days and less than 365 days	80
Over 365 days	100

	2018 $	2017 $
9. Other loans		
a. - Loans to non-members – (unsecured)	1,292,220	600,827
- Less provision for impairment (movement to P&L)	(6,362)	(6,000)
	1,285,858	594,827
- Loans to non-members – (mortgage secured)	1,257,754	-
- Less provision for impairment (movement to P&L)	-	-
	1,257,754	-
Total value of other loans	2,543,612	594,827
b. Impaired loans written off		
Amounts written off against the provision for impaired Loans	-	-
Amounts written off directly against expense	24,124	-
Total Bad Debts	24,124	-
c. Bad debts recovered in the period	2,838	-

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

	Carrying value	Value of Impaired Loans	Provision for impairment		Carrying value	Value of Impaired Loans	Provision for impairment
	2018	**2018**	**2018**		**2017**	**2017**	**2017**
	$	**$**	**$**		**$**	**$**	**$**
Other Loans							
Mortgages	1,257,754	-	-		-	-	-
Personal Unsecured	1,285,858	15,669	6,362		594,827	658	6,000
Total	**2,543,612**	**15,669**	**6,362**		**594,827**	**658**	**6,000**

9. Other loans (continued)

The Credit Union entered into an agreement in December 2016 to commit funds supporting the online marketplace lending platform of SocietyOne Australia Pty Ltd. Unsecured Personal Loans are made via SocietyOne to non- members.

In February 2018, the Credit Union started participating in a Loan sharing scheme with a joint syndicate of small ADI's in the customer owned banking sector. This is to facilitate shared funding of mortgage secured loans.

In the previous year, the value of impaired loans for SocietyOne was calculated based on 1% of the total loans. This has been changed from the 1st of January 2018, the provision for impairment for these loans is per the statutory standards for impaired loans as detailed in Note 8.

10. Available-for- sale investments

Shares in unlisted companies – at cost	**2018**	**2017**
	$	**$**
- CUSCAL	235,300	235,300
- SHARED LENDING	20,000	-
	255,300	235,300

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 – refer to Note 32. The shares are able to be traded but only within market limited to other mutual ADIs.

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 2018 was 5 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.

SHARED LENDING Pty Ltd

This shareholding in Shared Lending is measured at cost, as its fair value can not be measure reliably. The shares are held to facilitate participation in the Loan sharing scheme of mortgage secured loans as co-operatively with another Credit Union in the group. A capital shareholding contribution was made for the setup of the entity. No dividend is expected to be received from this contribution, and the Credit Union is not intending to dispose of these shares.

11. Property, plant and equipment

a. Fixed assets

	2018	2017
Plant and equipment - at cost	290,446	256,848
Less: accumulated depreciation	(238,209)	(214,013)
	52,237	42,835
Capitalised leasehold improvements - at cost	271,778	271,778
Less: accumulated amortisation	(271,778)	(271,778)
Closing balance	52,237	42,835

11. Property, plant and equipment (continued)

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

	2018		2017	
	Plant & equipment $	*Total $*	*Plant & equipment $*	*Total $*
Opening Balance	42,835	42,835	63,846	63,846
Purchases	33,598	33,598	6,299	6,299
Assets disposed	-	-	15,913	15,913
Depreciation Charge	(24,196)	(24,196)	(27,310)	(27,310)
Depreciation on disposals	-	-	(15,913)	(15,913)
Balance at the end of the year	**52,237**	**52,237**	**42,835**	**42,835**

	2018 $	2017 $
12. Taxation assets		
Deferred Tax Assets	165,332	180,140
Deferred tax assets comprise:		
Accrued expenses not deductible until incurred	38,203	31,658
Provisions for impairment on loans	-	20
Provisions for employee benefits	102,153	113,933
Depreciation on fixed assets	24,976	34,479
Black hole expenses for otherwise capital costs	-	50
	165,332	180,140
13. Intangible assets		
Computer software	826,289	740,196
Less accumulated amortisation	(500,678)	(453,649)
	325,611	286,547
Movement in the assets balances during the year were:		
Opening balance	286,547	188,929
Purchases	209,223	182,458
Assets written off	(35,367)	-
Amortisation charge	(134,792)	(84,840)
Balance at the end of the balance	325,611	286,547
14. Deposits from members		
Member Deposits		
- at call	86,202,272	82,648,668
- term	81,287,536	75,888,254
Member withdrawable shares	32,380	32,310
	167,522,188	158,569,232
Concentration of member deposits		
(i) Significant individual member deposits which in aggregate represent more than 10% of the total liabilities:	-	-

14. Deposits from members (continued)

	2018 $	2017 $
(ii) Geographical concentrations		
Australia		
NSW	152,599,444	145,522,832
Victoria	1,553,943	1,207,690
Queensland	3,549,517	3,618,210
South Australia	486,446	587,445
Western Australia	1,187,441	1,077,540
Tasmania	1,251,440	1,326,727
Northern Territory	172,539	152,292
ACT	1,615,711	1,042,329
Other	5,105,707	4,034,167
Total per statement of financial position	167,522,188	158,569,232

15. Creditor accruals and settlement accounts

Annual leave	66,775	59,439
Creditors and accruals	181,027	99,860
Interest payable on deposits	911,580	631,778
Sundry creditors	46,130	64,073
	1,205,512	855,150

16. Taxation liabilities

Current income tax liability	57,887	88,146
Current income tax liability comprises:		
Opening balance	2,458	46
Less: Amounts paid	8,550	2,412
Understatement of prior year	(6,092)	2,458
Liability for income tax (Note 3)	261,557	285,786
Less: Instalments paid during year	203,670	197,640
Closing balance	57,887	88,146

17. Provisions

Long service leave	301,352	301,227
Provisions – other	53,359	106,996
	354,711	408,223

18. Subordinated debt

Balance at the beginning of the year	1,000,000	1,000,000
Increase due to debt issued	-	-
Amortisation of Cost of debt	-	-
Repayment of debt	(1,000,000)	-
Balance at the end of year	-	1,000,000

The Series 1 notes were redeemed in October 2012 and a new series 2 Notes were issued.
Series 2 notes were redeemable in 2022. The notes were unsecured interest with interest payable quarterly at AUD BBSW plus 5.93%. In December 2017, the notes were eligible for early redemption and repaid.

		2018 $	2017 $
19.	**Capital reserve account**		
	Opening balance	23,980	22,950
	Transfer from retained earnings on share redemptions	1,190	1,030
	Closing balance	25,170	23,980

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.

20. General reserve for credit losses

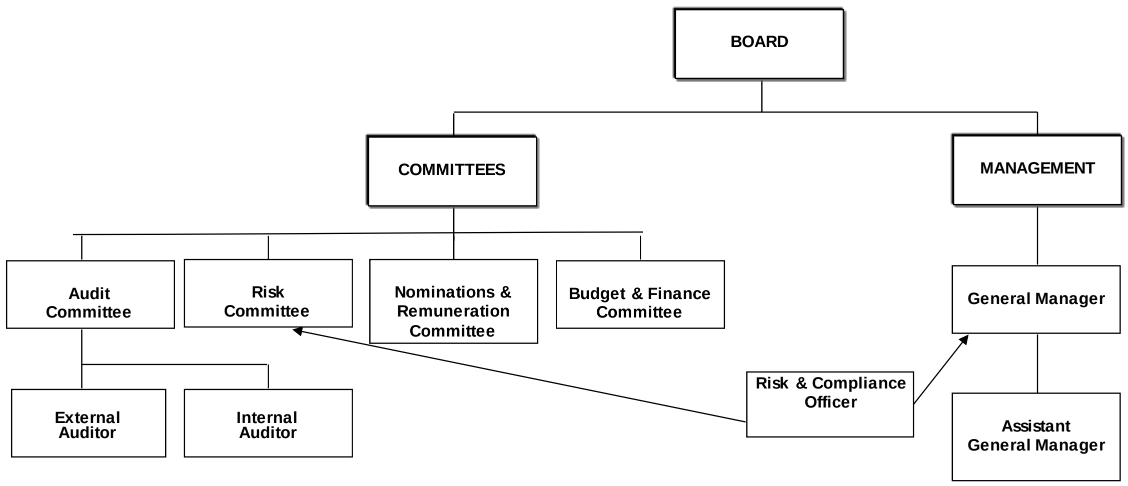
	2018 $	2017 $
General reserve for credit losses	729,552	729,552

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.

	2018 $	2017 $
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 approves 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.

21. Financial risk management objectives and policies (continued)

This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by management through the monthly review of operational reports. The controls are reviewed by the Risk Officer and the Committee quarterly to confirm whether risks are within the parameters outlined by the Board.

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 key role of the Audit Committee is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that significant risks and controls are to be assessed within 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 reporting 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.

21. Financial risk management objectives and policies (continued)

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.

a. Market risk 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.

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 Credit Unions 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 on 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 and 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.

21. Financial risk management objectives and policies (continued)

b. 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 Union's 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.

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 $133,968 [2017 $298,463]. 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 after a 3-month delay;
- 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 that the Credit Union maintains adequate cash reserves and committed credit facilities, so as to meet the member withdrawal demands when requested.

21. Financial risk management objectives and policies (continued)

The Credit Union manages liquidity risk by:

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

The Credit Union has a longstanding arrangement with the industry liquidity support scheme, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should 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% 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.

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.

Credit risk – loans

The analysis of the Credit Union's loans by class is as follows:

	2018			2017		
Loans to members	**Carrying Value**	**Off balance sheet**	**Max exposure**	**Carrying Value**	**Off balance sheet**	**Max exposure**
	$	$	$	$	$	$
Mortgage	130,869,885	26,111,580	156,981,465	124,433,073	24,284,616	148,717,689
Personal	1,812,646	-	1,812,646	1,966,352	-	1,966,352
Overdrafts	744,882	1,895,617	2,640,499	827,765	1,981,976	2,809,741
Total to natural persons	133,427,413	28,007,197	161,434,610	127,227,190	26,266,592	153,493,782
Corporate borrowers	4,092,220	-	4,092,220	4,218,781	-	4,218,781
Total	**137,519,633**	**28,007,197**	**165,526,830**	**131,445,971**	**26,266,592**	**157,712,563**

21. Financial risk management objectives and policies (continued)

The analysis of the Credit Union's loans by class is set out in Note 7.
Carrying value is the value on the statement of financial position**.** Maximum exposure is the value on the statement of financial position 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 7c.

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.

e. Past due and impaired

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

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

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the profit or loss. 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.

21. Financial risk management objectives and policies (continued)

Statement of financial position 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 statement of financial position' loan balances which are past due by 90 days or more. Details are as set out in Note 8.

f. 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 provision is provided in Note 8.

g. 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 7b describes the nature and extent of the security held against the loans held as at the reporting date.

h. 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%) 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% of the capital base.

21. Financial risk management objectives and policies (continued)

i. 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 concentrations within the industry are set out in Note 7.

j. 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.

The credit policy is that investments are only made to institutions that are credit worthy. The Board 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 held on HQLA investments to allow the scheme to have adequate resources to meet its obligations if needed.
All other 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.

k. 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.

	2018			2017		
Investments with	**Carrying Value**	**Past due value**	**Provision**	**Carrying Value**	**Past due value**	**Provision**
	$	$	$	$	$	$
Cuscal - rated A+	3,240,000	-	-	3,240,000	-	-
ADI's rated A and above	15,146,418	-	-	18,141,648	-	-
ADI's rated above BBB	7,500,000	-	-	10,500,000	-	-
Unrated ADI's – Credit Unions/Mutuals	9,000,000	-	-	3,000,000	-	-
Total	**34,886,418**	-	-	**34,881,648**	-	-

21. Financial risk management objectives and policies (continued)

l. 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.

m. 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.

n. 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.

o. 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

21. Financial risk management objectives and policies (continued)

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 qualifies 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:

	2018	2017
Tier 1	**$**	**$**
Share capital	-	-
Capital reserve	25,170	23,980
Retained earnings	13,111,190	12,345,684
	13,136,360	12,369,664
Less: Prescribed deductions	(746,243)	(701,986)
Net tier 1 capital	12,390,117	11,667,678
Tier 2		
Subordinated debt	-	1,000,000
Reserve for credit losses	729,552	729,552
	729,552	1,729,552
Less: Prescribed deductions	-	(500,000)
Net tier 2 capital	729,552	1,229,552
Total Capital	**13,119,669**	**12,897,230**

As at the balance date, the Credit Union's capital ratio stood at 16.23%. The Board's minimum capital adequacy requirement is 12%.

21. Financial risk management objectives and policies (continued)

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

2018	2017	2016	2015	2014
16.23%	**16.54%**	**15.72%**	**16.81%**	**16.93%**

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 $803,761 (2017 - $783,335).

It is considered that the Standardised approach accurately reflects the Credit Union's operational risk.

Total Capital

2018	2017
$13,119,669	$12,897,230

p. 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 (2017: Nil).

22. Categories of financial instruments

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

	2018 Total $	2017 Total $
Financial assets		
Cash and cash equivalents	6,993,147	6,097,609
Receivables	167,918	134,313
Receivables from financial institutions	34,942,397	34,964,788
Loans to members	137,519,633	131,445,899
Other loans	2,543,612	594,827
Available-for- sale investments (Note 10)	255,300	235,300
	182,422,007	173,472,736
Financial liabilities		
Creditors and settlements accounts	1,138,736	795,711
Deposits from members	167,522,188	158,569,232
Subordinated debt	-	1,000,000
	168,660,924	160,364,943

b. Assets measured at fair value

	Fair value measurement at end of the reporting period using:			
	2018		2017	
	Level 3	Total	Level 3	Total
	$	$	$	$
Available-for-sale investments	255,300	255,300	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. The shares in the trade association body CUSCAL 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.

The shares in Shared Lending Propriety Limited is start up capital to fund the shared lending scheme. They are not readily realisable by way of sale or transfer.

23a. 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 statement of financial position.

2018	Book value $	Up to 3 months $	3-12 months $	1-5 years $	After 5 years $	No Maturity $	Total cash flows $
ASSETS							
Cash & cash equivalents	6,993,147	6,899,158	-	-	-	93,989	6,993,147
Receivables from financial Inst.	34,942,397	15,584,763	3,403,105	17,029,735	-	-	36,017,603
Receivables	167,918	-	-	-	-	167,918	-
Loans to members	137,519,633	2,753,597	8,203,627	40,886,696	148,584,983	-	200,428,903
Other loans	2,543,612	133,695	112,649	1,579,515	1,727,664	-	3,553,523
Available- for- sale investments	255,300	-	-	-	-	255,300	255,300
Total financial assets	**182,422,007**	**25,371,213**	**11,719,381**	**59,495,946**	**150,312,647**	**517,207**	**247,416,393**
LIABILITIES							
Creditors & settlement	1,138,736	1,138,736	-	-	-	-	1,138,736
Deposits from members	167,522,188	117,120,762	49,370,662	2,841,987	-	-	169,333,411
Subordinated debt	-	-	-	-	-	-	-
	168,660,924	118,259,498	49,370,662	2,841,987	-	-	170,472,147
Undrawn loan commitments	28,007,197	28,007,197	-	-	-	-	28,007,197
Total financial liabilities	**196,668,121**	**146,266,695**	**49,370,662**	**2,841,987**	**-**	**-**	**198,479,344**

2017	Book value $	Up to 3 months $	3-12 months $	1-5 years $	After 5 years $	No Maturity $	Total cash flows $
ASSETS							
Cash & cash equivalents	6,097,609	5,965,572	-	-	-	132,037	6,097,609
Receivables from financial Inst.	34,964,788	10,582,955	5,455,023	20,486,412	-	-	36,524,390
Receivables	134,313	-	-	-	-	-	-
Loans to members	131,445,899	2,626,540	7,643,474	38,470,590	141,358,068	-	190,098,672
Other loans	594,827	11,428	33,610	630,556	-	-	675,594
Available- for- sale investments	235,300	-	-	-	-	235,300	235,300
Total financial assets	**173,472,736**	**19,186,495**	**13,132,107**	**59,587,558**	**141,358,068**	**367,337**	**233,631,565**
LIABILITIES							
Creditors & settlement	795,711	795,711	-	-	-	-	795,711
Deposits from members	158,569,232	116,624,454	40,675,989	2,876,301	-	-	160,176,744
Subordinated debt	1,000,000	-	-	-	1,000,000	-	1,000,000
	160,364,943	117,420,165	40,675,989	2,876,301	1,000,000	-	161,972,455
Undrawn loan commitments	26,266,592	26,266,592	-	-	-	-	26,266,592
Total financial liabilities	**186,631,535**	**143,686,757**	**40,675,989**	**2,876,301**	**1,000,000**	**-**	**188,239,047**

23b. Non-current profile of financial assets and liabilities

The table below represents the above maturity profile summarised at undiscounted 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.

	2018			2017		
	Within 12 months	**After 12 months**	**Total**	**Within 12 months**	**After 12 months**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
FINANCIAL ASSETS						
Cash & cash equivalents	6,993,147	-	6,993,147	6,097,609	-	6,097,609
Receivables from financial institutions	18,442,397	16,500,000	34,942,397	15,464,788	19,500,000	34,964,788
Receivables	167,918	-	167,918	134,313	-	134,313
Loans to members	9,496,232	128,023,401	137,519,633	26,483,913	104,961,986	131,445,899
Other loans	2,543,612	-	2,543,612	594,827	-	594,827
Available- for- sale investments	-	255,300	255,300	-	235,300	235,300
Total financial assets	**37,643,206**	**144,778,701**	**182,422,007**	**48,775,450**	**124,697,286**	**173,472,736**
FINANCIAL LIABILITIES						
Creditors & settlement	1,138,736	-	1,138,736	795,711	-	795,711
Deposit from members	148,190,657	19,331,531	167,522,188	155,869,321	2,699,911	158,569,232
Subordinated debt	-	-	-	-	1,000,000	1,000,000
Total financial liabilities	**149,329,393**	**19,331,531**	**168,660,924**	**156,665,032**	**3,699,911**	**160,364,943**

24. Interest rate change profile of financial assets and 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 $
2018						
ASSETS						
Cash & Cash Equivalents	6,899,158	-	-	-	93,989	6,993,147
Receivables	-	-	-	-	167,918	167,918
Receivables from financial Institutions	17,386,418	17,555,979	-	-	-	34,942,397
Loans to members	62,624,824	9,194,418	56,204,159	9,496,232	-	137,519,633
Other loans	2,543,612	-	-	-	-	2,543,612
Available- for- sale investments	-	-	-	-	255,300	255,300
Total financial assets	**89,454,012**	**26,750,397**	**56,204,159**	**9,496,232**	**517,207**	**182,422,007**
LIABILITIES						
Creditors & settlements	-	-	-	-	1,138,736	1,138,736
Deposits from members	72,197,150	20,094,173	55,866,954	19,331,531	32,380	167,522,188
Subordinated debt	-	-	-	-	-	-
	72,197,150	20,094,173	55,866,954	19,331,531	1,171,116	168,660,924
Undrawn loan commitments	28,007,197	-	-	-	-	28,007,197
Total financial liabilities	**100,204,347**	**20,094,173**	**55,866,954**	**19,331,531**	**1,171,116**	**196,668,121**
2017						
ASSETS						
Cash & Cash Equivalents	5,965,572	-	-	-	132,037	6,097,609
Receivables	-	-	-	-	134,313	134,313
Receivables from financial Institutions	18,381,648	15,583,140	1,000,000	-	-	34,964,788
Loans to members	68,534,369	5,228,614	31,199,003	26,483,913	-	131,445,899
Other loans	594,827	-	-	-	-	594,827
Available- for- sale investments	-	-	-	-	235,300	235,300
Total financial assets	**93,476,416**	**20,811,754**	**32,199,003**	**26,483,913**	**501,650**	**173,472,736**
LIABILITIES						
Creditors & settlements	-	-	-	-	795,711	795,711
Deposits from members	94,196,311	20,129,508	41,511,192	2,699,911	32,310	158,569,232
Subordinated debt	1,000,000	-	-	-	-	1,000,000
	95,196,311	20,129,508	41,511,192	2,699,911	828,021	160,364,943
Undrawn loan commitments	26,266,592	-	-	-	-	26,266,592
Total financial liabilities	**121,462,903**	**20,129,508**	**41,511,192**	**2,699,911**	**828,021**	**186,631,535**

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 the reporting 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.

		2018			2017	
	Fair Value	**Carrying Value**	**Variance**	**Fair Value**	**Carrying Value**	**Variance**
	$	**$**	**$**	**$**	**$**	**$**
FINANCIAL ASSETS						
Cash & cash equivalents	6,993,147	6,993,147	-	6,097,609	6,097,609	-
Receivables from financial institutions	34,942,397	34,942,397	-	34,964,788	34,964,788	-
Receivables	167,918	167,918	-	134,313	134,313	-
Loans to members	137,163,030	137,519,633	(356,603)	131,353,168	131,445,899	(92,731)
Other loans	2,543,612	2,543,612	-	594,827	594,827	-
Available-for- sale investments	255,300	255,300	-	235,300	235,300	-
Loan to capital investor			-			-
Total financial assets	182,065,404	182,422,007	(356,603)	173,380,005	173,472,736	(92,731)
FINANCIAL LIABILITIES						
Creditors & settlements	1,138,736	1,138,736	-	795,711	795,711	-
Deposits from members	167,383,998	167,522,188	(138,190)	158,518,963	158,569,232	(50,269)
Subordinated debt	-	-	-	1,000,000	1,000,000	-
Total financial liabilities	168,522,734	168,660,924	(138,190)	160,314,674	160,364,943	(50,269)

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 statement of financial position 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 statement of financial position. 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.

		2018 $	2017 $
26.	**Financial commitments**		
a.	**Outstanding loan commitments**		
	Loans approved but not funded	2,310,860	2,079,109
b.	**Loan redraw facilities**		
	Loan redraw facilities available	23,800,720	22,205,507
c.	**Undrawn loan facilities**		
	Loan facilities available to members for overdrafts and line of credit loans are as follows:		
	Total value of facilities approved	2,640,499	2,809,741
	Less: Amount advanced	(744,882)	(827,765)
	Net undrawn value	1,895,617	1,981,976

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

		2018 $	2017 $
	Total financial commitments	**28,007,197**	**26,266,592**
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	498,033	685,437
	Later than 5 years	-	-
		685,437	872,841
e.	**Lease expense commitments**		
	Not later than one year	109,740	106,183
	Later than 1 year but not 5 years	403,489	446,399
	Later than 5 years	-	59,198
		513,229	611,780

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.

26. Financial commitments (continued)

f. Other expense commitments

	2018 $	2017 $
Not later than one year	6,006	6,006
Later than 1 year but not 5 years	14,515	20,521
Later than 5 years	-	-
	20,521	26,527

In December 2016, a 5 year commitment was entered into with Toshiba for lease of a photocopier.

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 $
2018			
Overdraft facility	500,000	-	500,000
Total standby borrowing facilities	500,000	-	500,000
2017			
Overdraft Facility	500,000	-	500,000
Total standby borrowing facilities	500,000	-	500,000

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 and investments in eligible ADI’s

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 reporting 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 (KMP) 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 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:

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.

		2018 Total $	2017 Total $
(a)	short-term employee benefits;	359,328	325,631
(b)	post-employment benefits - superannuation contributions	42,233	41,699
(c)	other long-term benefits – net increases in long service leave provision	9,145	6,550
(d)	termination benefits;	-	-
(e)	share-based payment.	-	-
	Total	**410,706**	**373,880**

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.

29. Disclosures on directors and other key management personnel (continued)

The detail of transactions during the year is as follows:

	2018 $			2017 $		
	Mortgage secured	Other term loans	Revolving Credit	Mortgage secured	Other term loans	Revolving Credit
Funds available to be drawn	-	-	50,500	-	-	48,500
Balance	2,000,410	-	-	951,178	-	-
Amounts disbursed or facilities increased in the year	934,720	-	-	252,390	-	-
Interest and other revenue earned	61,961	-	-	25,291	-	-

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

	2018 $	2017 $
Total value term and savings deposits from KMP	1,347,510	1,612,206
Total interest paid on deposits to KMP	17,293	23,747

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

	Note	2018 $	2017 $
Reconciliation of cash			
Cash comprises:			
Cash on hand		93,989	132,037
Deposits at call with other financial institutions		6,899,158	5,965,572
Total cash		6,993,147	6,097,609

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:

	Note	2018 $	2017 $
Profit after income tax		766,695	804,507
Add/(Deduct):			
Increase/(Decrease) in provision for loans	2.d	290	(6,583)
Bad debts written off		24,166	12,351
Depreciation expense	2.e	24,196	27,310
Amortisation of intangible assets	13	134,792	84,840
Written off intangible assets		35,367	-
Gain on sale of assets		-	(1,200)
Increase in provisions for staff leave		7,461	15,652
(Increase)/Decrease in provision for income tax		(30,259)	(29,986)
Increase/(Decrease) in accrued expenses		81,167	(26,084)
(Increase)/Decrease in prepayments		(3,313)	26,358
Decrease in other provisions		(53,637)	-
Increase/(Decrease) in interest payable		279,802	(175,246)
Decrease in deferred tax assets		14,808	30,882
(Increase)/Decrease in interest receivable		(33,605)	76,418
Net cash from revenue activities		1,247,930	839,219
(Increase) in member loans (net movement)		(6,097,828)	(10,557,610)
(Increase) in other loans (net movement)		(1,949,147)	(600,827)
Decrease in member deposits & shares (net movement)		8,935,013	807,482
Increase in deposits to other financial institutions (net)		22,391	14,178,135
Net cash flows from operating activities		2,158,359	4,666,399

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

32. Outsourcing arrangements (continued)

b. Ultradata Australia Pty Ltd
Provides and maintains the application software utilised by the Credit Union

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

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