# Laboratories Credit Union

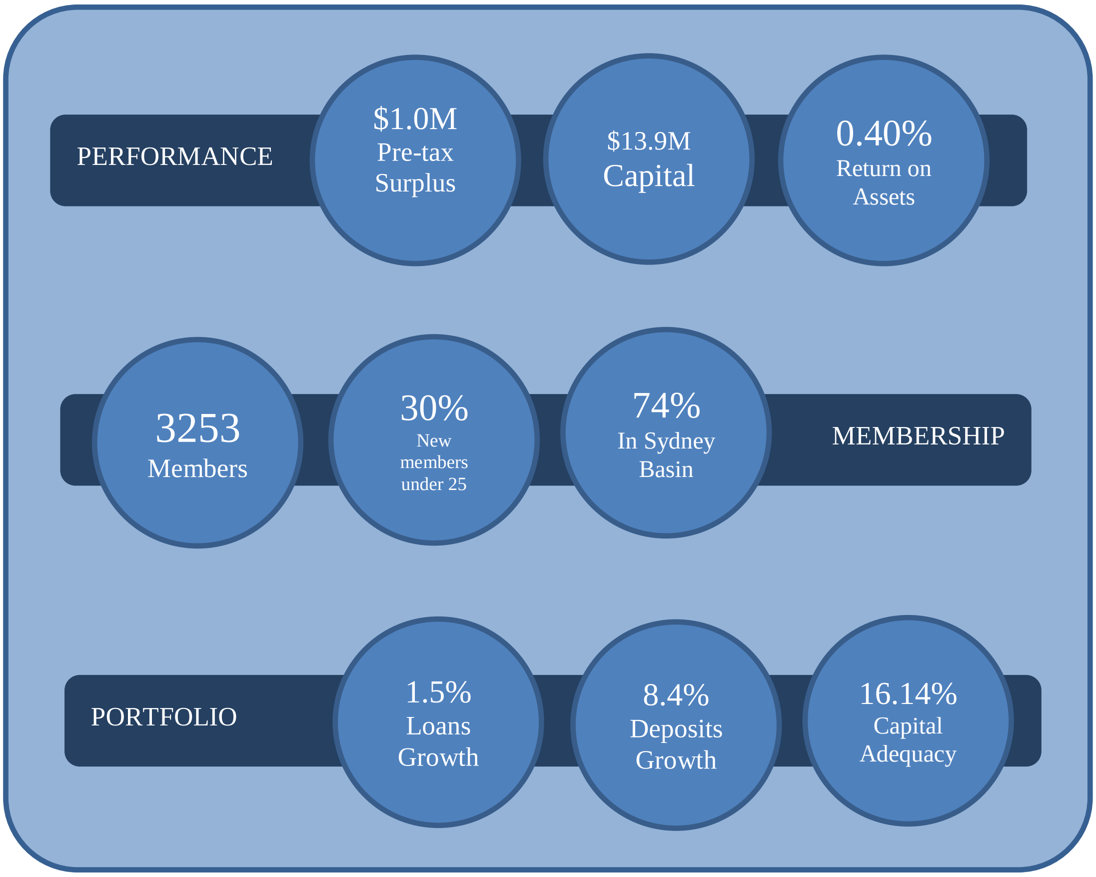
ABN 77 087 650 217
AFSL / Australian Credit Licence 240807

# *65th Annual Report 2018/19*

LCU
banking you can trust

# Contents

# Chairman's Report
# Financial Year 2018-19




**Financial and Operating Performance**

2019 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 1.92%, which compares to 1.95% in 2018, and an industry average of 2.5%;
- Despite keeping LCU fees and charges at sector-leading low levels, our 65th consecutive pre-tax surplus was pleasing at $1,005,583, compared with $1,040,704 in 2018. This surplus grows LCU member total capital to $13,922,440, and generates a healthy Return on Assets of 0.40% (similar to 2018's 0.42%);
- Our critical financial resilience metrics remain within our target comfort zones and well in excess of prudential requirements: Capital Adequacy was 16.14% (cf 16.2% 2018) and Minimum Liquid Holdings 16.62% (cf 16.16% 2018); and
- After the unusually strong loan growth experienced in 2018, this year we have achieved a more normal level of loan growth of 1.5%, which combined with 8.4% 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 mutual sector.

In summary, LCU has delivered another excellent result from strong financial fundamentals, which place us well entering the 2019-20 year.

**A Year of Fewer Distractions**

In comparison with 2017-18, with its array of compliance and IT upgrades, 2018-19 was thankfully less frenetic – the only major system changes being LCU's new banking app (building on the previous year's banking system upgrade), migration of the website to Azure and preparations for online PIN change.

LCU staff were able to devote more time engaging with the business communities in our localities, which included supporting the Northern Sydney Science Hub in their Science Week celebrations at Ryde Library, a presentation on fraud awareness at Ryde Library, North Ryde Women's Network and Macquarie Business District to mention a few.

LCU continued to explore innovative ways to deploy member deposits in excess of those required to fund member borrowing. With two successful years of placing funds with SocietyOne, LCU made a similar investment with RateSetter. These both enable LCU to extend more into the personal lending market – this being a relatively small component of LCU's lending portfolio historically. Both investments allow LCU to determine the quantity of funding as well as the relative risk/reward profile.

This year LCU established a business relationship with R&D Capital Partners[1], which assists technology start-up companies by advancing quarterly loans against their Research and Development (R&D) Tax Incentive[2] entitlements. The government R&D tax payments are made once a year like the individual tax return/rebate, meaning waits of up to 12 months to receive the benefit, creating cash-flow challenges for small companies with little or no revenue income. LCU is proud that member funds are being used to help tech start-ups while making a reasonable return for members in the process.

Despite the low interest rate environment and LCU's continuingly low net interest margin (NIM – the difference between interest earned and interest paid) we continue to cover operational costs and return the surplus required to keep stride with capital requirements. This past year, however, our costs as a percentage of income have increased from 71.4% in 2018 to 73.2% – and as a traditionally frugal business, this is something that we must be ever vigilant of. Like all other small credit unions, we are suffering under the burden of increasing compliance and IT costs – both of which we have virtually no power to influence. It is only by joining forces with other credit unions as members of the SAM Group (Small Australian Mutuals) and COBA (the Customer Owned Banking Association) that we can bring to bear pressure on price setters and regulators to alleviate the pressure.

**Scholarships**

LCU proudly continued its Tertiary Scholarship Program to eleven highly deserving young people: William Ballico, Malathi Waller, Nicholas Kot, Anna Churchill, Ryan James, Jayden Kelly, Hannah Wrigley-Carr, Joy Van Schie, Sophie Harte, Jack Bonwick and Hannah Allen. In their inaugural year, the Don Pendergast award went to Jayden Kelly and the McDonald Clark Award recipient was Hannah Wrigley-Carr.

Our Tertiary Scholarship ceremony was combined with the CSIRO Alumni Scholarship ceremony in February, with plans to make this a permanent merger. LCU has been a significant contributor to the CSIRO Alumni Scholarship and joining the two occasions brings our tertiary recipients in contact with the research community including the inspiring recipients, past and present, of the CSIRO Alumni Scholarship. The 2020 ceremony planning is underway for February 2020.

In 2019, Matthew Rendell was the CSIRO Alumni Scholarship recipient. At the ceremony attended by Dr Cathy Foley, CSIRO's Chief Scientist, Matthew described his planned trip to the QUTech group at TU Delft in the Netherlands to develop ultra-high-quality germanium heterostructures. Naomi Paxton, the 2018 recipient provided an update on her work on biofabrication and tissue morphology.

---

[1] https://www.rdcapital.net.au

[2] Refundable tax offset of 43.5% of eligible R&D costs. https://www.business.gov.au/assistance/research-and-development-tax-incentive

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 director Dr Tony Murphy and former directors Dr Warren King and Dr Robert Steele (NSW President of CSIRO Alumni) were members of the selection panel for the scholarship.

**Board and Staff**

I would like to thank my fellow Directors, Allison Smart (Deputy Chair), Anita Andrew (Chair of the Board Risk Committee), Frank Benito de Valle, Tony Murphy, 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 Directors Gordana Papic and Amber O’Connell, who attend Board meetings by invitation and provide invaluable service and views to the Board.

The Board gratefully acknowledges the friendly service and commitment of our staff Leanne Harris, Eileen Thoms, Lyn Slatter, Kerrie Griffiths, Susanne Tran-Lowder, Nalini Mannie, Matthew Thoms, Joanne O’Donnell, Betty Ho, Tejas Daulat, Sally Boswell and Theresa Luzon. Personal service and member value are the cornerstones of LCU’s success.

Scott Martin
Chairman 18 September 2019

## Directors' Report

Your directors present their report on the Credit Union for the financial year ended 30 June 2019.
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<br>Chairman since November 2016<br>Remuneration and Nominations Committee since November 2014<br>Risk Committee since November 2017 |
| A.J. Smart | Deputy Chairman | BComm, LLB, LLM, FCIS. | Director since December 2012<br>Remuneration and Nominations Committee since November 2015<br>Audit Committee since November 2017 |
| A.S. Andrew | Director | BSc(Hons), PhD, MEnv Mgt | Director since January 2010<br>Risk Committee Chairman since November 2017<br>Budget/Finance Committee since November 2018 |
| F.J Benito de Valle | Director | B Econ, FAICD, FCIS, FCPA, JP | Director since January 2000<br>Budget/Finance Committee since November 2011<br>Audit Committee since November 2018 |
| A.B. Murphy | Director | BSc(Hons), PhD | Director since January 1998<br>Risk Committee since November 2005<br>Budget/Finance Committee since November 2014 |
| P.B. Steele | Director | CPA, Grad Dip Tech Management, JP | Director since January 1990<br>Budget/Finance Committee since November 2005<br>Audit Committee since November 2005 |
| R.J. Stephens | Director | M.Tax, FCA | Director since February 2016<br>Audit Committee Chairman since November 2016<br>Remuneration and Nominations Committee since November 2017<br>Risk Committee since November 2018 |
| P.G. Swan | Director | BSc(Hons), PhD GAICD | Director since November 2017<br>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 | 12 | 11 | 1 | 1 | | | 6 | 6 |
| F.J. Benito de Valle | 12 | 12 | 2 | 2 | 2 | 2 | 2 | 2 |
| A.S. Martin | 12 | 10 | | | | | 6 | 3 |
| A.B Murphy | 12 | 8 | 2 | 2 | | | 6 | 4 |
| P.B. Steele | 12 | 11 | 2 | 2 | 4 | 4 | | |
| A.J. Smart | 12 | 11 | | | 4 | 4 | | |
| R.J. Stephens | 12 | 11 | | | 4 | 4 | 4 | 4 |
| P.G. Swan | 12 | 11 | | | 4 | 4 | | |

## Directors' benefits

No director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, a controlled Credit Union, or a related body corporate with a director, a firm of which a director is a member or a Credit Union in which a director has a substantial financial interest, other than that disclosed in Note 30 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 $729,047 [2018: $766,695].

## 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 stable. Deposits growth were strong but lending had slowed down. The cash rate as determined by the Reserve Bank of Australia dropped for the first time in 3 years. As of 30$^{th}$ June it was at a historical low of 1.25%.

## Significant changes in state of affairs

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 ____________ | Richard John Stephens ____________ |
| Director | Director |

Signed and dated this 18th day of September 2019.

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

**T** +61 2 8297 2400
**F** +61 2 9299 4445
**E** info.nsw@au.gt.com
**W** www.grantthornton.com.au

# 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 2019, 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

Claire Scott

Claire Scott nee Gilmartin
Partner – Audit & Assurance

Sydney, 18 September 2019

Grant Thornton

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

**T** +61 2 8297 2400
**F** +61 2 9299 4445
**E** info.nsw@au.gt.com
**W** www.grantthornton.com.au

# 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 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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 2019 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 2019, 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

Claire Scott

Claire Scott nee Gilmartin
Partner – Audit & Assurance

Sydney, 18 September 2019

## 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 2019 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 18th day of September 2019.

# Statement of Profit or Loss and Other Comprehensive Income

## For the year ended 30 June 2019

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| Interest revenue | 2.a | 6,747,001 | 6,356,196 |
| Interest expense | 2.c | 3,096,690 | 2,929,386 |
| **Net interest income** | | 3,650,311 | 3,426,810 |
| Fee commission and other income | 2.b | 240,654 | 189,204 |
| | | 3,890,965 | 3,616,014 |
| Less: | | | |
| **Non-interest expenses** | | | |
| Impairment losses on loans receivable from members | 2.d | 25,337 | (30) |
| Impairment losses on loans receivable from other loans | 2.d | 76,137 | 24,486 |
| Fee and commission expenses | | 215,280 | 210,725 |
| General administration | | | |
| - Employees compensation and benefits | | 1,094,072 | 997,930 |
| - Depreciation and amortisation | 2.e | 179,720 | 158,988 |
| - Information technology | | 372,093 | 355,202 |
| - Office occupancy | | 111,096 | 108,866 |
| - Other administration | | 245,331 | 212,152 |
| Other operating expenses | | 566,316 | 506,991 |
| Total non-interest expenses | | 2,885,382 | 2,575,310 |
| **Profit before income tax** | | 1,005,583 | 1,040,704 |
| Income tax expense | 3 | 259,636 | 274,009 |
| **Profit after income tax** | | 745,947 | 766,695 |

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

## Statement of Changes in Member Equity

### For the year ended 30 June 2019

| | General Reserve for Credit Losses | Retained Earnings | Capital & Other Reserves | FVOCI Reserve | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | | $ |
| Total at 1 July 2017 | 729,552 | 12,345,685 | 23,980 | - | 13,099,217 |
| Profit for the year | - | 766,695 | - | - | 766,695 |
| Dividends Paid | - | - | - | - | - |
| Transfer to capital reserve on redemption of shares | - | (1,190) | 1,190 | - | - |
| **Total at 30 June 2018** | 729,552 | 13,111,190 | 25,170 | - | 13,865,912 |
| Changes on initial adoption of - AASB 9 (Note 1) | - | (17,703) | - | 186,856 | 169,153 |
| **Adjusted Balance at 1 July 18** | 729,552 | 13,093,487 | 25,170 | 186,856 | 14,035,065 |
| Profit for the year | - | 745,947 | - | - | 745,947 |
| Dividends Paid | - | - | - | - | - |
| Transfer to capital reserve on redemption of shares | - | (740) | 740 | - | - |
| Transfer to/from retained earnings | (388,843) | 388,843 | - | - | - |
| **Total as at 30 June 2019** | **340,709** | **14,227,537** | **25,910** | **186,856** | **14,781,012** |

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

## Statement of Financial Position

### As of 30 June 2019

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 4 | 5,815,516 | 6,993,147 |
| Receivables from financial institutions | 5 | 48,455,830 | 34,942,397 |
| Other Receivables | 6 | 241,920 | 208,941 |
| Loans to members | 7 & 8 | 139,488,743 | 137,519,633 |
| Other loans | 9 | 2,602,555 | 2,543,612 |
| Investment securities | 10 | 513,033 | 255,300 |
| Property, plant and equipment | 11 | 65,136 | 52,237 |
| Taxation assets | 12 | 97,363 | 165,332 |
| Intangible assets | 13 | 248,175 | 325,611 |
| **TOTAL ASSETS** | | 197,528,271 | 183,006,210 |
| | | | |
| **LIABILITIES** | | | |
| Deposits from members | 14 | 180,995,500 | 167,522,188 |
| Creditor accruals and settlement accounts | 15 | 1,349,870 | 1,205,512 |
| Taxation liabilities | 16 | 51,303 | 57,887 |
| Provisions | 17 | 350,586 | 354,711 |
| Subordinated debt | 18 | - | - |
| **TOTAL LIABILITIES** | | 182,747,259 | 169,140,298 |
| | | | |
| **NET ASSETS** | | 14,781,012 | 13,865,912 |
| | | | |
| **MEMBERS' EQUITY** | | | |
| Capital reserve account | 19 | 25,910 | 25,170 |
| General reserve for credit losses | 20 | 340,709 | 729,552 |
| FVOCI Reserve | 21 | 186,856 | - |
| Retained earnings | | 14,227,537 | 13,111,190 |
| **TOTAL MEMBERS' EQUITY** | | 14,781,012 | 13,865,912 |

Table of other notes to accounts

| | |
|---|---|
| 22 | Financial Risk management objectives and policies |
| 23 | Categories of financial instruments |
| 24(a) | Maturity profile of financial assets and liabilities (undiscounted values) |
| 24(b) | Non-current profile of financial assets and liabilities (discounted values) |
| 25 | Interest rate change profile of financials assets and liabilities |
| 26 | Fair value of financial assets and liabilities |
| 27 | Financial commitments |
| 28 | Standby borrowing facilities |
| 29 | Contingent liabilities |
| 30 | Disclosures on directors and other key management personnel |
| 31 | Superannuation liabilities |
| 32 | Notes to statement of cash flows |
| 33 | Outsourcing arrangements |
| 34 | Corporate information |
| 35 | Post Balance date events |

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

## Statement of Cash Flows

### For the year ended 30 June 2019

| | Note | 2019 $ | 2018 $ |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Revenue inflows** | | | |
| Interest received | | 6,731,285 | 6,322,591 |
| Fees and commissions | | 176,522 | 155,934 |
| Dividends | | 9,804 | 19,608 |
| Other income | | 50,816 | 13,662 |
| **Revenue outflows** | | | |
| Interest paid | | (3,042,694) | (2,649,584) |
| Suppliers and employees | | (2,614,149) | (2,324,821) |
| Income taxes paid | | (269,128) | (289,460) |
| Net cash flow from revenue activities | | 1,042,456 | 1,247,930 |
| **Inflows/(outflows) from other operating activities** | | | |
| (Increase) in member loans (net movement) | | (1,994,447) | (6,097,828) |
| (Increase) in other loans (net movement) | | (152,783) | (1,949,147) |
| Decrease in member deposits & shares (net movement) | | 13,567,301 | 8,935,013 |
| (Increase)/Decrease in deposits to other financial institutions (net) | | (13,513,433) | 22,391 |
| **Net cash flows (used in)/from operating activities** | 32 | **(1,050,906)** | **2,158,359** |
| **INVESTING ACTIVITIES** | | | |
| **Inflows** | | | |
| Proceeds on sale of property, plant and equipment | | - | - |
| **Outflows** | | | |
| Purchase of intangible assets | 13 | (81,640) | (209,223) |
| Purchase of property plant and equipment | 11 | (45,085) | (33,598) |
| Shared Lending capital contribution | 10 | - | (20,000) |
| **Net cash flows used in investing activities** | | (126,725) | (262,821) |
| **FINANCING ACTIVITIES** | | | |
| **Inflows/(outflows)** | | | |
| Subordinated Debt payback | 18 | - | (1,000,000) |
| **Net cash flows used in financing activities** | | - | (1,000,000) |
| Net (decrease)/increase in cash | | (1,177,631) | 895,538 |
| Cash at beginning of year | | 6,993,147 | 6,097,609 |
| Cash at end of year | 4 | 5,815,516 | 6,993,147 |

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

# Notes to the Financial Statements

## For the year ended 30 June 2019

## 1. Statement of significant accounting policies

This financial report is prepared for Laboratories Credit Union Limited (LCU), for the year ended the 30th June 2019. The report was authorised for issue on 18th September 2019 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 (AASB). 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.

### Changes in significant accounting policies
### New standards applicable for the current year

***AASB 15 Revenue from contracts with customers***

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The adoption of AASB 15 has impact on the following:

- Account fees; and
- Insurance commissions.

<u>Account fees</u>

Many of the LCU's savings and current account contracts with members comprise a variety of performance obligations including, but not limited to processing of transfers, use of ATMs for cash withdrawals, the issue of original debit cards, and provision of account statements. Under AASB 15, the credit union must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both of the following criteria are met:

- the customer benefits from the good or service either on its own or together with other readily available resources; and
- the promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the Credit Union does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance had no impact on the timing or amount of revenue recognised by the Credit Union during the year.

**1. Statement of significant accounting policies (continued)**

Insurance commission

Upfront commission – revenue in the form of a commission generated on successful placement of an insurance application is recognised at a point in time on inception of the policy.

Trailing commission – at the time of policy inception, trailing commission revenue and the related contract asset are recognised at the estimated 'expected value' of the variable consideration being present value of the expected future trailing commission to be received from the insurance companies. Subsequent to initial recognition, the carrying amount of the contract asset is adjusted to reflect actual and revised estimated cash flows by recalculating the net present value of estimated future cash flows at the original effective rate. Any resulting adjustment to the carrying value due to the significant financing component is recognised in profit or loss.

The adoption of AASB 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities of the credit union.

**On the date of initial application of AASB 15, 1 July 2018, there was no impact to retained earnings**.

**AASB 9 Financial Instruments**

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

When adopting AASB 9, the credit union has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

The adoption of AASB 9 has impacted the following areas:

**Classification and measurement of financial assets**

AASB 9 allows for three classification categories for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVPL). Classification is based on the business model in which a financial asset is managed and the related contractual cash flows. AASB 9 eliminates previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged. Refer table on next page for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

**Impairment of financial assets**

The credit union's financial assets carried at amortised cost and those carried at fair value through other comprehensive income (FVOCI) are subject to AASB 9's new three-stage expected credit loss model. The credit union measures loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12 months ECL.

- Debt investment securities that are determined to have a low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not significantly increased since initial recognition.

**1. Statement of significant accounting policies (continued)**

An impairment allowance a total of $17,703 was included on 1 July 2018 in respect of loans and advances the credit union has applied the ECL policy is included in Note 8.

**Reconciliation of financial instruments on adoption of AASB 9**
On the date of initial application, 1 July 2018, the financial instruments of the credit union were reclassified as follows:

| | **Measurement Category** | | **Carrying Amount** | | |
|---|---|---|---|---|---|
| | **Original AASB 139 category** | **New AASB 9 category** | **Closing balance 30 Jun 2018 (AASB 139)** | **Adoption of AASB 9** | **Opening balance 1 Jul 2018 (AASB 9)** |
| | | | **$** | **$** | **$** |
| **Assets** | | | | | |
| Loans and advances to members | Loans and receivables | Amortised cost | 137,519,633 | - | 137,519,633 |
| Loans and advances-other loans | Loans and receivables | Amortised cost | 2,543,612 | (17,703) | 2,525,909 |
| Receivables | Receivables | Amortised cost | 167,917 | - | 167,917 |
| Investment securities – Cuscal Shares and Shared Lending | AFS | FVOCI | 255,300 | 257,733 | 513,033 |
| Cash and cash equivalents | Amortised cost | Amortised cost | 6,993,147 | - | 6,993,147 |
| Floating Rate Notes / Term Deposits | Held to maturity | Amortised cost | 34,942,397 | - | 34,942,397 |
| **Total financial assets** | | | **182,422,006** | **240,030** | **182,662,036** |
| | | | | | |
| **Liabilities** | | | | | |
| Deposits from members and other financial institutions | Amortised cost | Amortised cost | 167,522,188 | - | 167,522,188 |
| Creditors and settlement accounts | Amortised cost | Amortised cost | 1,138,736 | - | 1,138,736 |
| **Total financial liabilities** | | | **168,660,924** | **-** | **168,660,924** |

## 1. Statement of significant accounting policies (continued)

### Financial assets and financial liabilities

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 cost 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 asset 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.

**Policy applicable from 1 July 2018**
**Classification of financial assets**
Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

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:
- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

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.

Classifications are determined by both:
- the entity's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial assets.

**Subsequent measurement of financial assets**
***Financial assets at amortised costs***
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The credit union's cash and cash equivalents, trade receivables fall into this category of financial instruments as well as bonds that were previously classified as held to maturity under AASB 139.

***Financial assets at Fair Value through Profit or Loss (FVPL)***
Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest

**1. Statement of significant accounting policies (continued)**

are accounted for at FVPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

***Fair Value through Other Comprehensive Income (FVOCI)***
Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities – Cuscal Ltd and Shared Lending Pty Ltd that were previously classified as 'available for sale' under AASB 139.

**Loans to Members**
Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method

'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Credit Union did not intend to sell immediately or in the near term.

*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.

**Nonaccrual 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 loan is impaired.

***Loan origination fees and discounts***
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.

***Transaction costs***
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.

***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.

**1. Statement of significant accounting policies (continued)**

**Reclassifications**
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union business models during the current year (Prior year: Nil).

## Policy applicable before 1 July 2018

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

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

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

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

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

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment by the Credit Union, 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.

**1. Statement of significant accounting policies (continued)**

***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 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.

## b. Loans to members

***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.

**1. Statement of significant accounting policies (continued)**

## c. Loan Impairment

**Policy applicable from 1 July 2018**

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses - the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The credit union considered a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.
In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment (loans in default) at the reporting date.

**Measurement of ECL**

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

The critical assumptions used in the calculation are as set out in Note 8. Note 22 details the credit risk management approach for loans.

**Restructured financial assets**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

**1. Statement of significant accounting policies (continued)**

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

**Credit-impaired financial assets**

At each reporting date, the Credit Union assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision; and
- *where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment component separately from those on the drawn component:* The Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

**Write-off**

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

## 1. Statement of significant accounting policies (continued)

**Policy applicable before 1 July 2018**

*i)* ***Specific and collective provision for impairment***

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

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

An assessment is made at each 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.

### d. 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)**

## e. 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; and
- Assets less than $300 are not capitalised.

## f. 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.

## g. 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.

## h. 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.

## i. 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.

**1. Statement of significant accounting policies (continued)**

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.

### j. 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.

### k. 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.

### l. 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.

### m. 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.

**1. Statement of significant accounting policies (continued)**

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.

## n. 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.

## o. 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.

## p. 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 and expected credit losses for loans - refer Note 8.

Management have made an assessment when applying the credit union accounting policies with respect to investment securities revaluation at FVOCI – refer to Note 10

**1. Statement of significant accounting policies (continued)**

## q. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 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 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. | Based on the entity's assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will have no material impact on the transactions and balances recognised in the financial statements, in particular:<br>– lease assets and financial liabilities on the balance sheet will increase by approximately $381,811 and $381,811 respectively (based on the facts at the date of the assessment) The credit union lease commitments are detailed in Note 27.<br>– there will be a reduction in the reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities<br>– EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off-balance sheet leases will be presented as part of finance costs rather than being included in operating expenses<br>– operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities |

## 2. Statement of profit or loss and other comprehensive income

| | 2019 $ | 2018 $ |
|---|---|---|
| **a. Analysis of interest revenue** | | |
| **Interest revenue on assets carried at amortised cost** | | |
| Cash – deposits at call | 92,943 | 84,772 |
| Receivables from financial institutions | 1,104,335 | 862,300 |
| Loans to members and other loans | 5,549,723 | 5,409,124 |
| **Total interest revenue** | 6,747,001 | 6,356,196 |
| | | |
| **b. Fee, commission and other income** | | |
| **Fee and commission revenue** | | |
| Fee income on loans – other than loan origination fees | 768 | 1,182 |
| Other fee income[1] | 111,947 | 84,376 |
| Insurance commissions | (1,219) | 4,670 |
| Other commissions | 64,626 | 65,706 |
| **Total fee and commission income** | 176,122 | 155,934 |
| | | |
| **Other income** | | |
| Dividends received on investment securities (FVOCI) | 9,804 | 19,608 |
| Bad debts recovered | 13,155 | 10,020 |
| Gain on disposal of assets | | |
| - Property, plant and equipment | 3,912 | - |
| Miscellaneous revenue[2] | 37,661 | 3,642 |
| | 64,532 | 33,270 |
| | | |
| **Total fee, commission and other income** | 240,654 | 189,204 |
| | | |
| **c. Interest expenses** | | |
| **Interest expense on liabilities carried at amortised cost** | | |
| Short term borrowings - overdraft | 310 | 171 |
| Deposits from members | 3,096,380 | 2,891,132 |
| Subordinated debt | - | 38,083 |
| **Total interest expense** | 3,096,690 | 2,929,386 |
| | | |
| **d. Impairment losses** | | |
| **Loans and advances** | | |
| **Member Loans** | | |
| Increase in provision for impairment | 25,337 | (72) |
| Bad debts written off directly against profit | - | 42 |
| | 25,337 | (30) |
| **Other Loans** | | |
| Increase in provision for impairment | 23,175 | 362 |
| Bad debts written off directly against profit | 52,962 | 24,124 |
| | 76,137 | 24,486 |
| | | |
| **Total Impairment Losses** | 101,474 | 24,456 |

[1] adjustment on overpaid gst on fees from prior years
[2] includes distribution of residual funds received from winding up of Australian Mutual Investment Trust from note redemption - refer note 18

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

| | Note | 2019 $ | 2018 $ |
|---|---|---|---|
| **e. Other prescribed disclosures** | | | |
| **General administration** | | | |
| *Depreciation and amortisation* | | | |
| - plant and equipment | 11 | 20,643 | 24,196 |
| - amortisation of Intangible - software | 13 | 159,077 | 134,792 |
| | | 179,720 | 158,988 |
| *Office occupancy* | | | |
| Property operating lease payments | | 106,827 | 105,234 |
| **Other operating expenses** | | | |
| Auditor's remuneration (excluding GST) | | | |
| - Audit fees | | 47,065 | 45,710 |
| - Other Services – taxation | | 8,500 | 6,500 |
| - Other Services – compliance | | 1,870 | 770 |
| - Other Services – other | | 629 | 114 |
| | | 58,064 | 53,094 |
| Defined contribution superannuation expenses | | 178,612 | 170,636 |

## 3. Income tax expense

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

| | 2019 $ | 2018 $ |
|---|---|---|
| Current tax charge – (Note 16) | 264,580 | 261,557 |
| Adjustments for prior years | (9,259) | (6,092) |
| Deferred tax: | | |
| Movement in temporary differences (Note 12) | 4,315 | 18,544 |
| **Total income tax expense in income statement** | 259,636 | 274,009 |

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

| | 2019 $ | 2018 $ |
|---|---|---|
| Profit | 1,005,583 | 1,040,704 |
| Prima facie tax payable on profit before income tax at 27.5% (2018: 27.5%) | 276,536 | 286,194 |
| Add tax effect of expenses not deductible | | |
| - Dividend imputation | 1,155 | 2,311 |
| - Other non-deductible expenses | 300 | - |
| - AASB9 once off adjustment | (5,311) | - |
| - Prior year under/over | (8,842) | - |
| **Subtotal** | 263,838 | 288,505 |
| Less | | |
| - Franking rebate | (4,202) | (8,404) |
| Income tax expense attributable to current year profit | 259,636 | 280,101 |
| Adjustments for previous years | - | (6,092) |
| **Total income tax expense in income statement** | 259,636 | 274,009 |

## 3. Income tax expense (continued)

| | | 2019 $ | 2018 $ |
|---|---|---|---|
| **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: | 4,861,427 | 4,558,099 |
| | 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 | 107,218 | 93,989 |
| | Deposits at call | 5,708,298 | 6,899,158 |
| | | 5,815,516 | 6,993,147 |
| **5.** | **Receivables from financial institutions** | | |
| **a.** | **Investments at amortised cost** | | |
| | Bonds | 24,066,329 | 19,555,979 |
| | Deposits with financial institutions (5b) | 24,389,501 | 15,386,418 |
| | | 48,455,830 | 34,942,397 |
| **b.** | **Dissection of receivables** | | |
| | Deposits with industry bodies - Cuscal (Note 32a) | 3,240,000 | 3,240,000 |
| | Deposits with other societies | 18,000,000 | 7,000,000 |
| | Deposits with banks | 3,149,501 | 5,146,418 |
| | | 24,389,501 | 15,386,418 |
| **6.** | **Other Receivables** | | |
| | Prepayments | 58,286 | 41,023 |
| | Interest receivable on deposits with other financial institutions | 183,634 | 167,918 |
| | | 241,920 | 208,941 |
| **7.** | **Loans to members** | | |
| **a.** | **Amount due comprises:** | | |
| | Overdrafts and revolving credit | 806,943 | 744,882 |
| | Term loans | 138,707,137 | 136,774,751 |
| | **Subtotal** | 139,514,080 | 137,519,633 |
| | Less: Provision for impaired loans (Note 8) | (25,337) | - |
| | | 139,488,743 | 137,519,633 |
| **b.** | **Credit quality - Security held against loans** | | |
| | Secured by mortgage over real estate | 134,052,333 | 132,344,104 |
| | Partly secured by goods, mortgage | 3,171,803 | 3,736,533 |
| | Wholly unsecured | 2,264,607 | 1,438,996 |
| | | 139,488,743 | 137,519,633 |

## 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:

| | 2019 $ | 2018 $ |
|---|---|---|
| • loan to valuation ratio of less than 80% | 130,191,266 | 129,881,336 |
| • loan to valuation ratio of more than 80% but mortgage insured | 232,372 | 1,197,120 |
| • loan to valuation ratio of more than 80% and not mortgage insured | 3,628,695 | 1,265,648 |
| | 134,052,333 | 132,344,104 |

### c. Concentration of loans

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

| | 2019 | 2018 |
|---|---|---|
| (i) Loans to Individual or related groups of members which exceed 10% of reserves in aggregate | 10,624,869 | 8,668,719 |

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

Geographical concentrations:

| **2019** | **Housing** | **Personal** | **Business** | **Total** |
|---|---|---|---|---|
| Australia | $ | $ | $ | $ |
| NSW | 116,438,125 | 1,855,956 | 3,508,621 | 121,802,702 |
| Victoria | 3,276,186 | 66,075 | - | 3,342,261 |
| Queensland | 5,535,527 | 601,901 | 44 | 6,137,472 |
| South Australia | 1,145,638 | 502 | - | 1,146,140 |
| Western Australia | 1,062,677 | 41,688 | - | 1,104,365 |
| Tasmania | 1,576,105 | 2,418 | 209,218 | 1,787,741 |
| Northern Territory | 93,620 | - | - | 93,620 |
| ACT | 1,983,068 | 84,907 | - | 2,067,975 |
| Other | 2,031,750 | 54 | - | 2,031,804 |
| **Total per statement of financial position** | 133,142,696 | 2,653,501 | 3,717,883 | 139,514,080 |

| **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 |

## 8. Provision on impaired loans

### (a) Amounts arising from ECL

The loss allowance as of the year end by class of exposure/asset are summarised in the table below. Comparative amounts for 2018 represent allowance account for credit losses and reflect measurement basis under AASB 139.

| | Gross Carrying value 2019 $ | ECL Allowance 2019 $ | Carrying value 2019 $ | Gross Carrying value 2018 $ | Provision for impairment 2018 $ | Carrying valu 2018 $ |
|---|---|---|---|---|---|---|
| **Loans to members** | | | | | | |
| Mortgages | 133,142,697 | - | 133,142,697 | 130,869,885 | - | 130,869,88 |
| Personal | 1,846,557 | (25,337) | 1,821,220 | 1,812,646 | - | 1,812,64 |
| Overdrafts | 806,943 | - | 806,943 | 744,882 | - | 744,88 |
| Total to natural persons | 135,796,197 | (25,337) | 135,770,860 | 133,427,413 | - | 133,427,41 |
| Corporate borrowers | 3,717,883 | - | 3,717,883 | 4,092,220 | - | 4,092,22 |
| Total | 139,514,080 | (25,337) | 139,488,743 | 137,519,633 | - | 137,519,63 |

An analysis of the Credit Unions credit risk exposure per class of financial asset and “stage” without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

| | Stage 1 12 month ECL 2019 $ | Stage 2 Lifetime ECL 2019 $ | Stage 3 Lifetime ECL 2019 $ | Purchased credit impaired 2019 $ | Total 2019 $ | Total 2018 $ |
|---|---|---|---|---|---|---|
| **Loans to members** | | | | | | |
| Mortgages | - | - | - | - | - | |
| Personal | - | 23,235 | 2,102 | - | 25,337 | |
| Overdrafts | - | - | - | - | - | |
| Corporate borrowers | - | - | - | - | - | |
| Loss allowance | - | 23,235 | 2,102 | - | 25,337 | |
| Carrying amount | - | 23,235 | 2,102 | - | - | |

## 8. Provision on impaired loans (continued)

The reconciliations from the opening to the closing balance of the allowance for impairment by class of financial instrument is shown in the table below.

| | Stage 1 12-month ECL 2019 $ | Stage 2 Lifetime ECL 2019 $ | Stage 3 Lifetime ECL 2019 $ | Purchased credit impaired 2019 $ | Total 2019 $ | Total 2018 $ |
|---|---|---|---|---|---|---|
| **Loans to members** | | | | | | |
| Balance at 1 July per AASB 139 | - | - | - | - | - | - |
| Adjustment on initial application of AASB 9 | - | - | - | - | - | |
| Balance at 1 July per AASB 9 | - | - | - | - | - | - |
| Changes in the loss allowance | | | | | | |
| - Transfer to stage 1 | - | - | - | - | - | - |
| - Transfer to stage 2 | - | - | - | - | - | - |
| - Transfer to stage 3 | - | - | 2,102 | - | 2,102 | - |
| - Net movement due to change in credit risk | - | 23,235 | - | - | 23,235 | - |
| - Write-offs | - | - | - | - | - | - |
| Balance at 30 June | - | 23,235 | 2,102 | - | 25,337 | - |

**Key assumptions in determining the ECL**

Measurement of ECL

The key inputs into the measurement of ECL include the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are generally derived from internal analysis, management judgements and other historical data. They are adjusted to reflect forward-looking information as described below.

PD estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future payments is low. The definition of default is consistent with the definition of default used for internal credit risk management and regulatory reporting purposes. Instruments which are 90 days past due are generally considered to be in default.

LGD is the magnitude of the likely loss if there is a default. The Credit Union estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Credit Union derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

**8. Provision on impaired loans (continued)**

For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

Grouping of similar assets

Since the loans are homogenous in terms of borrower type and contractual repayment terms, the portfolio is currently managed through the dissection of the portfolio arrears reports. The credit union has grouped exposures by type on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LVR ratio for retail mortgages;
- industry; and
- geographic location of the borrower.

LCU has elected to use the following segments when assessing credit risk for Stages 1 and 2 of the impairment model:

- Residential mortgages;
- Commercial loans;
- Personal loans;
- Other – representing overdrafts; and
- Loans to non-members.

Stage 3 of the impairment model will be assessed on an individual basis.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Credit Union has limited historical data, external benchmark information is used to supplement the internally available data.

**Significant increase in credit risk**

LCU is not required to develop an extensive list of factors in defining a 'significant increase in credit risk'. In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in LCU's current model

- Loans more than 30 days past due;
- Loans with more than 2 instances of arrears experience in the previous 12 months; and
- Loans with approved hardship or modified terms.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience and expert judgement, relevant external factors and including forward-looking information.

The approach to determining the ECL includes forward-looking information. The credit union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by the credit union and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue

**8. Provision on impaired loans (continued)**

cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The credit union incorporates forward-looking information into its ECL methodology. Based on advice from the credit union's Risk and Compliance Officer and consideration of a variety of external actual and forecast information, the Credit Union formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by the Reserve Bank of Australia and the Australian Bureau of Statistics

**(b) Impaired financial assets – Comparative information under AASB 139**

| | | 2018 $ |
|---|---|---|
| **a.** | **Total provision comprises** | |
| | Individual specific provisions | - |
| **b.** | **Movement in the provision for impairment** | |
| | Opening balance | 72 |
| | Add (deduct): | |
| | Transfers from (to) profit or loss | (72) |
| | Bad debts written off provision | - |
| | **Closing balance** | - |

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

| | | |
|---|---|---|
| **c.** | **Impaired loans written off** | |
| | Amounts written off against the provision for impaired loans | - |
| | Amounts written off directly to expense | 42 |
| | **Total bad debts** | 42 |
| | **Bad debts recovered in the period** | 7,182 |

**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

**8. Provision on impaired loans (continued)**

| | | Carrying value | Value of Impaired Loans | Provision for impairment |
|---|---|---|---|---|
| | | **2018** | **2018** | **2018** |
| | | **$** | **$** | **$** |
| Loans to members | | | | |
| Mortgages | | 132,344,104 | - | - |
| Personal-secured by MV | | 1,053,701 | - | - |
| Personal Unsecured | | 3,376,946 | - | - |
| Overdrafts | | 744,882 | - | - |
| **Total** | | **137,519,633** | **-** | **-** |

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** Carrying Value | Provision |
|---|---|---|
| | **$** | **$** |
| 30 to 90 days in arrears | 14,231 | - |
| 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 | - | - |
| Total | 14,231 | - |

The table above excludes the well secured mortgage loans of $188,387.

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 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.

**8. Provision on impaired loans (continued)**

*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** |

**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 |

| | 2019 $ | 2018 $ |
|---|---|---|
| **9. Other loans** | | |
| **a.** - Loans to non-members – (unsecured) | 1,380,067 | 1,292,220 |
| - Less provision for impairment (movement to P&L) | (47,240) | (6,362) |
| | 1,332,827 | 1,285,858 |
| - Loans to non-members – (mortgage secured) | 1,269,728 | 1,257,754 |
| - Less provision for impairment (movement to P&L) | - | - |
| | 1,269,728 | 1,257,754 |
| **Total value of other loans** | 2,602,555 | 2,543,612 |
| **b. Impaired loans written off** | | |
| Amounts written off against the provision for impaired Loans | - | - |
| Amounts written off directly against expense | 52,962 | 24,124 |
| **Total Bad Debts** | 52,962 | 24,124 |
| **c. Bad debts recovered in the period** | 8,005 | 2,838 |

## 9. Other loans (continued)

### d. Analysis of loans that are impaired or potentially impaired by class - AASB139

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

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 ADIs in the customer owned banking sector. This is to facilitate shared funding of mortgage secured loans.

From March 2019, funds were committed to RateSetter Pty Ltd, a similar online lending platform to Society One. However the model is slightly different, impairment risk will not be transferred to the credit union, RateSetter has set aside a provision for bad and doubtful debts and will absorb any losses.

The provision for impairment for these loans is per the expected credit loss as detailed in Note 8.

### e) Amounts arising from ECL

| | Gross Carrying value | ECL Allowance | Carrying value | Gross Carrying value | Provision for impairment | Carrying value |
|---|---|---|---|---|---|---|
| | **2019** | **2019** | **2019** | **2018** | **2018** | **2018** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **Loans to non-members** | | | | | | |
| Mortgages | 1,269,728 | - | 1,269,728 | 1,257,754 | - | 1,257,754 |
| Personal | 1,380,067 | (47,240) | 1,332,827 | 1,292,220 | (6,362) | 1,285,858 |
| Overdrafts | - | - | - | - | - | - |
| Total to natural persons | 2,649,795 | (47,240) | 2,602,555 | 2,549,974 | (6,362) | 2,543,612 |
| Corporate borrowers | - | - | - | - | - | - |
| Total | 2,649,795 | (47,240) | 2,602,555 | 2,549,974 | (6,362) | 2,543,612 |

## 9. Other loans (continued)

| | Stage 1 12 month ECL 2019 $ | Stage 2 Lifetime ECL 2019 $ | Stage 3 Lifetime ECL 2019 $ | Purchased credit impaired 2019 $ | Total 2019 $ | Total 2018 $ |
|---|---|---|---|---|---|---|
| **Loans to non-members** | | | | | | |
| Mortgages | - | - | - | - | - | - |
| Personal | 32,051 | - | 15,189 | - | 47,240 | 6,362 |
| Loss allowance | | | | | | |
| | 32,051 | - | 15,189 | - | 47,240 | 6,362 |
| Carrying amount | 32,051 | - | 15,189 | - | 47,240 | 6,362 |

| | Stage 1 12 month ECL 2019 $ | Stage 2 Lifetime ECL 2019 $ | Stage 3 Lifetime ECL 2019 $ | Purchased credit impaired 2019 $ | Total 2019 $ | Total 2018 $ |
|---|---|---|---|---|---|---|
| **Loans to non-members** | | | | | | |
| Balance at 1 July per AASB 139 | - | - | 6,362 | - | 6,362 | 6,362 |
| Adjustment on initial application of AASB 9 | 17,703 | - | - | - | 17,703 | |
| Balance at 1 July per AASB 9 | 17,703 | - | 6,362 | - | 24,065 | 6,362 |
| Changes in the loss allowance | | | | | | |
| - Transfer to stage 1 | - | - | - | - | - | |
| - Transfer to stage 2 | - | - | - | - | - | - |
| - Transfer to stage 3 | - | - | 8,827 | - | 8,827 | |
| - Net movement due to change in credit risk | 14,348 | - | - | - | 14,348 | - |
| - Write-offs | - | - | | - | - | - |
| Balance at 30 June | 32,051 | - | 15,189 | - | 47,240 | 6,362 |

## 10. Investment securities

| | 2019 $ | 2018 $ |
|---|---|---|
| **Equity investment securities designated as at FVOCI** | | |
| - Cuscal | 493,033 | |
| - Shared Lending | 20,000 | |
| **Available-for-sale investment securities** | | |
| - Shares in listed companies | | 235,300 |
| - Shared Lending | | 20,000 |
| **Total value of investments** | 513,033 | 255,300 |

**Disclosures on shares held at FVOCI valued with unobservable inputs**

## 10. Investment securities (continued)

**Cuscal Limited**

This company supplies services to its member organisations which are made up of Credit Unions and Mutual Banks. The shares are held to enable the Credit Union to receive essential banking services – refer to Note 33. At 1 July 2018, the Credit Union designated its investment in Cuscal equity securities as at FVOCI. In FY 2018, these investments were classified as available-for-sale and measured at cost. The shares are able to be traded but within a market limited to other mutual ADI's.

The financial reports of Cuscal Limited 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. The net dividend return in 2019 was 2.5 cents per share. Management has determined that the cost value of $1.27 per share is a reasonable approximation of fair value based on the likely value available on a sale taking into consideration factors such as sales evidence, dividend history and overall market conditions.

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 cannot be measured reliably. The shares are held to facilitate participation in the Loan Sharing Scheme of mortgage secured loans with other Credit Unions 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

| | 2019 $ | 2018 $ |
|---|---|---|
| **a. Fixed assets** | | |
| **Plant and equipment – at cost** | 292,974 | 290,446 |
| Less: accumulated depreciation | (227,838) | (238,209) |
| | 65,136 | 52,237 |
| **Capitalised leasehold improvements – at cost** | 271,778 | 271,778 |
| Less: accumulated amortisation | (271,778) | (271,778) |
| | - | - |
| **Closing balance** | 65,136 | 52,237 |

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | ***Plant & equipment $*** | ***Total $*** | ***Plant & equipment $*** | ***Total $*** |
| Opening Balance | 52,237 | 52,237 | 42,835 | 42,835 |
| Purchases | 45,085 | 45,085 | 33,598 | 33,598 |
| Assets disposed | (42,584) | (42,584) | - | - |
| Depreciation Charge | (20,643) | (20,643) | (24,196) | (24,196) |
| Depreciation on disposals | 31,041 | 31,041 | - | - |
| **Balance at the end of the year** | **65,136** | **65,136** | **52,237** | **52,237** |

| | | 2019 $ | 2018 $ |
|---|---|---|---|
| **12.** | **Taxation assets** | | |
| | Deferred Tax Assets | 97,363 | 165,332 |
| | Deferred tax assets comprise: | | |
| | Accrued expenses not deductible until incurred | 53,688 | 38,203 |
| | Provisions for employee benefits | 104,432 | 102,153 |
| | Depreciation on fixed assets | 10,120 | 24,976 |
| | Deferred Tax Liability - tax due on assets held at fair value Investments - held in Equity | (70,877) | - |
| | | 97,363 | 165,332 |
| **13.** | **Intangible assets** | | |
| | Computer software | 907,929 | 826,289 |
| | Less accumulated amortisation | (659,754) | (500,678) |
| | | 248,175 | 325,611 |
| | **Movement in the assets balances during the year were:** | | |
| | Opening balance | 325,611 | 286,547 |
| | Purchases | 81,641 | 209,223 |
| | Assets written off | - | (35,367) |
| | Amortisation charge | (159,077) | (134,792) |
| | **Balance at the end of the balance** | 248,175 | 325,611 |
| **14.** | **Deposits from members** | | |
| | Member Deposits | | |
| | - at call | 91,178,957 | 86,202,272 |
| | - term | 89,784,013 | 81,287,536 |
| | Member withdrawable shares | 32,530 | 32,380 |
| | | 180,995,500 | 167,522,188 |
| | **Concentration of member deposits** | | |
| (i) | Significant individual member deposits which in aggregate represent more than 10% of the total liabilities: | - | - |
| (ii) | Geographical concentrations | | |
| | Australia | | |
| | NSW | 164,796,461 | 152,599,444 |
| | Victoria | 1,446,478 | 1,553,943 |
| | Queensland | 5,201,707 | 3,549,517 |
| | South Australia | 258,738 | 486,446 |
| | Western Australia | 1,235,665 | 1,187,441 |
| | Tasmania | 2,322,891 | 1,251,440 |
| | Northern Territory | 96,648 | 172,539 |
| | ACT | 1,622,863 | 1,615,711 |
| | Other | 4,014,049 | 5,105,707 |
| | Total per statement of financial position | 180,995,500 | 167,522,188 |

| | 2019 $ | 2018 $ |
|---|---|---|
| **15. Creditor accruals and settlement accounts** | | |
| Annual leave | 69,743 | 66,775 |
| Creditors and accruals | 174,432 | 181,027 |
| Interest payable on deposits | 965,576 | 911,580 |
| Sundry creditors | 140,119 | 46,130 |
| | 1,349,870 | 1,205,512 |
| **16. Taxation liabilities** | | |
| Current income tax liability | 51,303 | 57,887 |
| **Current income tax liability comprises:** | | |
| Opening balance | (6,092) | 2,458 |
| Less: Amounts paid | 3,167 | 8,550 |
| Understatement of prior year | (9,259) | (6,092) |
| | | |
| Liability for income tax (Note 3) | 264,580 | 261,557 |
| Less: Instalments paid during year | 213,277 | 203,670 |
| Closing balance | 51,303 | 57,887 |
| **17. Provisions** | | |
| Long service leave | 306,206 | 301,352 |
| Provisions – other | 44,380 | 53,359 |
| | 350,586 | 354,711 |
| **18. Subordinated debt** | | |
| Balance at the beginning of the year | - | 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 | - | - |

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.

| | 2019 $ | 2018 $ |
|---|---|---|
| **19. Capital reserve account** | | |
| Opening balance | 25,170 | 23,980 |
| Transfer from retained earnings on share redemptions | 740 | 1,190 |
| Closing balance | 25,910 | 25,170 |

**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.

| | 2019<br>$ | 2018<br>$ |
|---|---|---|

## 20. General reserve for credit losses

| | 2019 $ | 2018 $ |
|---|---|---|
| General reserve for credit losses | 340,709 | 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.

| | 2019 $ | 2018 $ |
|---|---|---|
| Balance beginning of the year | 729,552 | 729,552 |
| Other reserve for credit losses<br>This reserve records amount previously set aside as an additional specific provision and is maintained to comply with the Prudential Standards set down by APRA which under Australian Accounting Standards is excessive | | |
| (Decrease) transferred to retained earnings | (388,843) | - |
| Closing balance | 340,709 | 729,552 |

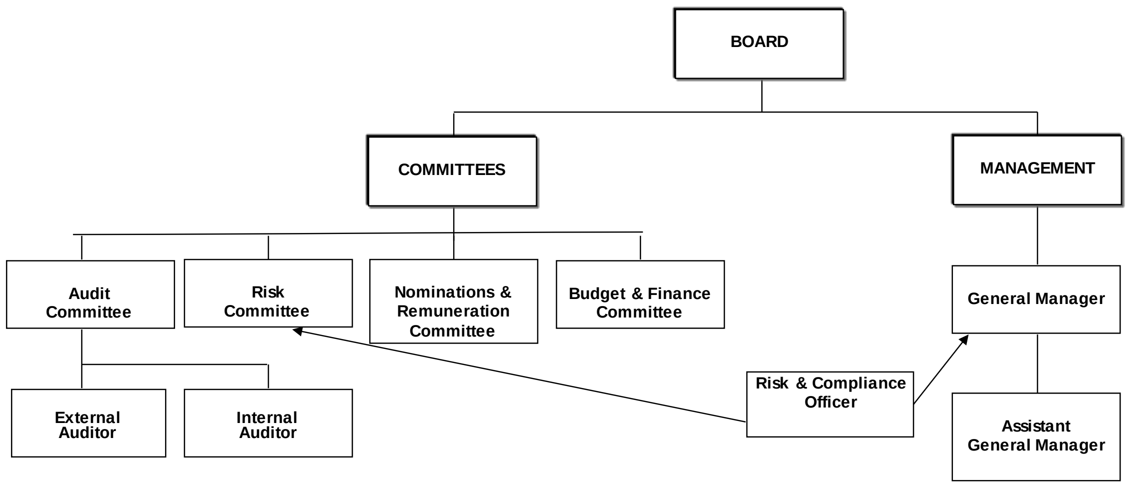
## 21. FVOCI Reserve

| | 2019 $ | 2018 $ |
|---|---|---|
| Opening balance | - | - |
| Transfer of FVOCI from revaluation of Cuscal Shares | 186,856 | - |
| Closing balance | 186,856 | - |

A transfer to FVOCI reserve was raised due to the revaluation of available-at-sale investments from the accounting changes AASB9. Refer Note 1 for the accounting changes and Note 10 for details on the determination of value.

## 22. 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:

**22. Financial risk management objectives and policies (continued)**

**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.

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.

**22. Financial risk management objectives and policies (continued)**

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

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

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

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

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

## 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.

**22. 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 25 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 $145,791 [2018 $133,968]. 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.

**22. Financial risk management objectives and policies (continued)**

The Credit Union manages liquidity risk by:

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

The Credit Union has a longstanding arrangement with the industry liquidity support scheme, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should 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 28 describe the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.
The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in the specific Note 24.

### 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:

| | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| **Loans to members** | **Carrying Value** | **Off balance sheet** | **Max exposure** | **Carrying Value** | **Off balance sheet** | **Max exposure** |
| | $ | $ | $ | $ | $ | $ |
| Mortgage | 133,142,697 | 26,485,359 | 159,628,056 | 130,869,885 | 26,111,580 | 156,981,465 |
| Personal | 1,846,557 | - | 1,846,557 | 1,812,646 | - | 1,812,646 |
| Overdrafts | 806,943 | 1,699,161 | 2,506,104 | 744,882 | 1,895,617 | 2,640,499 |
| Total to natural persons | 135,796,197 | 28,184,520 | 163,980,717 | 133,427,413 | 28,007,197 | 161,434,610 |
| Corporate borrowers | 3,717,883 | - | 3,717,883 | 4,092,220 | - | 4,092,220 |
| **Total** | **139,514,080** | **28,184,520** | **167,698,600** | **137,519,633** | **28,007,197** | **165,526,830** |

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

**22. Financial risk management objectives and policies (continued)**

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 27.

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

Statement of financial position provisions are maintained at a level that management deems

**22. Financial risk management objectives and policies (continued)**

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.

### 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

**22. Financial risk management objectives and policies (continued)**

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.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **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 | 19,549,501 | - | - | 15,146,418 | - | - |
| ADI's rated above BBB | 5,600,000 | - | - | 7,500,000 | - | - |
| Unrated ADI's – Credit Unions/Mutuals | 20,000,000 | - | - | 9,000,000 | - | - |
| **Total** | **48,389,501** | - | - | **34,886,418** | - | - |

### 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

**22. Financial risk management objectives and policies (continued)**

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

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

## 22. Financial risk management objectives and policies (continued)

**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:

| | 2019 | 2018 |
|---|---|---|
| **Tier 1** | **$** | **$** |
| Share capital | - | - |
| Capital reserve | 25,910 | 25,170 |
| FVOCI Reserve | 186,856 | - |
| Retained earnings | 14,227,537 | 13,111,190 |
| | 14,440,303 | 13,136,360 |
| Less: Prescribed deductions | (858,572) | (746,243) |
| Net tier 1 capital | 13,581,731 | 12,390,117 |
| **Tier 2** | | |
| Subordinated debt | - | - |
| Reserve for credit losses | 340,709 | 729,552 |
| | 340,709 | 729,552 |
| Less: Prescribed deductions/adjustments | | - |
| Net tier 2 capital | 340,709 | 729,552 |
| **Total Capital** | **13,922,440** | **13,119,669** |

As at the balance date, the Credit Union's capital ratio stood at 16.14%. The Board's minimum capital adequacy requirement is 12%.

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

| 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| **16.14%** | **16.23%** | **16.54%** | **15.72%** | **16.81%** |

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

**22. Financial risk management objectives and policies (continued)**

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 $839,104 (2018 - $803,761).

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

**Total Capital**

| 2019 | 2018 |
|---|---|
| $13,922,440 | $13,119,669 |

## 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 (2018: Nil).

## 23. Categories of financial instruments

**The following information classifies the financial instruments into measurement classes**

| | 2019 Total $ | 2018 Total $ |
|---|---|---|
| **Financial assets – amortised cost** | | |
| Cash and cash equivalents | 5,815,516 | 6,993,147 |
| Receivables | 183,634 | 167,918 |
| Receivables from financial institutions | 48,455,830 | 34,942,397 |
| Loans to members | 139,488,743 | 137,519,633 |
| Other loans | 2,602,555 | 2,543,612 |
| Total financial assets at amortised cost | 196,546,278 | 182,166,707 |
| | | |
| **Financial assets FVOCI** | | |
| Investment securities FVOCI | 513,033 | - |
| Available-for-sale investments | - | 255,300 |
| | 197,059,311 | 182,422,007 |
| **Financial liabilities** | | |
| Creditors and settlements accounts | 1,280,127 | 1,138,736 |
| Deposits from members | 180,995,500 | 167,522,188 |
| Subordinated debt | - | - |
| | 182,275,627 | 168,660,924 |

## 24a. 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.

| 2019 | Book value $ | Up to 3 months $ | 3-12 months $ | 1-5 years $ | After 5 years $ | No Maturity $ | Total cash flows $ |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash & cash equivalents | 5,815,516 | 5,708,298 | - | - | - | 107,218 | 5,815,516 |
| Receivables from financial Inst. | 48,455,830 | 24,614,749 | 9,372,837 | 15,580,304 | - | - | 49,567,890 |
| Receivables | 183,634 | - | - | - | - | 183,634 | 183,634 |
| Loans to members | 139,488,743 | 2,718,002 | 8,133,517 | 40,372,520 | 150,901,997 | - | 202,126,036 |
| Other loans | 2,602,555 | 93,365 | 141,951 | 1,408,097 | 2,070,787 | - | 3,714,200 |
| Investment securities FVOCI | 513,033 | - | - | - | - | 513,033 | 513,033 |
| **Total financial assets** | **197,059,311** | **33,134,414** | **17,648,305** | **57,360,921** | **152,972,784** | **803,885** | **261,920,309** |
| LIABILITIES | | | | | | | |
| Creditors & settlement | 1,280,127 | 1,280,127 | - | - | - | - | 1,280,127 |
| Deposits from members | 180,995,500 | 127,197,591 | 50,304,037 | 5,481,909 | - | - | 182,983,537 |
| Subordinated debt | - | - | - | - | - | - | - |
| | 182,275,627 | 128,477,718 | 50,304,037 | 5,481,909 | - | - | 184,263,664 |
| Undrawn loan commitments | 28,184,520 | 28,184,520 | - | - | - | - | 28,184,520 |
| **Total financial liabilities** | **210,460,147** | **156,662,238** | **50,304,037** | **5,481,909** | **-** | **-** | **212,448,184** |

| 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 | 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** |

## 24b. 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.

| | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | **Within 12 months** | **After 12 months** | **Total** | **Within 12 months** | **After 12 months** | **Total** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **FINANCIAL ASSETS** | | | | | | |
| Cash & cash equivalents | 5,815,516 | - | 5,815,516 | 6,993,147 | - | 6,993,147 |
| Receivables from financial institutions | 33,455,830 | 15,000,000 | 48,455,830 | 18,442,397 | 16,500,000 | 34,942,397 |
| Receivables | 183,634 | - | 183,634 | 167,918 | - | 167,918 |
| Loans to members | 11,609,325 | 127,879,418 | 139,488,743 | 9,496,232 | 128,023,401 | 137,519,633 |
| Other loans | 2,602,555 | - | 2,602,555 | 2,543,612 | - | 2,543,612 |
| Investment securities FVOCI | - | 513,033 | 513,033 | - | - | - |
| Available-for-sale investments | - | - | - | - | 255,300 | 255,300 |
| **Total financial assets** | **53,666,860** | **143,392,451** | **197,059,311** | **37,643,206** | **144,778,701** | **182,422,007** |
| | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Creditors & settlement | 1,280,127 | - | 1,280,127 | 1,138,736 | - | 1,138,736 |
| Deposit from members | 158,015,365 | 22,980,135 | 180,995,500 | 148,190,657 | 19,331,531 | 167,522,188 |
| **Total financial liabilities** | **159,295,492** | **22,980,135** | **182,275,627** | **149,329,393** | **19,331,531** | **168,660,924** |

## 25. 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 $ |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| ASSETS | | | | | | |
| Cash & Cash Equivalents | 5,708,298 | - | - | - | 107,218 | 5,815,516 |
| Receivables | - | - | - | - | 183,634 | 183,634 |
| Receivables from financial Institutions | 16,989,501 | 31,466,329 | - | - | - | 48,455,830 |
| Loans to members | 57,027,893 | 9,889,060 | 60,962,465 | 11,609,325 | - | 139,488,743 |
| Other loans | 2,602,555 | - | - | - | - | 2,602,555 |
| Investment securities FVOCI | - | - | - | - | 513,033 | 513,033 |
| **Total financial assets** | **82,328,247** | **41,355,389** | **60,962,465** | **11,609,325** | **803,885** | **197,059,311** |
| LIABILITIES | | | | | | |
| Creditors & settlements | - | - | - | - | 1,280,127 | 1,280,127 |
| Deposits from members | 76,531,580 | 24,566,265 | 56,884,990 | 22,980,135 | 32,530 | 180,995,500 |
| Subordinated debt | - | - | - | - | - | - |
| | 76,531,580 | 24,566,265 | 56,884,990 | 22,980,135 | 1,312,657 | 182,275,627 |
| Undrawn loan commitments | 28,184,520 | - | - | - | - | 28,184,520 |
| **Total financial liabilities** | **104,716,100** | **24,566,265** | **56,884,990** | **22,980,135** | **1,312,657** | **210,460,147** |
| **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** |

## 26. Fair value of financial assets and liabilities

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

Significant assumptions used in 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.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Carrying Value** | **Variance** | **Fair Value** | **Carrying Value** | **Variance** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| FINANCIAL ASSETS | | | | | | |
| Cash & cash equivalents | 5,815,516 | 5,815,516 | - | 6,993,147 | 6,993,147 | - |
| Receivables from financial institutions | 48,455,830 | 48,455,830 | - | 34,942,397 | 34,942,397 | - |
| Receivables | 183,634 | 183,634 | - | 167,918 | 167,918 | - |
| Loans to members | 139,215,372 | 139,488,743 | (273,371) | 137,163,030 | 137,519,633 | (356,603) |
| Other loans | 2,602,555 | 2,602,555 | - | 2,543,612 | 2,543,612 | - |
| Investment securities FVOCI | 513,033 | 513,033 | - | - | - | - |
| Available-for-sale investments | - | - | - | 255,300 | 255,300 | - |
| **Total financial assets** | 196,785,940 | 197,059,311 | (273,371) | 182,065,404 | 182,422,007 | (356,603) |
| | | | | | | |
| FINANCIAL LIABILITIES | | | | | | |
| Creditors & settlements | 1,280,127 | 1,280,127 | - | 1,138,736 | 1,138,736 | - |
| Deposits from members | 180,815,417 | 180,995,500 | (180,083) | 167,383,998 | 167,522,188 | (138,190) |
| **Total financial liabilities** | 182,095,544 | 182,275,627 | (180,083) | 168,522,734 | 168,660,924 | (138,190) |

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.

**26. Fair value of financial assets and liabilities (continued)**

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

**Deposits from members**

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the 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.

| | | 2019 $ | 2018 $ |
|---|---|---|---|
| **27.** | **Financial commitments** | | |
| **a.** | **Outstanding loan commitments** | | |
| | Loans approved but not funded | 3,387,320 | 2,310,860 |
| **b.** | **Loan redraw facilities** | | |
| | Loan redraw facilities available | 23,098,039 | 23,800,720 |
| **c.** | **Undrawn loan facilities** | | |
| | Loan facilities available to members for overdrafts and line of credit loans are as follows: | | |
| | Total value of facilities approved | 2,506,104 | 2,640,499 |
| | Less: Amount advanced | (806,943) | (744,882) |
| | Net undrawn value | 1,699,161 | 1,895,617 |

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

| | | | |
|---|---|---|---|
| | **Total financial commitments** | **28,184,520** | **28,007,197** |
| **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 | 310,629 | 498,033 |
| | Later than 5 years | - | - |
| | | 498,033 | 685,437 |
| **e.** | **Lease expense commitments** | | |
| | Not later than one year | 109,740 | 109,740 |
| | Later than 1 year but not 5 years | 285,450 | 403,489 |
| | Later than 5 years | - | - |
| | | 395,190 | 513,229 |

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

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

**27. Financial commitments (continued)**

| | | 2019 $ | 2018 $ |
|---|---|---|---|
| f. | Other expense commitments | | |
| | Not later than one year | 6,006 | 6,006 |
| | Later than 1 year but not 5 years | 8,509 | 14,515 |
| | Later than 5 years | - | - |
| | | 14,515 | 20,521 |

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

## 28. Standby borrowing facilities

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

| | Gross $ | Current Borrowing $ | Net Available $ |
|---|---|---|---|
| **2019** | | | |
| Overdraft facility | 500,000 | - | 500,000 |
| **Total standby borrowing facilities** | 500,000 | - | 500,000 |
| **2018** | | | |
| 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 term deposits security against loan and overdraft amounts drawn under the facility arrangements.

## 29. Contingent liabilities

**Liquidity support scheme**

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

## 30. 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.

| | | **2019 Total $** | **2018 Total $** |
|---|---|---|---|
| (a) | short-term employee benefits; | 380,846 | 359,328 |
| (b) | post-employment benefits - superannuation contributions | 55,556 | 42,233 |
| (c) | other long-term benefits – net increases in long service leave provision | 10,356 | 9,145 |
| (d) | termination benefits; | - | - |
| (e) | share-based payment. | - | - |
| | **Total** | **446,758** | **410,706** |

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

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

The detail of transactions during the year is as follows:

| | 2019 $ Mortgage secured | 2019 $ Other term loans | 2019 $ Revolving Credit | 2018 $ Mortgage secured | 2018 $ Other term loans | 2018 $ Revolving Credit |
|---|---|---|---|---|---|---|
| Funds available to be drawn | - | - | 51,500 | - | - | 50,500 |
| Balance | 3,091,014 | - | - | 2,000,410 | - | - |
| Amounts disbursed or facilities increased in the year | 1,358,956 | - | - | 934,720 | - | - |
| Interest and other revenue earned | 86,377 | - | - | 61,961 | - | - |

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

| | 2019 $ | 2018 $ |
|---|---|---|
| Total value term and savings deposits from KMP | 1,413,904 | 1,347,510 |
| Total interest paid on deposits to KMP | 18,972 | 17,293 |

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

### c. Transactions with other related parties

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

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

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

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

## 31. Superannuation liabilities

The Credit Union contributes to the NGS Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee. The Credit Union has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

## 32. Notes to statement of cash flows

| | Note | 2019 $ | 2018 $ |
|---|---|---|---|
| **Reconciliation of cash** | | | |
| Cash comprises: | | | |
| Cash on hand | | 107,218 | 93,989 |
| Deposits at call with other financial institutions | | 5,708,298 | 6,899,158 |
| **Total cash** | | 5,815,516 | 6,993,147 |

**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 | 2019 $ | 2018 $ |
|---|---|---|---|
| Profit after income tax | | 745,947 | 766,695 |
| **Add/(Deduct):** | | | |
| Increase/(Decrease) in provision for loans | 2.d | 48,512 | 290 |
| Bad debts written off | | 52,962 | 24,166 |
| Depreciation expense | 2.e | 20,643 | 24,196 |
| Written off fixed assets | | 15,454 | |
| Amortisation of intangible assets | 13 | 159,077 | 134,792 |
| Written off intangible assets | | - | 35,367 |
| Gain on sale of assets | | (3,912) | - |
| Increase in provisions for staff leave | | 7,822 | 7,461 |
| (Increase)/Decrease in provision for income tax | | (6,584) | (30,259) |
| Increase/(Decrease) in accrued expenses | | (6,595) | 81,167 |
| (Increase)/Decrease in prepayments | | (17,263) | (3,313) |
| Decrease in other provisions | | (8,979) | (53,637) |
| Increase/(Decrease) in interest payable | | 53,996 | 279,802 |
| (Increase)/Decrease in deferred tax assets | | (2,908) | 14,808 |
| (Increase)/Decrease in interest receivable | | (15,716) | (33,605) |
| **Net cash from revenue activities** | | 1,042,456 | 1,247,930 |
| (Increase) in member loans (net movement) | | (1,994,447) | (6,097,828) |
| (Increase) in other loans (net movement) | | (152,783) | (1,949,147) |
| Decrease in member deposits & shares (net movement) | | 13,567,301 | 8,935,013 |
| Decrease)/Increase in deposits to other financial institutions (net) | | (13,513,433) | 22,391 |
| **Net cash flows from operating activities** | | (1,050,906) | 2,158,359 |

## 33. 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

## 33. 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

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

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

## 35. Events occurring after the reporting period
There are no events occurring after the reporting period that materially impact the financial statements measurement of assets and liabilities.