Laboratories Credit Union

66th Annual Report 2019/20

Laboratories Credit Union Limited | ABN 77 087 650 217
AFSL / Australian Credit Licence 240807

LCU
banking you can trust

Contents

Chairman's Report 2

Directors' Report 5

Auditor's Independence Declaration 9

Independent Auditor's Report 10

Directors' Declaration 12

Statement of Profit or Loss and Other Comprehensive Income 13

Statement of Changes in Member Equity 14

Statement of Financial Position 15

Statement of Cash Flows 16

Notes to the Financial Statements 17

Chairman's Report
Financial Year 2019–20

banking you can trust

People
- 3249 members
- 32% new members under 25
- 80% Sydney basin
- 96.17% satisfied or very satisfied with LCU service
- 300 scholarships awarded to children of members

Performance
- 1.68% net interest margin, lowest of our cohort
- 0.30% Return on Average Asset
- $0.589m net surplus, our 66th consecutive
- Minimum disruption during COVID

Portfolio
- 2.89% loan growth
- 7.15% deposit growth
- 15.78% capital adequacy

Financial and Operating Performance in an Extraordinary Environment

This 66th Annual Report of LCU is reporting on an extraordinary time. Drought, fires, record low interest rates and COVID-19 have touched so many lives. Our hearts go out to all members and their families who have been affected in our community. The human impact of all these extreme events and the constant change should not be underestimated.

During this strange year, your LCU has continued to work with our members and manage these additional burdens while maintaining the personalised service our members are used to. Whether you have been affected by the slowing of the property market or needed to make a hardship application, our staff have handled all enquiries with sensitivity and care. This, all whilst being asked to work from home (and in some cases self-isolate) as well as change many daily procedures and endure increased regulatory reporting.

Australia has recorded record-breaking low interest rates with the Reserve Bank of Australia reducing the cash rate 4 times during the financial year, bottoming out at 0.25%. Although LCU has one of the lowest cost ratios in the market, meaning we can afford to offer reasonable rates, we know that the lower interest rates make it a challenge for our members with term deposits.

Through all this strange year, however, we are proud to say that at LCU we have remained strong and open for business. Our staff and our sensible financial approach have meant that despite the many extremes in the external environment, LCU has once again been successful. Our measure of success is more modest in these strange times, and is supported somewhat by Government assistance, but overall we demonstrated growth and a solid report card in our financial metrics:

- Another year of careful cost control, LCU achieved a net interest margin (the average difference between lending and borrowing rates) of 1.68%, which compares to 1.92% in 2019, and an industry average of 2.01%;

- While keeping LCU fees and charges at sector-leading low levels, our 66th consecutive pre-tax surplus was pleasing at $803,040, compared with $1,055,583 in 2019. This surplus grows LCU member total capital to $14,620,995 and generates a healthy Return on Assets of 0.30% (0.40% in 2019) so that we can continue to lend to members in the future;
- Our critical financial resilience metrics remain within our target comfort zones and well in excess of prudential requirements: Capital Adequacy was 15.78% (cf 16.14% 2019) and Minimum Liquid Holdings 20.06% (cf 16.62% 2019);
- This year we have achieved loan growth of 2.89%, combined with 7.15% deposit growth; and
- Total assets passed the $200 million mark, ending the year at $211,342,368.

These financial results in some areas have been lower than in 2019, reflecting the deliberate balancing that LCU is constantly managing between the short-term and long-term economic environment, the interests of depositors, mortgagors, compliance costs, market movements, not to mention the occasional pandemic. The 2019–20 results rest on long-established foundations of prudent and frugal operations over many years and are a testament to LCU's history and strength.

This prudent cost management, which lies at the core of LCU's ability to offer industry-leading value and still return earnings to boost capital is supported by having a single branch, efficient and engaged staff cross-trained over multiple functions and through the effective use of technology.

The cost of technology is a factor that for LCU, as one of the smallest players in the mutual sector, is a significant overhead. During the coming financial year, LCU will be undertaking two major technology projects – the Consumer Data Right or Open Banking as it is otherwise known, and an upgrade of the core-banking software. These are expensive, so to undertake these investments our constant focus on cost management is essential.

Looking forward, 2020/21 will continue to be challenging for LCU and the Board acknowledges the day to day challenges our staff face managing such a low cost base while providing what might be world-class service to our members and is very grateful for their positive attitude and member service approach.

2019 Member Survey

With this exceptional member service in mind, in late 2019 LCU conducted a member survey to establish a baseline measure of service. The survey produced a Net Promoter Score (NPS) of **73,** a result that all at LCU are very proud of. To put this in context in 2018 the average Australian banking industry NPS was –3 and mortgage lenders only 8[1].

NPS is a tough measure of customer opinion but demonstrates just how many of our members are not just supporters of LCU but actively promote us to their friends and family. Our intention is to harness this even more in the future.

A Year of Increased Collaboration

This year saw us invest in the role of a dedicated Business Development Manager, Sally Boswell, so that LCU could increase our engagement with the local business communities and science-related societies and institutes. We look forward to continuing our collaboration with the Northern Sydney Science Hub, Riverside Business Chamber, CSIRO, National Measurement Institute, Australian Institute of Physics, Royal Australian Chemical Institute and the Metrology Society of Australia.

We are also increasing our time and energy in joining forces with other credit unions and mutual banks as members of the SAM Group (Small Australian Mutuals) and COBA (the Customer Owned Banking Association). We have historically been active members of SAM and have seen some great advancements through collaboration with other small credit unions, like our shared loans project. We hope that in future

[1] "Australia NPS® Industry Benchmarks 2018" by Perceptive @ www.customermonitor.com

through this mechanism we can bring to bear pressure on price setters and regulators to alleviate some of the pressure of the compliance process and perhaps other costs like IT.

Scholarships

In 1990 LCU launched the Tertiary Scholarship programme and since then 300 recipients have received awards in excess of $265,000. In 2020 LCU proudly continued its Tertiary Scholarship Program to twelve highly deserving young people: Meaghan Collins, Danyan Balakrishnan, Joshua Poole, Jessica Gonzalez, Luella Rodin, Joshua Colley, William Russell, Jackson Beasley, Sylvie Panaretto, James Smith, Dusanna Barker and Brooklyn Egan with the McDonald Clark Award for the highest ATAR going to Meaghan Collins.

Our Tertiary Scholarship ceremony was once again combined with the CSIRO Alumni Scholarship ceremony in February. Since the inception of the CSIRO Alumni Scholarship in Physics in 2015, in the memory of Drs Gerry Haddad, Tony Farmer, John Dunlop and Don Price, LCU has been a significant contributor. 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.

In 2020, Benjamin Dix-Matthews was the CSIRO Alumni Scholarship recipient. At the ceremony hosted by Dr Marcus Zipper, those present heard about Benjamin’s project “Coherent optical free-space frequency dissemination” and Benjamin used the scholarship to travel to France to test his prototype system in a practical experiment of an optical transmission between two buildings in Toulouse. The project was in collaboration with the CNES, the French Space Agency.

Board and Staff

I would like to thank my fellow Directors, Scott Martin (Deputy Chair and Chair of the Risk Committee) Anita Andrew, 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 Director Gordana Papic, who attends 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 and Sally Boswell. Personal service and member value are the cornerstones of LCU’s success and without this team, LCU would not be so successful. I hope this report has been clear in articulating how privileged the Board feels to have these staff members, they have continued to provide the LCU service throughout such a strange and challenging time.

Allison Smart
Chairman 16 September 2020

Directors' Report

Your directors present their report on the Credit Union for the financial year ended 30 June 2020.
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.J. Smart	Chairman	BComm, LLB, LLM, FCIS.	Director since December 2012 Chairman since November 2019 Remuneration and Nominations Committee since November 2015 Audit Committee since November 2017 Budget/Finance Committee since November 2019
A.S. Martin	Deputy Chairman	BSc(Hons), PhD, FAIP, GAICD	Director since June 2012 Deputy Chairman since November 2016 Risk Committee Chair since November 2019 Innovation Committee since November 2019
A.S. Andrew	Director	BSc(Hons), PhD, M Env Mgt	Director since January 2010 Risk Committee since November 2017 Budget/Finance Committee since November 2018 Innovation Committee since November 2019
F.J Benito de Valle	Director	B Econ, FAICD, FCIS, FCPA, JP	Director since January 2000 Budget/Finance Committee since November 2011 Audit Committee since November 2018
A.B. Murphy	Director	BSc(Hons), PhD	Director since January 1998 Risk Committee since November 2005 Remuneration and Nominations Committee since November 2019 Innovation Committee since November 2019
P.B. Steele	Director	CPA, Grad Dip Tech Management, JP	Director since January 1990 Budget/Finance Committee since November 2005 Audit Committee since November 2005 Risk Committee since November 2019
R.J. Stephens	Director	M.Tax, FCA	Director since February 2016 Audit Committee Chairman since November 2016 Remuneration and Nominations Committee since November 2017 Risk Committee since November 2018
P.G. Swan	Director	BSc(Hons), PhD GAICD	Director since November 2017 Innovation Committee Chair since November 2019 Audit Committee since November 2017 Remuneration and Nominations Committee since November 2019

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	10	9	4	4			5	5
F.J. Benito de Valle	10	9	4	4	4	4		
A.S. Martin	10	10					5	5
A.B Murphy	10	9					5	5
P.B. Steele	10	10	4	4	4	4	2	2
A.J. Smart	10	9	4	4	4	3		
R.J. Stephens	10	8			4	4	5	4
P.G. Swan	10	9			4	2		

Directors' benefits

No director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, a controlled Credit Union, or a related body corporate with a director, a firm of which a director is a member or a Credit Union in which a director has a substantial financial interest, other than that disclosed in Note 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 $589,944 [2019: $745,947].

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 met with some challenges. Loan demand has slowed however deposits growth remains strong. The cash rate as determined by the Reserve Bank of Australia fell to a historical low of 0.25% as of 30th June, dropping 1% from the end of last financial year.

In the last quarter of the financial year, conditions were furthermore impacted by the effects of COVID-19. Government restrictions to deal with the pandemic were put into place, the Credit Union remained operational with some minor changes to business hours and measures taken in the office to protect staff and members' health and safety.

Significant changes in state of affairs

Apart from changes required due to COVID-19 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

The second wave of COVID-19 and lockdown in Victoria could have an adverse effect on the whole Australian economy. This could have an adverse effect on the financial and housing markets which could affect Laboratories Credit Union. The Board and Staff will be closely monitoring any changes and will be prepared to protect LCU interests.

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 Declaration

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

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Credit Union, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Credit Union for all or part of those proceedings.

Regulatory Disclosures

The disclosures required by Prudential Standard APS 330 Public Disclosure (namely the Common disclosure in Attachment A and the Regulatory Capital reconciliation) may be seen on the website **www.lcu.com.au**.

Rounding

Laboratories Credit Union Ltd is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest dollar.

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:

Allison J Smart ______________________ .
Director

Richard John Stephens______________________
Director

Signed and dated this 16th day of September 2020.

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 2020, 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

Madeleine Mattera

Madeleine Mattera
Partner – Audit & Assurance

Sydney, 16 September 2020

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 2020, the statement of profit or loss and other comprehensive income, statement of changes in member equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

a giving a true and fair view of the Company's financial position as at 30 June 2020 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 2020, 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

Madeleine Mattera

Madeleine Mattera
Partner – Audit & Assurance

Sydney, 16 September 2020

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 2020 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 as stated in Note 1.

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:

Allison J Smart ____________________ Richard John Stephens____________________

Director Director

Signed and dated this 16th day of September 2020.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Note	2020 $	2019 $
Interest revenue	2.a	5,903,360	6,747,001
Interest expense	2.c	2,476,572	3,096,690
Net interest income		3,426,788	3,650,311
Fee commission and other income	2.b	301,190	240,654
Net operating income		3,727,978	3,890,965
Less:			
Non-interest expenses			
Impairment losses on loans receivable from members	2.d	17,646	25,337
Impairment losses on loans receivable from other loans	2.d	41,432	76,137
Fee and commission expenses		212,168	215,280
General administration			
- Employees compensation and benefits		1,133,932	1,094,072
- Depreciation and amortisation	2.e	288,176	179,720
- Information technology		411,324	372,093
- Office occupancy		3,464	111,096
- Other administration		238,686	245,331
Other operating expenses		578,110	566,316
Total non-interest expenses		2,924,938	2,885,382
Profit before income tax		803,040	1,005,583
Income tax expense	3	213,096	259,636
Profit after income tax		589,944	745,947
Total other comprehensive income, net of income tax		-	-
Total comprehensive income for the period		589,944	745,947

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

Statement of Changes in Member Equity

For the year ended 30 June 2020

	General Reserve for Credit Losses $	Retained Earnings $	Capital & Other Reserves $	FVOCI Reserve $	Total $
Total at 1 July 2018	729,552	13,093,487	25,170	186,856	14,035,065
Profit for the year	-	745,947	-	-	745,947
Transfer to capital reserve on redemption of shares	-	(740)	740	-	-
Transfer to/from retained earnings	(388,843)	388,843	-	-	-
Total at 30 June 2019	340,709	14,227,537	25,910	186,856	14,781,012
Profit for the year	-	589,944	-	-	589,944
Transfer to capital reserve on redemption of shares	-	(910)	910	-	-
Transfer to/from retained earnings	(340,709)	340,709	-	-	-
Total as at 30 June 2020	-	15,157,280	26,820	186,856	15,370,956

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

Statement of Financial Position

As of 30 June 2020

	Note	2020 $	2019 $
ASSETS			
Cash and cash equivalents	4	6,643,852	5,815,516
Receivables from financial institutions	5	57,616,297	48,455,830
Other receivables	6	190,268	241,920
Loans to members	7 & 8	140,669,806	139,488,743
Other loans	9	5,150,665	2,602,555
Investment securities	10	513,033	513,033
Property, plant and equipment	11	50,568	65,136
Taxation assets	12	90,806	97,363
Intangible assets	13	146,120	248,175
Right-of-use assets	14(a)	270,953	-
TOTAL ASSETS		211,342,368	197,528,271
LIABILITIES			
Deposits from members	15	193,932,496	180,995,500
Creditor accruals and settlement accounts	16	1,355,076	1,349,870
Taxation liabilities	17	23,269	51,303
Provisions	18	382,359	350,586
Lease liabilities	14(b)	278,212	-
TOTAL LIABILITIES		195,971,412	182,747,259
NET ASSETS		15,370,956	14,781,012
MEMBERS' EQUITY			
Capital reserve account	19	26,820	25,910
General reserve for credit losses	20	-	340,709
FVOCI Reserve	21	186,856	186,856
Retained earnings		15,157,280	14,227,537
TOTAL MEMBERS' EQUITY		15,370,956	14,781,012

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 2020

	Note	2020 $	2019 $
OPERATING ACTIVITIES			
Revenue inflows			
Interest received		6,000,655	6,731,285
Fees and commissions		162,190	176,522
Dividends		25,882	9,804
Other income		113,118	50,816
Revenue outflows			
Interest paid		(2,655,690)	(3,042,694)
Suppliers and employees		(2,553,539)	(2,614,149)
Income taxes paid		(234,572)	(269,128)
Net cash flow from revenue activities		858,044	1,042,456
Inflows/(outflows) from other operating activities			
(Increase) in member loans (net movement)		(1,198,709)	(1,994,447)
(Increase) in other loans (net movement)		(2,589,543)	(152,783)
Increase in member deposits & shares (net movement)		13,081,915	13,567,301
(Increase) in deposits to other financial institutions (net)		(9,160,467)	(13,513,433)
Net cash flows from/(used in) operating activities	32	991,240	(1,050,906)
INVESTING ACTIVITIES			
Outflows			
Purchase of intangible assets	13	(54,507)	(81,640)
Purchase of property plant and equipment	11	(6,190)	(45,085)
Net cash flows used in investing activities		(60,697)	(126,725)
FINANCING ACTIVITIES			
Inflows/(outflows)			
Lease principal payments	14	(102,207)	-
Net cash flows used in financing activities		(102,207)	-
Net increase/(decrease) in cash		828,336	(1,177,631)
Cash at beginning of year		5,815,516	6,993,147
Cash at end of year	4	6,643,852	5,815,516

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

Notes to the Financial Statements

For the year ended 30 June 2020

1. Statement of significant accounting policies

This financial report is prepared for Laboratories Credit Union Limited, for the year ended the 30th June 2020. The report was authorised for issue on 16th September 2020 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 of 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 modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied. The accounting policies are consistent with the prior year unless otherwise stated.

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

The following standards and amendments are applied for the first time for the annual reporting period commencing 1 July 2019:

- AASB 16 *Leases*
- AASB 2020-4 *Covid-19-related Rent Concessions*
- Interpretation 23 *Uncertainty over Income Tax Treatments*.

AASB 16 *Leases*

The standard replaces AASB 117 *Leases* and has for lessees removed the current distinction between operating and finance leases. The standard requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The new standard has been applied as at 1 July 2019 using the retrospective approach but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed below.

The Credit Union has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. As such the Credit Union has relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease* for contracts entered into before the transition date and has applied AASB 16 to those contracts. Contracts not previously identified as leases under AASB 117 and Interpretation 4 have not been reassessed for whether there is a lease under AASB 16. Therefore the definition of a lease under AASB 16 has only been applied to contracts entered into or changed on or after 1 July 2019.

1. Statement of significant accounting policies (continued)

The Credit Union has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. At this date, the Credit Union has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Credit Union has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of AASB 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under AASB 117 immediately before the date of initial application.

The Credit Union has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

On adoption of AASB 16, the Credit Union recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4%.

Measurement of lease liabilities

	2019 **$**
Operating lease commitments disclosed as at 30 June 2019	409,704
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(27,893)
Lease liability recognised as at 1 July 2019	**381,811**

<u>Adjustments recognised in the balance sheet on 1 July 2019</u>

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

	Carrying amount at 30 June 2019 **$**	**Reclassification** **$**	**Re-measurement** **$**	**AASB 16 carrying amount at 1 July 2019** **$**
Right-of-use assets	-	381,811	381,811	381,811
Lease liabilities	-	(381,811)	(381,811)	(381,811)
Total	**-**	**-**	**-**	**-**

1. Statement of significant accounting policies (continued)

AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions*
AASB 2020-4 provides a practical expedient to simplify the accounting for rent concessions (including rent deferrals) received directly related to the outbreak of COVID-19 and is applicable to all annual periods beginning on or after 1 June 2020, with early adoption permitted. The standard was early-adopted by the Credit Union and allowed treatment of rent waived up to a total $14,078 to the 30th of June 2020 reflected on the profit and loss under other income. Lease contractual terms remain the same and adjustments to the assets present value is not required.

Interpretation 23 *(Int 23) Uncertainty over Income Tax Treatments*
Int 23 clarifies the application of AASB 112 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. There was no significant effect from the adoption of Int 23 in relation to accounting for uncertain tax positions.

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 fair value adjusted for transactions costs (where applicable), 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.

Classification and measurement
For the purpose of subsequent measurement, financial assets 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, financial assets and liabilities 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, loan and advances, trade receivables and bonds and term deposits fall into this category of financial instruments.

1. Statement of significant accounting policies (continued)

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 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.

Subsequent measurement of financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method except financial liabilities designated at FVPL, which are carried subsequently at fair value with gains of losses recognised in profit or loss. The Credit Union's financial liabilities consists of deposit from members, trade and other payables.

Derecognition of financial assets and liabilities

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.

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 the 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.

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.

1. Statement of significant accounting policies (continued)

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.

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.

c. Loan Impairment

AASB 9's impairment requirements use forward looking information to recognise expected credit losses - the 'expected credit loss model' (ECL). Instruments within the scope of the 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

1. Statement of significant accounting policies (continued)

- 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.

- 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.
- 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.

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.

1. Statement of significant accounting policies (continued)

Credit-impaired financial assets

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 consumer 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.

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.
- 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.

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.

1. Statement of significant accounting policies (continued)

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 (not applicable for current year, for comparatives only)

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.

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.

1. Statement of significant accounting policies (continued)

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.

2. Statement of profit or loss and other comprehensive income

	2020 $	2019 $
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	35,706	92,943
Receivables from financial institutions	812,475	1,104,335
Loans to members and other loans	5,055,179	5,549,723
Total interest revenue	5,903,360	6,747,001
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	2,013	768
Other fee income	103,515	111,947
Insurance commissions	(82)	(1,219)
Other commissions	56,744	64,626
Total fee and commission income	162,190	176,122
Other income		
Dividends received on investment securities (FVOCI)	25,882	9,804
Bad debts recovered	12,823	13,155
Gain on disposal of assets		
- Property, plant and equipment	-	3,912
Miscellaneous revenue[1]	100,295	37,661
	139,000	64,532
Total fee, commission and other income	301,190	240,654
c. Interest expenses		
Short term borrowings - overdraft	39	310
Deposits from members	2,463,847	3,096,380
Interest expense on lease liabilities	12,686	-
Total interest expense	2,476,572	3,096,690
d. Impairment losses		
Loans and advances		
Member Loans		
Increase in provision for impairment	17,646	25,337
Bad debts written off directly against profit	-	-
	17,646	25,337
Other Loans		
Increase in provision for impairment	(8,952)	23,175
Bad debts written off directly against profit	50,384	52,962
	41,432	76,137
Total impairment losses	59,078	101,474

[1] includes AASB 2020-4 *Covid-19-Related Rent Concessions and Government Cash Boost payments for businesses affected by COVID-19*

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

	Note	2020 $	2019 $
e. Other prescribed disclosures			
General administration			
Depreciation and amortisation			
- plant and equipment	11	20,758	20,643
- amortisation of Intangible - software	13	156,560	159,077
- depreciation of Right-of-use-asset	14	110,858	-
		288,176	179,720
Office occupancy			
Property operating lease payments		-	106,827
Other operating expenses			
Auditor's remuneration (excluding GST)			
- Audit fees		50,145	47,065
- Other Services – taxation		8,800	8,500
- Other Services – compliance		1,870	1,870
- Other Services – other		210	629
		61,025	58,064
Defined contribution superannuation expenses		186,483	178,612

3. Income tax expense

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

	2020 $	2019 $
Current tax charge – (Note 17)	219,534	264,580
Adjustments for prior years	4	(9,259)
Deferred tax:		
Movement in temporary differences (Note 12)	(6,442)	4,315
Total income tax expense in income statement	213,096	259,636

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

	2020 $	2019 $
Profit	803,040	1,005,583
Prima facie tax payable on profit before income tax at 27.5% (2019: 27.5%)	220,836	276,536
Add tax effect of expenses not deductible		
- Dividend imputation	3,050	1,155
- Other non-deductible expenses	299	300
- AASB9 once off adjustment	-	(5,311)
- Prior year under/(over)	4	(8,842)
Subtotal	224,189	263,838
Less		
- Franking rebate	(11,093)	(4,202)
Income tax expense attributable to current year profit	213,096	259,636
Adjustments for previous years	-	-
Total income tax expense in income statement	213,096	259,636

3. Income tax expense (continued)

		2020 $	2019 $
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:	5,107,090	4,861,427
	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. LCU does not currently have any Tier 1 preference shareholders		

4. Cash and cash equivalents

	2020 $	2019 $
Cash on hand	73,894	107,218
Deposits at call	6,569,958	5,708,298
	6,643,852	5,815,516

5. Receivables from financial institutions

a. Investments at amortised cost

	2020 $	2019 $
Bonds	32,221,799	24,066,329
Deposits with financial institutions (5b)	25,394,498	24,389,501
	57,616,297	48,455,830

b. Dissection of receivables

	2020 $	2019 $
Deposits with industry bodies - Cuscal (Note 32a)	3,240,000	3,240,000
Deposits with other financial institutions	15,000,000	18,000,000
Deposits with banks	7,154,498	3,149,501
	25,394,498	24,389,501

6. Other receivables

	2020 $	2019 $
Prepayments	103,929	58,286
Interest receivable on deposits with financial institutions	86,339	183,634
	190,268	241,920

7. Loans to members

a. Amount due comprises:

	2020 $	2019 $
Overdrafts and revolving credit	893,305	806,943
Term loans	139,819,484	138,707,137
Subtotal	140,712,789	139,514,080
Less: Provision for impaired loans (Note 8)	(42,983)	(25,337)
	140,669,806	139,488,743

b. Credit quality - Security held against loans

	2020 $	2019 $
Secured by mortgage over real estate	136,452,884	134,052,333
Partly secured by goods, mortgage	3,706,183	3,171,803
Wholly unsecured	510,739	2,264,607
	140,669,806	139,488,743

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:

	2020 $	2019 $
• loan to valuation ratio of less than 80%	134,413,496	130,191,266
• loan to valuation ratio of more than 80% but mortgage insured	-	232,372
• loan to valuation ratio of more than 80% and not mortgage insured	2,039,388	3,628,695
	136,452,884	134,052,333

Loan to value ratio (LVR) is calculated as the ratio of the current loan balance and the valuation at the time the mortgage was funded.

c. Concentration of loans

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

		2020	2019
(i)	Loans to Individual or related groups of members which exceed 10% of reserves in aggregate	7,646,368	10,624,869

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

Geographical concentrations:

2020 Australia	**Housing** **$**	**Personal** **$**	**Business** **$**	**Total** **$**
NSW	117,595,536	1,673,771	3,249,159	122,518,466
Victoria	3,051,752	77,437	-	3,129,189
Queensland	5,285,050	540,764	-	5,825,814
South Australia	1,048,292	-	-	1,048,292
Western Australia	902,492	35,992	-	938,484
Tasmania	1,201,257	11,314	-	1,212,571
Northern Territory	-	-	-	-
ACT	2,428,923	51,454	-	2,480,377
Other	3,559,549	47	-	3,559,596
Total per statement of financial position	135,072,851	2,390,779	3,249,159	140,712,789

7. Loans to members (continued)

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

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.

	Gross Carrying value 2020	**ECL Allowance 2020**	**Carrying value 2020**	**Gross Carrying value 2019**	**ECL Allowance 2019**	**Carrying value 2019**
	$	**$**	**$**	**$**	**$**	**$**
Loans to members						
Mortgages	135,072,851	-	135,072,851	133,142,697	-	133,142,697
Personal	1,497,474	(42,983)	1,454,491	1,846,557	(25,337)	1,821,220
Overdrafts	893,305	-	893,305	806,943	-	806,943
Total to natural persons	137,463,630	(42,983)	137,420,647	135,796,197	(25,337)	135,770,860
Corporate borrowers	3,249,159	-	3,249,159	3,717,883	-	3,717,883
Total	140,712,789	(42,983)	140,669,806	139,514,080	(25,337)	139,488,743

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 2020	**Stage 2 Lifetime ECL 2020**	**Stage 3 Lifetime ECL 2020**	**Purchased credit impaired 2020**	**Total 2020**
	$	**$**	**$**	**$**	**$**
Loans to members					
Mortgages	-	-	-	-	-
Personal	-	42,983	-	-	42,983
Overdrafts	-	-	-	-	-
Corporate borrowers	-	-	-	-	-
Loss allowance	-	42,983	-	-	42,983
Carrying amount	-	42,983	-	-	42,983

8. Provision on impaired loans (continued)

	Stage 1 12 month ECL 2019 $	Stage 2 Lifetime ECL 2019 $	Stage 3 Lifetime ECL 2019 $	Purchased credit impaired 2019 $	Total 2019 $
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	-	25,337

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 2020 $	Stage 2 Lifetime ECL 2020 $	Stage 3 Lifetime ECL 2020 $	Purchased credit impaired 2020 $	Total 2020 $
Loans to members					
Balance at 1 July	-	23,235	2,102	-	25,337
Changes in the loss allowance					
- Transfer to stage 1	-	-	-	-	-
- Transfer to stage 2	-	19,748	-	-	19,748
- Transfer to/(from) stage 3	-	-	(2,102)	-	(2,102)
- Net movement due to change in credit risk	-	-	-	-	-
- Write-offs	-	-	-	-	-
Balance at 30 June	-	42,983	-	-	42,983

	Stage 1 12-month ECL 2019 $	Stage 2 Lifetime ECL 2019 $	Stage 3 Lifetime ECL 2019 $	Purchased credit impaired 2019 $	Total 2019 $
Loans to members					
Balance at 1 July	-	-	-	-	-
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

Transfers to and from the stages for ECL allowances is reflected in the Statement of Profit or Loss - under impairment losses.

8. Provision on impaired loans (continued)

Use of judgements and estimates

The Credit Union reviews individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. Judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Credit Union makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors including forward looking information available at the time. Actual results may differ, resulting in future changes to the allowance.

During the year ended 30 June 2020 the Credit Union's allowance for expected credit losses increased by $17,646. This increase was in response to the COVID-19 pandemic and an anticipated increase in credit risk.

In responding to this anticipated increase in credit risk the Credit Union performed the following:

- A review of individual borrowers who had requested a deferral of loan repayments. In estimating the individual amounts to be provided for these exposures consideration was given to the borrower's credit history, current financial situation and any security held;
- A sensitivity analysis of the mortgage secured portfolio to identify any exposures to a downturn in property values. No provision was raised after considering the results of this sensitivity analysis;
- A review of the personal loans under repayment deferral arrangements and the impact of anticipated increases in unemployment. An additional provision was raised following this review.

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.

<u>Grouping of similar assets</u>
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 consumer 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
- 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;
- Loans with approved hardship or modified terms; and
- Loans where members have requested deferral of repayments due COVID-19.

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.

8. Provision on impaired loans (continued)

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 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.

		2020 $	2019 $
9.	**Other loans**		
a.	- Loans to non-members – (unsecured)	1,590,996	1,380,067
	- Less provision for impairment (movement to P&L)	(38,288)	(47,240)
		1,552,708	1,332,827
	- Loans to non-members – (mortgage secured)	3,597,957	1,269,728
	- Less provision for impairment (movement to P&L)	-	-
		3,597,957	1,269,728
	Total value of other loans	5,150,665	2,602,555
b.	**Impaired loans written off**		
	Amounts written off against the provision for impaired loans	-	-
	Amounts written off directly against expense	50,385	52,962
	Total Bad Debts	50,385	52,962
c.	**Bad debts recovered in the period**	8,078	8,005

Unsecured loans to non-members consist of funds committed to support two online marketplace lending platforms - SocietyOne and RateSetter.

While the Credit Union is required to take on the impairment risk of SocietyOne loans, with the RateSetter model, impairment risk is not transferred to the Credit Union. RateSetter has an internal provision for bad and doubtful debts and will absorb any losses that may occur.

The Credit Union is also 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.

The provision for impairment for SocietyOne and Shared loans are as per the expected credit loss detailed in Note 8.

9. Other loans (continued)

e) Amounts arising from ECL

	Gross Carrying value 2020 $	ECL Allowance 2020 $	Carrying value 2020 $	Gross Carrying value 2019 $	ECL Allowance 2019 $	Carrying value 2019 $
Loans to non-members						
Mortgages	3,597,957	-	3,597,957	1,269,728	-	1,269,728
Personal	1,590,996	(38,288)	1,552,708	1,380,067	(47,240)	1,332,827
Overdrafts	-	-	-	-	-	-
Total to natural persons	5,188,953	(38,288)	5,150,665	2,649,795	(47,240)	2,602,555
Corporate borrowers	-	-	-	-	-	-
Total	5,188,953	(38,288)	5,150,665	2,649,795	(47,240)	2,602,555

	Stage 1 12 month ECL 2020 $	Stage 2 Lifetime ECL 2020 $	Stage 3 Lifetime ECL 2020 $	Purchased credit impaired 2020 $	Total 2020 $
Loans to non-members					
Mortgages	-	-	-	-	-
Personal	30,698	-	7,590	-	38,288
Loss allowance	30,698	-	7,590	-	38,288
Carrying amount	30,698	-	7,590	-	38,288

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

9. Other loans (continued)

	Stage 1 12 month ECL 2020 $	Stage 2 Lifetime ECL 2020 $	Stage 3 Lifetime ECL 2020 $	Purchased credit impaired 2020 $	Total 2020 $
Loans to non- members					
Balance at 1 July per AASB 139	-	-	-	-	-
Adjustment on initial application of AASB 9	-	-	-	-	-
Balance at 1 July per AASB 9	32,051	-	15,189	-	47,240
Changes in the loss allowance					
- Transfer to stage 1	-	-	-	-	-
- Transfer to stage 2	-	-	-	-	-
- Transfer to stage 3	-	-	(7,599)	-	(7,599)
- Net movement due to change in credit risk	(1,353)	-	-	-	(1,353)
- Write-offs	-	-	-	-	-
Balance at 30 June	30,698	-	7,590	-	38,288

	Stage 1 12 month ECL 2019 $	Stage 2 Lifetime ECL 2019 $	Stage 3 Lifetime ECL 2019 $	Purchased credit impaired 2019 $	Total 2019 $
Loans to non- members					
Balance at 1 July per AASB 139	-	-	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
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

	2020 $	2019 $
10. Investment securities		
Equity investment securities designated as at FVOCI		
- Cuscal	493,033	493,033
- Shared Lending	20,000	20,000
Total value of investments	513,033	513,033

Disclosures on shares held at FVOCI valued with unobservable inputs

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. The shares are able to be traded but within a market limited to other mutual ADIs.

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 2020 was 1.6 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

	2020 $	2019 $
a. Fixed assets		
Plant and equipment – at cost	299,164	292,974
Less: accumulated depreciation	(248,596)	(227,838)
	50,568	65,136
Capitalised leasehold improvements – at cost	271,778	271,778
Less: accumulated amortisation	(271,778)	(271,778)
	-	-
Closing balance	50,568	65,136

11. Property, plant and equipment (continued)

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

	2020		2019	
	Plant & equipment $	**Total $**	**Plant & equipment $**	**Total $**
Opening Balance	65,136	65,136	52,237	52,237
Purchases	6,190	6,190	45,085	45,085
Assets disposed	-	-	(42,584)	(42,584)
Depreciation Charge	(20,758)	(20,758)	(20,643)	(20,643)
Depreciation on disposals	-	-	31,041	31,041
Balance at the end of the year	50,568	50,568	65,136	65,136

	2020 $	**2019 $**
12. Taxation assets		
Deferred Tax Assets	90,806	97,363
Deferred tax assets comprise:		
Accrued expenses not deductible until incurred	33,140	53,688
Provisions for employee benefits	111,614	104,432
Depreciation on fixed assets	14,933	10,120
Other deferred expenses	1,996	-
Deferred Tax Liability - tax due on assets held at fair value Investments - held in Equity	(70,877)	(70,877)
	90,806	97,363
13. Intangible assets		
Computer software	962,434	907,929
Less accumulated amortisation	(816,314)	(659,754)
	146,120	248,175
Movement in the assets balances during the year were:		
Opening balance	248,175	325,611
Purchases	54,505	81,641
Amortisation charge	(156,560)	(159,077)
Balance at the end of the balance	146,120	248,175
14. Right of use assets		
a. Property	367,998	
Less: accumulated depreciation	(105,142)	
Total property	262,856	
IT equipment	13,813	
Less: accumulated depreciation	(5,716)	
Total IT equipment	8,097	
Total right-of-use assets	270,953	

14. Right of use assets (continued)

Movement in the asset balances during the year were:

	Property $	IT equipment $	Total $
Balance 1 July 2019	-	**-**	**-**
Changes on initial application of AASB 16	367,998	13,813	381,811
Amended balance 1 July 2019	**367,998**	**13,813**	**381,811**
Additions	-	-	-
Revaluations	-	-	-
Disposals	-	-	-
Impairment	-	-	-
Depreciation	(105,142)	(5,716)	(110,858)
Balance 30 June 2020	**262,856**	**8,097**	**270,953**

The Credit Union has a lease for an office premise and a printer. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index are excluded from the initial measurement of the lease liability and asset. The Credit Union classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Certain leases are subject to extension options and termination options which are exercisable by the Credit Union.

The Credit Union has committed to lease certain assets commencing subsequent to reporting date. The terms of these leases are as follows:

Right of use asset class	Range of remaining term (mths)	Average remaining lease term (mths)	No of leases with extension options	No of leases with options to purchase	No of leases with variable payments	No of leases with termination options
Property	30	30	-	-	-	-
IT equipment	17	17	-	-	-	1

	2020 $
b. Lease liabilities	
Current	108,892
Non-current	169,320
	278,212

Balance 1 July 2019	**-**
Changes on initial application of AASB 16	381,811
Amended balance 1 July 2019	**381,811**
Additions	-
Payments for leases	(102,207)
Interest expense	12,686
Modifications	-
Other adjustments – COVID rent relief	(14,078)
Balance 30 June 2020	**278,212**

14. Right of use assets (continued)

The future minimum lease payments were as follows:

Minimum lease payments due

	Within 1 year	Between 2-5 years	After 5 years	Total
30 June 2020	**$**	**$**	**$**	**$**
Lease payments	118,050	174,702	-	293,253
Finance charges	9,158	5,382	-	14,540
Net present values	108,337	178,659	-	459,966

Recognition and measurement

At inception of a contract, an assessment is made whether the contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To apply this definition it is assessed whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available;
- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Contracts may contain both lease and non-lease components. At the commencement or modification of a contract that contains a lease component, the Credit Union allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property, the Credit Union has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

The Credit Union recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost comprising, the amount of the initial measurement of lease liability; adjusted for any lease payments made at or before the commencement date less any lease incentives received; plus any initial direct costs; and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis, unless the lease transfers ownership of the underlying asset to the Credit Union at the end of the lease term or the Credit Union is reasonably certain to exercise a purchase option. In that case, the right-of-use asset is depreciated over the underlying asset's useful life, which is determined on the same basis as those of property, plant and equipment. In addition, the right of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined the Credit Union's incremental borrowing rate is used, being the rate that the Credit Union would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

14. Right of use assets (continued)

To determine the incremental borrowing rate, the company obtains interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased (security).

Lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Credit Union under residual value guarantees;
- the exercise price of a purchase option if the Credit Union is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease unless the Credit Union is reasonably certain not to terminate the lease early.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is measured at amortised cost using the effective interest rate method. It is re-measured when:

- there is a change in future lease payments arising from a change in an index or rate;
- if there is a change in the estimate of the amount expected to be payable under a residual value guarantee;
- if there is a change in the Credit Union's assessment of whether it will exercise a purchase, extension or termination option: or
- if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying value of the right-of–use asset, unless the right-of-use asset has been reduced to zero in which case the adjustment is recorded in profit or loss.

Short-term leases and leases of low-value assets

As of 30th of June 2020 the Credit Union does not have any short term and low value leases.

	2020 $	**2019 $**
15. Deposits from members		
Member Deposits		
- at call	105,748,260	91,178,957
- term	88,151,746	89,784,013
Member withdrawable shares	32,490	32,530
	193,932,496	180,995,500

Concentration of member deposits

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

15. Deposits from members (continued)

	2020 $	2019 $
(ii) Geographical concentrations		
Australia		
NSW	175,216,341	164,796,461
Victoria	1,710,892	1,446,478
Queensland	5,596,844	5,201,707
South Australia	221,579	258,738
Western Australia	1,442,472	1,235,665
Tasmania	3,032,339	2,322,891
Northern Territory	13,665	96,648
ACT	2,036,753	1,622,863
Other	4,661,611	4,014,049
Total per statement of financial position	193,932,496	180,995,500

16. Creditor accruals and settlement accounts

Annual leave	65,371	69,743
Creditors and accruals	218,211	174,432
Interest payable on deposits	786,458	965,576
Sundry creditors	285,036	140,119
	1,355,076	1,349,870

17. Taxation liabilities

Current income tax liability	23,269	51,303
Current income tax liability comprises:		
Opening balance	(9,259)	(6,092)
Less: Amounts paid	(9,263)	3,167
Under/(over) statement of prior year	4	(9,259)
Liability for income tax (Note 3)	219,534	264,580
Less: Instalments paid during year	(196,265)	(213,277)
Closing balance	23,269	51,303

18. Provisions

Long service leave	337,979	306,206
Provisions – other	44,380	44,380
	382,359	350,586

19. Capital reserve account

Opening balance	25,910	25,170
Transfer from retained earnings on share redemptions	910	740
Closing balance	26,820	25,910

Share Redemption

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

20. General reserve for credit losses

	2020 $	2019 $
General reserve for credit losses	-	340,709

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.

	2020 $	2019 $
Balance beginning of the year	340,709	729,552
Other reserve for credit losses This reserve has been transferred to retained earnings, previously set aside for additional specific provision. Refer to Note 7 for assessed provisions under ECL requirements.		
(Decrease) transferred to retained earnings	(340,709)	(388,843)
Closing balance	-	340,709

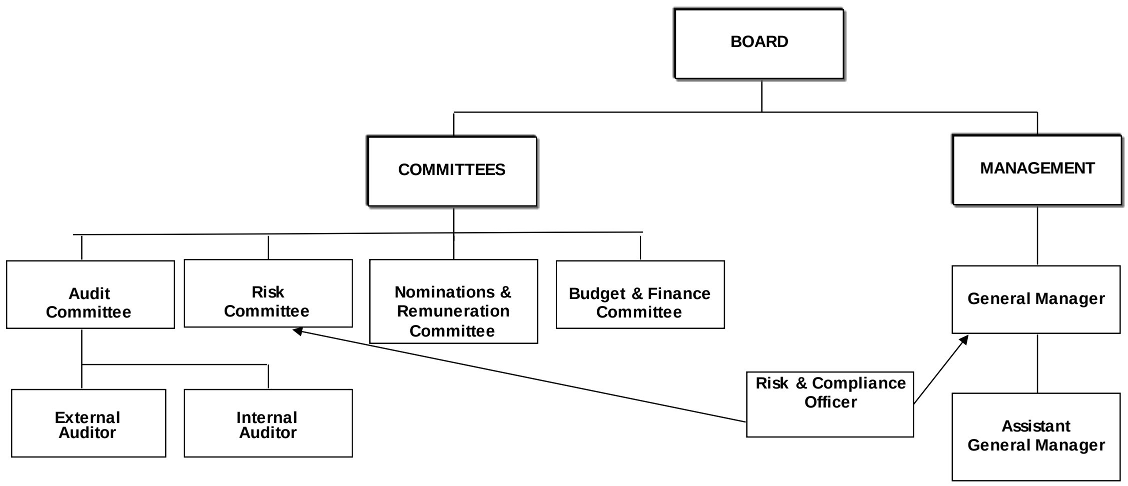
21. FVOCI Reserve

	2020 $	2019 $
Opening balance	186,856	-
Transfer of FVOCI from revaluation of Cuscal Shares	-	186,856
Closing balance	186,856	186,856

Refer 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:

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.

22. Financial risk management objectives and policies (continued)

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.

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

22. Financial risk management objectives and policies (continued)

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.

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.

22. Financial risk management objectives and policies (continued)

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 $161,032 [2019 $145,791]. 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.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;

22. Financial risk management objectives and policies (continued)

- 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:

	2020			2019		
Loans to members	**Carrying Value**	**Off balance sheet**	**Max exposure**	**Carrying Value**	**Off balance sheet**	**Max exposure**
	$	$	$	$	$	$
Mortgage	135,072,851	23,545,223	158,618,074	133,142,697	26,485,359	159,628,056
Personal	1,497,474	-	1,497,474	1,846,557	-	1,846,557
Overdrafts	893,305	1,756,269	2,649,574	806,943	1,699,161	2,506,104
Total to natural persons	137,463,630	25,301,492	162,765,122	135,796,197	28,184,520	163,980,717
Corporate borrowers	3,249,159	-	3,249,159	3,717,883	-	3,717,883
Total	**140,712,789**	**25,301,492**	**166,014,281**	**139,514,080**	**28,184,520**	**167,698,600**

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

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities). The details are shown in Note 27.

22. Financial risk management objectives and policies (continued)

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 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.

22. Financial risk management objectives and policies (continued)

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

22. Financial risk management objectives and policies (continued)

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.

	2020			2019		
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	22,204,498	-	-	19,549,501	-	-
ADI's rated above BBB	13,150,000	-	-	5,600,000	-	-
Unrated ADI's – Credit Unions/Mutuals	19,000,000	-	-	20,000,000	-	-
Total	**57,594,498**	-	-	**48,389,501**	-	-

l. Operational risk

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

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

- the segregation of duties between employee duties and functions, including approval and processing duties;

22. Financial risk management objectives and policies (continued)

- 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

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.

22. Financial risk management objectives and policies (continued)

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:

	2020	2019
Tier 1	**$**	**$**
Share capital	-	-
Capital reserve	26,820	25,910
FVOCI Reserve	186,856	186,856
Retained earnings	15,157,280	14,227,537
	15,370,956	14,440,303
Less: Prescribed deductions	(749,961)	(858,572)
Net tier 1 capital	14,620,995	13,581,731
Tier 2		
Reserve for credit losses	-	340,709
	-	340,709
Less: Prescribed deductions/adjustments	-	-
Net tier 2 capital	-	340,709
Total Capital	**14,620,995**	**13,922,440**

As at the balance date, the Credit Union's capital ratio stood at 15.78%. 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:

2020	2019	2018	2017	2016
15.78%	**16.14%**	**16.23%**	**16.54%**	**15.72%**

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

To manage the Credit Union's capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the regulator if the capital ratio falls below 14.5%. Further a 5 year capital projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

22. Financial risk management objectives and policies (continued)

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 $896,364 (2019 - $839,104).

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

Total Capital

2020	2019
$14,620,995	$13,922,440

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 (2019: Nil).

23. Categories of financial instruments

The following information classifies the financial instruments into measurement classes:

	2020 Total $	2019 Total $
Financial assets - amortised cost		
Cash and cash equivalents	6,643,852	5,815,516
Receivables from financial institutions	57,616,297	48,455,830
Receivables	86,339	183,634
Loans to members	140,669,806	139,488,743
Other loans	5,150,665	2,602,555
	210,166,959	196,546,278
Financial assets - FVOCI		
Investment securities	513,033	513,033
Total financial assets	210,679,992	197,059,311
Financial liabilities		
Creditors and settlement accounts	1,289,705	1,280,127
Deposits from members	193,932,496	180,995,500
Total financial liabilities	195,222,201	182,275,627

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.

2020	Book value $	Up to 3 months $	3-12 months $	1-5 years $	After 5 years $	No Maturity $	Total cash flows $
ASSETS							
Cash & cash equivalents	6,643,852	6,569,958	-	-	-	73,894	6,643,852
Receivables from financial Inst.	57,616,297	27,522,904	5,246,319	25,797,476	-	-	58,566,699
Receivables	86,339	-	-	-	-	86,339	86,339
Loans to members	140,669,806	2,659,401	7,808,120	39,425,786	143,625,865	-	193,519,172
Other loans	5,150,665	93,775	206,898	2,189,939	6,043,607	-	8,534,219
Investment securities	513,033	-	-	-	-	513,033	513,033
Total financial assets	**210,679,992**	**36,846,038**	**13,261,337**	**67,413,201**	**149,669,472**	**673,266**	**267,863,314**
LIABILITIES							
Creditors & settlements	1,289,705	1,289,705	-	-	-	-	1,289,705
Deposits from members	193,932,496	144,767,684	47,539,660	3,983,989	-	-	196,291,333
	195,222,201	146,057,389	47,539,660	3,983,989	-	-	197,581,038
Undrawn loan commitments	25,301,493	25,301,493	-	-	-	-	25,301,493
Total financial liabilities	**220,523,694**	**171,358,882**	**47,539,660**	**3,983,989**	**-**	**-**	**222,882,531**

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	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 & settlements	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
	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**

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.

	2020			**2019**		
	Within 12 months	**After 12 months**	**Total**	**Within 12 months**	**After 12 months**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
FINANCIAL ASSETS						
Cash & cash equivalents	6,643,852	-	6,643,852	5,815,516	-	5,815,516
Receivables from financial institutions	33,166,297	24,450,000	57,616,297	33,455,830	15,000,000	48,455,830
Receivables	86,339	-	86,339	183,634	-	183,634
Loans to members	40,970,393	99,699,413	140,669,806	11,609,325	127,879,418	139,488,743
Other loans	3,493,079	1,657,586	5,150,665	2,602,555	-	2,602,555
Investment securities	-	513,033	513,033	-	513,033	513,033
Total financial assets	**84,359,960**	**126,320,032**	**210,679,992**	**53,666,860**	**143,392,451**	**197,059,311**
FINANCIAL LIABILITIES						
Creditors & settlements	1,289,705	-	1,289,705	1,280,127	-	1,280,127
Deposit from members	169,227,851	24,704,645	193,932,496	158,015,365	22,980,135	180,995,500
Total financial liabilities	**170,517,556**	**24,704,645**	**195,222,201**	**159,295,492**	**22,980,135**	**182,275,627**

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 $
2020						
ASSETS						
Cash & cash equivalents	6,569,958	-	-	-	73,894	6,643,852
Receivables from financial Institutions	22,744,498	33,871,799	1,000,000	-	-	57,616,297
Receivables	-	-	-	-	86,339	86,339
Loans to members	77,157,497	7,790,305	14,751,611	40,970,393	-	140,669,806
Other loans	3,493,079	-	-	1,657,586	-	5,150,665
Investment securities	-	-	-	-	513,033	513,033
Total financial assets	**109,965,032**	**41,662,104**	**15,751,611**	**42,627,979**	**673,266**	**210,679,992**
LIABILITIES						
Creditors & settlements	-	-	-	-	1,289,705	1,289,705
Deposits from members	87,222,015	28,482,241	53,491,105	24,704,645	32,490	193,932,496
	87,222,015	28,482,241	53,491,105	24,704,645	1,322,195	195,222,201
Undrawn loan commitments	25,301,493	-	-	-	-	25,301,493
Total financial liabilities	**112,523,508**	**28,482,241**	**53,491,105**	**24,704,645**	**1,322,195**	**220,523,694**
2019						
ASSETS						
Cash & cash equivalents	5,708,298	-	-	-	107,218	5,815,516
Receivables from financial Institutions	16,989,501	31,466,329	-	-	-	48,455,830
Receivables	-	-	-	-	183,634	183,634
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	-	-	-	-	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
	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**

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.

	2020			2019		
	Fair Value	**Carrying Value**	**Variance**	**Fair Value**	**Carrying Value**	**Variance**
	$	**$**	**$**	**$**	**$**	**$**
FINANCIAL ASSETS						
Cash & cash equivalents	6,643,852	6,643,852	-	5,815,516	5,815,516	-
Receivables from financial institutions	57,616,297	57,616,297	-	48,455,830	48,455,830	-
Receivables	86,339	86,339	-	183,634	183,634	-
Loans to members	140,083,667	140,669,806	(586,139)	139,215,372	139,488,743	(273,371)
Other loans	5,150,665	5,150,665	-	2,602,555	2,602,555	-
Investment securities	513,033	513,033	-	513,033	513,033	-
Total financial assets	210,093,853	210,679,992	(586,139)	196,785,940	197,059,311	(273,371)
FINANCIAL LIABILITIES						
Creditors & settlements	1,289,705	1,289,705	-	1,280,127	1,280,127	-
Deposits from members	193,416,365	193,932,496	(516,131)	180,815,417	180,995,500	(180,083)
Total financial liabilities	194,706,070	195,222,201	(516,131)	182,095,544	182,275,627	(180,083)

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.

		2020 $	2019 $
27.	**Financial commitments**		
a.	**Outstanding loan commitments**		
	Loans approved but not funded	2,428,974	3,387,320
b.	**Loan redraw facilities**		
	Loan redraw facilities available	21,116,250	23,098,039
c.	**Undrawn loan facilities**		
	Loan facilities available to members for overdrafts and line of credit loans are as follows:		
	Total value of facilities approved	2,649,574	2,506,104
	Less: Amount advanced	(893,305)	(806,943)
	Net undrawn value	1,756,269	1,699,161

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

		2020	2019
	Total financial commitments	**25,301,493**	**28,184,520**
d.	**Computer licence commitments**		
	The costs committed under contracts with Ultradata are as follows:		
	Not later than one year	211,104	187,404
	Later than 1 year but not 5 years	241,725	310,629
	Later than 5 years	-	-
		452,829	498,033

As of 1st of July 2019 AASB16 require lease commitments for both building and equipment to be reclassified as Capital Leases. Refer Note 14.

		2020	2019
e.	**Lease expense commitments**		
	Not later than one year	-	109,740
	Later than 1 year but not 5 years	-	285,450
	Later than 5 years	-	-
		-	395,190

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.

27. Financial commitments (continued)

	2020 $	2019 $
f. Other expense commitments		
Not later than one year	-	6,006
Later than 1 year but not 5 years	-	8,509
Later than 5 years	-	-
	-	14,515

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 $
2020			
Overdraft facility	500,000	-	500,000
Total standby borrowing facilities	500,000	-	500,000
2019			
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.

		2020 Total $	**2019 Total $**
(a)	short-term employee benefits;	382,490	380,846
(b)	post-employment benefits - superannuation contributions	53,081	55,556
(c)	other long-term benefits – net increases in long service leave provision	13,684	10,356
(d)	termination benefits;	-	-
(e)	share-based payment.	-	-
	Total	**449,255**	**446,758**

In the above table, remuneration shown as short-term benefits means (where applicable) wages, salaries and superannuation 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:

	2020 $			2019 $		
	Mortgage secured	Other term loans	Revolving Credit	Mortgage secured	Other term loans	Revolving Credit
Funds available to be drawn	-	-	51,500	-	-	51,500
Balance	2,968,157	-	-	3,091,014	-	-
Amounts disbursed or facilities increased in the year	164,870	-	-	1,358,956	-	-
Interest and other revenue earned	96,280	-	-	86,377	-	-

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

	2020 $	2019 $
Total value term and savings deposits from KMP	1,695,401	1,413,904
Total interest paid on deposits to KMP	12,007	18,972

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	2020 $	2019 $
Reconciliation of cash			
Cash comprises:			
Cash on hand		73,894	107,218
Deposits at call with other financial institutions		6,569,958	5,708,298
Total cash		6,643,852	5,815,516

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	2020 $	2019 $
Profit after income tax		589,944	745,947
Add/(Deduct):			
Increase in provision for loans	2.d	8,694	48,512
Bad debts written off		50,385	52,962
Depreciation expense	2.e	131,616	20,643
Fixed assets written off		-	15,454
Amortisation of intangible assets	13	156,560	159,077
Gain on sale of assets		-	(3,912)
Increase in provisions for staff leave		27,401	7,822
(Decrease) in provision for income tax		(28,034)	(6,584)
Increase/(Decrease) in accrued expenses		43,779	(6,595)
(Increase) in prepayments		(45,643)	(17,263)
Decrease in other provisions		(1,392)	(8,979)
(Decrease)/Increase in interest payable		(179,118)	53,996
Decrease/(Increase) in deferred tax assets		6,557	(2,908)
Decrease/(Increase) in interest receivable		97,295	(15,716)
Net cash from revenue activities		858,044	1,042,456
(Increase) in member loans (net movement)		(1,198,709)	(1,994,447)
(Increase) in other loans (net movement)		(2,589,543)	(152,783)
Increase in member deposits & shares (net movement)		13,081,915	13,567,301
(Increase) in deposits to other financial institutions (net)		(9,160,467)	(13,513,433)
Net cash flows from operating activities		(991,240)	(1,050,906)

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

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

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.