



2018
Annual Financial Report

Registered Office:
13 Auburn Street
Wollongong NSW 2500

Chairman's Report

Dear Valued Members,

On behalf of the Board of Directors, it gives me great pleasure to present to you the Lysaght Credit Union 2018 Annual Report detailing yet another successful year.

Last year I reported that Lysaght Credit Union performed strongly despite an environment of slow economic growth, tight interest margins and low inflation. I am pleased to advise this strong performance has continued this year. Your credit union's staff and directors take stewardship of your funds very seriously and I can report your credit union has achieved an after tax profit of \$276,602.

While this result may seem modest in comparison to the profits reported by the large authorised deposit taking institutions (ADIs), it is a significant achievement for a mutual organisation. As a mutual Lysaght Credit Union exists with the purpose of serving you. It is owned by, and run for the benefit of, its members - it has no external shareholders to pay in the form of dividends, and as such does not seek to make large profits or capital gains but rather to keep fees as low as possible and interest rates competitive.

This year's record result is especially noteworthy given the contraction being observed in the Mutual Banking area. There has been a number of mergers of mutuals driven by difficult economic circumstances, an extraordinary level of competition and an inability to meet the regulatory compliance required to operate independently. In Australia the number of mutuals has reduced from 103 in 2012 to 48 credit unions, 3 mutual building societies and 23 mutual banks (a total of 74) in 2018.

The board have also been monitoring the trend of credit unions registering to change their trading names with the Australian Prudential Regulation Authority (APRA). Data released by the Customer Owned Banking Association (COBA), shows that mutual banks are becoming more commonplace in Australia despite the fact that credit unions and banks are regulated under the *Banking Act* by the same regulatory bodies.

Research suggests that the term "credit union" lacks brand clarity and contributes to an industry wide decline in membership. This confusion has led some credit unions to rebrand changing their name to mutual bank. While Lysaght Credit union enjoys a loyal, active membership we have not achieved our membership growth objectives. The board continues to monitor this industry wide trend in membership reduction and are focused on retaining current members and attracting new members by continuing to provide great products and exemplary service.

Your credit union is constantly reviewing how products and services can be delivered efficiently without reducing the level of service provided. A key pillar in this strategy is the delivery of efficiency improvements through technology. The credit union's APP which was released in August 2017 was designed to be easy and convenient to use. It has been positively received and has been downloaded by over 20% of members since it was released. The Visa Debit Card with Paywave technology is now one of the members most popular methods of payment with the number of transactions increasing each month. Conversely, ATM transactions continue to decline. A recent change announced by the major banks regarding the elimination of direct charges at ATM's has

significantly changed the ATM landscape. We continue to monitor this area and will keep you informed of any future changes.

The Banking Industry has come under intense scrutiny this year by the Banking Royal Commission. There have been a number of incidents reported and the outcomes and learnings from the Commission should produce a much more transparent industry. While many of the incidents reported in the Commission do not relate to Lysaght Credit Union, we cannot become complacent. Our interactions with members are the cornerstone of our credit union and we must continue to operate in an honest, professional manner and with a positive member service culture.

As Chairman I am most fortunate in working with a Board of exceptional directors with diverse skill sets. All with strong commercial and professional backgrounds, personal high standards and continued commitment to the values of the Credit Union. I would like to thank my fellow Directors for their focus, time and energy and their continued support.

Key to the success of your credit union is the management and staff. On behalf of the Board, I thank the Manager Paul Dwyer for his professional, dedicated service and his leadership of a great team who continue to provide exemplary personalised service to our Members.

Your credit union is well governed, well managed and well positioned to face the challenges of the future in a highly competitive and highly regulated industry. On behalf of the Board I thank YOU the members for your continued support as we look forward to continuing to serve you.

Vicki Anderson
Chairman - Lysaght Credit Union

Director's Report

Your directors present their report on the Credit Union for the financial year ended 31st March 2018. The Credit Union is a company registered under the *Corporations Act 2001*.

Information on Directors

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

Name	Position	Qualifications	Experience	Responsibilities
R. Newman	Director	Consultant	Board member since 1982	1 withdrawable share
P. Daly	Director	Consultant	Board member since 1992	1 withdrawable share
K. Jones	Director	Consultant	Board member since 2006	1 withdrawable share
M. Grantham	Director	Consultant	Board member since 1993	1 withdrawable share
V. Anderson	Chairman	Chief Information Officer - Catholic Education Network	Board member since 2011	1 withdrawable share
C. Martignago	Director	Manager Organisational Development - BlueScope Steel	Board member since 2012	1 withdrawable share
V. Tomeski	Director	Senior Regional Controller at Holcim ANZ	Board member since 2016	1 withdrawable share

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

Name	Qualifications	Experience
P. Dwyer	Manager	Manager since 1996

Directors' meeting attendance

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

Director	Board		ALCO		Audit		Risk		Remun.		Period of appointment
	H	A	H	A	H	A	H	A	H	A	
R. Newman	12	9	12	9	3	3	2	2	0	0	3 years expiring 2018
P. Daly	12	12	12	12	3	3	2	2	0	0	3 years expiring 2020
K. Jones	12	10	12	10	3	2	2	1	0	0	3 years expiring 2019
M. Grantham	12	8	12	8	3	1	2	2	0	0	3 years expiring 2020
V. Anderson	12	7	12	7	3	2	2	1	0	0	3 years expiring 2019
C. Martignago	12	11	12	10	3	3	2	2	0	0	3 years expiring 2018
V. Tomeski	12	10	12	10	3	3	2	2	0	0	3 years expiring 2018

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, 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.

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 Group for the year after providing for income tax was \$276,602 [2017: \$231,810]

Dividends

No dividends have been paid or declared 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 operations

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

Significant changes in state of affairs

There were no significant changes in the state of the affairs of the Credit Union during the year.

Events occurring after the end of the reporting date

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

Likely developments and results

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

- 1 The operations of the Credit Union;
- 2 The results of those operations; or
- 3 The state of affairs of the Credit Union

in the financial years subsequent to this financial year.

Auditors independence

The auditors have provided the declaration of independence to the Board as prescribed by the Corporations Act 2001 as set out on page 6.

Rounding

Certain amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with Legislative Instrument 2016/191, issued 24 March 2016 by the Australian Securities and Investments Commission.

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:

Vicki Anderson
Chairman

Paul Daly
Audit Committee Chairman

Signed and dated this 24th day of July 2018.

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Lysaght Credit Union Ltd for the year ended 31 March 2018, I declare that, to the best of my knowledge and belief, there have been:

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



A Sheridan
Partner – Audit & Assurance

Sydney, 24 July 2018

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Lysaght Credit Union Ltd (the Company), which comprises the statement of financial position as at 31 March 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a. Giving a true and fair view of the Company's financial position as at 31 March 2018 and of its performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *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 report for the year ended 31 March 2018, but does not include the financial report and our auditor's report thereon.

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

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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 intends to liquidate the Company or to cease operations, or has 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 AUDIT PTY LTD
Chartered Accountants



A Sheridan
Partner – Audit & Assurance

Sydney, 24 July 2018

Directors' Declaration

In the opinion of the Directors of Lysaght Credit Union Ltd:

- a. the financial statements and notes of Lysaght Credit Union Ltd are in accordance with the *Corporations Act 2001*, including
 - i giving a true and fair view of its financial position as at 31st March 2018 and of its performance for the financial year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b. there are reasonable grounds to believe that Lysaght Credit Union Ltd will be able to pay its debts as and when they become due and payable.
- c. The financial statements comply with International Financial Reporting Standards as stated in Note 1.

Signed in accordance with a resolution of the Directors:

Vicki Anderson
Director

Paul Daly
Director

Dated this 24th day of July 2018.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st March 2018

	Note	2018 \$	2017 \$
Interest revenue	2(a)	3,058,290	3,097,248
Interest expense	2(c)	(1,103,428)	(1,295,548)
Net interest income		<u>1,954,862</u>	<u>1,801,700</u>
Fees, commission and other income	2(b)	189,973	222,612
Sub total		<u>2,144,835</u>	<u>2,024,312</u>
Non-interest expenses			
Impairment losses on loans receivable from members	2(d)	113	3,135
Fee and commission expenses		420,589	399,728
General administration:			
- Employees compensation and benefits		781,105	741,503
- Depreciation and amortisation	2(e)	125,737	105,026
- Information technology		100,492	92,605
- Office occupancy		59,480	64,407
- Other administration		52,632	65,668
Other operating expenses		233,638	230,804
Total non-interest expenses		<u>1,773,786</u>	<u>1,702,876</u>
Profit before income tax		371,049	321,436
Income tax expense	3	94,447	89,626
Profit after income tax		<u>276,602</u>	<u>231,810</u>
Other comprehensive Income, net of income tax		-	-
Total comprehensive income for the period		<u>276,602</u>	<u>231,810</u>

Note: This statement should be read in conjunction with the notes to the financial statements.

Statement of Changes in Member Equity

For the year ended 31 March 2018

	Capital Redemption Reserve	General Reserve For Credit Losses	Retained Earnings	Total
Total at 1st April 2016	4,940	435,000	6,952,643	7,392,583
Total net profit for the year - as reported	-	-	231,810	231,810
Other Comprehensive Income	-	-	-	-
Transfers (to) from reserves				
Transfer from Retained Profits	-	-	-	-
Transfer to capital account on redemption of shares	214	-	-	214
Total at 31st March 2017	5,154	435,000	7,184,453	7,624,607
Total net profit for the year - as reported	-	-	276,602	276,602
Other comprehensive income	-	-	-	-
Transfers to (from) reserves				
Transfer to reserve for credit losses in year	-	-	-	-
Transfer to capital account on redemption of shares	232	-	-	232
Total at 31st March 2018	5,386	435,000	7,461,055	7,901,441

Note: This statement should be read in conjunction with the notes to the financial statements.

Statement of Financial Position

As at 31 March 2018

	Note	2018 \$	2017 \$
ASSETS			
Cash	4	4,637,353	4,865,210
Liquid investments	5	12,855,204	17,219,883
Receivables	6	206,992	142,450
Loans to members	7 & 8	63,109,657	60,515,140
Available for sale equity investments	9	126,283	126,283
Property, plant and equipment	10	322,480	354,184
Taxation assets	11	32,288	43,698
Intangible assets	12	74,125	135,388
TOTAL ASSETS		81,364,382	83,402,236
LIABILITIES			
Deposits from members	13	72,769,288	75,215,863
Creditor accruals and settlement accounts	14	594,013	471,199
Taxation liabilities	15	19,976	9,746
Provisions	16	77,783	78,940
Deferred tax liabilities	17	1,881	1,881
TOTAL LIABILITIES		73,462,941	75,777,629
NET ASSETS		7,901,441	7,624,607
MEMBERS' EQUITY			
Capital redemption reserve account	18	5,386	5,154
General reserve for credit losses	19	435,000	435,000
Retained earnings		7,461,055	7,184,453
TOTAL MEMBERS' EQUITY		7,901,441	7,624,607

Note: This statement should be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

For the year ended 31 March 2018

	Note	2018 \$	2017 \$
OPERATING ACTIVITIES			
Revenue inflows			
Interest received		3,074,910	3,100,869
Fees and commissions		68,166	54,836
Dividends		20,799	20,599
Other income		100,753	161,292
Revenue outflows			
Interest paid		(1,098,062)	(1,312,531)
Suppliers and employees		(1,639,356)	(1,587,262)
Income taxes paid		(84,217)	(77,833)
Net cash from revenue activities	32(b)	<u>442,993</u>	<u>359,970</u>
Inflows from other operating activities			
Decrease in member loans (net movement)		-	-
Increase in member deposits and shares (net movement)		-	712,573
Decrease in deposits to other FI's (net)		4,364,679	5,775,074
Outflows from other operating activities			
Increase in members loans (net movement)		(2,593,773)	(9,501,734)
Decrease in member deposits and shares (net movement)		(2,409,219)	-
Increase in Deposits to other FI's		-	-
Net cash from other operating activities		<u>(638,313)</u>	<u>(3,014,087)</u>
NET CASH FROM ALL OPERATING ACTIVITIES	32(b)	<u>(195,320)</u>	<u>(2,654,117)</u>
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of investments in shares		-	-
Proceeds on sale of property, plant and equipment		-	-
Outflows			
Purchase of intangible assets		(7,674)	(89,297)
Purchase of property plant and equipment		(25,095)	(10,549)
NET CASH FROM INVESTING ACTIVITIES		<u>(32,769)</u>	<u>(99,846)</u>
FINANCING ACTIVITIES			
Outflows			
Redemption of member shares		232	214
NET CASH FROM FINANCING ACTIVITIES		<u>232</u>	<u>214</u>
Total net cash (decrease) / increase		(227,857)	(2,753,749)
Cash at beginning of year		4,865,210	7,618,959
Cash at end of year	32(a)	<u><u>4,637,353</u></u>	<u><u>4,865,210</u></u>

Note: This statement should be read in conjunction with the notes to the financial statements

Notes to the Financial Statements

For the year ended 31 March 2018

1.0 Statement of significant accounting policies

This financial report is prepared for Lysaght Credit Union Ltd, for the year ended the 31 March 2018. The report was authorised for issue on 24th July 2018 with a resolution of the Board of directors. The financial report is presented in Australian dollars.

Lysaght Credit Union Ltd is a Proprietary Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is 13 Auburn St Wollongong NSW 2500.

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. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Lysaght Credit Union Ltd is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of measurement

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

b. Classification and subsequent measurement of financial assets

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial 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.

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

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

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

1.0 Statement of significant accounting policies continued

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

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

Loans and receivables

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

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

Financial assets at FVTPL

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

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

Held To Maturity (HTM) investments

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

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

1.0 Statement of significant accounting policies continued

Available-for-sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's AFS financial assets and the equity investments in Cuscal Limited and TransAction Solutions Ltd are included in this category.

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

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

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

c. Classification and subsequent measurement of financial liabilities

The Credit Union's financial liabilities include borrowings, member deposits, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

d. 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.

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 by the 15th day of each month.

1.0 Statement of significant accounting policies continued

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

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.

Net gains and losses

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

e. Loan impairment

Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8. Note 20 details the credit risk management approach for loans.

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

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

Reserve for credit losses

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

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

1.0 Statement of significant accounting policies continued

Renegotiated loans

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

f. 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 profit or loss.

g. Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to profit or loss. Revaluation decreases are debited to profit or loss unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

Property, plant and equipment, with the exception of freehold land, 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:

- Buildings - 40 years
- Leasehold improvements - 10 years
- Plant and equipment - 3 to 7 years
- Assets less than \$300 are not capitalised.

h. Receivables from other financial institutions

Term deposits 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.

i. Equity investments and other securities

Investments in marketable financial instruments

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

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

1.0 Statement of significant accounting policies continued

Investments in shares

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

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

Movements in available-for-sale asset balances are reflected in equity through the available-for-sale reserve. All investments are in Australian currency.

j. Member deposits

Basis for measurement

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

Interest payable

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

k. 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 profit or loss over the period of the loans and borrowings using the effective interest method.

l. Provision for employee benefits

The Credit Union has an arrangement with BlueScope for the supply of staff to meet the Credit Union needs. Costs are paid to BlueScope as incurred, including most leave entitlements.

m. Income tax

The income tax expense shown in 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% (2017: 30%).

1.0 Statement of significant accounting policies continued

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

n. Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets. Computer software is amortised over the expected useful life of the software. These lives range from 2 to 3 years.

o. Goods and services tax (GST)

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

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

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

p. Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

q. Impairment of assets

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

1.0 Statement of significant accounting policies continued

r. Accounting estimates and judgements

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

s. New standards applicable for the current year

There were no new or revised accounting standards applicable for financial years commencing from 1 April 2017 that had any significant impact on the financial statements of the Credit Union.

t. Rounding of amounts

Certain amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with Legislative Instrument 2016/191, issued 24 March 2016 by the Australian Securities and Investments Commission.

u. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 31st March 2018 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Credit Union have not been reported.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 Financial Instruments (December 2014)	<p>The new standard replaces AASB 139 and supersedes AASB 9 versions previously issued in December 2009 and December 2010. It amends the requirements for classification and measurement of financial assets. AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.</p> <p>Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. Recognition of credit losses are to no longer be dependent on the Credit Union first identifying a credit loss event. The Credit Union will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.</p>	Periods beginning on or after 1 January 2018.	<p>The Credit Union has carried out a preliminary assessment of the impact of the new standard. The classification and measurement of financial assets is expected to remain largely unchanged with Held To Maturity investments to be reclassified to amortised cost category and the CUSCAL and TAS Shares reclassified as Fair Value Through Other Comprehensive Income.</p> <p>The new expected loss impairment model will require more timely recognition of expected credit losses. The Credit Union currently applies the provisioning requirements in APS220 and also carries an additional provision for possible future credit losses. As a result, the application of the new standard is unlikely to have a significant impact.</p>
AASB 15 Revenue from Contracts with Customers	<p>Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue.</p> <p>AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard replaces AASB 118 Revenue, AASB 111 Construction Contracts and related revenue interpretations.</p>	Periods beginning on or after 1 January 2018.	Based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted, as most of the Credit Union's revenue arises from the provision of financial services which are governed by AASB 9 Financial Instruments. Few revenue transactions of the Credit Union are impacted by the new standard.

LYSAGHT CREDIT UNION LTD

ABN 79 087 650 226

Financial report for the year ended 31 March 2018

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 16 <i>Leases</i> <i>Replaces AASB 117</i>	AASB 16: replaces AASB 117 <i>Leases</i> and some lease-related Interpretations ; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019	<p>The Credit Union is yet to undertake a detailed assessment of the impact of AASB 16.</p> <p>However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 31 March 2020, since the Credit Union owns its premises and other operating leases are minimal.</p>

	2018 \$	2017 \$
2. Statement of profit or loss and other comprehensive income		
(a) Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash - deposits at call	58,922	90,229
Receivables from financial institutions	329,261	472,191
Loans to members	2,670,107	2,534,828
Total income from receivables	3,058,290	3,097,248
(b) Fee, commission and other income		
Fee and commission revenue		
Fee income on loans - other than loan origination fees	9,958	12,540
Fee Income from member deposits	54,565	67,272
Other fee income	4,418	14,194
Insurance commissions	1,053	1,457
Other commissions	40,951	40,337
Total fee and commission income	110,945	135,800
Other income		
Dividends received on available for sale equity assets	20,799	20,599
Bad debts recovered	16,205	501
Income from property (rental income)	26,920	30,002
Gain on disposal of assets		
- Property, plant and equipment		-
Miscellaneous revenue	15,104	35,710
Total Other income	79,028	86,812
Total fee, commission and other income	189,973	222,612
(c) Interest expenses		
Short term borrowings	1,524	2,487
Deposits from members	1,101,904	1,293,061
Total interest expense	1,103,428	1,295,548
(d) Impairment losses		
Loans and advances		
Increase in provision for impairment	-	3,000
Bad debts written off directly against profit	113	135
Total impairment losses	113	3,135

	2018 \$	2017 \$
2. Statement of profit or loss and other comprehensive income continued		
(e) Other prescribed disclosures		
General administration - depreciation expense includes:		
- Buildings	9,903	9,904
- Plant and equipment	46,897	40,342
Sub Total	56,800	50,246
General administration - amortisation expense includes:		
- Amortisation of software	68,937	54,780
Sub Total	68,937	54,780
TOTAL DEPRECIATION AND AMORTISATION	125,737	105,026
General administration - employees costs includes:		
- Net movement on provisions for A/L and LSL	(1,065)	2,618
General administration - other administration includes:		
- Loss on disposal of assets	-	4,898
Other operating expenses includes:		
- Increase in provision for fraud	-	5,400
- Increase in other provisions	-	13,400
	-	18,800
Auditor's remuneration (excluding GST)		
- Audit fees	48,475	47,170
- Other services - taxation	6,000	5,150
- Other services - compliance	2,325	2,165
	56,800	54,485

	2018 \$	2017 \$
3. Income tax expense		
(a) The income tax expense comprises amounts set aside as:		
Current tax payable	99,674	78,717
Deferred tax expense movement	(1,149)	14,639
Adjustments for previous years	(16,637)	2,093
Total current income tax expense	81,888	95,449
Deferred Tax Expense:		
Adjustment to Opening Balance of Deferred Tax Asset (DTA)	9,728	(5,823)
Adjustment to DTA due to change in tax rate	2,831	-
Total income tax expense in income statement	94,447	89,626
(b) The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	371,049	321,436
Prima facie tax payable on profit before income tax at 27.5% (2017: 30%)	102,039	96,430
Add tax effect of expenses not deductible:		
- Dividend imputation adjustment	2,451	2,648
- Other non-deductible expenses	2,949	3,106
Subtotal	107,439	102,184
Less:		
- Imputation credits	(8,914)	(8,828)
- Under/(Over) provision for tax in previous year	(16,637)	2,093
Add:		
- DTA movement related to previous year	9,728	(5,823)
- DTA movement due to change in tax rate	2,831	-
Income tax expense attributable to current year profit	94,447	89,626
(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 is:	1,865,405	1,696,847
The franking credits will only be available if the Credit Union is able to pay dividends to members.		

	2018 \$	2017 \$
4. Cash		
Cash on hand	61,453	94,421
Deposits at call	4,575,900	4,770,789
Total	4,637,353	4,865,210
5 Liquid investments		
(a) Investments at amortised cost		
Hold to Maturity		
Negotiable Certificates of Deposits	4,974,329	8,053,091
Floating Rate Notes	3,006,609	2,512,250
Receivables		
Term deposits / 31 Day Notice Accounts	4,874,266	6,654,542
Total	12,855,204	17,219,883
(b) Dissection of receivables		
Deposits with CUSCAL (refer Note 9, 28 and 30a)	1,620,000	1,000,000
Deposits with other financial institutions	-	1,000,000
Deposits with banks	3,254,266	4,654,542
Total	4,874,266	6,654,542
Amounts expected to be repaid within 12 months are as described in Note 23.		
6. Receivables		
Interest receivable on deposits with other financial institutions	45,571	61,680
Prepayments	5,849	9,966
Sundry debtors and settlement accounts	155,572	70,804
Total	206,992	142,450
7. Loans to members		
(a) Amount due comprises:		
Overdrafts and revolving credit	42,411	35,939
Term loans	63,036,830	60,448,530
Subtotal	63,079,241	60,484,469
Add:		
Unamortised loan origination fees	52,615	52,870
Subtotal	63,131,856	60,537,339
Less:		
Provision for impaired loans (Note 8)	(22,199)	(22,199)
Total	63,109,657	60,515,140

	2018 \$	2017 \$
7. Loans to members continued		
(b) Credit quality - Security held against loans		
Secured by mortgage over real estate	59,447,351	56,689,217
Secured other	3,864	36,009
Partly secured by goods mortgage	3,000,517	2,953,039
Wholly unsecured	627,509	806,204
Total	63,079,241	60,484,469
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:		
– Loan to valuation ratio of less than 80%	57,733,028	54,625,716
– Loan to valuation ratio of more than 80% but mortgage insured	-	634,916
– Loan to valuation ratio of more than 80% and not mortgage insured	1,714,323	1,428,585
Total	59,447,351	56,689,217
(c) Concentration of loans		
(i) Loans to Individual or related groups of members which exceed 10% of reserves in aggregate	10,996,433	9,178,221
Total	10,996,433	9,178,221
(ii) Loans to members are predominantly concentrated to individuals employed in the Steel Industry.		
(iii) Geographical concentrations		
NSW		
- Illawarra	51,010,172	48,828,706
- Sydney region	4,285,478	4,499,713
- Other NSW country areas	1,437,835	1,282,469
Victoria	1,946,837	1,839,947
Queensland	2,466,635	2,123,298
Western Australia	1,501,322	1,470,531
ACT	368,541	368,967
South Australia	62,421	70,838
Total per statement of financial position	63,079,241	60,484,469

	2018 \$	2017 \$
7. Loans to members continued		
Concentration of loans by purpose		
Loans to natural persons		
- Residential loans and facilities	41,528,327	38,715,799
- Personal loans and facilities	20,482,193	20,914,593
- Business loans and facilities	1,068,721	854,077
Loans to natural persons	<u>63,079,241</u>	<u>60,484,469</u>
8. Provision on impaired loans		
(a) Total provision comprises		
Collective provisions	20,847	22,186
Individual specific provisions	<u>1,352</u>	<u>13</u>
Total Provision	<u>22,199</u>	<u>22,199</u>
(b) Movement in the collective provision		
Balance at the beginning of year	22,186	27,898
Add/(deduct):		
- Transfers from (to) profit or loss	(1,339)	3,106
- Bad debts written off provision	<u>-</u>	<u>(8,818)</u>
Balance at end of year	<u>20,847</u>	<u>22,186</u>
Movement in the individual specific provision		
Balance at the beginning of year	13	119
Add/(deduct):		
- Transfers from (to) profit or loss	1,339	(106)
- Bad debts written off provision	<u>-</u>	<u>-</u>
Balance at end of year	<u>1,352</u>	<u>13</u>
Details of credit risk management are set out in Note 20.		
(c) Impaired loans written off		
Amounts written off against the provision for impaired loans	-	8,818
Amounts written off directly to expense	<u>113</u>	<u>135</u>
Total bad debts	<u>113</u>	<u>8,953</u>
Bad debts recovered in the period	<u>16,205</u>	<u>501</u>

8. Provision on impaired loans continued

(d) Analysis of loans that are impaired or potentially impaired by class

In the note below -

- Carrying Value is the amount of the Statement of Financial Position;
- Impaired loans value is the 'on statement of financial position' loan balances which are past due by 90 days or more;
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.

	Carrying Value	Value of Impaired / Potentially Impaired Loans	Provision for Impairment	Carrying Value	Value of Impaired / Potentially Impaired Loans	Provision for Impairment
	2018	2018	2018	2017	2017	2017
	\$	\$	\$	\$	\$	\$
<u>Loans to members</u>						
Mortgages	59,447,352	-	-	56,689,217	-	-
Personal	3,589,478	91,459	21,759	3,759,313	56,419	22,186
Overdrafts	42,411	1,100	440	35,939	31	13
Total to natural persons	63,079,241	92,559	22,199	60,484,469	56,450	22,199
Corporate borrowers	-	-	-	-	-	-
Total	63,079,241	92,559	22,199	60,484,469	56,450	22,199

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

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

	2018 Carrying Value	2018 Provision	2017 Carrying Value	2017 Provision
	\$	\$	\$	\$
31 to 90 days in arrears	-	-	-	-
90 to 180 days in arrears	2,280	912	-	-
180 to 270 days in arrears	-	-	-	-
270 to 365 days in arrears	-	-	-	-
Over 365 days in arrears	-	-	-	-
Over limit facilities over 14 days	1,100	440	31	13
Total	3,380	1,352	31	13

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the reporting date due to the variety of assets and condition.

8. Provision on impaired loans continued

(f) Loans with repayments past due but not regarded as impaired

There are loans with a value of \$811,825 past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the reporting date due to the variety of assets and condition.

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

	0-<3 Mnths	3-<6 Mnths	6-<12 Mnths	> 1 Year	Total
2018	\$	\$	\$	\$	\$
Mortgage secured	570,158	241,667	-	-	811,825
Personal loans	87,685	-	-	-	87,685
Overdrafts	701	-	-	-	701
Total	658,544	241,667			900,211

2017	\$	\$	\$	\$	\$
Mortgage secured	818,730	-	-	-	818,730
Personal loans	263,267	-	-	-	263,267
Overdrafts	640	-	-	-	640
Total	1,082,637	-	-	-	1,082,637

Key assumptions in determining the provision for impairment

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

Period of impairment	% of balance
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 365 days	80
Over 365 days	100

	Note	2018 \$	2017 \$
9. Available for sale investments			
Shares in unlisted companies - at cost			
- CUSCAL		126,283	126,283
- Transaction Solutions Limited (TAS)		4,150	4,150
Total value of investments		130,433	130,433
Less provisions for impairment			
- Transaction Solutions Limited (TAS)		(4,150)	(4,150)
TOTAL INVESTMENTS NET OF PROVISION		126,283	126,283

(a) Disclosures on shares held at cost valued with unobservable inputs

CUSCAL Limited

The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies services to the member organisations which are all mutual banks and credit unions. The Credit Union holds shares in Cuscal to enable the Credit Union to receive essential banking services - refer to Note 30. The shares are able to be traded but within a market limited to other mutual ADI's.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily. The net dividend return in FY 2018 was 8.5 cents per share. Management has determined that the cost value of \$0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale.

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

Transaction Solutions Limited (TAS)

The shareholding in TAS is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member Credit Union's and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential Information Technology services.

	2018 \$	2017 \$
10. Property, plant and equipment		
(a) Fixed assets		
Land - at cost	123,000	123,000
Buildings - at cost	302,081	302,081
Less: accumulated depreciation	(160,201)	(150,298)
	<u>141,880</u>	<u>151,783</u>
Total land & buildings	<u>264,880</u>	<u>274,783</u>
Plant and equipment - at cost	316,234	300,533
Less: accumulated depreciation	(258,634)	(221,132)
	<u>57,600</u>	<u>79,401</u>
Total plant and equipment	<u>57,600</u>	<u>79,401</u>
TOTAL PROPERTY PLANT AND EQUIPMENT	<u><u>322,480</u></u>	<u><u>354,184</u></u>

(b) Movement in the assets balances during the year were:

	2018				2017			
	Property \$	Plant & equipment \$	Land \$	Total \$	Property \$	Plant & equipment \$	Land \$	Total \$
Opening balance	151,783	79,401	123,000	354,184	161,687	114,092	123,000	398,779
Purchases	-	25,096	-	25,096	-	10,549	-	10,549
Less								
Assets disposed	-	-	-	-	-	4,898	-	4,898
Depreciation charge	9,903	46,897	-	56,800	9,904	40,342	-	50,246
Balance at the end of the year	141,880	57,600	123,000	322,480	151,783	79,401	123,000	354,184

	2018 \$	2017 \$
11. Taxation assets		
Deferred tax assets	32,288	43,698
TOTAL	<u>32,288</u>	<u>43,698</u>
Deferred tax assets comprise:		
- Accrued expenses not deductible until incurred	34,205	35,136
- Provisions for impairment on loans	6,105	6,660
- Provisions for visa fraud	6,698	7,768
- Depreciation on fixed assets	(1,392)	8,750
- Deferred fees (less transaction costs) on loan origination	(14,469)	(15,861)
- other	1,141	1,245
TOTAL	<u><u>32,288</u></u>	<u><u>43,698</u></u>

	2018 \$	2017 \$
12. Intangible assets		
Computer software	507,728	500,054
Less accumulated amortisation	(433,603)	(364,666)
TOTAL	<u>74,125</u>	<u>135,388</u>
Movement in the assets balances during the year were:		
Opening balance	135,388	100,871
Purchases	7,674	89,297
Less:		
Amortisation charge	(68,937)	(54,780)
Balance at the end of the year	<u>74,125</u>	<u>135,388</u>
13. Deposits from members		
Member deposits		
- At call	43,733,916	46,048,445
- Term	29,030,450	29,162,426
Sub Total	<u>72,764,366</u>	<u>75,210,871</u>
Member withdrawable shares	4,922	4,992
TOTAL	<u>72,769,288</u>	<u>75,215,863</u>

Amounts expected to be repaid within 12 months are as described in Note 23. There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Concentration of member deposits

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

- -

- (ii) Member deposits at the reporting date were received from individuals employed principally in the Steel Industry.

	2018 \$	2017 \$
13. Deposits from members continued		
(iii) Geographical concentrations		
NSW		
– Illawarra	67,156,220	68,504,013
– Sydney Region	3,031,624	3,480,676
– Other NSW Country Areas	962,642	956,388
Victoria	542,502	397,777
Queensland	328,050	882,718
South Australia	74,855	77,335
Western Australia	473,744	697,341
Tasmania	242	338
ACT	194,487	214,285
Total per statement of financial position	72,764,366	75,210,871
14. Creditor accruals and settlement accounts		
Creditors and accruals	152,575	158,250
Interest payable on deposits	193,795	188,429
Sundry creditors	247,643	124,520
TOTAL	594,013	471,199
15. Taxation liabilities		
Current income tax liability	19,976	9,746
16. Provisions		
Provisions - Annual Leave and LSL	4,876	5,941
Provisions - Other	53,048	53,048
Provisions - Fraud	19,859	19,951
Provisions - Superannuation	-	-
TOTAL	77,783	78,940
Provision movements comprises:		
Annual Leave and LSL		
Balance - previous year	5,941	3,324
Less paid	(4,892)	(1,314)
Liability increase in current year	3,827	3,931
Balance - current year	4,876	5,941
Other		
Balance - previous year	53,048	47,458
Less paid	-	(7,810)
Liability increase in current year	-	13,400
Balance - current year	53,048	53,048

	2018 \$	2017 \$
16. Provisions continued		
Fraud		
Balance - previous year	19,951	17,117
Less paid	(92)	(2,566)
Liability increase in current year	-	5,400
Less Instalments paid in current year	-	-
Balance - current year	19,859	19,951
Superannuation		
Balance - previous year	-	13,400
Less paid	-	(13,400)
Liability increase in current year	-	-
Less Instalments paid in current year	-	-
Balance - current year	-	-
17. Deferred tax liabilities		
Deferred tax liabilities	1,881	1,881
Deferred income tax liability comprises:		
- Tax due on available for sale investments - Shares	1,881	1,881
TOTAL	1,881	1,881
18. Capital reserve account		
Balance at the beginning of the year	5,154	4,940
Transfer from current year earnings on share redemptions	232	214
Balance at the end of year	5,386	5,154
(a) 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.		
19. General reserve for credit losses		
General reserve for credit losses	435,000	435,000
This reserve records amount maintained to comply with the Prudential Standards set down by APRA.		
Balance at beginning of year	435,000	435,000
Add: increase (decrease) transferred from (to) retained earnings	-	-
Balance at end of year	435,000	435,000

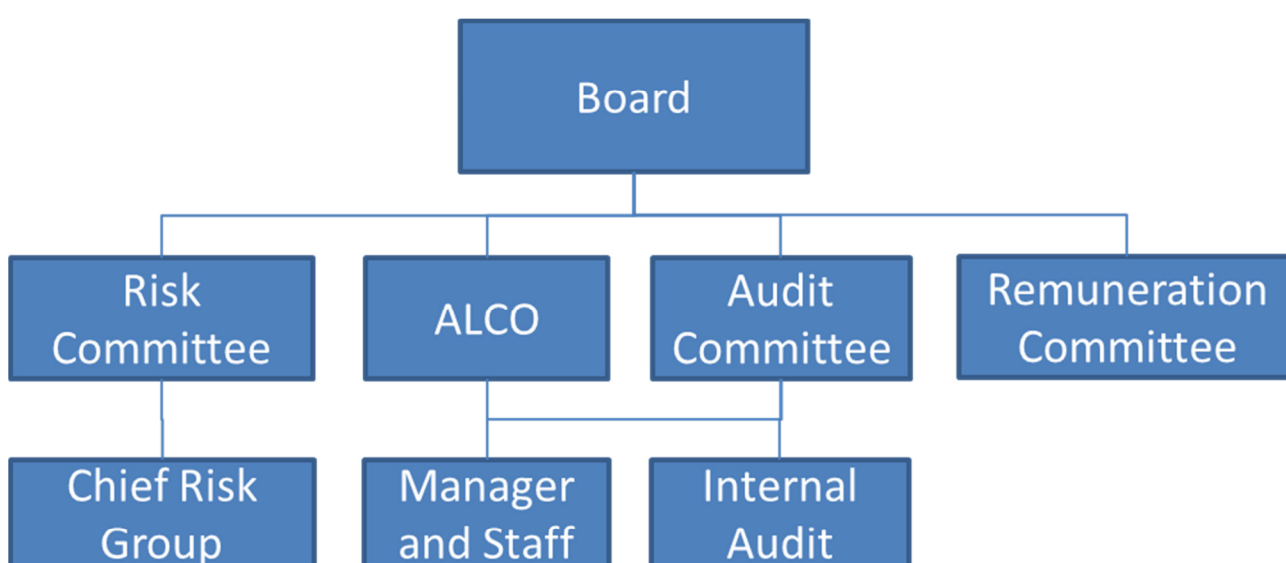
20. Financial risk management objectives and policies

a. Introduction

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 framework focuses on all areas of risk including market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Risk Committee and to the Audit Committee which are integral to the management of risk.

The following diagram gives an overview of the risk management structure.



The main elements of risk governance are as follows:

Board

This is the primary governing body. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks.

Risk committee

This is a key body in the control of risk. It has representatives from the Board as well as the Group's Chief Risk Group. The Risk 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 the Risk Committee through review of operational reports and control assignments are reviewed by the Risk Committee to confirm whether risks are within the parameters outlined by the Board.

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

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

20. Financial risk management objectives and policies continued

Audit committee

Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The audit committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the risk committee for their consideration.

Asset & liability committee (ALCO) - credit risk

This committee has responsibility for managing and reporting credit risk exposure. It scrutinises reports and monitors exposures against limits determined by the Board. The ALCO also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determine controls that need to be in place regarding the authorisation of new loans.

The ALCO Committee 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 ALCO or the Board. All exposures are checked against approved limits.

All loans are managed weekly through the monitoring of the scheduled repayments. Accounts where the arrears 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 Risk Committee or the Board.

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 ALCO, 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 statement of financial position date.

ALCO - market risk

This committee meets and has responsibility for managing interest rate risk exposures, and ensuring that the finance functions adhere to exposure limits as outlined in the policies.

Chief Risk Group

This Senior Management Group has responsibility for both liaising with the operational function to ensure timely production of information for the risk committees and ensuring that instructions passed down from the Board via the risk committees are implemented.

20. Financial risk management objectives and policies continued

Internal audit

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

Key risk management policies encompassed in the overall risk management framework include:-

- Interest rate risk
- Liquidity Management
- Credit risk management
- Operations risk management including data risk management.

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments.

b. Market risk and hedging policy

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

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is not exposed to currency risk or 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 ALCO Committee, which reports directly to the Board.

Interest rate risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates. Most banks are exposed to interest rate risk within its Treasury operations. This Credit Union does not have a treasury operation and does not trade in financial instruments.

Interest rate risk in the banking book

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

The interest rate risk on the banking book is measured regularly and is reported to the ALCO and 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 reporting date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

20. Financial risk management objectives and policies continued

Method of managing risk

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

Interest rate sensitivity

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

The policy of the Credit Union to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Union's exposure to interest rate risk is set out in Note 24 which details the contractual interest change profile.

Based on the calculations as at 31st March 2018 (31st March 2017), the net profit impact for a 1% (2017: 1%) movement in interest rates would be \$34,085 (2017: \$29,566.)

The Credit Union performs a sensitivity analysis to measure market risk exposures.

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 not 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 30 days;
- personal loans would reprice after a 1 month delay;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of 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.

20. Financial risk management objectives and policies continued

c. Liquidity risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of directors that the Credit Union maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

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

The Credit Union has a longstanding arrangement with the industry liquidity support 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.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Credit Union policy is to apply a minimum of 13% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked weekly. Should the liquidity ratio fall below this level the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 27 describes the borrowing facilities as at the reporting 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 22.

The ratio of liquid funds over the past year is set out below:

	31 st March 2018	31 st March 2017
Liquid funds to total adjusted liabilities		
Prescribed liquidity %	9.00%	9.00%
As at 31 March	17.90%	18.65%
Average for the year	18.15%	18.62%
Minimum during the year	15.81%	16.19%

20. Financial risk management objectives and policies continued

d. Credit risk

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets.

Credit risk - loans

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

Loan type	2018				2017		
	Carrying value	Commitments	Max. exposure		Carrying value	Commitments	Max. exposure
	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000
Mortgage	59,447	5,503	64,950		56,689	6,373	63,062
Personal	3,590	155	3,745		3,759	371	4,130
Overdrafts	42	62	104		36	52	88
Total to natural persons	63,079	5,720	68,799		60,484	6,796	67,280
Corporate borrowers	-	-	-		-	-	-
Total	63,079	5,720	68,799		60,484	6,796	67,280

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities). The details are shown in Note 26.

All loans and facilities are within Australia. Concentrations are described in Note 7(c).

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

The Credit Union has established policies over the:

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

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

20. Financial risk management objectives and policies continued

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a 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.

Arrears 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 profit or loss. In estimating these cash flows, management makes judgements about a 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. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in country risk, changes in a 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 the loans to members.

Details are as set out in Note 8.

Bad debts

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

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

A reconciliation in movement of both past due and impaired exposure provision is provided in Note 8.

20. Financial risk management objectives and policies continued

Collateral securing loans

A sizeable portfolio of the loan book is secured in residential property in Australia. Therefore, the Credit Union is exposed to risks in the reduction 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.

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

Concentration risk - individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10 %) 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(c). Concentration exposures to counterparties are closely monitored.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) at a maximum of 80%.

Concentration risk - industry

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

Credit risk - liquid investments

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in other institutions. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 50% of Capital 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 institution. Also the relative size of the Credit Union as compared to the industry is relatively low such that the risk of loss is reduced.

Under the liquidity support scheme at least 3% of the total assets must be invested in CUSCAL, to allow the scheme to have adequate resources to meet its obligations if needed.

20. Financial risk management objectives and policies continued

External credit assessment for institution investments

The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

	2018			2017		
Investments with	Carrying value \$	Past due value \$	Provision \$	Carrying value \$	Past due value \$	Provision \$
CUSCAL - rated A-1	6,195,900	-	-	5,770,789	-	-
Banks - rated BBB and above	10,485,204	-	-	15,219,882	-	-
Other rated institutions	-	-	-	1,000,000	-	-
Unrated institutions	750,000	-	-	-	-	-
Total	17,431,104	-	-	21,990,672	-	-

e. Operational risk

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

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

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behavior;
- implementation of the whistle blowing 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.

20. Financial risk management objectives and policies continued

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 systems 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 financial institutions, fraud is potentially a real cost. Fraud losses have arisen from card skimming, internet password theft and well known scams.

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) which is owned by a collection of Credit Unions. 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/EFTPOS, Visa cards, and B pay etc.

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.

f. Capital management

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

- Credit risk
- Market risk (trading book)
- Operations risk.

The market risk component is not required as the Credit Union is not engaged in a trading book for financial instruments.

Capital Resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises

- Retained profits
- Capital reserve.

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 exhibit 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:

- General reserve for Credit Losses

20. Financial risk management objectives and policies continued

Capital in the Credit Union is made up as follows:

	2018 \$	2017 \$
Tier 1 Common Equity		
Capital reserve	5,386	5,154
Retained earnings	7,461,055	7,184,453
	<u>7,466,441</u>	<u>7,189,607</u>
Less prescribed deductions	(283,430)	(356,358)
Net Tier 1 Common Equity	<u>7,183,011</u>	<u>6,833,249</u>
Tier 1 Additional Equity		
Additional Tier 1 Capital instruments	-	-
Net Tier 1 Capital	<u>7,183,011</u>	<u>6,833,249</u>
Tier 2 Capital		
Reserve for credit losses	405,267	403,011
Less prescribed deductions	-	-
Net Tier 2 Capital	<u>405,267</u>	<u>403,011</u>
Total Capital	<u>7,588,278</u>	<u>7,236,260</u>

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

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance APS 112. The rules apply the risk weights according to the level of underlying security.

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

2018	2017	2016	2015	2014
20.11%	19.38%	19.31%	21.55%	22.63%

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

To manage the Credit Unions capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 14%.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1 January 2009 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

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

20. Financial risk management objectives and policies continued

Based on this approach, the Credit Union's operational risk requirement is as follows:

- Operational Risk Capital 2018 \$5,320,821 (2017: \$5,105,529).

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

Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities through a regular review of the ICAAP policy. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board.

The Credit Union allocates capital on a risk based approach. Key risks are identified and an assessment made to estimate the potential impact to the Credit Union in the event that risk materialises. An appropriate amount of capital is allocated depending on the potential impact to the Credit Union.

The following items are key risks which the Credit Union has identified, and allocated capital to, through its ICAAP process:

- Credit risk;
- Operational risk;
- Large exposures;
- Concentration risk;
- Market / Interest rate risk;
- Liquidity risk;
- Strategic risk;
- Third party dependence;
- Key personnel risk;
- Reputation risk.

21. Categories of financial instruments

The following information classifies the financial instruments into measurement classes

	Note	2018 \$	2017 \$
Financial assets - carried at amortised cost			
Cash	4	4,637,353	4,865,210
Held to maturity investments	5(a)	7,980,938	10,565,341
Receivables from financial institutions	5(a)	4,874,266	6,654,542
Loans to members	7 & 8	63,079,241	60,484,469
Receivables	6	206,992	142,450
Total Financial assets carried at amortised cost		80,778,790	82,712,012
 Available for sale equity investments - carried at cost	9	126,283	126,283
Total available for sale investments		126,283	126,283
 Total financial assets		80,905,073	82,838,295
 Financial liabilities - carried at amortised costs			
Creditors	14	152,575	158,250
Deposits from members	13	72,769,288	75,215,863
Sundry creditors	14	247,643	124,518
Total financial liabilities		73,169,506	75,498,631

22. Maturity profile of financial assets and liabilities (undiscounted)

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

2018	Book value	Up to 3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total cash flows
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>Assets</u>							
Cash	4,637	4,641	-	-	-	-	4,641
Receivables	207	-	-	-	-	207	207
Liquid Investments	12,856	11,674	2,165	2,626	-	-	16,465
Loans & advances	63,079	1,349	3,977	19,186	75,159	-	99,671
Available for sale investments	126	-	-	-	-	126	126
Total financial assets	80,905	17,664	6,142	21,812	75,159	333	121,110
<u>Liabilities</u>							
Creditors	153	-	-	-	-	153	153
Deposits from financial institutions	-	-	-	-	-	-	-
Deposits from members - at call	43,739	43,739	-	-	-	-	43,739
Deposits from members - term	29,030	15,999	13,435	-	-	-	29,434
Sundry creditors	248	-	-	-	-	248	248
Sub-Total	73,170	59,738	13,435	-	-	401	73,574
Undrawn loan commitments		5,719	-	-	-	-	5,719
Total financial liabilities	73,170	65,457	13,435	-	-	401	79,293

22. Maturity profile of financial assets and liabilities (undiscounted) continued

2017	Book value	Up to 3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total cash flows
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>Assets</u>							
Cash	4,865	4,871	-	-	-	-	4,871
Receivables	142	-	-	-	-	142	142
Liquid investments	17,221	14,282	500	2,688	-	-	17,470
Loans & advances	60,484	1,321	3,922	18,661	72,197	-	96,101
Available for sale investments	126	-	-	-	-	126	126
Total financial assets	82,838	20,474	4,422	21,349	72,197	268	118,710
<u>Liabilities</u>							
Creditors	158	-	-	-	-	158	158
Deposits from financial institutions	-	-	-	-	-	-	-
Deposits from members - at call	46,054	46,054	-	-	-	-	46,054
Deposits from members - term	29,162	16,004	13,552	-	-	-	29,556
Sundry Creditors	125	-	-	-	-	125	125
Sub-Total	75,499	62,058	13,552	-	-	283	75,893
Undrawn loan commitments		6,795	-	-	-	-	6,795
Total financial Liabilities	75,499	68,853	13,552	-	-	283	82,688

23. Financial assets and liabilities maturing within 12 months

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. 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 are not able to be reliably estimated.

ITEM	2018			2017		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
FINANCIAL ASSETS						
Cash	4,637	-	4,637	4,865	-	4,865
Liquid Investments	10,349	2,507	12,856	14,708	2,513	17,221
Loans & advances	2,563	60,516	63,079	2,522	57,962	60,484
Receivables	207	-	207	142	-	142
Avail. for sale investments	126	-	126	126	-	126
Total Financial Assets	17,882	63,023	80,905	22,363	60,475	82,838
FINANCIAL LIABILITIES						
Creditors	153	-	153	158	-	158
Deposits from other financial institutions	-	-	-	-	-	-
Deposits from members - Call	43,739	-	43,739	46,054	-	46,054
Deposits from members - Term	29,030	-	29,030	29,162	-	29,162
Sundry Creditors	248	-	248	125	-	125
Total Financial Liabilities	73,170	-	73,170	75,499	-	75,499

24. Interest rate change profile of financial assets and liabilities

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

2018	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	1-5 years \$'000	After 5 years \$'000	Non interest bearing \$'000	Total \$'000
ASSETS							
Cash	4,637	-	-	-	-	-	4,637
Available for sale investments	-	-	-	-	-	126	126
Receivables	-	-	-	-	-	207	207
Advance to financial Institutions	3,244	9,612	-	-	-	-	12,856
Loans & advances - mortgage	37,459	2,379	11,727	6,890	-	-	58,455
Loans & advances - personal	3,555	-	-	-	-	-	3,555
Loans & advances - other	1,069	-	-	-	-	-	1,069
Total Financial Assets	49,964	11,991	11,727	6,890	-	333	80,905
LIABILITIES							
Creditors	-	-	-	-	-	594	594
Deposits from financial institution	-	-	-	-	-	-	-
Deposits from members	49,529	10,054	13,186	-	-	-	72,769
Sub total	49,529	10,054	13,186	-	-	594	73,363
Undrawn loan commitments	5,719	-	-	-	-	-	5,719
Total Financial Liabilities	55,248	10,054	13,186	-	-	594	79,082

24. Interest rate change profile of financial assets and liabilities continued

2017	Floating rate	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS							
Cash	4,865	-	-	-	-	-	4,865
Available for sale investments	-	-	-	-	-	126	126
Receivables	-	-	-	-	-	142	142
Advance to financial Institution	8,149	8,578	494	-	-	-	17,221
Loans & advances - mortgage	38,945	1,321	1,425	14,234	-	-	55,925
Loans & advances - personal	3,705	-	-	-	-	-	3,705
Loans & advances - other	854	-	-	-	-	-	854
Total Financial Assets	56,518	9,899	1,919	14,234	-	268	82,838
LIABILITIES							
Creditors	-	-	-	-	-	471	471
Deposits from financial institution	-	-	-	-	-	-	-
Deposits from members	50,994	12,254	11,968	-	-	-	75,216
Sub total	50,994	12,254	11,968	-	-	471	75,687
Undrawn loan commitments	6,795	-	-	-	-	-	6,795
Total Financial Liabilities	57,789	12,254	11,968	-	-	471	82,482

25. Fair value of financial assets and liabilities

(a)

The fair value is required to be disclosed where the financial instruments are not measured at fair value in the Statement of Financial Position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

For the financial and non-financial assets where the fair values are reported below, all are measured using Level 3 unobservable inputs. The description of the valuation technique(s) and the inputs used in the fair value measurement are in the notes that follow.

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

Significant assumptions used in the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term

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.

	Fair Value \$'000	2018 Carrying Value \$'000	Variance \$'000	Fair Value \$'000	2017 Carrying Value \$'000	Variance \$'000
<u>Financial assets</u>						
Cash	4,637	4,637	-	4,865	4,865	-
Advances to other financial institutions	12,856	12,856	-	17,221	17,221	-
Receivables	207	207	-	142	142	-
Loans - mortgage	58,455	58,455	-	55,925	55,925	-
Loans - personal	3,555	3,555	-	3,705	3,705	-
Loans - other	1,069	1,069	-	854	854	-
Investments	126	126	-	126	126	-
Total financial assets	80,905	80,905	-	82,838	82,838	-
<u>Financial liabilities</u>						
Creditors	153	153	-	158	158	-
Deposits from other financial institutions	-	-	-	-	-	-
Deposits from members - Call	43,739	43,739	-	46,054	46,054	-
Deposits from members - Term	29,029	29,030	(1)	29,162	29,162	-
Sundry Creditors	248	248	-	125	125	-
Total financial liabilities	73,169	73,170	(1)	75,499	75,499	-

25. Fair value of financial assets and liabilities continued

(b)

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.

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.

The rates applied to give effect to the discount of cash flows were 2.00% - 2.50% (2017: 2.30% - 2.60%).

	2018 \$	2017 \$
26. Financial commitments		
(a) Outstanding loan commitments		
– The loans approved but not funded	<u>751,387</u>	<u>1,685,655</u>
(b) Loan redraw facilities		
– The loan redraw facilities available	<u>4,905,518</u>	<u>5,057,593</u>
(c) Undrawn loan facilities		
– Loan facilities available to members for overdrafts and line of credit loans are as follows:		
– Total value of facilities approved	103,052	87,552
– Less: Amount advanced	<u>(40,741)</u>	<u>(35,318)</u>
– Net undrawn value	<u>62,311</u>	<u>52,234</u>
– These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total Financial Commitments	<u>5,719,216</u>	<u>6,795,482</u>
(d) Other expense commitments		
– Intangible assets	30,889	48,729
– Other - TAS contract	<u>263,916</u>	<u>292,546</u>
	<u>294,805</u>	<u>341,275</u>

27. Standby borrowing facilities

The Credit Union has a borrowing facility with CUSCAL Limited of:

2018	Gross	Current Borrowing	Net Available
	\$	\$	\$
Overdraft facility	300,000	-	300,000
Total standby borrowing facilities	300,000	-	300,000
2017	Gross	Current Borrowing	Net Available
	\$	\$	\$
Overdraft facility	300,000	-	300,000
Total standby borrowing facilities	300,000	-	300,000

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

CUSCAL holds an equitable mortgage charge over all of the assets of the Credit Union as security against the overdraft amounts drawn under the facility arrangements.

28. Contingent liabilities

Liquidity support scheme

The Credit Union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member Credit Unions in the event of a liquidity or capital problem. As a member, the Credit Union is committed to maintaining 3% of the total assets as deposits with CUSCAL Limited or other ADIs approved by APRA.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Credit Union would be 3% of the Credit Union's total assets. 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.

Guarantees

The Credit Union has provided a guarantee to CUSCAL for drawings made by a member up to a limit of \$300,000 to enable CUSCAL to settle the funds transferred by way of direct debit with other financial institutions. The guarantee is cancellable by either the Credit Union or CUSCAL. The Credit Union has arrangements with the member to maintain sufficient funds in their account to settle the payments as and when required.

The Credit Union has issued guarantees on behalf of members for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total \$314,079 (2017 \$106,962). The guarantee is payable only on the member defaulting on the contractual repayments to the lessor / supplier. The guarantees are fully secured against registered first mortgages or by a freeze of an equivalent amount in the members savings account(s).

29. Disclosures on directors and other key management personnel

Remuneration of key management persons [KMP]

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

Key management persons (Key Management Persons) have been taken to comprise the directors and the 1 member of the executive management responsible for the day to day financial and operational management of the Credit Union.

The aggregate Compensation of *key management persons* during the year comprising amounts paid or payable or provided for was as follows:

	2018		2017	
	Directors and KMP \$	Total \$	Directors and KMP \$	Total \$
a. Short-term employee benefits	226,759	226,759	203,690	203,690
b. Post-employment benefits - superannuation contributions	-	-	-	-
c. Other long-term benefits - net increases in long service leave provision	-	-	-	-
d. Termination benefits	-	-	-	-
e. Share-based payment	-	-	-	-
Total	226,759	226,759	203,690	203,690

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

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

Loans / Savings to Directors and other KMP

Loans

	2018		2017	
	Term Loans \$	Revolving Credit \$	Term Loans \$	Revolving Credit \$
Funds available to be drawn	-	150	-	2,000
Balance	1,513,891	2,850	879,861	1,000
Amounts disbursed or facilities increased in the year	715,941	20,352	250,014	20,455
Interest and other revenue earned	55,811	326	35,777	326

29. Disclosures on directors and other key management personnel continued

Savings	2018 \$	2017 \$
Total value term and savings deposits	650,396	917,989
Total Interest paid on deposits	8,341	19,690

Transactions with Other Related Parties

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

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

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

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

30. 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:

- (i) provides the license rights to Visa Card in Australia and settlement other institutions for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;
- (ii) This company operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM providers to the Credit Union's EDP Systems;
- (iii) provides treasury and money market facilities to the Credit Union. The Credit Union invests a part of its liquid assets with the CUSCAL to comply with the Liquidity Support Scheme requirements.

The valuation of the Cuscal shares is based on the net assets backing as at the most recent financial report to recognise the company is not readily marketable, except within the current ADI membership of Cuscal.

(b) Ultradata Australia Pty Limited

Provides and maintains the core banking application software utilised by the Credit Union to conduct its day to day transactions.

30. Outsourcing arrangements continued

(c) Transaction Solutions Limited (TAS)

TAS 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.

The Credit Union holds equity in the IDPC. This company primarily operates to service the Credit Unions and non-Credit Union customers. The shares are not readily traded except within the ADI membership of the company.

31. Superannuation liabilities

The Credit Union contributes to BlueScope Steel 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.

2018	2017
\$	\$

32. Notes to cash flow statement

(a) Reconciliation of cash

Cash includes cash on hand, and deposits at call with other financial institutions and comprises:

– Cash on hand	61,453	94,421
– Deposits at call	4,575,900	4,770,789
Total cash	<u>4,637,353</u>	<u>4,865,210</u>

	2018 \$	2017 \$
32. Notes to cash flow statement continued		
(b) Reconciliation of cash from operations to accounting profit		
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax		
Profit after income tax	276,602	231,810
Add (Deduct):		
– Bad debts written off	113	135
– Depreciation expense	56,800	50,246
– Amortisation expense	68,937	54,780
– Amortised transaction costs and fees on loans	255	(14,113)
– Loss on sale of asset	-	4,898
Movements in Balance Sheet Items		
– Increase/(decrease) in provision for income tax	10,230	11,794
– Increase/(decrease) in other provisions	(1,157)	(2,358)
– Increase/(decrease) in accrued expenses	(5,676)	11,250
– Increase/(decrease) in interest payable	5,365	(19,471)
– (Increase)/decrease in prepayments	4,118	(3,711)
– (Increase)/decrease in deferred tax assets	11,410	8,816
– (Increase)/decrease in loan provision	(113)	(5,953)
– (Increase)/decrease in interest receivable	16,109	31,847
Net cash from revenue activities	442,993	359,970
Add (Deduct) non revenue operations		
– Reduction / (Increase) in loans balances	(2,593,773)	(9,501,734)
– Reduction / (Increase) in liquid investment balances	4,364,679	5,775,074
– Increase / (Reduction) in deposit balances	(2,409,219)	712,573
Net cash from operating activities	(195,320)	(2,654,117)

33. Corporate information

The Credit Union is a company limited by shares, and is registered under the *Corporations Act 2001*

The address of the registered office is: 13 Auburn St Wollongong NSW 2500

The address the principal place of business is: 13 Auburn St Wollongong NSW 2500

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.