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**2020**  
**Annual Financial Report**

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**Registered Office:**  
13 Auburn Street  
Wollongong NSW 2500

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## 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 2020 Annual Report detailing yet another successful year with an after tax profit of \$230,049. Key measures from the Business Plan: loan growth 8.61%, saving growth 5.07%, total assets growth 7.46%, capital and liquidity all remain steady, building on the strong performance of the previous year. This is an outstanding result given the challenging environment especially with the impact of COVID-19 at the end of our financial year. Following a review of member loan deferral requests and considering a range of possible outcomes in relation to COVID-19, Lysaght Credit Union increased its loan provisions by approximately \$96,000

### COVID-19

The 2020 Annual Report encompasses the projected impact of COVID-19. Many reliable and esteemed financial commentators have expressed that the COVID-19 pandemic could be the most severe challenge to financial institutions in a long time. However, over the past decade, regulators, mutuals and other financial institutions have ensured that Australia has a strong financial system.

The good news is that Lysaght Credit Union is well capitalised and has a strong balance sheet. At Lysaght Credit Union, we understand that COVID-19 has affected the lives of Australians. Many businesses closed, people have lost their jobs or had their work hours reduce substantially. Lysaght Credit Union has and will continue to support our members through these difficult times.

### Gratitude

I would like to thank the staff at Lysaght Credit Union and also want to pass on a thank you to their families, as they played an important role in supporting them during the pandemic; so that they can continue to provide personalised services to you, our members. The speed with which they all had to react in dramatically changed circumstances is unprecedented and the ways in which they worked has been outstanding.

Our wonderful group of staff have continued to look after the best interest of our members and on behalf of our Board I would like to thank them for their dedication to the well-being of our members. While any organisation can make statements around values and culture, at the end of the day what really matters is how members are serviced by the staff and I am very proud to be Chair of an organisation that has people who genuinely understand and demonstrate what "looking after members best interests" truly means.

### **Business Plan**

Lysaght Credit Union is in the third year of our strategic plan. The plan continues to be reviewed and updated each year for strategic relevance in line with our risk appetite. Our goal is to consistently implement improvements to our value proposition for all our members. This year, Lysaght Credit Union implemented a “First Home Buyers” loan to assist new entrants to the housing market. The scheme has worked well with a number of members utilising the product offer.

### **Renewal of Board**

During the year, Lysaght Credit Union farewelled Mr Robert (Bob) Newman from the Board of Directors. Bob retired from the Board in January 2020 after being welcomed to the Board on the 3<sup>rd</sup> March 1982. Bob has made a significant contribution to Lysaght Credit Union. Bob’s dedication to his role at the Credit Union created and enhanced the professional relationship between Lysaght Credit Union and BlueScope Steel. Bob is an advocate for the member first philosophy and was continually focused on growing the member base to ensure the long-term sustainability of the Credit Union. On behalf of the Board of Directors and all the staff, I would like to thank Bob for his leadership and contribution to Lysaght Credit Union.

In February 2020, we welcomed Mr Nick Scavarelli to the Board. Nick is the Senior Economist at BlueScope Steel and holds a Bachelor of Commerce in Economics and Management. Along with his vast economics experience, Nick brings significant skills in understanding the leading indicators, economic trends and impact it has in the mutual banking sector. Nick is a valuable addition to the Board and I look forward to working with him.

### **Appreciation to the Board**

In addition, I would like to thank Vicki Anderson for her leadership and support over the past two years in preparation for her handover with me as the Chair of Lysaght Credit Union. Vicki was the Chair of the Board of Directors for over 4 years. Vicki continues to be a significant contributor to the Board and the strategic direction of Lysaght Credit Union.

Your Board has continued to work in the best interests of members, and I am extremely proud to be the Chair of what is a committed and hard working group of professionals who genuinely care for our members.

Thank you to the rest of the Board of Directors for their contribution, commitment and diligence over the past 12 months. We believe that the culture within Lysaght Credit Union starts with the Board and management and is successfully incorporated throughout the business.

Viktor Tomeski  
**Chairman - Lysaght Credit Union**

## Director's Report

The directors present their report with the financial report of Lysaght Credit Union Ltd ("the Credit Union") for the financial year ended 31<sup>st</sup> March 2020 and the auditor's report thereon.

### Information on Directors

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

Name	Responsibilities
P. Daly	Chair Audit Committee Risk Committee Member ALCO Committee Member Remuneration Committee Member Board member since 1992
K. Jones	Audit Committee Member Chair Risk Committee ALCO Committee Member Board member since 2006
M. Grantham	Audit Committee Member Risk Committee Member Chair ALCO Committee Board member since 1993
V. Anderson	Audit Committee Member Risk Committee Member ALCO Committee Member Board member since 2011
C. Martignago	Audit Committee Member Risk Committee Member ALCO Committee Member Chair Remuneration Committee Board member since 2012
V. Tomeski	Chair of the Board Audit Committee Member Risk Committee Member ALCO Committee Member Board member since 2016
R. Newman *	Audit Committee Member Risk Committee Member ALCO Committee Member Board member since 1982
N. Scavarelli **	Audit Committee Member Risk Committee Member ALCO Committee Member Board member since 2020

\* R. Newman retired from the Board in January 2020.

\*\* N. Scavarelli was appointed to the Board in February 2020.

## Company Secretary

Mr Paul Dwyer has been the Manager and Company Secretary since 1996. Mr Dwyer has extensive experience in the financial sector and holds a Bachelor Degree in Accounting.

## Directors' meeting attendance

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Credit Union during the financial year are:

*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*	10	6	10	5	3	2	3	2	1	0	3 years expiring 2021
P. Daly	12	11	12	11	4	3	3	2	1	1	3 years expiring 2020
K. Jones	12	12	12	11	4	4	3	3	1	1	3 years expiring 2022
M. Grantham	12	8	12	9	4	3	3	3	1	0	3 years expiring 2020
V. Anderson	12	9	12	6	4	2	3	3	1	1	3 years expiring 2022
C. Martignago	12	11	12	10	4	3	3	2	1	1	3 years expiring 2021
V. Tomeski	12	12	12	12	4	3	3	3	1	1	3 years expiring 2021
N. Scavarelli**	2	2	2	2	1	1	-	-	-	-	

\* R. Newman retired from the Board in January 2020.

\*\* N. Scavarelli was appointed to the Board in February 2020.

## 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 \$230,049 [2019: \$291,067]

## **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 for the majority of the year. During February and March 2020 Australia began to experience the impacts of the Covid-19 virus which would be classified as a global pandemic by the World Health Organisation. Covid-19 was a health pandemic that had economic repercussions. This necessitated Federal and State Government intervention to shut down the majority of the economy resulting in a significant contraction in economic activity.

For the year ending 31 March 2020 the financial results of Lysaght Credit Union were impacted through significantly higher loan provisions. We also experienced a contraction in the number of loan enquiries and a reduction in our Liquidity ratio. Intervention in the market by the Reserve Bank provided a level of certainty for financial institutions and injected billions of dollars into the financial system. The rapid reduction in official interest rates by the Reserve Bank has resulted in a contraction of our interest margin.

Lysaght Credit Union responded to the pandemic by following the government's health advice and adhering to the government's restrictions, such as increasing cleaning and disinfecting, limiting the number of members visiting our Wollongong office, temporarily closing our Springhill office and splitting our workforce into two separate teams. This proved effective as all staff have remained free of Covid-19 and all operations have continued unaffected.

Lysaght Credit Union anticipates we will return to close to normal staffing levels in mid-late 2020 in line with Government advice.

## **Events occurring after the end of the reporting date**

Other than the aforementioned Covid-19 pandemic continuing, 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**

The Credit Union will continue to pursue its strategic plan (business plan) of increasing the profitability and market share of its business during the next financial year.

Further information about likely developments in the operations of the Credit Union and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Credit Union.

### **Environmental legislation**

The Credit Union's operations are not subject to any particular or significant environmental regulations under a law of the Commonwealth or of a State or Territory in Australia.

### **Auditor's independence declaration**

The auditor's independence declaration is set out on page 9 and forms part of the directors' report for the financial year ended 31 March 2020.

### **Rounding**

The Credit Union is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that Instrument, amounts in the Credit Union's financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the Directors' and is signed for and on behalf of the directors by:



Viktor Tomeski  
Chairman



Paul Daly  
Audit Committee Chairman

Signed and dated in Wollongong this 28<sup>th</sup> day of July 2020.



## Directors of Lysaght Credit Union

A history of the men and women who have held the position of director.

Over 50 years of stewardship

Joined	Retired	NAME
Mar 1966	Feb 1967	Douglas STIFF
Mar 1966	Apr 1978	Phillip Henry MOULDS
Mar 1966	Jan 1974	Norman Clyde BILLS
Mar 1966	Apr 1982	Edwin Clarence WALTON
Mar 1966	Feb 1976	Robert George WARWICK
Mar 1966	Dec 1978	Laurence Walter FLYNN
Mar 1966	May 1975	Edward Mortimer CARR
Feb 1967	May 1971	Brian McMAHON
May 1971	Mar 1977	Allan William HURT
Jan 1974	Jul 1988	Milton Walter FRAZER
Jun 1975	Jan. 1983	Clifford PICKERING
Feb 1976	Nov 2006	Dennis Mervyn HAMILTON
Mar 1977	Jun 1987	Rodney Patrick RAFTERY
Apr 1978	Apr 2003	Allen DAVIES
Nov 1978	May 1982	David George PEARCE
Mar 1982	Jan 2020	Robert Henry NEWMAN
Jun 1982	Jan 1999	Frederick Thomas BROWN
Feb 1983	Jun 1992	Bryan Benjamin SWAN
Jun 1987	Aug 1993	William Edward ROBERTS
Aug 1988	Oct 2005	Alwyn Gore HUGHES
Jun 1992		Paul Victor DALY
Aug 1993		Malcolm John GRANTHAM
Jan 1999	Jun 2009	David John McKECHNIE
Apr 2003	Oct 2012	Andrew CROPP
Oct 2005	Nov 2015	Andrew MORTON
Nov 2006		Kenneth JONES
Jun 2009	Sept 2011	Peta RENKIN
Oct 2011		Vicki ANDERSON
Sep 2012		Carmen MARTIGNAGO
Jan 2016		Viktor TOMESKI
Feb 2020		Nick SCAVARELLI



## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

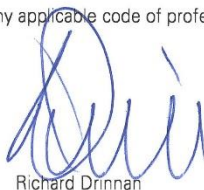
To the Directors of Lysaght Credit Union Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Lysaght Credit Union Ltd for the financial year ended 31 March 2020 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG



Richard Drinnan

Partner

Wollongong

28 July 2020

# Statement of Profit or Loss and Other Comprehensive Income

**For the year ended 31st March 2020**

	Note	2020 \$	2019 \$
Interest revenue	2(a)	3,039,363	3,189,508
Interest expense	2(c)	(1,043,470)	(1,130,815)
<b>Net interest income</b>		<b>1,995,893</b>	<b>2,058,693</b>
Fees, commission and other income	2(b)	171,714	210,717
Fee and commission expenses		(410,283)	(431,832)
		<b>1,757,324</b>	<b>1,837,578</b>
<b>Non-interest expenses</b>			
Impairment losses on loans receivable from members	2(d)	96,199	18,240
General administration:			
- Employees compensation and benefits		792,393	796,563
- Depreciation and amortisation		80,056	126,145
- Information technology		107,451	104,426
- Office occupancy		60,215	63,865
- Other administration		70,238	61,636
Other operating expenses		235,156	262,527
Total non-interest expenses		<b>1,441,708</b>	<b>1,433,402</b>
<b>Profit before income tax</b>		<b>315,616</b>	<b>404,176</b>
Income tax expense	3(a)	(85,567)	(113,109)
<b>Profit after income tax</b>		<b>230,049</b>	<b>291,067</b>
<b>Other comprehensive Income, net of income tax</b>			
<u>Items that will not be reclassified subsequently to profit or loss</u>			
Movement in reserve for equity instruments at FVOCI*			
Net change in fair value (net of tax)	19	(30,518)	-
Impact of change in tax rate on deferred tax recognised in equity	19	1,460	-
Movement in Asset Revaluation Reserve			
Net change in fair value (net of tax)		-	394,400
Impact of change in tax rate on deferred tax recognised in equity	18	8,160	-
Total other comprehensive income, net of income tax		<b>(20,898)</b>	<b>394,400</b>
<b>Total comprehensive income for the period</b>		<b>209,151</b>	<b>685,467</b>

\* FVOCI - Fair Value through Other Comprehensive Income

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

## Statement of Changes in Members' Equity

### For the year ended 31st March 2020

	Capital Redemption Reserve	General Reserve For Credit Losses	Retained Earnings	Asset Revaluation Reserve	FVOCI Reserve	Total
<b>Total at 1<sup>st</sup> April 2018</b>	5,386	435,000	7,461,056	-	96,133	7,997,575
Total net profit for the year	-	-	291,067	-	-	291,067
Other Comprehensive Income	-	-	-	394,400	-	394,400
<b>Transfers (to) from reserves</b>						
Transfer to Retained Earnings	-	(75,000)	-	-	-	(75,000)
Transfer from Reserve for Credit Losses			75,000			75,000
Transfer to capital account on redemption of shares	204	-	-	-	-	204
<b>Total at 31<sup>st</sup> March 2019</b>	<b>5,590</b>	<b>360,000</b>	<b>7,827,123</b>	<b>394,400</b>	<b>96,133</b>	<b>8,683,246</b>
Total net profit for the year	-	-	230,049	-	-	230,049
Other comprehensive income	-	-	-	8,160	(29,058)	(20,898)
<b>Sub Total</b>						
<b>Transfers (to) from reserves</b>						
Transfer to Retained Earnings	-	-	-	-	-	-
Transfer from reserve for credit losses	-	-	-	-	-	-
Transfer to capital account on redemption of shares	216	-	-	-	-	216
<b>Total at 31<sup>st</sup> March 2020</b>	<b>5,806</b>	<b>360,000</b>	<b>8,057,172</b>	<b>402,560</b>	<b>67,075</b>	<b>8,892,613</b>

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

## Statement of Financial Position

**As at 31st March 2020**

	Note	2020 \$	2019 \$
<b>ASSETS</b>			
Cash and cash equivalents	4	6,449,811	6,138,026
Receivables	5	145,579	147,429
Other Assets	6	18,326	6,670
Investments	7	10,374,460	10,099,677
Other financial assets	8	216,786	258,881
Loans to members	9,10	76,639,229	70,562,665
Property, plant and equipment	11	835,929	862,923
Intangible assets	12	34,853	66,216
<b>TOTAL ASSETS</b>		<b>94,714,973</b>	<b>88,142,487</b>
<b>LIABILITIES</b>			
Deposits from other financial institutions		2,000,000	-
Deposits from members	13	82,594,060	78,608,189
Trade and other payables	14	1,038,986	646,031
Current tax liabilities	15	20,753	3,367
Provisions	16	32,284	26,482
Net deferred tax liabilities	3(e)	136,277	175,172
<b>TOTAL LIABILITIES</b>		<b>85,822,360</b>	<b>79,459,241</b>
<b>NET ASSETS</b>		<b>8,892,613</b>	<b>8,683,246</b>
<b>MEMBERS' EQUITY</b>			
Capital redemption reserve account	17	5,806	5,590
Asset Revaluation Reserve	18	402,560	394,400
FVOCI Reserve	19	67,075	96,133
General reserve for credit losses	20	360,000	360,000
Retained earnings		8,057,172	7,827,123
<b>TOTAL MEMBERS' EQUITY</b>		<b>8,892,613</b>	<b>8,683,246</b>

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

## Statement of Cash Flows

**For the year ended 31st March 2020**

	Note	2020 \$	2019 \$
<b>OPERATING ACTIVITIES</b>			
<b>Revenue inflows</b>			
Interest received		3,066,786	3,166,392
Fees and commissions		132,501	217,088
Dividends		18,564	2,700
Other income		38,276	196
<b>Revenue outflows</b>			
Interest paid		(1,078,944)	(1,098,243)
Suppliers and employees		(1,740,815)	(1,758,891)
Income taxes paid		(85,880)	(129,718)
<b>Net cash from revenue activities</b>	35(b)	<b>350,488</b>	<b>399,524</b>
<b>Cash flows from other operating activities</b>			
(Increase) in member loans (net movement)		(6,190,390)	(7,434,626)
Increase in member deposits and shares (net movement)		4,447,953	5,894,724
Decrease in deposits to other FI's (net)		1,725,217	2,755,526
<b>Net cash from other operating activities</b>		<b>(17,220)</b>	<b>1,215,624</b>
<b>NET CASH FROM ALL OPERATING ACTIVITIES</b>	35(b)	<b>333,268</b>	<b>1,615,148</b>
<b>INVESTING ACTIVITIES</b>			
<b>Inflows</b>			
<b>Outflows</b>			
Purchase of intangible assets		(12,403)	(64,991)
Purchase of property plant and equipment		(9,296)	(49,688)
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<b>(21,699)</b>	<b>(114,679)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Outflows</b>			
Redemption of member shares		216	204
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>216</b>	<b>204</b>
<b>Total net cash increase</b>		<b>311,785</b>	<b>1,500,673</b>
<b>Cash at beginning of year</b>		<b>6,138,026</b>	<b>4,637,353</b>
<b>Cash at end of year</b>	35(a)	<b>6,449,811</b>	<b>6,138,026</b>

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

# Notes to the Financial Statements

## 1. Significant accounting policies

### a) Reporting entity

Lysaght Credit Union Ltd (the “Credit Union”) is a Company, limited by shares, incorporated and domiciled in Australia.

The address of its registered office and its principal place of business is 13 Auburn St Wollongong NSW 2500.

Lysaght Credit Union Ltd is a for-profit entity and is primarily involved in the provision of retail financial services to members in the form of taking deposits and giving financial loans to members.

### b) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial report complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The report was authorised for issue on 28 July 2020 with a resolution of the Board of directors.

The accounting policies are consistent with prior year unless otherwise stated.

### Basis of Measurement

This financial report was prepared on the historical cost basis, except for land and equity instruments that are stated at their fair value.

### c) Functional and presentation currency

The financial report is presented in Australian dollars, which is the Credit Union’s functional currency. The Credit Union is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191* and in accordance with that Instrument, amounts in the Credit Union’s financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### d) Accounting estimates and judgements

In preparing the financial report, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

## Notes to the Financial Statements

### 1. Significant accounting policies (continued)

#### e) Accounting estimates and judgements (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 1.f - Measurement of Fair Values
- Note 1.h - Impairment
- Note 10 - Provision on impaired loans

#### f) Measurement of fair values

A number of the Credit Union's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Credit Union uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and;
- Level 3 - inputs for the asset that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Credit Union recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Management have made critical accounting estimates when applying the Credit Union's accounting policies with respect to the valuation of land. In accordance with AASB 13 fair value for land should be based on highest and best use and should take into account a number of factors including: physical characteristic e.g. location or size, any legal restriction e.g. zoning and financial feasibility, recent sales evidence for comparable properties, and overall market conditions.

The fair value of the Credit Union's investment in unlisted equity securities, is based on consideration of sales in a limited market and the investee's net tangible assets.



## Notes to the Financial Statements

### 1. Significant accounting policies (continued)

#### g) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by directly attributable transaction 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.

##### Classification of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

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

All income and expenses relating to financial assets that are recognised in profit or loss are presented within net interest income, fees commissions and other income or non-interest expenses.

Classifications are determined by both:

- the Credit Union's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial assets.

##### Subsequent measurement of financial assets

##### Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Lysaght Credit Union's cash and cash equivalents, loans and advances to members and trade receivables fall into this category of financial instruments as well as negotiable certificates of deposits (NCDs), floating rate notes (FRNs) and term deposits.

## Notes to the Financial Statements

### 1. Significant accounting policies (continued)

#### g) Financial assets and financial liabilities (continued)

##### Financial assets at Fair Value through Other Comprehensive Income (FVOCI)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at FVOCI include investment debt securities and equity investments.

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes investments in unlisted equity securities.

##### Financial assets at Fair Value through Profit or Loss (FVPL)

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

##### Business Model Assessment

The Credit Union makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved and how cash flows are realised.

## Notes to the Financial Statements

### 1. Significant accounting policies (continued)

#### g) Financial assets and financial liabilities (continued)

##### Derecognition of financial assets

The Credit Union derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Credit Union is recognised separately.

##### Classification and measurement of financial liabilities

The Credit Union's financial liabilities include deposits from members' and other financial institutions, trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Credit Union's designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

##### Derecognition of financial liabilities

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

##### Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### h) Impairment

AASB 9 requires the use of forward looking information to recognise expected credit losses - the 'expected credit loss model' (ECL). Instruments within the scope of the requirements comprise all financial assets measured at amortised cost and investment debt securities measured at FVOCI. These include cash, receivables, loans and advances to members and investment securities.

The Credit Union considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial asset.

## Notes to the Financial Statements

### 1. Significant accounting policies (continued)

#### h) Impairment (continued)

The Credit Union measures loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12 months ECL.

- Debt investment securities that are determined to have a low credit risk in considering their credit risk rating (refer Note 21); and
- Other financial instruments on which credit risk has not significantly increased since initial recognition.

The Credit Union considers credit risk to have increased significantly when a loan is 30 days or more in arrears.

#### Forward-looking approach

The approach to determining the ECL includes forward-looking information.

The Credit Union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The Credit Union has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are deemed to have a material impact and therefore an adjustment has been made to the ECL for such factors. The Credit Union considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. Periodically the Credit Union carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (underperforming loans) ('Stage 2').
- 'Stage 3' would cover financial assets that have objective evidence of impairment (loans in default/non-performing) at the reporting date.

Additional information regarding the estimation of the ECL provision at reporting date is contained in Note 10.

#### Measurement of ECL

Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Credit Union expects to receive).

## Notes to the Financial Statements

### 1. Significant accounting policies (continued)

#### h) Impairment (continued)

##### Restructured financial assets

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

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

##### Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and
- debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

##### Write-off

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

## Notes to the Financial Statements

### 1. Significant accounting policies (continued)

#### h) Impairment (continued)

##### Impairment of non-financial 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.

#### i) Revenue and Expense recognition

##### Net Interest Income

Interest revenue and interest expense are recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in the income statement over the expected life of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of EIR does not include ECL. Interest income for financial assets that have become credit impaired subsequent to initial recognition is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying amount after deducting the impairment loss).

##### Fees and commissions

Fees and commission income include fees other than those that are an integral part of EIR.

Fee income relating to deposit or loan accounts is either:

- transaction based and therefore recognised at a point in time when the transaction takes place, or
- related to performance obligations carried out over a period of time and therefore recognised on a systematic basis over the life of the agreement as the services are provided.

Transaction fees and provision of services are defined within product terms and conditions.

##### Dividend income

Dividends are brought to account in profit or loss when the right to receive income is established.

## Notes to the Financial Statements

### 1. Significant accounting policies (continued)

#### j) Property, plant and equipment

Land is initially measured at cost and subsequently measured at fair value. 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.

All other items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Credit Union. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

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.

#### k) Intangible assets

All intangible assets, including internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. The following useful lives are applied:

- software: 3-5 years

Amortisation has been included within depreciation, amortisation and impairment of non-financial assets.

Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

## Notes to the Financial Statements

### 1. Significant accounting policies (continued)

#### l) 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 26.0% (2019 27.50%). 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

#### m) Goods and services tax (GST)

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.

#### n) Cash and cash equivalents

Cash comprises cash on hand, cash balances in the Credit Union's bank accounts 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.



## Notes to the Financial Statements

### **1. Significant accounting policies (continued)**

#### **o) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing this financial report. The Credit Union's assessment of the impact of these new standards and interpretations is that these are not significant and not likely to impact the financial report of the Credit Union and as such have not been reported on.

## Notes to the Financial Statements

	2020 \$	2019 \$
<b>2. Statement of profit or loss and other comprehensive income</b>		
<b>(a) Interest revenue</b>		
Interest revenue on assets carried at amortised cost		
<i>Calculated using the effective interest rate method</i>		
Cash - deposits at call	34,806	58,044
Investment securities	187,038	261,953
Loans to members	2,817,519	2,869,511
<b>Total interest revenue</b>	<b>3,039,363</b>	<b>3,189,508</b>
<b>(b) Fee, commission and other income</b>		
Fee and commission revenue - from contracts with customers		
Fee income on loans - other than loan origination fees	28,010	12,278
Fee Income from member deposits	39,977	45,335
Other fee income	1,557	2,370
Insurance commissions	1,240	1,191
Other commissions	44,090	42,220
<b>Total fee and commission revenue</b>	<b>114,874</b>	<b>103,394</b>
<b>Other income</b>		
Dividends received - equity investments at FVOCI	18,564	2,700
Bad debts recovered	2,270	195
Income from property (rental income)	28,756	32,312
Gain on disposal of assets		
- Property, plant and equipment	-	11,818
Miscellaneous revenue	7,250	60,298
<b>Total Other income</b>	<b>56,840</b>	<b>107,323</b>
<b>Total fee, commission and other income</b>	<b>171,714</b>	<b>210,717</b>
<b>(c) Interest expense</b>		
<i>Calculated using the effective interest rate method</i>		
Short term borrowings	50	175
Deposits from Financial Institutions	6,917	1,151
Deposits from members	1,036,503	1,129,489
<b>Total interest expense</b>	<b>1,043,470</b>	<b>1,130,815</b>
<b>(d) Impairment losses</b>		
<b>Loans and advances</b>		
Increase in provision for impairment	96,046	1,088
Bad debts written off directly against profit	153	17,152
<b>Total impairment losses</b>	<b>96,199</b>	<b>18,240</b>

	2020 \$	2019 \$
<b>2. Statement of profit or loss and other comprehensive income continued</b>		
<b>(e) Other prescribed disclosures</b>		
General administration - employees costs includes:		
- Net movement on provisions for A/L and LSL	4,312	3,996
Other operating expenses includes:		
- Increase in provision for fraud	2,391	2,000
Auditor's remuneration*		
- Audit services - Audit of financial statements	35,875	54,375
- Assurance services - regulatory assurance services	16,000	8,290
- Other services - taxation compliance	3,500	6,200
- Other services	-	12,000
	<u>55,375</u>	<u>80,865</u>

\*2019 amounts relate to Grant Thornton and 2020 amounts relate to KPMG.

	2020 \$	2019 \$
<b>3. Taxation</b>		
<b>(a) The income tax expense comprises amounts set aside as:</b>		
Current tax expense	103,252	93,367
Current year	14	227
Adjustments for prior year	103,266	93,594
Deferred tax expense		
Origination and reversal of temporary differences	(19,457)	19,515
Impact of change in tax rate	1,758	-
	(17,699)	19,515
<b>Total income tax expense</b>	<b>85,567</b>	<b>113,109</b>
<b>(b) Reconciliation between profit before tax and income tax expense</b>		
Profit before tax	315,616	404,176
Prima facie tax payable on profit before income tax at 27.5% (2019: 27.5%)	86,794	111,148
Add tax effect of expenses not deductible:		
- Dividend imputation adjustment	2,188	318
- Other non-deductible expenses	2,769	2,573
	91,751	114,039
Less:		
- Imputation credits	(7,956)	(1,157)
- Under/(Over) provision for tax in previous year	14	227
- Impact of change in tax rate	1,758	-
<b>Income tax expense attributable to current year profit</b>	<b>85,567</b>	<b>113,109</b>
<b>(c) Franking credits</b>		
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:	1,923,479	1,865,232
The franking credits will only be available if the Credit Union is able to pay dividends to members.		
<b>(d) Income tax recognised directly in other comprehensive income</b>		
- Relating to equity investments	(11,576)	38,345
- Relating to revalued land	-	149,600
- Impact of change in tax rate	(9,620)	-
	(21,196)	187,945

	2020 \$	2019 \$
<b>3. Taxation continued</b>		
<b>(e) Deferred tax balances</b>		
Deferred tax balances are attributable to the following:		
<i>Deferred tax liabilities</i>		
Property, plant and equipment		
- Land - revaluation	141,440	149,600
- Depreciation	2,462	4,844
Deferred loan origination fees	11,506	17,017
Equity investments	25,309	38,345
Total deferred tax liabilities	<u>180,717</u>	<u>209,806</u>
<i>Deferred tax assets</i>		
Accrued expenses	6,920	22,956
Expected credit loss provision	28,048	3,255
Provisions	8,394	7,282
Other	1,078	1,141
Total deferred tax assets	<u>44,440</u>	<u>34,634</u>
Net deferred tax liabilities	<u>136,277</u>	<u>175,172</u>

	2020 \$	2019 \$
<b>4. Cash or cash equivalents</b>		
Cash on hand	65,060	94,502
Deposits at call	6,384,751	6,043,524
<b>Total</b>	<b>6,449,811</b>	<b>6,138,026</b>
<b>5. Receivables</b>		
Interest receivable on deposits with other financial institutions	22,305	49,728
Sundry debtors and settlement accounts	123,274	97,701
<b>Total</b>	<b>145,579</b>	<b>147,429</b>
<b>6. Other Assets</b>		
Prepayments	18,326	6,670
<b>Total</b>	<b>18,326</b>	<b>6,670</b>
<b>7. Investments</b>		
<b>Investment debt securities at amortised cost</b>		
Negotiable Certificates of Deposits	5,984,844	5,470,006
Floating Rate Notes	2,750,000	3,001,808
Term deposits / 31 Day Notice Accounts with Banks	19,616	7,863
Deposits with CUSCAL	1,620,000	1,620,000
	<b>10,374,460</b>	<b>10,099,677</b>
<b>8. Other financial assets</b>		
Equity investments designated as FVOCI	216,786	258,881

Equity investments are held in unlisted companies.

The basis on which fair value is determined is outlined in note 1(f) and is categorised as Level 2 in the fair value hierarchy.

	2020 \$	2019 \$
<b>9. Loans to members</b>		
<b>(a) Balance comprises</b>		
Overdrafts and revolving credit	44,520	41,129
Term loans	76,658,338	70,471,492
<b>Gross loans</b>	<b>76,702,858</b>	<b>70,512,621</b>
Add:		
Unamortised loan origination fees	44,254	61,881
	76,747,112	70,574,502
Less:		
Provision for impaired loans (Note 10)	(107,883)	(11,837)
<b>Net loans to members</b>	<b>76,639,229</b>	<b>70,562,665</b>
<b>(b) Credit quality - Security held against loans</b>		
Secured by mortgage over real estate	73,656,784	66,950,620
Partly secured by goods mortgage	2,380,625	2,977,280
Wholly unsecured	665,449	584,721
<b>Total</b>	<b>76,702,858</b>	<b>70,512,621</b>
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%	72,946,361	65,447,263
– Loan to valuation ratio of more than 80% but mortgage insured	-	-
– Loan to valuation ratio of more than 80% and not mortgage insured	710,423	1,503,357
<b>Total</b>	<b>73,656,784</b>	<b>66,950,620</b>
<b>(c) Concentration of loans</b>		
Geographical concentrations		
NSW		
- Illawarra	64,599,509	58,826,301
- Sydney region	5,895,826	3,590,967
- Other NSW country areas	1,989,611	1,361,432
Victoria	-	2,080,124
Queensland	2,426,496	2,327,521
Western Australia	1,436,671	1,938,921
ACT	310,745	327,837
South Australia	44,000	59,518
Tasmania	-	-
<b>Total per statement of financial position</b>	<b>76,702,858</b>	<b>70,512,621</b>

## 10. Provision on impaired loans

### Amounts arising from ECL

The loss allowance as of the year end is summarised in the table below.

	Gross Carrying Value 2020 \$	ECL Allowance 2020 \$	Carrying Value 2020 \$	Gross Carrying Value 2019 \$	ECL Allowance 2019 \$	Carrying Value 2019 \$
<u>Loans to members</u>						
Mortgages	73,656,784	(32,795)	73,623,989	66,950,620		66,950,620
Personal	3,001,554	(75,074)	2,926,480	3,520,872	(11,776)	3,509,096
Overdrafts	44,520	(14)	44,506	41,129	(61)	41,068
<b>Total</b>	<b>76,702,858</b>	<b>(107,883)</b>	<b>76,594,975</b>	<b>70,512,621</b>	<b>(11,837)</b>	<b>70,500,784</b>

### Allowance for expected credit losses

During the year ended 31 March 2020 the Credit Union's allowance for expected credit losses increased by \$96,046. This increase was in response to the COVID-19 pandemic and an anticipated increase in credit risk.

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

- A review of individual borrowers who had requested a deferral of loan repayments. In estimating the individual amounts to be provided for these exposures consideration was given to the borrower's credit history, current financial situation and any security held.
- A sensitivity analysis of the mortgage secured portfolio to identify any exposures to a downturn in property valuations. A collective provision was raised after considering the results of this sensitivity analysis.
- A review of the personal loan portfolio and the impact of anticipated increases in unemployment. An additional collective provision was raised against this portfolio.

The above assessment has been made based on information available at the reporting date.

An analysis of the Credit Union's credit risk exposure per class of financial asset and "stage" without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables.

### 2020

	Stage 1 12 month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	Purchased credit impaired \$	Total \$
<u>Loans and advances to members</u>					
Mortgages	32,795	-	-	-	32,795
Personal	49,745	3,330	21,999	-	75,074
Overdrafts	-	-	14	-	14
<b>Carrying amount</b>	<b>82,540</b>	<b>3,330</b>	<b>22,013</b>	<b>-</b>	<b>107,883</b>



## 10. Provision on impaired loans continued

### 2019

	Stage 1 12 month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	Purchased credit impaired \$	Total \$
Loans and advances to members					
Mortgages	-	-	-	-	-
Personal	-	11,776	-	-	11,776
Overdrafts	-	-	61	-	61
Corporate borrowers	-	-	-	-	-
Loss allowance	-	-	-	-	-
Carrying amount	-	11,776	61	-	11,837

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

### 2020

	Stage 1 12 month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	Purchased credit impaired \$	Total \$
<b>Loans and advances to members</b>					
Balance at 1 April 2019	-	11,776	61	-	11,837
Changes in the loss allowance					
- Transfer to stage 1	-	-	-	-	-
- Transfer to stage 2	-	-	-	-	-
- Transfer to stage 3	-	(11,587)	11,587	-	-
- Net movement due to change in credit risk	82,540	3,141	10,426	-	96,107
- Write-offs	-	-	(61)	-	(61)
Balance at 31 March 2020	82,540	3,330	22,013	-	107,883

### 2019

	Stage 1 12 month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	Purchased credit impaired \$	Total \$
<b>Loans and advances to members</b>					
Balance at 1 April 2018	-	20,847	1,352	-	22,199
Changes in the loss allowance					
- Transfer to stage 1	-	-	-	-	-
- Transfer to stage 2	-	-	-	-	-
- Transfer to stage 3	-	(6,406)	6,406	-	-
- Net movement due to change in credit risk	-	(2,665)	3,754	-	1,089
- Write-offs	-	-	(11,451)	-	(11,451)
Balance at 31 March 2019	-	11,776	61	-	11,837

	2020 \$	2019 \$
<b>11. Property, plant and equipment</b>		
Land -fair value	667,000	667,000
Buildings - at cost	302,081	302,081
Less: accumulated depreciation	(180,007)	(170,104)
	122,074	131,977
<b>Total land &amp; buildings</b>	<b>789,074</b>	<b>798,977</b>
Plant and equipment - at cost	337,706	328,740
Less: accumulated depreciation	(290,851)	(264,794)
<b>Total plant and equipment</b>	<b>46,855</b>	<b>63,946</b>
<b>TOTAL PROPERTY PLANT AND EQUIPMENT</b>	<b>835,929</b>	<b>862,923</b>

**Movement in the carrying amount during the year:**

	2020				2019			
	Buildings \$	Plant & equipment \$	Land \$	Total \$	Buildings \$	Plant & equipment \$	Land \$	Total \$
Opening balance	131,977	63,946	667,000	862,923	141,880	57,600	123,000	322,480
Purchases	-	9,296	-	9,296	-	49,688	-	49,688
Revaluation	-	-	-	-	-	-	544,000	544,000
Less:								
Disposals	-	-	-	-	-	-	-	-
Depreciation charge	(9,903)	(26,387)	-	(36,290)	(9,903)	(43,342)	-	(53,245)
<b>Balance at the end of the year</b>	<b>122,074</b>	<b>46,855</b>	<b>667,000</b>	<b>835,929</b>	<b>131,977</b>	<b>63,946</b>	<b>667,000</b>	<b>862,923</b>

*Fair value of Land*

The fair value of land has been determined by the directors with consideration of the annual assessment by the NSW Valuer General. The valuation considers current council zoning and planning restrictions and values on the basis of its highest and best permitted use after considering available sales evidence.

The fair value is considered to be Level 3 in the fair value hierarchy.

If the Credit Union had used the cost model for land, it would have a carrying amount of \$123,000.

	2020 \$	2019 \$
<b>12. Intangible assets</b>		
Computer software	583,794	572,718
Less accumulated amortisation	(548,941)	(506,502)
<b>TOTAL</b>	<b>34,853</b>	<b>66,216</b>
<b>Movement in the carrying amount during the year:</b>		
Opening balance	66,216	74,125
Purchases	12,403	64,991
Less: Amortisation charge	(43,766)	(72,900)
<b>Balance at the end of the year</b>	<b>34,853</b>	<b>66,216</b>
<b>13. Deposits from members</b>		
Financial liabilities at amortised cost		
Member deposits		
- At call	47,303,858	49,248,326
- Term deposits	35,285,360	29,354,943
Sub-Total	82,589,218	78,603,269
Member withdrawable shares	4,842	4,920
<b>TOTAL</b>	<b>82,594,060</b>	<b>78,608,189</b>

Amounts expected to be repaid within 12 months are as described in Note 25. There were no defaults on interest and capital payments on these liabilities in the current or prior year.

#### Concentration of member deposits

##### (i) Geographical concentrations

NSW		
- Illawarra	73,859,760	70,898,951
- Sydney Region	3,433,751	2,929,167
- Other NSW Country Areas	2,043,277	1,031,153
Victoria	1,023,590	1,938,695
Queensland	987,692	953,485
South Australia	478,342	85,072
Western Australia	584,239	496,565
Tasmania	29,111	27,633
ACT	149,456	242,548
	<b>82,589,218</b>	<b>78,603,269</b>

	2020 \$	2019 \$
<b>14. Trade and other payables</b>		
Creditors and accruals	116,518	175,744
Interest payable on borrowings	4,056	-
Interest payable on deposits	186,836	226,366
Sundry creditors	731,576	243,921
<b>TOTAL</b>	<b>1,038,986</b>	<b>646,031</b>
<b>15. Taxation liabilities</b>		
Current income tax liability	20,753	3,367
<b>16. Provisions</b>		
Provisions - LSL	13,184	8,873
Provisions - Fraud	19,100	17,609
<b>TOTAL</b>	<b>32,284</b>	<b>26,482</b>
<b>Provision movements comprises:</b>		
<b>LSL</b>		
Balance - previous year	8,874	4,876
Less paid	-	-
Liability increase in current year	4,310	3,997
<b>Balance - current year</b>	<b>13,184</b>	<b>8,873</b>
<b>Other</b>		
Balance - previous year	-	53,048
Less paid	-	(53,048)
Liability increase in current year	-	-
<b>Balance - current year</b>	<b>-</b>	<b>-</b>
<b>Fraud</b>		
Balance - previous year	17,609	19,859
Less paid	(900)	(4,250)
Liability increase in current year	2,391	2,000
<b>Balance - current year</b>	<b>19,100</b>	<b>17,609</b>

	2020 \$	2019 \$
<b>17. Capital redemption reserve</b>		
Balance at the beginning of the year	5,590	5,386
Transfer from retained earnings on share redemptions	216	204
Balance at the end of year	<u>5,806</u>	<u>5,590</u>

The account represents 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.

<b>18. Asset revaluation reserve</b>		
Balance at the beginning of the year	394,000	-
Add: increase on revaluation of asset	-	544,000
Less: deferred tax thereon	-	(149,600)
Impact of change in tax rate on deferred tax recognised in reserve	8,160	-
Balance at the end of year	<u>402,560</u>	<u>394,400</u>

The purpose of this reserve is to record the increments on non-currents assets. In the event of a sale the balance in the reserve in relation to the asset is transferred to Retained Earnings.

<b>19. FVOCI reserve</b>		
Balance at the beginning of the year	96,133	-
Add: increase on revaluation of investment	-	132,597
Less: decrease on revaluation of investment	(42,094)	-
Add: Deferred tax thereon	11,576	(36,464)
Impact of change in tax rate on deferred tax recognised in reserve	1,460	-
Balance at the end of year	<u>67,075</u>	<u>96,133</u>

The Credit Union has elected to recognise changes in fair value of investments in equity securities in Other Comprehensive Income. These changes are accumulated within the FVOCI reserve within equity. The Credit Union transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

	2020 \$	2019 \$
<b>20. General reserve for credit losses</b>		
General reserve for credit losses	360,000	360,000

This reserve records amount maintained to comply with the Prudential Standards set down by APRA.

Balance at beginning of year	360,000	435,000
Increase (decrease) transferred from (to) retained earnings	-	(75,000)
<b>Balance at end of year</b>	<b>360,000</b>	<b>360,000</b>

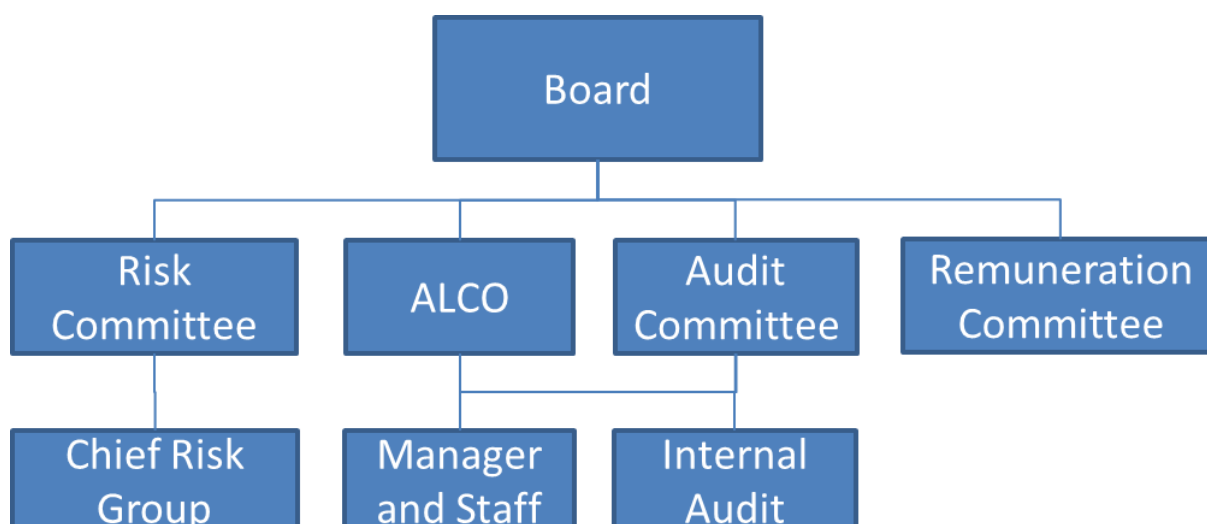
## 21. Financial risk management objectives and policies

### 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.

## **21. Financial risk management objectives and policies continued**

### **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.

It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

### **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 assessed within the internal audit plan. The Audit Committee receives the internal audit reports 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 determines controls 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.

All loans are managed weekly through the monitoring of the scheduled repayments. The Credit Union has an ECL model which captures impairment provisions across the loan portfolio (as described in Note 1).

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.

### **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.

## **21. Financial risk management objectives and policies continued**

### **Remuneration Committee**

The Committee was established to ensure that remuneration arrangements support the strategic aims of the Credit Union and enable the recruitment, motivation and retention of staff while also complying with the requirements of regulation.

### **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 Committee and ensuring that instructions passed down from the Board via the Risk Committee are implemented.

### **Internal audit**

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

## **b. Financial Risk Management**

The Credit Union has exposure to the following risks arising from financial instruments:

- Market risk
- Liquidity risk
- Credit risk
- Operational risk

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments. This note presents information about the Credit Union's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, and management of capital.

### **i. Market Risk**

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

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.



## **21. Financial risk management objectives and policies continued**

The interest rate risk on the banking book is measured regularly and is reported to the ALCO, Board Risk Committee and to the Board.

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 26 below. The table set out at Note 26 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.

### **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 26 which details the contractual interest change profile.

Based on the calculations as at 31<sup>st</sup> March 2020 (31<sup>st</sup> March 2019), the net profit impact for a 1% (2019: 1%) movement in interest rates would be \$126,245 (2019: \$92,160.)

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

There has been no change to the way the Credit Union manages and measures market risk in the reporting period.

## **ii. 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.

## 21. Financial risk management objectives and policies continued

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 30 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 24.

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

	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
<b>Liquid funds to total adjusted liabilities</b>		
Prescribed liquidity %	9.00%	9.00%
As at 31 March	18.10%	18.17%
Average for the year	17.39%	16.96%
Minimum during the year	14.67%	14.43%

### iii. 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	2020				2019		
	Carrying value	Commitments	Max. exposure		Carrying value	Commitments	Max. exposure
	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000
Mortgage	73,656	5,972	79,628		66,951	9,027	75,978
Personal	3,002	146	3,148		3,521	141	3,662
Overdrafts	45	70	115		41	62	103
<b>Total</b>	<b>76,703</b>	<b>6,188</b>	<b>82,891</b>		<b>70,513</b>	<b>9,230</b>	<b>79,743</b>

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 28.

## **21. Financial risk management objectives and policies continued**

All loans and facilities are within Australia. Concentrations are described in Note 9(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.

### **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 Credit Union's exposure to credit losses arises predominantly in relation to personal loans and facilities that are 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 considers the likelihood of any future loan repayments 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 including days in arrears and any security held.

Details are as set out in Note 10.

## **21. Financial risk management objectives and policies continued**

### **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 10.

### **Collateral securing loans**

A sizeable portfolio of the loan book is secured by 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 9(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 Tier 1 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 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.

### **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.

## 21. 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:

	2020			2019		
	Carrying value \$	Past due value \$	Provision \$	Carrying value \$	Past due value \$	Provision \$
Rated A-1	8,004,751	-	-	7,663,524	-	-
Rated BBB and above	8,754,460	-	-	8,479,677	-	-
<b>Total</b>	<b>16,759,211</b>	<b>-</b>	<b>-</b>	<b>16,143,201</b>	<b>-</b>	<b>-</b>

All investment securities are held with APRA regulated Authorised Deposit-taking Institutions.

#### iv. 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.

## 22. 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.

## 22. Capital management continued

### Capital Resources

#### Tier 1 Capital

Tier 1 capital comprises:

- Retained profits
- Capital reserve
- Asset revaluation reserve
- FVOCI 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

Capital in the Credit Union is made up as follows:

	2020 \$	2019 \$
<b>Tier 1 Common Equity</b>		
Capital reserve	5,806	5,590
Asset revaluation reserve	402,560	394,400
FVOCI Reserve	67,075	96,133
Retained earnings	8,057,172	7,827,123
	<u>8,532,613</u>	<u>8,323,246</u>
Less prescribed deductions	(295,893)	(386,978)
<b>Net Tier 1 Common Equity</b>	<u>8,236,720</u>	<u>7,936,268</u>
<b>Tier 1 Additional Equity</b>		
Additional Tier 1 Capital instruments	-	-
<b>Net Tier 1 Capital</b>	<u>8,236,720</u>	<u>7,936,268</u>
<b>Tier 2 Capital</b>		
Reserve for credit losses	360,000	360,000
Less prescribed deductions	-	-
<b>Net Tier 2 Capital</b>	<u>360,000</u>	<u>360,000</u>
<b>Total Capital</b>	<u>8,596,720</u>	<u>8,296,268</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.

## 22. Capital management continued

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

2020	2019	2018	2017	2016
19.78%	19.77%	20.11%	19.38%	19.31%

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

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

- Operational Risk Capital 2020 \$5,411,206 (2019: \$5,535,310).

## 23. Categories of financial instruments

The following information classifies the financial instruments into measurement classes

	Note	2020 \$	2019 \$
<b>Financial assets - carried at amortised cost</b>			
Cash	4	6,449,811	6,138,026
Investments	7	10,374,460	10,099,677
Loans to members	9	76,702,858	70,512,621
Receivables	5	145,579	147,429
<b>Total Financial assets carried at amortised cost</b>		<b>93,672,708</b>	<b>86,897,753</b>
Equity investments		216,786	258,881
<b>Total carried at FVOCI</b>		<b>216,786</b>	<b>258,881</b>
<b>Total financial assets</b>		<b>93,889,494</b>	<b>87,156,634</b>
<b>Financial liabilities - carried at amortised cost</b>			
Creditors	14	116,518	175,744
Deposits from members	13	82,594,060	78,608,189
Sundry creditors	14	731,576	243,921
Deposits from other institutions		2,000,000	
<b>Total financial liabilities</b>		<b>85,442,154</b>	<b>79,027,854</b>

## 24. 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.

2020	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	6,450	6,450	-	-	-	-	6,450
Receivables	146	146	-	-	-	-	146
Investments	10,374	5,520	2,338	2,701	-	-	10,559
Loans to members	76,703	1,419	4,356	21,271	90,319	-	117,365
Equity investments	217	-	-	-	-	217	217
<b>Total financial assets</b>	<b>93,890</b>	<b>13,535</b>	<b>6,694</b>	<b>23,972</b>	<b>90,319</b>	<b>217</b>	<b>134,737</b>
<u>Liabilities</u>							
Creditors	117	-	-	-	-	117	117
Deposits from financial institutions	2,000	2,006	-	-	-	-	2,006
Deposits from members - at call	47,308	47,308	-	-	-	-	47,308
Deposits from members - term	35,285	18,678	16,965	-	-	-	35,643
Sundry creditors	732	-	-	-	-	732	732
<b>Sub-Total</b>	<b>85,442</b>	<b>67,992</b>	<b>16,965</b>	<b>-</b>	<b>-</b>	<b>849</b>	<b>85,806</b>
Undrawn loan commitments	-	6,188	-	-	-	-	6,188
<b>Total financial liabilities</b>	<b>85,442</b>	<b>74,180</b>	<b>16,965</b>	<b>-</b>	<b>-</b>	<b>849</b>	<b>91,994</b>



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

<b>2019</b>	<b>Book value</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>After 5 years</b>	<b>No Maturity</b>	<b>Total cash flows</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b><u>Assets</u></b>							
Cash	6,138	6,143	-	-	-	-	<b>6,143</b>
Receivables	147	147	-	-	-	-	<b>147</b>
Investments	10,100	5,500	2,349	2,522	-	-	<b>10,371</b>
Loans to members	70,513	1,477	4,360	21,287	84,975	-	<b>112,099</b>
Equity investments	259	-	-	-	-	259	<b>259</b>
<b>Total financial assets</b>	<b>87,157</b>	<b>13,267</b>	<b>6,709</b>	<b>23,809</b>	<b>84,975</b>	<b>259</b>	<b>129,019</b>
<b><u>Liabilities</u></b>							
Creditors	176	-	-	-	-	176	<b>176</b>
Deposits from financial institutions	-	-	-	-	-	-	<b>-</b>
Deposits from members - at call	49,253	49,253	-	-	-	-	<b>49,253</b>
Deposits from members - term	29,355	13,081	16,756	-	-	-	<b>29,837</b>
Sundry Creditors	244	-	-	-	-	244	<b>244</b>
<b>Sub-Total</b>	<b>79,028</b>	<b>62,334</b>	<b>16,756</b>	<b>-</b>	<b>-</b>	<b>420</b>	<b>79,510</b>
<b>Undrawn loan commitments</b>		<b>9,230</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,230</b>
<b>Total financial Liabilities</b>	<b>79,028</b>	<b>71,564</b>	<b>16,756</b>	<b>-</b>	<b>-</b>	<b>420</b>	<b>88,740</b>

## 25. 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	2020			2019		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>FINANCIAL ASSETS</b>						
Cash	6,450	-	6,450	6,138	-	6,138
Investment securities	7,804	2,570	10,374	7,778	2,322	10,100
Loans to members	2,792	73,911	76,703	5,878	64,635	70,513
Receivables	146	-	146	147	-	147
FVOCI equity investment	217	-	217	259	-	259
<b>Total Financial Assets</b>	<b>17,409</b>	<b>76,481</b>	<b>93,890</b>	<b>20,200</b>	<b>66,957</b>	<b>87,157</b>
<b>FINANCIAL LIABILITIES</b>						
Creditors	117	-	117	176	-	176
Deposits from other financial institutions	2,000	-	2,000	-	-	-
Deposits from members - Call	47,308	-	47,308	49,253	-	49,253
Deposits from members - Term	35,285	-	35,285	29,355	-	29,355
Sundry Creditors	732	-	732	244	-	244
<b>Total Financial Liabilities</b>	<b>85,442</b>	<b>-</b>	<b>85,442</b>	<b>79,028</b>	<b>-</b>	<b>79,028</b>

## 26. 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.

2020	Floating rate	1-3 months	3-12 months	1-5 years	After 5 years \$'000 0	Non interest bearing \$'000	Total \$'000
<b>ASSETS</b>							
Cash	6,450	-	-	-	-	-	6,450
Equity investments	-	-	-	-	-	217	217
Receivables	-	-	-	-	-	146	146
Loans - mortgage	35,837	2,834	12,733	20,757	-	-	72,161
Loans - personal	3,008	-	-	-	-	-	3,008
Loans - other	1,534	-	-	-	-	-	1,534
Investments	5,382	4,493	499				10,374
<b>Total Financial Assets</b>	<b>52,211</b>	<b>7,327</b>	<b>13,232</b>	<b>20,757</b>	<b>-</b>	<b>363</b>	<b>93,890</b>
<b>LIABILITIES</b>							
Creditors	-	-	-	-	-	1,039	1,039
Deposits from financial institution	2,000	-	-	-	-	-	2,000
Deposits from members	54,824	11,011	16,760	-	-	-	82,595
<b>Sub total</b>	<b>56,824</b>	<b>11,011</b>	<b>16,760</b>	<b>-</b>	<b>-</b>	<b>1,039</b>	<b>85,634</b>
Undrawn loan commitments	6,188	-	-	-	-	-	6,188
<b>Total Financial Liabilities</b>	<b>63,012</b>	<b>11,011</b>	<b>16,760</b>	<b>-</b>	<b>-</b>	<b>1,039</b>	<b>91,822</b>

**26. Interest rate change profile of financial assets and liabilities continued**

2019	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
<b>ASSETS</b>							
Cash	6,138	-	-	-	-	-	6,138
Receivables	-	-	-	-	-	147	147
Investments	6,117	3,983	-	-	-	-	10,100
Loans - mortgage	42,129	1,952	4,592	17,327	-	-	66,000
Loans - personal	3,465	-	-	-	-	-	3,465
Loans - other	1,048	-	-	-	-	-	1,048
Equity investments						259	259
<b>Total Financial Assets</b>	<b>58,897</b>	<b>5,935</b>	<b>4,592</b>	<b>17,327</b>	<b>-</b>	<b>406</b>	<b>87,157</b>
<b>LIABILITIES</b>							
Creditors	-	-	-	-	-	646	646
Deposits from financial institution	-	-	-	-	-	-	-
Deposits from members	54,852	7,321	16,436	-	-	-	78,609
<b>Sub total</b>	<b>54,852</b>	<b>7,321</b>	<b>16,436</b>	<b>-</b>	<b>-</b>	<b>646</b>	<b>79,255</b>
Undrawn loan commitments	9,230	-	-	-	-	-	9,230
<b>Total Financial Liabilities</b>	<b>64,082</b>	<b>7,321</b>	<b>16,436</b>	<b>-</b>	<b>-</b>	<b>646</b>	<b>88,485</b>

## **27. Fair value of financial assets and liabilities**

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.

### **Cash and cash equivalents and investment securities**

The carrying values of cash, cash equivalents and debt investment securities redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

### **Loans to members**

The carrying value of loans to members is net of unearned income and the expected credit loss provision.

For variable and fixed 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 deposits from members approximates their carrying amount as all deposits re-price within 12 months.

	2020 \$	2019 \$
<b>28. Financial commitments</b>		
(a) Outstanding loan commitments		
– The loans approved but not funded	<u>595,609</u>	<u>3,353,862</u>
(b) Loan redraw facilities		
– The loan redraw facilities available	<u>5,522,298</u>	<u>5,813,475</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	114,552	103,052
– Less: Amount advanced	<u>(44,177)</u>	<u>(40,704)</u>
– Net undrawn value	<u>70,375</u>	<u>62,348</u>
– These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
<b>Total Financial Commitments</b>	<u>6,188,282</u>	<u>9,229,684</u>
(d) Other expense commitments		
– Intangible assets	-	-
– Other - TAS contract		
Not later than 1 year	90,797	87,972
Later than 1 year but not 2 years	-	87,972
Later than 2 years but not 3 years	-	-
	<u>90,797</u>	<u>175,944</u>

## 29. Standby borrowing facilities

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

2020	Gross \$	Current Borrowing \$	Net Available \$
Overdraft facility	300,000	-	300,000
<b>Total standby borrowing facilities</b>	<u>300,000</u>	<u>-</u>	<u>300,000</u>
<b>2019</b>	<b>Gross \$</b>	<b>Current Borrowing \$</b>	<b>Net Available \$</b>
Overdraft facility	300,000	-	300,000
<b>Total standby borrowing facilities</b>	<u>300,000</u>	<u>-</u>	<u>300,000</u>

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

CUSCAL holds Fixed Term Deposits from Lysaght Credit Union as security against the facility.

### 30. 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 issued guarantees on behalf of members for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total \$781,207 (2019 \$620,523). 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).

### 31. 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:

	2020		2019	
	Directors and KMP	Total	Directors and KMP	Total
	\$	\$	\$	\$
Short-term employee benefits	231,392	231,392	224,094	224,094
Post-employment benefits - superannuation contributions	-	-	-	-
Other long-term benefits - net increases in long service leave provision	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	-	-	-	-
<b>Total</b>	<b>231,392</b>	<b>231,392</b>	<b>224,094</b>	<b>224,094</b>

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.

### 31. Disclosures on directors and other key management personnel continued

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

	2020		2019	
	Term Loans \$	Revolving Credit \$	Term Loans \$	Revolving Credit \$
Funds available to be drawn	-	15,226	-	104
Balance	1,772,647	2,774	1,567,712	2,896
Amounts disbursed or facilities increased in the year	1,293,005	23,334	6,300	5,628
Interest and other revenue earned	41,919	355	60,740	325

The Credit Union's policy for lending to key management personnel is that all loans are approved on the same terms and conditions, and at rates, that apply to members generally.

##### Savings

	2020 \$	2019 \$
Total value term and savings deposits	1,299,828	1,434,919
Total Interest paid on deposits	7,840	6,426

##### 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.

### 32. Outsourcing arrangements

The Credit Union has arrangements with other organisations to facilitate the supply of services to members.

#### (a) CUSCAL Limited

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. The Credit Union has equity in the company. This organisation:

- (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 cards for use by members;



### **32. Outsourcing arrangements continued**

- (ii) this company operates the computer network used to link Visa cards operated through 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.

#### **(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.

#### **(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 TAS. 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.

### **33. 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.

### **34. 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.

### 35. Notes to cash flow statement

#### (a) Reconciliation of cash

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

	2020 \$	2019 \$
– Cash on hand	65,060	94,502
– Deposits at call	6,384,751	6,043,524
<b>Total cash</b>	<b>6,449,811</b>	<b>6,138,026</b>

#### (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

230,049 291,067

Add (Deduct):

– Bad debts written off	153	17,152
– Depreciation expense	36,290	53,245
– Amortisation expense	43,766	72,900
– Amortised transaction costs and fees on loans	17,627	(9,266)

#### Movements in Balance Sheet Items

– Increase/(decrease) in provision for income tax	17,387	(16,609)
– Increase/(decrease) in other provisions	5,802	(51,301)
– Increase/(decrease) in accrued expenses	(59,226)	23,168
– Increase/(decrease) in interest payable	(35,474)	32,571
– Increase/(decrease) in deferred tax liability	(7,894)	-
– (Increase)/decrease in prepayments	(11,655)	(821)
– (Increase)/decrease in deferred tax assets	(9,806)	19,515
– Increase/(decrease) in loan provision	96,046	(27,514)
– (Increase)/decrease in interest receivable	27,423	(4,583)

#### Net cash from revenue activities

350,488 399,524

#### Add (Deduct) non revenue operations

– Reduction / (Increase) in loans balances	(6,190,390)	(7,434,626)
– Reduction / (Increase) in liquid investment balances	1,725,217	2,755,526
– Increase / (Reduction) in deposit balances	4,447,953	5,894,724

#### Net cash from operating activities

333,268 1,615,148

### **36. 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.

## Directors' Declaration

1. In the opinion of the Directors' of Lysaght Credit Union Ltd ("the Credit Union"):
  - a. the financial statements and notes that are set out on pages [14] to [58] are in accordance with the *Corporations Act 2001*, including:
    - i giving a true and fair view of the Credit Union's financial position as at 31<sup>st</sup> March 2020 and of its performance, for the financial year ended on that date; and
    - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
  - b. there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.
2. The directors' draw attention to Note 1 to the financial statements, which includes a statements of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.



Viktor Tomeski  
Director



Paul Daly  
Director

Signed at Wollongong this 28<sup>th</sup> day of July 2020.



## Independent Auditor's Report

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To the members of Lysaght Credit Union Ltd

### Opinion

We have audited the **Financial Report** of Lysaght Credit Union Ltd (the Company).

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

- giving a true and fair view of the Company's financial position as at 31 March 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- *Statement of financial position* as at 31 March 2020
- *Statement of profit or loss and other comprehensive income, Statement of changes in members' equity, and Statement of cash flows*, for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



#### Other Information

Other Information is financial and non-financial information in Lysaght Credit Union Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

#### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



#### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the 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](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our Auditor's Report.



Richard Drinnan

Partner

Wollongong

28 July 2020