

# Annual Report

## 2023



## Chairman's Report

### FY23 Financial and Operational Snapshot

Profit After Tax \$1,220,706

Total Loan Growth 4.0%

Return on Average Assets 0.45%

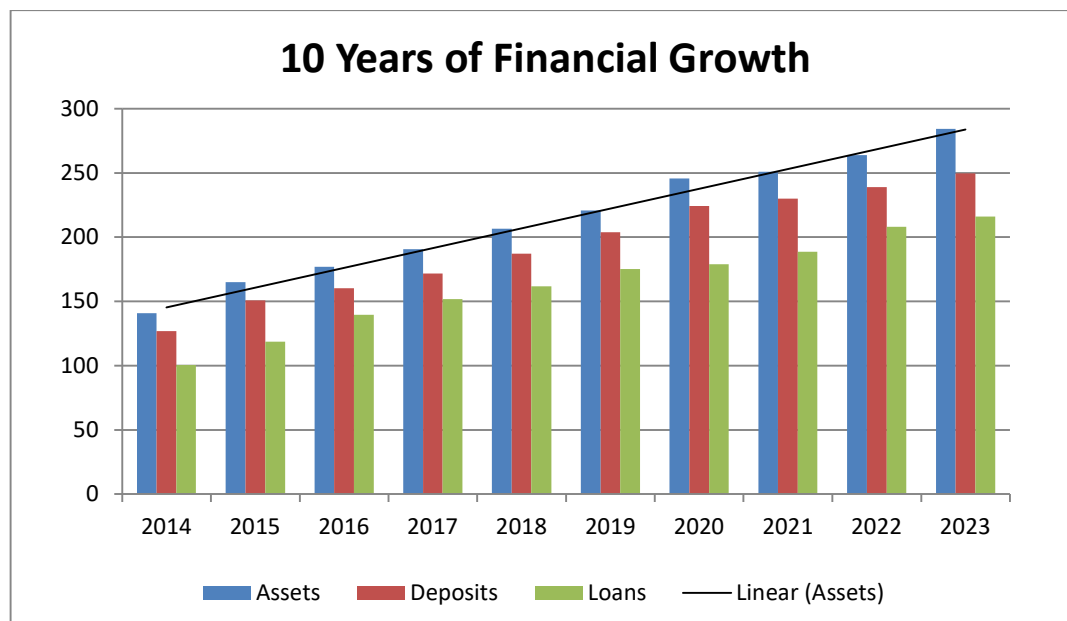
Total Deposit Growth 4.6%

Capital Ratio 16.65%

Total Assets \$284.4m

Liquidity Ratio 23.01%

Membership 8,677



### Overview

For First Option Bank, FY23 was a very successful year, delivering a strong financial result along with continued high quality member services. New products and improvements in technology were implemented, benefitting both members and staff.

The year saw the following notable occurrences:

- The severe impact on many home loan borrowers due to the RBA increasing interest rates from 0.85% to 4.10% during the financial year. The number and level of increases caught many borrowers unprepared, particularly those who borrowed at very low fixed interest rates based upon earlier statements made by the RBA.
- Stronger than expected inflation levels persisted during the year, leading to cost of living pressures impacting members and the Bank's cost structure.
- A large number of cyber-attacks on companies resulted in financial loss, the theft of data and reputational damage, while fraudulent scammers continued to target vulnerable members of the community inflicting financial loss and subsequent hardship.

- World-wide economic issues saw major countries struggling to lift economic growth to avoid potential recession implications, while in China, a stressed property market due to oversupply and weak valuations is impacting growth.
- The Australian property market continued to show signs of resilience, with property prices climbing. However, due to ongoing supply issues, a major rental crisis developed leading to increased rents, particularly in major capital cities.
- The relaxing of major COVID-19 restrictions and generally the ceasing of COVID-19 related Government support.

A number of these issues directly impacted First Option, requiring the Board and management to revise or implement strategies to ensure the ongoing growth and financial stability of the Bank and to continue to provide support to our valued members.

The major shift in monetary policy by the RBA imposed new challenges due to the ten interest rate increases throughout the year. As a result, members are facing higher monthly mortgage repayments leading to potential financial hardship at a time when inflationary pressures are impacting household budgets. Management of the interest rate margin by the Bank, in a highly competitive loan and deposit market, placed pressure on the financial outcome of the business.

First Option, as a member owned Bank, will continue to assist members by providing high quality personalised services and other levels of support to ensure the wellbeing of members during these challenging times.

During the year, First Option Bank (along with a number of other financial institutions) was chosen by APRA to participate in a Board Capability, Composition and Effectiveness Prudential Review. The review identified some minor areas for improvement, and work is proceeding to rectify the matters requiring attention.

It is pleasing to advise that the Bank achieved an excellent trading result with growth in Profit, Total Deposits and Total Loans despite the challenging business conditions, the strong competition for mortgage loans and deposits and the higher interest rate environment during the year.

Prudential capital and liquidity ratios remain comfortably above statutory requirements at year-end.

### **Financial Performance**

Total Assets increased by \$20.2 million to \$284.4 million, Total Loans increased by \$8.2 million (4%) to \$215.7 million and Total Deposits reached \$249.8 million, up \$11.0 million (4.6%).

Operating profit after income tax for the full year was \$1,220,706 compared to the FY22 result of \$712,565. This strong financial result was achieved due to an improved interest rate margin, the benefits from strategic financial management action taken over a number of years to grow the Bank's mortgage loan book during a low interest rate environment, management of our cost base and prudent investment in technology innovation benefitting members and improving corporate processes.

Members' Equity increased by \$1.22 million to \$17.43 million.

Following the implementation of APRA's new capital framework (effective January 2023) the Bank's capital ratio is now being calculated in accordance with the new guidelines. As at financial year end the capital ratio was 16.65% (FY22 14.3%). Total liquidity was 23.01%.

## Operational Highlights

FY23 has been a busy year for First Option, with major achievements being:

- Providing high quality services and support to members, particularly mortgage loan holders impacted by the numerous RBA interest rate increases and members recovering from financial difficulties caused by COVID-19.
- Core Banking Upgrade – work proceeded on this large and complex project during the period with the initial stages of the new system expected to be implemented during the first quarter of FY24.
- A number of new products were launched during the year:
  - a. Simple Mortgage Loan Product – this no frills product offering a competitive interest rate has proved very successful in a competitive mortgage loan market.
  - b. Savings + Bonus Deposit Account – the attractive interest rate attached to this product has been well received by members.
  - c. Be-Green Loans Product – this product offers members loans for a variety of environmentally friendly purposes such as Home improvements, electric vehicle purchases.
  - d. Low Interest Rate Visa Credit Card attached to an Environmental Rewards Program that financially assists the Bank's environmental partners.
- Continued implementation, documenting and testing of systems to manage risk and compliance requirements within the ever-changing regulatory financial services framework.
- Along with other financial institutions, commenced the phasing out of the use of member cheques.
- Strengthening the security over our systems both in-house and at third party locations to protect member funds and data from cyber-attack, hackers and scammers.
- Open Banking Data Sharing – successfully implemented mandatory changes to Customer Data Rights (CDR) rules and regulations to enable compliance with Commonwealth Treasury and ACCC requirements.

## The Future

First Option has a clear focus for FY24, which is to drive growth, deliver competitive products, provide high quality services to our members via personalised service and also to support user friendly and secure technology platforms.

Financial markets continue to watch the RBA for signs that its aggressive monetary policy maybe easing. As inflation levels contract from the high point in the year, expectation of a pause in interest rate rises and even cuts to the official cash rate is gaining momentum.

Although economists are forecasting a more stable outlook for monetary policy in FY24, many are forecasting that Australia is heading for a mild recession in 2024. For home loan borrowers who are already struggling to meet increased mortgage repayments stemming from previous

interest rate increases, any level of recession would severely impact their financial position. Undoubtedly, going forward some borrowers will need assistance to manage these repayments and the impact of a recession on household budgets.

The first half of FY24 will see the implementation of the final stages of the Core Banking System Upgrade, including Internet and Mobile Banking Apps.

Across the financial industry, cybercrime continues to be a major threat, with a successful attack inflicting severe damage on a company. First Option is further developing and implementing a comprehensive cyber security program that identifies, mitigates and manages threats to protect member funds and data and the Bank's technology systems. In addition to this work, in May 2023, the Federal Government announced the establishment of a National Anti-Scam Centre (NASC) within the ACCC. The object of the NASC is to work with Government, financial industry, regulators and community organisations to make it difficult to scam Australians. First Option will report scam activity to the NASC and act on scam information the NASC provides to the bank.

Currently underway is the relocation of the Bank's Parramatta office to the TabCorp property at Granville. The move away from the shared workspace at Parramatta to dedicated office space at Granville will provide staff with a more comfortable and work-friendly office environment. The relocation is expected to be completed by November 2023.

### **Appreciations**

During the year, a number of new staff joined the Bank's Risk, Finance and Member Services teams. Their immediate engagement in, and contribution to, achieving the Bank's strategic objectives quickly enhanced their standing within the organisation.

Along with my fellow directors, I would like to offer sincere thanks to Dean and our staff for their outstanding level of member service and contribution to the growth of the Bank during what has been another challenging year. Members appreciate your friendly approach to service and continue to provide positive feedback on the excellent service provided.

I also thank my fellow directors for their dedication and contribution to what has been a very successful and rewarding year despite its challenges.

Finally, I thank all our members for supporting First Option, as without this continuing support, the financial strength, quality member services and competitive products offered by your Bank could not be maintained.



**Graeme Yeo**  
**Chairman**  
**September 2023**

## Directors' Report

Your Directors present their report on First Option Bank ("the Bank") for the financial year ended 30 June 2023. The Bank is a company registered under the Corporations Act 2001.

### Information on Directors

Name	Qualifications	Experience	Responsibilities
Graeme John Yeo	BBus (Acc), CPA	Director for 15 years (TABCU Director 25 years) Chairperson 14 years	Chairperson of the Board
Dharmendra Kumar	BA, MBA, Diploma in Financial Planning, Graduate Australian Institute of Company Directors, Senior Associate Financial Institute of Australasia, Member of Professional Risk Managers Association	Director for 14 years	Member of the Risk Committee
Annette Susan Mathews	BAppSc (Comp), Graduate Australian Institute of Company Directors, Organisational Coaching Certificate, Alumni Member Institute of Executive Coaching	Director for 28 years	Chairperson of the Risk Committee, Member of the Audit Committee
Timothy Matthews	BBusSt, FCPA, Graduate Australian Institute of Company Directors	Director for 16 years (EECC Director for 16 years)	Chairperson of the Audit Committee, Member of the Risk Committee
Gregory Noel Moore		Director for 24 years	
Anthony McAvaney	BE (Chem) Hons, BComm, Member Australian Institute of Company Directors, Member of the OC Connections Finance Committee, Trustee of the Gus Theobald Foundation	Director for 12 years	Member of the Audit Committee, Member of the Risk Committee
Lorna Clerkin	BSc (Hons), MBA	Director for 7 years (OGCU Director for 11 years)	

Note: TABCU denotes Tab Credit Union, EECC denotes Ericsson Employees Credit Co-operative, OGCU denotes Old Gold Credit Union Co-Operative

### Company Secretary

Name	Qualifications	Experience
Dean Jepsen	Bachelor of Economics (Acctg), FCPA	Chief Executive Officer for 9 years

**Directors' Meeting Attendance**

Director	Board		Audit Committee		Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Graeme Yeo	11	11	-	-	-	-
Annette Mathews	11	10	4	3	6	6
Gregory Moore	11	10	-	-	-	-
Anthony McAvaney	11	10	4	3	6	5
Timothy Matthews	11	11	4	4	6	6
Dharmendra Kumar	11	8	-	-	6	5
Lorna Clerkin	11	5	-	-	-	-

**Periods of Appointment**

Graeme Yeo	2023 AGM	Gregory Moore	2023 AGM
Timothy Matthews	2025 AGM	Anthony McAvaney	2023 AGM
Dharmendra Kumar	2024 AGM	Lorna Clerkin	2025 AGM
Annette Mathews	2025 AGM		

**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 Bank, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 33 of the complete set of financial statements.

**Director and Officer Insurances and Indemnities**

Insurance premiums have been paid to insure each of the Directors and Officers of the Bank, 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 Bank. 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 Bank.

**Principal Activities**

The principal activities of the Bank 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 its Constitution.

No significant changes in the nature of these activities occurred during the financial year.

**Operating Results**

The operating profit of the Bank for the year after providing for income tax was \$1,220,706 [2022: \$712,565].

## 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 Bank.

## Review of Operations

The results of the Bank'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 bank during the financial year.

## Events Occurring after Balance 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 Bank in subsequent financial years.

## Likely Developments and Results

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

- The operations of the Bank;
- The results of those operations; or
- The state of affairs of the Bank

in the financial years subsequent to this financial year. There are no likely developments in the Bank's operations in the future financial years.

## Environmental legislation

First Option Bank'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.

## Auditors' Independence

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



Mr Graeme Yeo  
Chairman of the Board



Mr Timothy Mathews  
Chairman of the Audit Committee

Signed and dated 19<sup>th</sup> September 2023






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## Auditor's Independence Declaration

### To the Directors of First Option Bank Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of First Option Bank Limited for the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been:

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

Grant Thornton Audit Pty Ltd  
Chartered Accountants

D M Scammell  
Partner – Audit & Assurance

Melbourne, 19 September 2023

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## Independent Auditor's Report

### To the Members of First Option Bank Limited

#### Report on the audit of the financial report

##### Opinion

We have audited the financial report of First Option Bank Limited (the Company), which comprises the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Company's financial position as at 30 June 2023 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

##### Basis for opinion

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

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

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

The Directors are responsible for the other information. The other information comprises the information included in the Company's report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

### Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial report

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

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



Grant Thornton Audit Pty Ltd  
Chartered Accountants



D M Scammell  
Partner – Audit & Assurance

Melbourne, 19 September 2023

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## Directors' Declaration

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In the opinion of the directors of First Option Bank Ltd:

1. The financial statements and accompanying notes of the company are in accordance with the Corporations Act 2001, including:
  - a. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - b. giving a true and fair view of the company's financial position as at 30 June 2023 and of its performance for the financial year ended on that date.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The financial statements comply with International Financial Reporting Standards as stated in Note 2.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Chairman

  
\_\_\_\_\_

Mr Graeme Yeo

Dated this 19<sup>th</sup> day of September 2023.

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**Statement of Profit or Loss and Other Comprehensive Income**  
**for the year ended 30 June 2023**


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	<b>Note</b>	<b>2023</b> \$	<b>2022</b> \$
Interest revenue	7.a	9,643,649	5,396,614
Interest expense	7.c	3,371,997	546,613
<b>Net interest income</b>		<u>6,271,651</u>	<u>4,850,001</u>
Other income	7.b	495,792	559,564
<b>Net Income</b>		<u>6,767,443</u>	<u>5,409,565</u>
<b>Non interest expenses</b>			
Impairment losses / (write back) on loans and advances	7.d	<u>173,531</u>	<u>(151,119)</u>
General administration			
- Employees compensation and benefits		1,945,879	1,532,896
- Depreciation and amortisation		117,816	190,626
- Information technology		1,688,325	1,485,089
- Office occupancy		92,211	280,865
- Other administration		237,609	277,825
Total general administration		<u>4,081,840</u>	<u>3,767,301</u>
Other operating expenses		<u>893,541</u>	<u>832,957</u>
Total non interest expenses		<u>5,148,912</u>	<u>4,449,139</u>
<b>Operating Profit before Income Tax</b>		<u>1,618,531</u>	<u>960,426</u>
Income tax expense	8	<u>397,825</u>	<u>247,861</u>
<b>Operating Profit after Income Tax</b>		<u>1,220,706</u>	<u>712,565</u>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income</b>		<u>1,220,706</u>	<u>712,565</u>

This statement should be read in conjunction with the attached notes

**Statement of Financial Position**  
**as at 30 June 2023**

	<b>Note</b>	<b>2023</b> \$	<b>2022</b> \$
<b>ASSETS</b>			
Cash	9	17,320,884	12,794,374
Liquid investments	10	49,070,000	42,320,000
Receivables	11	604,144	327,349
Current taxation assets	17	56,522	50,258
Loans and advances to members	12 & 13	215,715,379	207,533,829
Investments	16	46,445	46,445
Right-of-use assets	14	715,168	763,320
Property, plant and equipment	15	30,592	37,587
Deferred taxation assets	17	237,089	177,475
Intangible assets	18	573,488	190,138
<b>Total Assets</b>		<b>284,369,711</b>	<b>264,240,775</b>
<b>LIABILITIES</b>			
Deposits from members	20	249,802,427	238,818,341
Short term borrowings	19	10,000,000	3,000,000
Lease liabilities	14	630,169	763,320
Creditors	21	2,128,274	1,148,117
Provisions	22	799,302	722,164
Long term borrowings	19	3,575,179	3,575,179
<b>Total Liabilities</b>		<b>266,935,351</b>	<b>248,027,121</b>
<b>Net Assets</b>		<b>17,434,360</b>	<b>16,213,654</b>
<b>MEMBERS' EQUITY</b>			
Capital reserve	23	35,124	34,530
Reserve for credit losses	24	-	-
General Reserve	25	17,399,236	16,179,124
<b>Total Members' Equity</b>		<b>17,434,360</b>	<b>16,213,654</b>

This statement should be read in conjunction with the attached notes

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**Statement of Changes in Member Equity**  
**for the year ended 30 June 2023**


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	<b>Redeemed Capital Reserve</b>	<b>Reserve for Credit Losses</b>	<b>General Reserves</b>	<b>Retained Profits</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Total at 1 July 2021	33,918	452,668	15,014,503	-	15,501,089
Profit for the year	-	-	-	712,565	712,565
Totals brought forward	33,918	452,668	15,014,503	712,565	16,213,654
Transfers to (from) Reserves	612	(452,668)	1,164,621	(712,565)	-
<b>Total as at 30 June 2022</b>	<b>34,530</b>	<b>-</b>	<b>16,179,124</b>	<b>-</b>	<b>16,213,654</b>
Total at 1 July 2022	34,530	-	16,179,124	-	16,213,654
Profit for the year	-	-	-	1,220,706	1,220,706
Totals brought forward	34,530	-	16,179,124	1,220,706	17,434,360
Transfers to (from) Reserves	594	-	1,220,112	(1,220,706)	-
<b>Total as at 30 June 2023</b>	<b>35,124</b>	<b>-</b>	<b>17,399,236</b>	<b>-</b>	<b>17,434,360</b>

This statement should be read in conjunction with the attached notes

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**Statement of Cash Flows**  
**for the year ended 30 June 2023**


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	<b>Note</b>	<b>2023</b>	<b>2022</b>
		<b>\$</b>	<b>\$</b>
<b>OPERATING ACTIVITIES</b>			
Interest received		9,702,495	5,378,742
Interest paid		(2,389,805)	(594,096)
Other income		495,792	491,440
Income Tax Paid		(463,703)	(246,555)
Cash Paid to Suppliers & Employees		(4,745,923)	(4,279,557)
<b>Net cash from revenue operations</b>	37.b	2,598,856	749,974
<b>Other operating activities</b>			
Net increase in deposits and other borrowings		10,553,656	9,738,626
Net increase in loans and advances		(8,355,670)	(15,801,289)
<b>Total cash from/(used in) operations</b>		4,796,842	(5,312,689)
<b>INVESTING ACTIVITIES</b>			
Increase/(decrease) in liquid investments		(6,750,000)	1,576,749
Purchase of shares		-	(46,445)
Purchase of equipment and software		(444,309)	(251,981)
Proceeds on sale of fixed assets		-	8,200
<b>Net cash used in investing activities</b>		(7,194,309)	1,286,523
<b>FINANCING ACTIVITIES</b>			
Funds received from borrowings		7,000,000	3,000,000
Lease principal payments		(76,023)	(108,138)
<b>Net cash from/(used in) used in financing activities</b>		6,923,977	2,891,862
<b>Net increase / (decrease) in cash held</b>		4,526,510	(1,134,304)
Cash at the beginning of reporting period		12,794,374	13,928,678
<b>Cash at the End of the Reporting Period</b>	37.a	17,320,884	12,794,374

This statement should be read in conjunction with the attached notes



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## Notes to the Financial Statements

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### 1. Nature of operations

First Option Bank's principal activities include the provision of retail financial services to members in the form of deposit-taking and provision of financial loans to members.

### 2. General information and statement of compliance

This financial report is prepared for First Option Bank Ltd for the year ended 30 June 2023. The general purpose financial statements of the Bank have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

First Option Bank Ltd is a for-profit entity for the purpose of preparing the financial statements.

First Option Bank Ltd is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Level 6, 574 St Kilda Rd, Melbourne VIC 3004.

The report was authorised for issue on 19 September 2023 in accordance with a resolution of the board of Directors. The financial report is presented in Australian dollars.

### 3. Basis of measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs.

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

### 4. Changes in Accounting Policies – New Standards applicable for the Current Year

There were no amended accounting standards and interpretations issued by the Australian Accounting Standards Board effective for the year ended 30 June 2023 that had an impact on the Bank.

### 5. Significant Accounting Policies

#### a) Interest income

Deposits - interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Overdraft – interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Credit cards – interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member’s account on the last day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 45 days interest free until the due date for payment.

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

#### **b) Non-interest revenue**

Loan and account fees – The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

The Bank’s performance obligation is to provide ongoing services related to account maintenance, a service from which the customer benefits as the service is provided and is recognised over time. Due to the nature of the services, they are recognised as a series of services comprising a single performance obligation. Unless otherwise discounted and included in the initial measurement of a loan, fees are charged at their stand-alone selling price and recognised as revenue in the period for which services are delivered. Where fees are discounted due to other relationships, the fees are estimated and recognised as a contract liability measured at the estimated value of the promised services, based on their stand-alone selling price and estimated period of delivery.

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

Loan origination fees and discounts – Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue.

Transaction costs – Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue.

#### **c) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Reserve Bank of Australia (RBA) and cash on deposits and call accounts with other Authorised Deposit-taking Institutions (ADIs) and other short-term, highly liquid investments that are readily convertible and subject to insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost in the statement of financial position. Interest is brought to account using the effective interest method.

#### **d) Classification of financial assets**

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

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

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

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

Classifications are determined by both:

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

### **Subsequent measurement of financial assets**

#### ***Financial assets at amortised cost***

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The bank's cash and cash equivalents and receivables fall into this category of financial instruments as well as NCDs, Bonds and Term Deposits.

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

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

#### ***Fair Value through Other Comprehensive Income (FVOCI)***

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

## e) Loans and advances

Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

When the bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the bank's financial statements.

## f) Impairment of loans and advances

Provision for impairment of loans and advances reflects Expected Credit Losses (ECL) measured using the three-stage approach prescribed under AASB 9 Financial Instruments as further described in Note 13.

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

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

The critical assumptions used in the calculation are as set out below. Note 38(d)(i) details the credit risk management approach for loans.

## g) Property, plant and equipment

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

- Leasehold Improvements - up to 10 years
- Plant and Equipment - 3 to 7 years
- Assets less than \$1,000 are not capitalised

## h) Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Bank are classified as intangible assets. All intangible assets 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. These useful lives range from 2 to 5 years. Residual values and useful lives are reviewed at each reporting date.

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.

#### i) Leases

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

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

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

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

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

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

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

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

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

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

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

#### **Short-term leases and leases of low-value assets**

The company has not elected to recognise right-of-use assets and leases liabilities for leases of low-value assets and short-term leases. Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss over the lease term. Short-term leases are leases with a lease term of 12 months or less. Low-value assets generally comprise IT equipment.

#### **j) Receivables**

Receivables are recognised and accounted for as financial assets classified as amortised cost. Interest on receivables due from other financial institutions is recognised on an effective yield basis.

#### **k) Taxation**

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

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

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office

(ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

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

### **Current and deferred tax assets**

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and / or liabilities comprise those obligations to, or claims from, the Australian Taxation Office (ATO) and other fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Bank and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period, currently 25% (2022: 25%).

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Bank's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Bank has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

The Bank undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Bank estimates the amount to be paid to / (recovered from) taxation authorities based on the Bank's understanding and interpretation of law, including case law. Where the Bank considers it probable that the tax treatment applied in the current or historic periods is not probable to be accepted by the taxation authority, it is included within current or deferred taxes, as appropriate.

## **l) Borrowings**

All short term borrowings are initially recognised at cost, being the fair value of the consideration received net of direct incremental issue costs associated with the borrowings. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method.

## **m) Provisions**

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### **Employee benefits**

Employee provisions comprise liabilities for employee benefits arising from services rendered by employees to balance date. Employee benefits have maturities of both less than one year and greater than one year and have been measured at present value of the estimated future cash outflows to be made for those benefits discounted using high quality corporate bond rates.

Superannuation contributions are made by the Bank to defined contribution superannuation funds and are charged as expenses when incurred.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Bank based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at the reporting date. Annual leave is reflected as part of the sundry creditors and accruals.

### **Leasehold make good**

The Bank is required to restore the lease premises of its office building to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. The provision is assessed at each balance date for new, amended and expired leases. The estimate of the costs have been calculated using historical costs.

Increases in the provision in future years due to the unwinding of the interest charge, is recognised as part of the interest expense.



## n) Accounting estimates and judgements

Management have made judgements when applying the Bank's accounting policies with respect to:

- Recognition of credit losses based on "Stage 1" 12 month expected losses and "Stage 2" and "Stage 3" lifetime expected credit losses, and determining criteria for significant increase in credit risk – refer to Note 13
- Determination of lease term – refer to Note 14

## 6. New or Emerging Standards not yet Mandatory

The Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective. The directors do not expect that the adoption of the Standards listed below will have a material impact on the financial statements of the Bank in future periods.

- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as current or Non-current
- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates
- AASB 2021-5: Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction



<b>7. Statement of Profit or Loss and Other Comprehensive Income</b>	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
<b>a. Analysis of interest revenue</b>		
Cash – deposits at call	458,424	22,765
Receivables from financial institutions	329,141	151,280
Investment Securities	767,903	165,203
Loans and advances to members	8,088,181	5,057,366
<b>Total interest revenue</b>	<b>9,643,649</b>	<b>5,396,614</b>
<b>b. Other Income</b>		
Fee income	276,474	324,720
Insurance commissions	-	4,793
Other commissions	189,836	178,521
Bad debts recovered	18,869	25,993
Miscellaneous revenue	10,613	25,537
<b>Total other income</b>	<b>495,792</b>	<b>559,564</b>
<b>c. Analysis of interest expense</b>		
Deposits from members	2,912,923	537,353
Borrowings	432,913	9,260
Lease interest	26,161	-
<b>Total interest expense</b>	<b>3,371,997</b>	<b>546,613</b>
<b>d. Impairment losses</b>		
Net increase / (decrease) in provision for impairment	173,531	(151,119)
<b>Total impairment losses</b>	<b>173,531</b>	<b>(151,119)</b>
<b>e. Prescribed expense disclosures</b>		
General Administration - depreciation expense:		
Plant and equipment	16,803	149,554
Amortisation of software	51,151	41,072
Amortisation of right of use asset	49,862	92,211
Lease expenses		
- Expense related to leases of low-value assets	3,809	3,861
- Expense related to variable lease payments	47,423	25,074
Other Operating expenses include:		
Defined contribution superannuation expenses	152,702	127,465
Auditor's remuneration (excluding GST)		
- Audit fees - Grant Thornton	62,500	58,500
<b>Total auditor's remuneration</b>	<b>62,500</b>	<b>58,500</b>

8. Income Tax Expense	2023	2022
	\$	\$

**a.****Income tax expense comprises amounts set aside as:**

Provision for income tax - current year	432,172	185,471
Decrease / (Increase) in deferred tax	(59,614)	51,564
Under provision from the previous year	25,267	10,826
<b>Income tax expense attributable to profit</b>	<b>397,825</b>	<b>247,861</b>

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

Prima facie tax payable on profit before tax at 25% (2022: 25%)	404,633	240,106
Add/(less) tax effect of:		
Franking credits	203	1,375
Non assessable income	-	-
Other deductible expenses	(32,278)	-
Non-deductible expenses		4,363
Effect of tax rate change on deferred tax asset	-	(8,809)
Under provision from the previous year	25,267	10,826
<b>Income tax expense attributable to profit</b>	<b>397,825</b>	<b>247,861</b>

	2023	2022
	\$	\$
<b>9. Cash</b>		
Deposits at call	17,320,884	12,794,374
	<b>17,320,884</b>	<b>12,794,374</b>
<b>10. Liquid Investments</b>		
<b>a. Investments at amortised cost</b>		
Negotiable Certificates of Deposit	31,000,000	17,500,000
Bonds	12,950,000	17,200,000
Receivables – Term Deposits / Other Deposits	5,120,000	7,620,000
	<b>49,070,000</b>	<b>42,320,000</b>
<b>b. Dissection of receivables</b>		
Deposits with banks	5,120,000	6,620,000
Deposits with credit unions	-	1,000,000
	<b>5,120,000</b>	<b>7,620,000</b>
<b>11. Receivables</b>		
Interest receivable	108,577	177,887
Prepayments	103,613	83,783
Other receivables	391,954	65,679
	<b>604,144</b>	<b>327,349</b>
<b>12. Loans to Members</b>		
<b>a. Amount due comprises</b>		
Overdrafts and revolving credit	385,318	425,601
Credit cards	1,347,294	1,325,954
Term loans	214,175,585	205,813,768
<b>Subtotal</b>	<b>215,908,197</b>	<b>207,565,323</b>
<i>Less:</i>		
Unearned Income	1,658	1,068
<b>Subtotal</b>	<b>215,906,538</b>	<b>207,564,255</b>
<i>Less:</i>		
Provision for impaired loans (note 13)	191,159	30,426
	<b>215,715,379</b>	<b>207,533,829</b>

	2023	2022
	\$	\$

## 12. Loans to Members - continued

### b. Credit quality - security held against loans

Secured by mortgage over business assets	2,468,064	3,110,912
Secured by mortgage over real estate or cash	211,679,142	201,959,723
Partly secured by goods mortgage	1,086,882	1,391,549
Wholly unsecured	674,109	1,103,139
	<b>215,908,197</b>	<b>207,565,323</b>

It is not practicable to value all collateral as at the reporting date due to the variety of assets and condition of the assets. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

Loan to valuation ratio of less than 80%	204,082,423	196,256,303
Loan to valuation ratio of more than 80% but mortgage insured	3,996,466	4,861,642
Loan to valuation ratio of more than 80% and not mortgage insured	3,600,253	553,670
	<b>211,679,142</b>	<b>201,671,615</b>

### c. Concentration of loans

(i) Total of loans to individual or related groups of members which exceed 10% of member funds in aggregate

- -

(ii) Loans to members are concentrated to individuals employed in the public service, gaming, leisure, hospitality, telecommunications and energy industries.

(iii) Geographical concentrations

New South Wales	81,872,171	83,734,380
Victoria	93,877,422	85,004,004
Queensland	15,370,402	12,251,475
South Australia	1,440,274	1,584,533
Western Australia	721,534	8,352
Tasmania	1,218,886	812,235
Northern Territory	6,580	13,535
Australian Capital Territory	21,208,109	24,125,315
	<b>215,715,379</b>	<b>207,533,829</b>

(iv) Loans by customer type

Residential loans and facilities	210,254,464	200,809,543
Personal loans and facilities	2,811,337	3,592,614
Business loans and facilities	2,649,579	3,131,672
	<b>215,715,379</b>	<b>207,533,829</b>

### 13. Provision on Impaired Loans

#### Amounts arising from Expected Credit Losses (ECL)

The loss allowance as of the year end by class of asset are summarised in the table below.

	<b>2023</b> Gross Carrying Value \$	<b>2023</b> ECL Allowance \$	<b>2023</b> Carrying Value \$	<b>2022</b> Gross Carrying Value \$	<b>2022</b> ECL Allowance \$	<b>2022</b> Carrying Value \$
Mortgage	212,754,926	(144,264)	212,610,662	204,188,338	-	204,188,338
Personal	1,420,659	(10,866)	1,409,793	1,625,430	(15,456)	1,609,974
Credit cards	1,347,294	(11,094)	1,336,200	1,325,954	(11,970)	1,313,984
Overdrafts	385,318	(24,935)	360,383	425,601	(3,000)	422,601
<b>Total</b>	<b>215,908,197</b>	<b>(191,159)</b>	<b>215,717,038</b>	<b>207,565,323</b>	<b>(30,426)</b>	<b>207,534,897</b>

An analysis of the Bank'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. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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

	<b>2023</b> Stage 1 12 month ECL \$	<b>2023</b> Stage 2 Lifetime ECL \$	<b>2023</b> Stage 3 Lifetime ECL \$	<b>2023</b> Total \$
Mortgage	(144,264)	-	-	(144,264)
Personal	(10,866)	-	-	(10,866)
Credit cards	(6,955)	-	(4,139)	(11,094)
Overdrafts	(22,279)	-	(2,656)	(24,935)
Loss allowance	(184,364)	-	(6,795)	(191,159)
Gross Carrying Amount	214,615,913	316,307	975,976	215,908,197

	<b>2022</b> Stage 1 12 month ECL \$	<b>2022</b> Stage 2 Lifetime ECL \$	<b>2022</b> Stage 3 Lifetime ECL \$	<b>2022</b> Total \$
Mortgage	-	-	-	-
Personal	(15,456)	-	-	(15,456)
Credit cards	(9,462)	-	(2,508)	(11,970)
Overdrafts	(3,000)	-	-	(3,000)
Loss allowance	(27,918)	-	(2,508)	(30,426)
Gross Carrying Amount	207,199,924	358,806	6,593	207,565,323

### 13. Provision on Impaired Loans continued

#### Impairment allowance reconciliation

The reconciliation from the opening to the closing balance of the allowance for impairment is shown in the table below:

	<b>2023</b> Stage 1 12 month ECL \$	<b>2023</b> Stage 2 Lifetime ECL \$	<b>2023</b> Stage 3 Lifetime ECL \$	<b>2023</b> Overlays \$	<b>2023</b> Total \$
<b>Loans to members</b>					
Balance at 1 July per AASB 9	(27,918)	-	(2,508)		(30,426)
Changes in the loss allowance:					
- Transfer to stage 1	(159,706)	-	-		(159,706)
- Transfer to stage 2	-	(9,538)	-	-	(9,538)
- Transfer to stage 3	-	-	(4,287)		(4,287)
- Credit quality-related changes	-				-
- Write-offs	3,260	9,538	-	-	12,798
- Recoveries of amounts previously written off	-	-	-	-	-
<b>Balance at 30 June 23</b>	<b>(184,364)</b>	<b>-</b>	<b>(6,795)</b>	<b>-</b>	<b>(191,159)</b>

	<b>2022</b> Stage 1 12 month ECL \$	<b>2022</b> Stage 2 Lifetime ECL \$	<b>2022</b> Stage 3 Lifetime ECL \$	<b>2022</b> Overlays \$	<b>2022</b> Total \$
<b>Loans to members</b>					
Balance at 1 July per AASB 9	(40,038)	-	(13,999)	(154,456)	(208,493)
Changes in the loss allowance:					
- Transfer to stage 1	(19,372)	-	-	-	(19,372)
- Transfer to stage 2	-	-	-	-	-
- Transfer to stage 3	-	-	(6,620)	-	(6,620)
- Credit quality-related changes	26,343	-	-	-	26,343
- Write-offs	5,149	-	18,112	-	23,261
- Reversal of COVID-19 overlay	-	-	-	154,456	154,456
- Recoveries of amounts previously written off	-	-	-	-	-
<b>Balance at 30 June 22</b>	<b>(27,918)</b>	<b>-</b>	<b>(2,508)</b>	<b>-</b>	<b>(30,426)</b>

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### 13. Provision on Impaired Loans - continued

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#### Impact of movements in gross carrying amount on impairment of loans and advances

Overall, the total impairment of loans and advances increased by \$160,734 (2022: decreased by \$178,067).

**Stage 1:** 12 months ECL not credit impaired – increased by \$156,447 impacted by change in collective provision attached to existing loans and advances, due change in assumption applied for mortgages with LVR >80% with no LMI and also increased volume of the existing loans and advances.

**Stage 2:** Lifetime ECL not credit impaired – no change.

**Stage 3:** Lifetime ECL Credit impaired – increased by \$4,287 due to changes a deterioration in credit quality.





### 13. Provision on Impaired Loans continued

#### Key assumptions in determining the ECL

##### Measurement of ECL

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

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

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

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

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

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

Where appropriate, in calculating the ECL, future cash flows are discounted at the original effective interest rate of the exposure.

#### Grouping of similar assets

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

- instrument type
- credit risk grading
- collateral type
- LVR ratio for retail mortgages

### 13. Provision on Impaired Loans continued

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

- Residential owner occupied mortgages
- Residential investment mortgages
- Commercial loans
- Personal loans
- Other – representing credit cards, overdrafts.

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

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

#### Significant increase in credit risk

In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the Bank's current model:

- Loans more than 30 days past due
- Probability of default - based on historical loans in stage 2 proceeding to stage 3
- Loss given default - based on historical data for loans written off

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

The Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when the exposure is more than 30 days past due unless the Bank has reasonable and supportable information that demonstrates otherwise.

#### Incorporation of forward-looking information

The approach to determining the ECL includes forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by the Bank and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The Bank has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which resulted a 4% floor rate been applied to mortgages where LVR is greater than 80% with no LMI. This is reviewed and monitored for appropriateness on a quarterly basis. The Bank considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. Periodically the Bank carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

	2023	2022
<b>14. Leases</b>		
<b>a. Right of use assets</b>		
Property leases	765,030	763,320
Less: provision for depreciation	(49,862)	-
	<b>715,168</b>	<b>763,320</b>

**Movement in asset balances during the year:**

	2023	2022
	\$	\$
<b>Balance 1 July</b>	763,320	92,211
Additions	-	763,320
Revaluations	1,710	-
Disposals	-	-
Impairment	-	-
Depreciation	(49,862)	(92,211)
<b>Balance 30 June</b>	<b>715,168</b>	<b>763,320</b>

The Bank has a Property lease and some IT equipment under lease. With the exception of short-term leases and leases of low-value underlying assets (all IT equipment), leases are reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or are excluded from the initial measurement of the lease liability and asset.

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

The Property lease is subject to an extension option and termination options which are exercisable by the Bank.

The entity has not committed to any further lease assets that would otherwise commence subsequent to reporting date.

<b>b. Lease liabilities</b>	<b>2023</b>	<b>2022</b>
	\$	\$
Current	163,233	76,023
Non-current	466,936	687,297
	<b>630,169</b>	<b>763,320</b>

**14. Leases - continued****b. Lease liabilities**

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
<b>Opening Balance</b>	763,320	108,138
Additions/(Disposal)		763,320
Remeasurement	(83,290)	
Payments for leases		(108,138)
Principal Repayment	(49,861)	-
<b>Balance 30 June</b>	<b>630,169</b>	<b>763,320</b>

**c. Short-term and low value leases**

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Short-term leases	-	-
Leases of low value assets	3,808	3,861
Variable lease payments	47,423	25,074
	<b>51,231</b>	<b>28,935</b>

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>

**15. Property, Plant and Equipment**
**Total property, plant and equipment**

Plant and equipment - at cost	131,924	122,115
Less: provision for depreciation	(101,331)	(84,528)
	<b>30,592</b>	<b>37,587</b>

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

	<b>2023</b>	<b>2023</b>	<b>2022</b>	<b>2022</b>
	Plant & equipment	Total	Plant & equipment	Total
	\$	\$	\$	\$
Opening balance	37,587	37,587	154,272	154,272
Purchases	9,808	9,808	73,666	73,666
<i>Less</i>				
Assets disposed	-	-	(40,797)	(40,797)
Depreciation charge	(16,803)	(16,803)	(149,554)	(149,554)
<b>Closing balance</b>	<b>30,592</b>	<b>30,592</b>	<b>37,587</b>	<b>37,587</b>

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>

**16. Investments**

Shares in unlisted companies	46,445	46,445
<b>Total Investments</b>	<b>46,445</b>	<b>46,445</b>

	2023	2022
	\$	\$
<b>17. Taxation Assets</b>		
<b>Current taxation assets</b>		
Income tax refund estimate	56,522	50,258
	<b>56,522</b>	<b>50,258</b>
<b>Deferred taxation assets</b>		
Accrued expenses not deductible until incurred	63,111	56,962
Provisions for impairment on loans	47,790	7,607
Provisions for employee benefits	126,188	112,906
	<b>237,089</b>	<b>177,475</b>
<b>18. Intangible Assets</b>		
Computer software	1,059,480	624,980
Less provision for amortisation	(485,992)	(434,842)
	<b>573,488</b>	<b>190,138</b>
<b>Movement in the assets balances during the year were:</b>		
Opening balance	190,138	119,663
Purchases	434,501	178,315
Less		
Assets disposed	-	(66,768)
Amortisation charge	(51,151)	(41,072)
<b>Balance at the end of the year</b>	<b>573,488</b>	<b>190,138</b>
<b>19. Borrowings</b>		
<b>Short Term Borrowings</b>		
Term deposits - Credit Unions	10,000,000	3,000,000
<b>Long Term Borrowings</b>		
RBA Term Funding Facility	3,575,179	3,575,179
<b>Total Borrowings</b>	<b>13,575,179</b>	<b>6,575,179</b>
<b>20. Deposits from Members</b>		
<b>a. Total deposits comprises:</b>		
Member Deposits		
- At Call	178,059,965	186,881,956
- Term	71,728,940	51,923,039
Member withdrawable shares	13,522	13,346
<b>Total deposits and shares</b>	<b>249,802,427</b>	<b>238,818,341</b>
<b>b. Concentration of member deposits</b>		

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

-

-

(ii) Member deposits at balance date were received from individuals employed in Australia and principally in the gaming, leisure, hospitality, telecommunications and energy industries.

	2023	2022
20. Deposits from Members - continued	\$	\$
<b>b. Concentration of member deposits - continued</b>		
(iii) Geographical Concentrations		
New South Wales	132,438,348	129,280,273
Victoria	93,946,064	91,836,923
Queensland	13,093,200	9,421,608
South Australia	1,887,890	1,185,702
Western Australia	3,437,555	1,788,245
Tasmania	1,333,018	1,320,595
Northern Territory	331,084	307,451
Australian Capital Territory	3,335,267	3,677,543
	<b>249,802,427</b>	<b>238,818,341</b>
<b>21. Creditors</b>		
Creditors and accruals	627,096	532,897
Settlement and Clearing Accounts	643,336	522,756
Interest payable on borrowings	45,154	9,618
Interest payable on deposits	812,688	82,846
<b>Total amounts payable</b>	<b>2,128,274</b>	<b>1,148,117</b>
<b>22. Provisions</b>		
Annual leave	175,289	148,699
Long service leave	327,137	302,925
Provisions – other	296,876	270,540
<b>Total provisions</b>	<b>799,302</b>	<b>722,164</b>

	2023	2022
	\$	\$
<b>23. Capital Reserve</b>		
Balance at the beginning of the financial year	34,530	33,918
Transfer from general reserve on share redemptions	594	612
<b>Balance at the end of financial year</b>	<b>35,124</b>	<b>34,530</b>

#### Share redemption

The accounts represent the amount of redeemable preference shares redeemed by the Bank 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.

#### 24. Reserve for Credit Losses

General reserve for credit losses	-	-
<b>Total reserves</b>	<b>-</b>	<b>-</b>

#### General reserve for credit losses

This reserve previously recorded amounts set aside as a general provision for losses. This is no longer a requirement of the Prudential Standards set down by APRA and has been written back to general reserves in 2022.

Balance at the beginning of the financial year	-	452,668
Increase/(decrease) transferred from general reserves	-	(452,668)
<b>Balance at the end of the financial year</b>	<b>-</b>	<b>-</b>

#### 25. General Reserves

Balance at the beginning of the financial year	16,179,124	15,014,503
Operating profit transferred from retained earnings	1,220,706	712,565
Transfer from General Reserve for Credit Losses	-	452,668
Transfer to Capital Reserve for Share redemption	(594)	(612)
<b>Balance at the end of the financial year</b>	<b>17,399,236</b>	<b>16,179,124</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.

<b>2023</b>	<b>Within 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>After 5 years</b>	<b>Non interest bearing</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>							
Cash	17,320,884	-	-	-	-	-	17,320,884
Advances to other financial institutions	11,870,000	32,200,000	-	5,000,000	-	-	49,070,000
Receivables	-	-	-	-	-	660,666	660,666
Loans & Advances	142,934,819	20,900,366	48,218,470	3,707,766	146,776	-	215,908,197
Investments	-	-	-	-	-	46,445	46,445
<b>Total Financial Assets</b>	172,125,703	53,100,366	48,218,470	8,707,766	146,776	707,111	283,006,192
<b>Liabilities</b>							
Borrowings	-	10,000,000	3,575,179	-	-	-	13,575,179
Deposits from members	185,775,379	20,955,256	42,460,631	611,161	-	-	249,802,427
Creditors	-	-	-	-	-	2,128,274	2,128,274
<b>Total Financial Liabilities</b>	185,775,379	30,955,256	46,035,810	611,161	-	2,128,274	265,505,880

<b>2022</b>	<b>Within 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>After 5 years</b>	<b>Non interest bearing</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>							
Cash	12,794,374	-	-	-	-	-	12,794,374
Advances to other financial institutions	7,500,000	15,000,000	10,120,000	9,700,000	-	-	42,320,000
Receivables	-	-	-	-	-	327,349	327,349
Loans & Advances	146,719,787	7,852,673	29,945,591	22,826,842	220,430	-	207,565,323
Investments	-	-	-	-	-	46,445	46,445
<b>Total Financial Assets</b>	167,014,161	22,852,673	40,065,591	32,526,842	220,430	373,794	263,053,491
<b>Liabilities</b>							
Borrowings	-	3,000,000	-	3,575,179	-	-	6,575,179
Deposits from members	193,659,579	15,519,022	26,236,447	3,403,293	-	-	238,818,341
Creditors	-	-	-	-	-	1,148,117	1,148,117
<b>Total Financial Liabilities</b>	193,659,579	18,519,022	26,236,447	6,978,472	-	1,148,117	246,541,637



## 27. Maturity Profile of Financial Assets and Liabilities

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

2023	Within 1 month	1-3 months	3-12 months	1-5 years	Greater than 5 years	No maturity	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>							
Cash	17,320,884	-	-	-	-	-	17,320,884
Advances to other financial institutions	6,000,000	25,000,000	5,120,000	12,950,000	-	-	49,070,000
Receivables	-	-	-	-	-	707,745	707,745
Loans & Advances	1,238,681	3,794,210	15,162,292	73,380,329	377,860,675	-	471,436,187
Investments	-	-	-	-	-	46,445	46,445
<b>Total Financial Assets</b>	24,559,565	28,794,210	20,282,292	86,330,329	377,860,675	754,190	538,581,261
<b>Liabilities</b>							
Borrowings	-	10,000,000	3,575,179	-	-	-	13,575,179
Deposits from members	185,903,300	21,325,914	43,960,956	651,179	-	-	251,841,349
Lease liabilities	2,373	13,222	136,831	477,742	-	-	630,168
Creditors	-	-	-	-	-	2,128,274	2,128,274
On balance sheet total	185,905,673	31,339,136	47,672,966	1,128,921	-	2,128,274	268,174,970
Undrawn Commitments	-	-	-	-	-	25,331,504	25,331,504
<b>Total Financial Liabilities</b>	185,905,673	31,339,136	47,672,966	1,128,921	-	27,459,778	293,506,474

2022	Within 1 month	1-3 months	3-12 months	1-5 years	Greater than 5 years	No maturity	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>							
Cash	12,794,374	-	-	-	-	-	12,794,374
Advances to other financial institutions	7,502,006	15,004,636	10,207,591	10,071,177	-	-	42,785,410
Receivables	-	-	-	-	-	327,349	327,349
Loans & Advances	1,751,555	3,223,585	9,643,636	48,993,373	227,931,492	-	291,543,641
Investments	-	-	-	-	-	46,445	46,445
<b>Total Financial Assets</b>	22,047,935	18,228,221	19,851,227	59,064,550	227,931,492	373,794	347,497,219
<b>Liabilities</b>							
Borrowings	-	3,005,681	-	3,585,914	-	-	6,591,595
Deposits from members	193,671,874	15,553,800	26,434,975	3,524,705	-	-	239,185,354
Lease liabilities	-	-	76,023	687,297	-	-	763,320
Creditors	1,148,117	-	-	-	-	-	1,148,117
On balance sheet total	194,819,991	18,559,481	26,510,998	7,797,916	-	-	247,688,386
Undrawn Commitments	-	-	-	-	-	30,438,681	30,438,681
<b>Total Financial Liabilities</b>	194,819,991	18,559,481	26,510,998	7,797,916	-	30,438,681	278,127,067

## 28. 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 not able to be reliably estimated.

	2023			2022		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>						
Cash	17,320,884	-	17,320,884	12,794,374	-	12,794,374
Liquid assets	36,120,000	12,950,000	49,070,000	32,620,000	9,700,000	42,320,000
Loans & Advances	211,592,179	4,316,018	215,908,197	184,518,051	23,047,272	207,565,323
Receivables	660,666	-	660,666	327,349	-	327,349
Investments	-	46,445	46,445	-	46,445	46,445
<b>Total Financial Assets</b>	<b>265,693,729</b>	<b>17,312,463</b>	<b>283,006,192</b>	<b>230,259,774</b>	<b>32,793,717</b>	<b>263,053,491</b>
<b>Financial liabilities</b>						
Borrowings	13,575,179	-	13,575,179	3,000,000	3,575,179	6,575,179
Deposits from members	249,191,267	611,161	249,802,427	235,415,048	3,403,293	238,818,341
Creditors	2,128,274	-	2,128,274	1,148,117	-	1,148,117
<b>Total Financial Liabilities</b>	<b>264,894,720</b>	<b>611,161</b>	<b>265,505,880</b>	<b>239,563,165</b>	<b>6,978,472</b>	<b>246,541,637</b>

## 29. Fair Value of Financial Assets and Liabilities

A review of the fair value calculation indicated that there were no significant variances between the book and fair values for the Bank. As a result the fair value details have not been included. Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in determining the cash flows are that they will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Bank and there is no active market to assess the value of the financial assets and liabilities. Assets where the fair value is lower than the book value have not been written down in the accounts of the Bank on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The fair value estimates were determined by the following methodologies and assumptions:

### Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 3 months approximate their fair value as they are short term in nature or are receivable on demand.

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## 29. Fair Value of Financial Assets and Liabilities - continued

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### Loans and advances

The carrying value of loans and advances is net of unearned income and provisions for expected credit losses. For variable rate loans, (excluding impaired loans) the amount shown in the Statement of Financial Position is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The carrying value is not significantly different from fair value due to the majority of First Option's loans being variable rate loans.

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

### Deposits from members

The fair value of non interest bearing, call and variable rate deposits and fixed rate deposits repricing within six months is the amount shown in the Statement of Financial Position as at June 30. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value of other term deposits.

The carrying value is not significantly different from the fair value due to the majority of the fixed rate deposits maturing in less than six months.

### Borrowings

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

The Reserve Bank of Australia has established a Term Funding Facility (TFF) to offer three year fixed rate funding to authorised deposit-taking institutions (ADIs). This facility aims to ensure that ADIs are in a position to continue offering credit to the market throughout the COVID-19 pandemic. The Bank has obtained funding from this scheme as shown in note 19.

	2023	2022
30. Financial Commitments	\$	\$
<b>a. Outstanding loan commitments</b>		
Loans approved but not funded	2,630,000	8,989,139
<b>b. Loan redraw facilities</b>		
Loan redraw facilities available	18,786,449	17,355,564
<b>c. Undrawn loan facilities</b>		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	5,647,666	5,845,533
Less: Amount advanced	(1,732,611)	(1,751,555)
Net undrawn value	<b>3,915,055</b>	<b>4,093,978</b>
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
<b>d. Future capital commitments</b>		
The Bank has entered into a contract to purchase (computer equipment and software) for which the amount is to be paid over the following periods:-		
Within 1 year	22,669	42,797
1 to 2 years	26,169	69,752
2 to 5 years	26,169	69,752
	<b>75,007</b>	<b>182,301</b>
<b>e. Lease expense commitments for low-value leases</b>		
Not later than one year	811	2,790
Later than one year but not later than five years	-	811
Over five years	-	-
	<b>811</b>	<b>3,601</b>

### 31. Standby Borrowing Facilities

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

2023		
	Gross	Current borrowing
	\$	\$
Net available		
	\$	
Overdraft facility	500,000	-
<b>Total standby borrowing facilities</b>	<b>500,000</b>	<b>-</b>

2022		
	Gross	Current borrowing
	\$	\$
Net available		
	\$	
Overdraft facility	500,000	-
<b>Total standby borrowing facilities</b>	<b>500,000</b>	<b>-</b>

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

Secured by cash on deposit with Cuscal.

### 32. Contingent Liabilities

#### Liquidity support scheme

The Bank 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 / Mutuals in the event of a liquidity or capital issue. As a member, the Bank is committed to maintaining 3% of its total assets as either deposits with CUSCAL or investments held within the Austraclear system.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union/mutual bank would be 3% of that credit union/mutual bank's total assets. This amount represents the participating credit union/mutual bank's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

#### Guarantees

The Bank has issued guarantees on behalf of members for the purpose of security bond. 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 cash deposits. The total value of guarantees as at 30 June 2023 was \$297,500 (2022: \$297,500).

### 33. Disclosures on Directors and Other Key Management Personnel

#### a. Remuneration of key management persons [KMP]

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any Director (whether executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

KMP have been taken to comprise the Directors and the 4 (2022: 3) members of the executive management responsible for the day to day financial and operational management of the Bank.

The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

	2023	2022
	\$	\$
(i) Short-term employee benefits	492,001	517,077
(ii) Director fees	75,976	71,205
(iii) Other long-term benefits – net increases in long service leave provision	13,011	18,973
<b>Total compensation</b>	<b>580,988</b>	<b>607,255</b>

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

All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Bank.

#### b. Loans to Directors and KMP

2023	Mortgage Secured	Other Term Loans	Credit Cards /Revolving Credit
	\$	\$	\$
Funds available to be drawn (redraws, overdrafts, credit cards, LOC)	472,736	-	3,952
Balance as at end of year	3,199,150	-	3,048
Amounts disbursed or facilities increased during the year	99,029	-	-
Interest and other revenues earned	129,364	-	-
2022	Mortgage Secured	Other Term Loans	Credit Cards /Revolving Credit
	\$	\$	\$
Funds available to be drawn (redraws, overdrafts, credit cards, LOC)	879,766	-	22,422
Balance as at end of year	3,315,423	-	13,871
Amounts disbursed or facilities increased during the year	680,413	-	-
Interest and other revenues earned	99,517	-	862

### 33. Disclosures on Directors and Other Key Management Personnel - continued

#### b. Loans to Directors and KMP - continued

The Bank's policy for lending to Directors and Management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit.

There are no loans which are impaired in relation to the loan balances with Directors or other KMP.

Staff may have received a concessional rate of interest on their loans and facilities. There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMP.

Other transactions between related parties include deposits from Directors and other KMP:

	2023	2022
	\$	\$
Total value term and savings deposits from Directors/KMP	2,351,169	1,500,032
Total Interest paid on deposits to Directors/KMP	37,748	3,336

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

#### c. Transactions with related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors and other KMP.

The Bank'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 KMP.

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

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## 34. Outsourcing Arrangements

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The Bank 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. This entity:

- (i) Acts as the Bank's banker
- (ii) Provides the licence rights to Visa Card in Australia and settlement with other financial institutions for ATM, Visa card, direct entry and cheque transactions, as well as the production of Visa cards for use by members;
- (iii) Provides treasury and money market facilities to the Bank. The Bank has invested sufficient liquid assets to comply with the Liquidity Support Scheme requirements; and
- (iv) Operates the computer network used to link Visa cards operated through RediATMs and other approved ATM suppliers to the Bank's EDP systems.

### b. Ultradata Australia Pty Limited

Provides and maintains the application software utilised by the Bank.

### c. TransAction Solutions Limited

This entity operates the computer facility on behalf of the Bank in conjunction with other Banks. The Bank has a management contract with the company to supply computer support staff and services to meet the day to day needs of the Bank and compliance with the relevant Prudential Standards.

### d. Deloitte Australia

This entity acts as a Proxy Settlement service for settling transactions in the Austraclear system on behalf of the Bank.

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## 35. Superannuation Liabilities

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The Bank mainly contributes to the NGS Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plans are administered by independent corporate trustees.

The Bank has no interest in the superannuation plans (other than as a contributor) and is not liable for the performance of the plans, or the obligations of the plans.

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## 36. Securitisation

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The Bank does not currently have any securitisation programs in place. The outstanding balance of securitised loans is \$0 (2022: \$0)

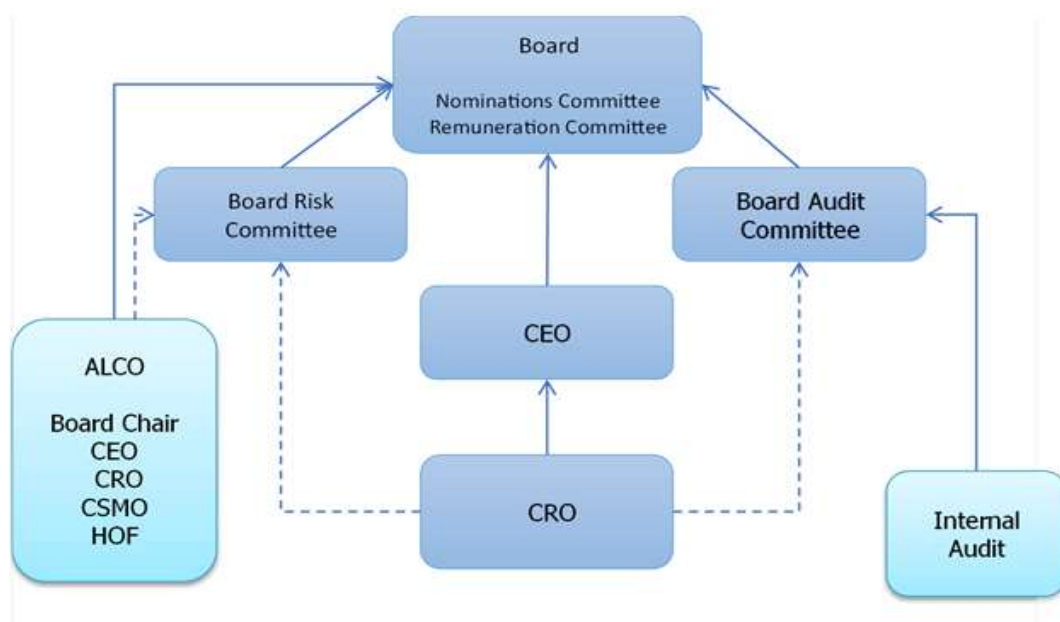


	2023	2022
37. Notes to Consolidated Statement of Cash Flows	\$	\$
<b>a. Reconciliation of cash</b>		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Deposits at call	17,320,884	12,794,374
<b>Total Cash</b>	<b>17,320,884</b>	<b>12,794,374</b>
<b>b. Reconciliation of cash from operations to accounting profit</b>		
Operating Profit after income tax	1,220,706	712,565
<i>Non-cash movements:</i>		
Provision for Impairment & ROU assets	173,532	(151,119)
Depreciation & Amortisation of fixed assets	117,816	282,837
<i>Changes in assets and liabilities:</i>		
Receivables	27,629	(70,310)
Taxation assets	(65,878)	1,306
Payables	1,126,919	(90,747)
Taxation liabilities	-	-
Provisions for employee entitlements	50,802	(24,610)
Other provisions	(52,670)	17,632
<b>Total operating cash flows</b>	<b>2,598,856</b>	<b>749,974</b>

## 38. Financial Risk Management Objectives and Policies

### a. Introduction

The Board has endorsed a framework of compliance and risk management to suit the risk profile of the Bank. The Bank's risk management focuses on the major areas of liquidity risk, market risk, credit risk, operational risk and governance 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 of Directors

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

#### Risk Committee

This is a key body in the control of risk. It has representatives from the board as well as the Chief Risk Officer. 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 quarterly review of operational reports and control assignments are reviewed by the Risk Committee to confirm whether risks are within the parameters outlined by the board.

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

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

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## 38. Financial Risk Management Objectives and Policies - continued

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### a. Introduction - continued

#### Audit Committee

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

#### Asset and Liability Committee (ALCO)

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

The ALCO Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All loans are managed regularly 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 Board monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the statement of financial position date.

The ALCO also has responsibility for managing interest rate risk exposures and ensuring the the Finance function adheres to exposure limits as outlined in policy.

#### Chief Risk Officer

This person has responsibility for the daily oversight of the risk and compliance functions, including both liaising with the operational function to ensure timely production of information for the Board, Audit Committee and Risk Committee and ensuring that instructions passed down from the Board and committees are implemented.

#### Internal Audit

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

#### Risk management policies

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

- Information Security Management Policy
- Business Continuity Management Policy
- Credit Risk Management Policy
- Market (& Interest Rate) Risk Management Policy
- Liquidity Risk Management Policy
- Operational Risk Management Policy

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## 38. Financial Risk Management Objectives and Policies - continued

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### b. Market and interest rate risk

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

Market risk is the risk that changes in interest rates or other prices and volatilities that may have an adverse effect on the Bank's financial condition or results. The Bank is not exposed to currency risk, and other significant price risk. The Bank does not trade in the financial instruments it holds on its books. The Bank is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of the ALCO, 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 Bank does not have a treasury operation and does not trade in financial instruments. The Bank is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the banking book is reviewed by the Board. The level of mismatch in the banking book is set out in note 26. The table set out at note 26 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

#### Method of managing interest rate risk

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

The policy of the Bank 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. Large exposures to interest rate movements are measured monthly with any being rectified 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 Bank is not to undertake derivatives to match the interest rate risks. The Bank's exposure to interest rate risk is set out in note 26 which details the contractual interest change profile.

The Bank performs a sensitivity analysis to measure market risk exposures.

Based on the calculations as at 30 June 2023, the pre-tax profit impact for a 1% (2022: 3%) change in interest rates over the next 12 months would be \$195,057 (2022: \$464,864).

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Bank for the next 12 months. In doing the calculation the assumptions applied were that:

- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would reprice in 1 month;

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## 38. Financial Risk Management Objectives and Policies - continued

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### b. Market risk - continued

- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate in 1 month;
- personal loans would reprice to the new interest rate in 1 month;  
all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Bank's exposure to market risk or the way the Bank manages and measures market risk in the reporting period.

The interest rate sensitivity is not representative of the risk inherent in the financial instruments during the financial year due to the changes in asset mix of fixed rate loans and longer term deposits / investments.

### c. Liquidity risk

Liquidity risk is the risk that the Bank may encounter difficulties in 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 Bank maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Bank manages liquidity risk by:

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

The Bank has a longstanding arrangement with the industry Liquidity Support Scheme Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Bank at short notice should it be necessary.

The Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 2 business days under the APRA Prudential standards. The Bank policy is to apply 10% of total adjusted liabilities as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, management and Board will review the situation and act according to the Liquidity Risk Management Policy. Note 31 describes the borrowing facilities as at balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and liabilities, based on the contractual repayment terms are set out in the specific note 27.

### 38. Financial Risk Management Objectives and Policies - continued

#### d. Credit risk

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

#### (i) Credit risk - loans

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

	<b>2023</b> Carrying value \$	<b>2023</b> Undrawn Facilities \$	<b>2023</b> Maximum exposure \$	<b>2022</b> Carrying value \$	<b>2022</b> Undrawn Facilities \$	<b>2022</b> Maximum exposure \$
Mortgage	210,132,777	21,267,614	231,400,391	200,746,651	25,529,428	226,276,079
Personal	1,574,744	76,705	1,651,449	1,956,204	458,574	2,414,778
Credit cards	1,347,294	2,424,257	3,771,551	1,325,954	2,525,866	3,851,820
Overdrafts	203,803	1,490,797	1,694,600	404,842	1,432,393	1,837,235
Total to natural persons	213,258,618	25,259,373	238,517,992	204,433,651	29,946,261	234,379,912
Corporate borrowers	2,649,579	72,130	2,721,709	3,131,672	492,420	3,624,092
<b>Total</b>	<b>215,908,197</b>	<b>25,331,504</b>	<b>241,239,700</b>	<b>207,565,323</b>	<b>30,438,681</b>	<b>238,004,004</b>

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (Loans approved not advanced, redraw facilities, overdraft facilities and credit cards limits). The details are shown in note 30 and a summary is in note 12a.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in note 12c.

The method of managing credit risk is by way of strict adherence to the Bank's 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 Bank 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; and
- Review of compliance with the above policies.

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

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## 38. Financial Risk Management Objectives and Policies - continued

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### (i) Credit risk - loans - continued

#### Past due loans

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 Bank that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

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

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of profit or loss and other comprehensive income. In estimating these cash flows, management makes a judgement about the counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, the Bank makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Balance sheet provisions are maintained at a level that management deems sufficient to cover expected credit losses in the Bank's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for expected credit losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in country risk, changes in a counterparties industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

The provisions for impaired and past due exposures relate to the loans to members.

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are as set out in note 13.

#### 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 into account 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 of the movement of both past due and impaired exposure provisions is provided in note 13.



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## 38. Financial Risk Management Objectives and Policies - continued

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### (i) Credit risk - loans - continued

#### Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Bank 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.

#### Concentration risk – individuals

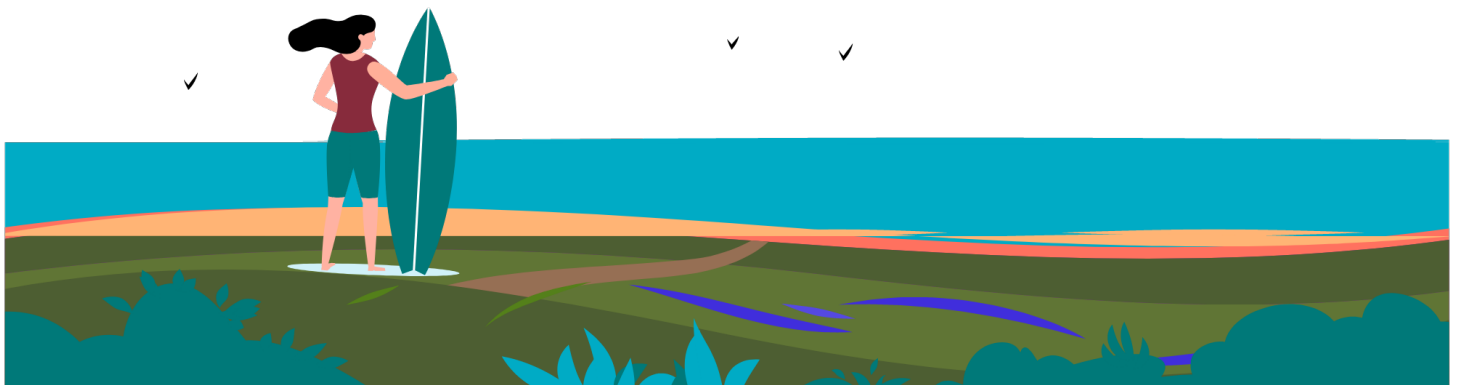
Concentration risk is a measurement of the Bank's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Bank's regulatory Tier 1 Capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against 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 Bank holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of Tier 1 Capital.

The Bank's policy on exposures of this size is to insist on an initial LVR of 80 per cent or less and annual reviews of compliance with this policy are conducted.

#### Concentration risk – industry

The Bank has a concentration in retail lending to members who comprise employees and family in the gaming, leisure, hospitality, telecommunications and energy industries. This concentration is considered acceptable on the basis that the Bank was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in note 12.





### 38. Financial Risk Management Objectives and Policies - continued

#### (ii) 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 Bank incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Bank.

The Bank's credit policy is that investments are only made to institutions that are creditworthy. Directors have established policies that enforce maximum exposure limits to different counterparties. These policies have been determined in line with APRA prudential standards.

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 maximum exposure limits. Also the relative size of the Bank 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 total assets must be invested in Cuscal and/or other CUFSS-approved ADI to allow the scheme to have adequate resources to meet its obligations if needed.

Board policy limits investments outside of Cuscal to Australian Authorised Deposit-Taking Institutions (ADI) with a rating of BBB- or higher. ADIs with a rating less than this may be approved at the discretion of the Board of Directors. Investments in non-ADIs may also be permitted at the discretion of the Board of Directors.

#### External Credit Assessment for Institution Investments

The Bank uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA prudential guidance 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:

	<b>2023</b> Carrying value \$	<b>2023</b> Past due value \$	<b>2023</b> Provision \$	<b>2022</b> Carrying value \$	<b>2022</b> Past due value \$	<b>2022</b> Provision \$
Cuscal (A+)	5,120,000	-	-	6,120,000	-	-
Banks (A+ and above)	7,000,000	-	-	8,640,000	-	-
Banks (between BBB and A+)	36,950,000	-	-	12,700,000	-	-
Other ADIs	-	-	-	14,860,000	-	-
<b>Total</b>	<b>49,070,000</b>	<b>-</b>	<b>-</b>	<b>42,320,000</b>	<b>-</b>	<b>-</b>

### 38. Financial Risk Management Objectives and Policies - continued

#### e. Capital management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). From January 2023, APS 112 p. Under the APRA prudential standards capital is determined in three components:

- Credit risk
- Market risk (trading book)
- Operational risk

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

Calculation for Credit risk for FY 23 has been updated in accordance with the Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk that came in effect from January 2023.

#### Common Equity Tier 1 Capital (CET1)

Common Equity Tier 1 capital comprises:

- Retained profits
- Realised reserves

#### Additional Tier 1 Capital (AT1)

The Bank holds no Additional Tier 1 capital.

#### Tier 2 Capital (T2)

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.

The Bank holds no Tier 2 capital.

#### Capital in the Bank is made up as follows:

	2023	2022
	\$	\$
<b>Tier 1 Capital</b>		
Common Equity Tier 1 Capital:		
General/Capital reserve	16,213,654	15,501,089
Retained earnings	1,220,706	712,565
	17,434,360	16,213,654
<i>Less prescribed deductions</i>	(810,576)	(367,613)
Net Common Equity Tier 1 Capital	16,623,784	15,846,041
Additional Tier 1 Capital	-	-
Total Tier 1 Capital	16,623,784	15,846,041
<b>Tier 2 Capital</b>		
General reserve for credit losses	-	-
	-	-
<i>Less prescribed deductions</i>	-	-
Net tier 2 Capital	-	-
<b>Total Capital</b>	<b>16,623,784</b>	<b>15,846,041</b>

## 38. Financial Risk Management Objectives and Policies - continued

### e. Capital management - continued

The Bank 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 Standard APS 112. The rules apply the risk weights according to the level of underlying security.

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

2023	2022	2021	2020	2019
Basel III	Basel III	Basel III	Basel III	Basel III
16.65%	14.32%	14.56%	14.01%	14.79%

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

To manage capital the Bank 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 certain levels. Further a capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

### Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

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

Operational risk requirement	2023:	\$9,075,555	2022:	\$14,577,482
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### Internal capital adequacy assessment process (ICAAP)

It is considered that the Standardised approach accurately reflects the Bank's operational risk other than for the specific items set out below.

The Bank manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the board in its capacity as the primary governing body. The capital required for any change in the Bank's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

The Bank has assessed the need for additional capital charges under its ICAAP and has determined that prudential capital is sufficient to cover growth and unforeseen circumstances.

Additional capital charge	2023:	-	2022:	-
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### 39. Categories of Financial Instruments

#### a. Financial instruments classified by measurement class

	Note	2023 \$	2022 \$
<b>Financial assets</b> - carried at amortised cost			
Cash	9	17,320,884	12,794,374
Negotiable Certificates of Deposit	10	31,000,000	17,500,000
Deposits with financial institutions	10	18,070,000	24,820,000
Receivables	11	604,144	327,349
Loans to members	12 & 13	215,715,379	207,533,829
Investments	16	46,445	46,445
<b>Total Financial Assets</b>		<b>282,756,852</b>	<b>263,021,997</b>
<b>Financial liabilities</b>			
Short term borrowings	19	10,000,000	3,000,000
Long term borrowings	19	3,575,179	3,575,179
Creditors	21	2,128,274	1,148,117
Deposits from members	20	249,802,427	238,818,341
Lease liabilities	14	630,169	763,320
<b>Total Financial Liabilities</b>		<b>266,136,049</b>	<b>247,304,957</b>

### 40. Events occurring after the reporting period

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



## First Option Bank Ltd

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