

The background of the entire page is a photograph showing several hands of different skin tones stacked on top of each other in a circular arrangement. The hands are wearing dark business suits with light-colored cuffs visible. The image conveys a sense of teamwork and unity.

Australian Settlements Limited

ABN: 14 087 822 491

Annual Report
2013-14



AUSTRALIAN SETTLEMENTS LIMITED

ABN: 14 087 822 491

DIRECTORS' REPORT

The directors of Australian Settlements Limited (ASL) present their report on the company for the financial year ended 30 June 2014.

The names of the directors of ASL in office at any time during or since the end of the year to the date of this report, are:

Mr Peter Milton Andrews	
Ms Claudia Jacqueline Bels	(Appointed on 1 December 2013)
Mr Garry Donald Dinnie	(Appointed on 1 April 2014)
Mr Kevin Peter Dupe	
Mr David John Lawler	
Mr John Francis Minz (Alternate for Mr Walter John Williams)	
Mr Robert James Ryan	
Mr Bruce Kenneth White	(Appointed on 1 June 2014)
Mr Mark Brian Williams	(Appointed on 12 December 2013)
Mr Walter John Williams	
Ms Michelle Louise Jarvie	(Resigned on 9 December 2013)
Mr Donald Allan Magin	(Resigned on 31 May 2014)
Mr Barry John McWilliams	(Retired on 31 October 2013)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

None of the directors has any interest in a contract or proposed contract with ASL, with the exception of those identified in note 25 to the financial statements, and has not declared such an interest since the date of the last Directors' Report.

DIRECTORS

Peter Milton ANDREWS (Chairman)
Age 68

Mr Andrews is an independent director of ASL. He had a career spanning 37 years with the Commonwealth Bank of Australia (CBA) and held the roles of General Manager, National Sales and Service; General Manager, Information Technology; and General Manager, Victoria. Mr Andrews is the Chairman or member of the board of five other organisations. Mr Andrews is a member of the company's Audit & Risk and IT Committees, and Chairman of the HR & Remuneration, Governance and Pricing & Contract Committees.

Claudia Jacqueline BELS
Age 48

Ms Bels is an independent director of ASL with extensive legal, corporate governance, risk management, compliance and financial expertise. Ms Bels has over 20 years' experience across the government, member services and international banking and finance sectors having previously held the role of General Counsel & Board Secretary for the Export Finance and Insurance Corporation and General Counsel (and Chief Risk Officer) for the Law Society of NSW. She is currently Deputy Chair of the Australian Physiotherapy Council and member of a number of Audit and Risk Committees.

Garry Donald DINNIE
Age 62

Mr Dinnie is an independent director of ASL and a director of CareFlight Limited, Integrated Research Limited and Inabox Group Limited and a director of a number of private companies. He is also Chair of the Audit Committees of these companies and Chair or member of several other Audit & Risk Committees of the NSW public sector and private sector entities. He was previously a partner with Ernst & Young for 25 years specialising in audit, risk, advisory and IT services.

Kevin Peter DUPE
Age 58

Mr Dupe is the Chief Executive Officer of the Community Mutual Group. He brings a strong economic background to the ASL board. He has over 20 years' experience in the credit union sector, including 15 years at Community Mutual Group. Prior to entering the mutual sector, Mr Dupe spent 14 years as a director in various economic and socioeconomic policy units in the Federal Government. Mr Dupe is a member of the company's Governance Committee.





DIRECTORS' REPORT

David John LAWLER
Age 64

Mr Lawler is an independent director of ASL and of Security Holdings Investment Entity Linking Deals Ltd (SHIELD) a securitisation vehicle with links to the CBA. He has a career spanning nine years with the CBA and 19 years with Citibank. Mr Lawler has held roles of Executive General Manager, Financial Controller and Group Auditor with the CBA. Mr Lawler is a member of the Audit Committee of seven other organisations, primarily in the public sector. He is also a past President of the Institute of Internal Auditors Australia. Mr Lawler is the Chairman of the company's Audit & Risk Committee as well as a member of the company's HR & Remuneration, Governance and Pricing & Contract Committees.

John Francis MINZ
Age 57

Mr Minz is the Chief Executive Officer of Heritage Bank Limited. He has been in the industry for 18 years and has extensive experience in leadership, strategy, risk management, internal audit, IT systems and infrastructure, internet banking, phone banking, card payments systems, ATMs, the strategic and operational planning of banking distribution, and organisation-wide process re-engineering. Mr Minz is an alternate director for Mr Walter John Williams.

Robert James RYAN
Age 53

Mr Ryan is the Chief Executive Officer of IMB Limited. Mr Ryan joined IMB Limited in 1999. Mr Ryan is a director of IMB Financial Planning Limited, Australian Settlements Limited and The Flagstaff Group. Mr Ryan was appointed to the University of Wollongong Council by the NSW Minister for Education and Training in January 2010 and is on the Board of the UOWD. Prior to joining IMB, Mr Ryan held the positions of Managing Director, Chief Financial Officer and Company Secretary at Australian Resources Limited. Mr Ryan has extensive experience in finance and management at senior executive and Board level, has been involved in the formulation and implementation of strategic business plans and financial restructuring, staff management and development, as well as evaluation of acquisitions and divestments.

Bruce Kenneth WHITE
Age 49

Mr White has been working in the Finance and Manufacturing industries for close to 20 years. He joined Greater Building Society in 2010 as Chief Information Officer. Prior to his appointment at Greater Building Society, Mr White spent nearly 9 years as the Chief Information Officer at Newcastle Permanent Building Society. In his current role, Mr White has strategic management of the systems required to operate a financial services business. Mr White is a member of the company's IT Committee.

Mark Brian WILLIAMS
Age 39

Mr Williams is currently the Chief Financial Officer of Newcastle Permanent Building Society Limited. He is a Chartered Accountant with over 20 years' experience. Mr Williams spent 10 years working within chartered accounting and has also had extensive experience in a number of finance roles in the commercial, government and financial services sectors. Mr Williams has previously acted as a director and Chairman of the Audit Committee of a financial institution, and has recently completed the Advanced Management Program at Harvard Business School.

Walter John WILLIAMS
Age 54

Mr Williams is the Chief Operating Officer of Heritage Bank Limited and has 20 years' experience in the financial services industry. He has extensive experience in information technology, payments systems, project management, and collections, facilities and operations management. Mr Williams is the Chairman of the company's IT Committee and is a member of the company's Governance Committee.



DIRECTORS' REPORT
COMPANY SECRETARY

David Craig JAY
Age 51

Mr Jay has over 25 years' experience in the financial services industry which has included roles in financial markets, internal audit and retail banking. Mr Jay is the company's Chief Executive Officer. Mr Jay is also a director of The Australian Payments Clearing Association and a director of Eftpos Payments Australia Limited.

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of ASL during the financial year were:

Directors	Board		Audit & Risk		Audit ^		Risk ^		HR & Rem		Governance		Pricing & Contract		I.T.	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Mr P M Andrews	5	4	3	3	1	0	1	0	2	2	4	4	2	2	2	2
Ms C J Bels	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr G D Dinnie	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr K P Dupe	5	4	-	-	-	-	-	-	-	-	4	4	-	-	-	-
Mr D J Lawler	5	5	3	3	1	1	1	1	2	2	4	4	2	2	-	-
Mr B J McWilliams	2	2	1	1	-	-	-	-	-	-	-	-	1	1	-	-
Mr J F Minz *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr R J Ryan	5	4	3	2	1	1	1	1	-	-	-	-	-	-	-	-
Mr B K White	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	2
Mr W J Williams	5	5	-	-	-	-	1	1	-	-	1	1	-	-	2	2
Ms M L Jarvie	2	2	1	1	-	-	1	1	-	-	-	-	-	-	-	-
Mr D A Magin	5	3	-	-	1	0	1	0	2	2	-	-	-	-	-	-
Mr M B Williams	2	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A – Number of meetings held during the time the director held office during the year.

B – Number of meetings attended.

^ The Audit Committee and Risk Committee were merged to form the Audit & Risk Committee in October 2013.

* Mr Minz was not called upon to act as alternate director during the financial year.



DIRECTORS' REPORT**PRINCIPAL ACTIVITIES**

The principal activities of ASL during the financial year ended 30 June 2014 were providing members with settlement services for ATM/EFTPOS, VISA, Direct Entry, BPAY and high value transactions, maintaining a risk management system, acting as a focal point for financial institutions to participate in the payments system, and developing payments services and strategies.

The profit of the company for the financial year amounted to \$977,211 (2013: \$620,963).

REVIEW OF OPERATIONS

A review of the operations of ASL during the financial year is as follows:

ASL operates an Exchange Settlement Account (ESA) at the Reserve Bank of Australia (RBA) which is used for the settlement of payment obligations of members. Building societies, banks and credit unions use ASL's settlement services.

ASL is a principal member of APCA, BPAY, VISA, EPAL and Austraclear, and accepts responsibility for settling the payment system obligations of certain Authorised Deposit-taking Institutions (ADIs) that arise within APCA, BPAY, VISA, EPAL and Austraclear. Members provide ASL with a pool of funds which ASL uses to meet their settlement obligations. The ASL board has set the level of the pool of funds appropriate to the level of risk. The formula for determination of the required contribution of members to the pool of funds has been approved by the Australian Prudential Regulation Authority (APRA).

ASL is subject to prudential supervision by APRA. ASL is committed to maintaining best practice in all its activities, having regard to the size and nature of its operations. In so doing, ASL complies with all applicable prudential standards and guidance notes issued by APRA.

Since inception, ASL has successfully met all its settlement and other obligations as they have fallen due.

ASL has also devoted considerable resources to further develop its risk management systems and to the ongoing strengthening of back-up and recovery resources, which have been successfully tested by independent audit review.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year, advice was obtained from a reputable tax consultant that ASL could be considered a mutual organisation due to the nature of its operations. As a result of this advice, ASL submitted amended tax returns for the years ending 30 June 2009 to 30 June 2013. This resulted in a tax refund for the period of \$293,438. ASL intends to continue to apply the mutuality principle in future years and therefore does not expect to be liable for income tax moving forward. Further details are shown in notes 1(b) and 4.

There has been no other significant changes in the state of affairs or significant change in the nature of activities of ASL during the year ended 30 June 2014 other than those disclosed in this report or in the financial statements.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no matters or circumstances that have arisen since 30 June 2014 that are likely to have affected or to significantly affect, in future financial years, the operations of ASL, the results of those operations or the state of affairs of ASL.



DIRECTORS' REPORT**LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS**

There are no likely or expected developments that are likely to affect the operations of ASL or the expected results of those operations in financial years subsequent to the financial year ended 30 June 2014.

SHARES UNDER OPTION

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report (2013: nil).

INSURANCE OF OFFICERS

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court under section 237 of the *Corporations Act 2001* to bring proceedings on behalf of the company, or intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

ENVIRONMENTAL REGULATION

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

DIVIDEND

No dividend was declared nor paid during the financial year (2013: nil).





AUSTRALIAN SETTLEMENTS LIMITED

ABN: 14 087 822 491

DIRECTORS' REPORT

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

Signed in accordance with a resolution of directors. The directors have the power to amend and reissue the financial statements.

A handwritten signature in black ink, appearing to read 'Peter Milton Andrews', written in a cursive style.

Peter Milton Andrews
Director

A handwritten signature in black ink, appearing to read 'David John Lawler', written in a cursive style.

David John Lawler
Director

Dated this 14th day of August 2014





Auditor's Independence Declaration

As lead auditor for the audit of Australian Settlements Limited for the year ended 30 June 2014, 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.

A handwritten signature in black ink, appearing to read 'David Murphy', written over a light blue horizontal line.

David Murphy
Partner
PricewaterhouseCoopers

Canberra
14 August 2014

PricewaterhouseCoopers, ABN 52 780 433 757
28 Sydney Avenue, FORREST ACT 2603, GPO Box 447, CANBERRA CITY ACT 2601
T: + 61 2 6271 3000, F: + 61 2 6271 3999, www.pwc.com.au

FINANCIAL STATEMENTS

CONTENTS	PAGE
Statement of comprehensive income	10
Statement of financial position	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	
1. Summary of significant accounting policies	14
2. Interest revenue and borrowing costs	21
3. Auditor's remuneration	21
4. Income tax expense	22
5. Restatement of prior year financial statements	23
6. Key management personnel disclosures	24
7. Cash and cash equivalents	25
8. Trade and interest receivables	25
9. Other assets	25
10. Property, plant and equipment	26
11. Trade and other payables	27
12. Provisions	27
13. Contributed equity	28
14. Commitments	29
15. Segment reporting	29
16. Cash flow information	30
17. Borrowings	31
18. Capital adequacy	31
19. System participant shares	32
20. Settlement obligations	32
21. Dividends	32
22. Financial risk management	33
23. Contingent liabilities/assets	36
24. Events occurring after the reporting period	36
25. Related party transactions	37
26. New accounting standards and interpretations	37
27. Company details	37
Directors' declaration	38
Independent auditor's report to the members	39





AUSTRALIAN SETTLEMENTS LIMITED
ABN: 14 087 822 491

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$	2013 \$
Interest revenue	2	7,769,401	8,749,793
Borrowing costs	2	(6,461,253)	(7,558,185)
Net interest revenue		1,308,148	1,191,608
Non-interest revenue – system fees		8,268,406	7,834,833
Processing costs		(4,532,775)	(4,483,741)
Net non-interest revenue		3,735,631	3,351,092
Gross profit		5,043,779	4,542,700
Miscellaneous income		130,711	105,632
Depreciation		(148,554)	(111,859)
Impairment of plant & equipment		-	(36,329)
Employee benefits expenses		(2,301,059)	(2,078,130)
Administrative expenses		(1,747,666)	(1,801,051)
Profit for the year before income tax		977,211	620,963
Income tax expense	1(b) & 4	-	-
Profit for the year after income tax		977,211	620,963
Other comprehensive income for the year		-	-
Total comprehensive income for the year		977,211	620,963
Dividends per share		-	-

The above statement of comprehensive income should be read in conjunction with the accompanying notes.





AUSTRALIAN SETTLEMENTS LIMITED
ABN: 14 087 822 491

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	2014 \$	2013 \$ Restated Refer Note 5	2012 \$ Restated Refer Note 5
Assets				
Cash and cash equivalents	7	268,449,449	265,991,266	264,698,237
Trade and interest receivables	8	1,919,196	1,487,086	1,591,495
Current tax asset		16,379	346,760	309,575
Other assets	9	41,853	78,811	91,365
Property, plant, equipment	10	415,674	517,099	246,261
Total Assets		270,842,551	268,421,022	266,936,933
Liabilities				
Trade and other payables	11	2,013,783	1,726,642	1,626,035
Provisions	12	242,946	192,518	97,142
Borrowings	17	262,135,320	261,028,572	260,361,428
System participant shares	19	20	19	20
Total Liabilities		264,392,069	262,947,751	262,084,625
Net Assets		6,450,482	5,473,271	4,852,308
Equity				
Contributed equity	13	2,624,181	2,624,181	2,624,181
Retained earnings	5	3,826,301	2,849,090	2,228,127
Total Equity		6,450,482	5,473,271	4,852,308

The above statement of financial position should be read in conjunction with the accompanying notes.



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014**

	Contributed Equity \$	Retained Earnings \$	Total Equity \$
Balance at 1 July 2012	2,624,181	2,228,127	4,852,308
Profit for the year	-	620,963	620,963
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	620,963	620,963
Transactions with owners in their capacities as owners:			
Dividends provided for or paid	-	-	-
Balance at 30 June 2013	2,624,181	2,849,090	5,473,271
Profit for the year	-	977,211	977,211
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	977,211	977,211
Transactions with owners in their capacities as owners:			
Dividends provided for or paid	-	-	-
Balance at 30 June 2014	2,624,181	3,826,301	6,450,482

The above statement of changes in equity should be read in conjunction with the accompanying notes.





AUSTRALIAN SETTLEMENTS LIMITED

ABN: 14 087 822 491

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$	2013 \$
Cash flows from operating activities			
Interest received		7,428,870	8,948,357
Interest paid		(6,508,980)	(7,730,957)
Receipts from customers (inclusive of GST)		8,421,283	7,848,787
Payments to suppliers and employees (inclusive of GST)		(8,274,991)	(7,984,222)
Income tax refund/(paid)		332,382	(37,055)
Net cash flows from operating activities	16(ii)	1,398,564	1,044,910
Cash flows from investing activities			
Purchase of plant and equipment		(47,129)	(419,026)
Net cash flows from/(used in) investing activities		(47,129)	(419,026)
Cash flows from financing activities			
Proceeds from borrowings		1,106,748	667,145
Net cash flows from/(used in) financing activities		1,106,748	667,145
Net increase/(decrease) in cash and cash equivalents		2,458,183	1,293,029
Cash and cash equivalents at the beginning of the financial year		265,991,266	264,698,237
Cash and cash equivalents at end of the year	16(i)	268,449,449	265,991,266

The above statement of cash flows should be read in conjunction with the accompanying notes.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements have been prepared for ASL as an individual entity.

a. **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. ASL is a for profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

These financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the company

ASL has applied the following standards and amendments for first time for the annual reporting period commencing 1 July 2013:

- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The adoption of AASB 13 and AASB 119 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. Other adopted mandatory standards only affected the disclosures in the notes to the financial statements.

(iii) Early adoption of standards

The company has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

(iv) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- available-for-sale financial assets, financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value, and
- assets held for sale – measured at fair value less cost of disposal.

b. **Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Under the concept of mutuality ASL is only assessed for income tax on the portion of income derived from non-member services, including interest income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b. Income tax (Cont.)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

c. Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The carrying amount of plant and equipment is reviewed annually to ensure it is not stated in excess of its recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

The depreciable amount of all fixed assets, including capitalised lease assets, is depreciated on a straight line basis over the asset's useful life commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

<u>Class of Asset</u>	<u>2014</u>	<u>2013</u>
Motor vehicle	8 years	-
Computer hardware and software	3 to 5 years	3 to 5 years
Office equipment	3 to 15 years	3 to 15 years
Furniture and fittings	5 to 15 years	5 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in profit or loss.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

d. Leases

Leases of property, plant and equipment where the company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability 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 property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the statement of financial position based on their nature.

e. Investment and other financial assets

Classification

The company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables and receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. If the company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e. Investments and other financial assets (Cont.)

Financial assets – reclassification

The company may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date, the date on which the company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Loans and receivables and held to maturity investments are subsequently carried at amortised cost using the effective interest method.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the company's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Impairment

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e. **Investments and other financial assets (Cont.)**

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

f. **Impairment of assets**

At each reporting date the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

g. **Employee benefits**

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

h. Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the company 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 has been 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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

i. Contributed equity

Ordinary shares and non-voting shares are classified in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

j. Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

k. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and includes interest income on short term monetary investments and proceeds from system fees. Revenue is recognised for the major business activities as follows:

- Interest income is recognised on a time proportion basis using the effective interest method.
- Fee income is recognised in the period in which the services are rendered.

All revenue is stated net of the amount of goods and services tax (GST).

l. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

m. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

n. Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

o. Borrowings

Borrowings represent the mandated prudential funds, held to cover settlements obligations, and excess funds held on behalf of members. For further information refer to note 17.

Borrowings are classified as current liabilities unless ASL has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 2: INTEREST REVENUE AND BORROWING COSTS

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or borrowing cost and the average interest rate. Most averages are daily, whilst other averages may also be used provided they are representative of the actual averages over the financial period.

	Average Balance (\$000's)	Amount \$	Average Rate %
2014			
Interest Revenue			
Cash and cash equivalents	270,483	7,769,401	2.87%
		7,769,401	
Borrowing Costs			
Borrowings	262,307	6,452,198	2.46%
Subordinated Debt – Tranche 1	332	9,055	2.73%
Subordinated Debt – Tranche 2	2,090	-	0.00%
		6,461,253	
2013			
Interest Revenue			
Cash and cash equivalents	249,319	8,749,793	3.51%
		8,749,793	
Borrowing Costs			
Borrowings	246,415	7,546,056	3.06%
Subordinated Debt – Tranche 1	332	12,129	3.66%
Subordinated Debt – Tranche 2	2,090	-	0.00%
		7,558,185	

	2014 \$	2013 \$
NOTE 3: AUDITOR'S REMUNERATION		
<i>PwC Australia</i>		
<i>Audit & other assurance activities</i>		
- financial statement audit	28,815	28,250
- other assurance services	17,085	16,750
	45,900	45,000



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
NOTE 4: INCOME TAX EXPENSE		
(a) Income tax expense		
Total income tax expense is made up of:		
Deferred tax assets	-	-
Current income tax payable	-	-
Total income tax expense reported in the statement of comprehensive income	-	-
 (b) Numerical reconciliation of income tax expense to prima facie tax payable		
Accounting profit before income tax	977,211	620,963
Tax at the Australian tax rate @ 30% (2013: 30%)	293,163	186,289
Tax effect of:		
Member related expenses not deductible under the mutuality principle	2,096,702	1,994,427
Member related income not assessable under the mutuality principle	(2,587,390)	(2,407,441)
Tax losses not recognised as a deferred tax asset	197,525	226,725
 (c) Deferred tax assets not recognised		
Unused tax losses – Net interest incomes	2,077,025	1,879,500
Property, plant and equipment	(12,162)	(6,410)
Employee Provisions and accruals	94,696	84,130
Prepayments	969	3,347



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 5: RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

During the year, advice was obtained from a reputable tax consultant that ASL could be considered a mutual organisation due to the nature of its operations. Under the concept of mutuality ASL is only assessed for income tax on the portion of income derived from non-member services, including interest income. As a result of this advice, ASL submitted amended tax returns for the years ending 30 June 2009 to 30 June 2013. ASL intends to continue to apply the mutuality principle in future years and therefore does not expect to be liable for income tax in relation to income derived from member services moving forward. As a result, the financial statements were not prepared in accordance with AASB 112 *Income Taxes*, resulting in an overstatement of income tax expense and income tax payable. The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

	2013	Increase/ (Decrease)	2013 (Restated)	2012	Increase/ (Decrease)	2012 (Restated)
Statement of financial position (extract)						
Current tax assets	-	346,760	346,760	16,138	293,437	309,575
Deferred tax assets	152,668	(152,668)	-	49,942	(49,942)	-
Current tax liabilities	(238,434)	238,434	-	-	-	-
Net assets	5,040,745	432,526	5,473,271	4,608,813	243,495	4,852,308
Retained earnings	(2,416,564)	(432,526)	(2,849,090)	(1,984,632)	(243,495)	(2,228,127)
Total equity	(5,040,745)	(432,526)	(5,473,271)	(4,608,813)	(243,495)	(4,852,308)

	2013	Profit Increase/ (Decrease)	2013 (Restated)
Statement of comprehensive income (extract)			
Profit for the year before income tax	620,963		620,963
Income tax expense	(189,031)	189,031	-
Profit for the year after income tax	431,932	189,031	620,963
Total comprehensive income for the year	431,932	189,031	620,963



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 6: KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of key management personnel

Directors of ASL during the year include:

Mr Peter Milton Andrews	Mr Bruce Kenneth White (d)
Ms Claudia Jacqueline Bels (a)	Mr Mark Brian Williams (e)
Mr Garry Donald Dinnie (b)	Mr Walter John Williams
Mr Kevin Peter Dupe	Ms Michelle Louise Jarvie (f)
Mr David John Lawler	Mr Donald Allan Magin (g)
Mr John Francis Minz (c)	Mr Barry John McWilliams (h)
Mr Robert James Ryan	

- (a) Ms CJ Bels appointed on 1 December 2013
- (b) Mr GD Dinnie appointed on 1 April 2014
- (c) Mr JF Minz acts as an alternate director for Mr WJ Williams
- (d) Mr BK White appointed on 1 June 2014
- (e) Mr MB Williams appointed on 12 December 2013
- (f) Ms ML Jarvie resigned on 9 December 2013
- (g) Mr DA Magin resigned on 31 May 2014
- (h) Mr BJ McWilliams resigned on 31 October 2013

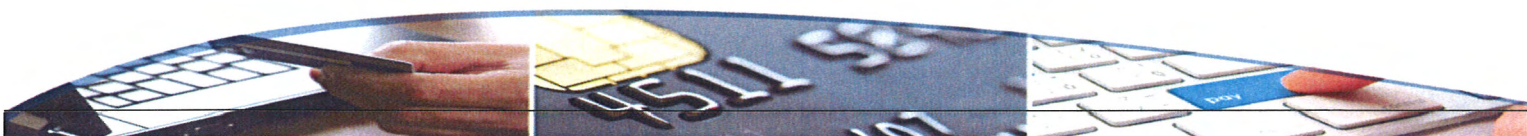
The executives of ASL during the year include:

Mr David Craig Jay (Chief Executive Officer)
 Mr Chek Khing Huon (Chief Financial Officer)
 Mr Bruce Melville Potter (Head of Member Care)
 Mr Christopher David Merrett (Head of Industry & Innovation) – resigned on 27 June 2014

Executives have been in office since the start of the financial year to the date of this report unless otherwise stated.

Details of key management personnel compensation

	2014 \$	2013 \$
Short term employee benefits	1,244,083	1,108,702
Other long term employee benefits	115,954	88,906
	<u>1,360,037</u>	<u>1,197,608</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
NOTE 7: CASH AND CASH EQUIVALENTS		
	Note	
Cash on hand	976	627
Exchange Settlement Account (RBA)	80,618,621	89,800,683
Deposits with Australian banks	183,649,851	172,009,955
Deposits with other financial institutions (ADIs)	4,180,001	4,180,001
	<u>268,449,449</u>	<u>265,991,266</u>
	16(i)	

(a) Exchange Settlement Account

ASL holds mandated prudential funds from its members to cover settlement obligations. Parts of the mandated prudential funds are held in an Exchange Settlement Account with the RBA.

(b) Deposits with Australian banks

These cash balances represent part of the members' mandated prudential funds and the excess of member funds above their individual mandated prudential funding requirements. Members hold excess funds with ASL generally as a tool of their own short-term liquidity management. These funds are held in at call accounts with Australian banks. Interest is calculated and earned on these balances at prevailing market rates. It also includes the working capital of ASL.

(c) Deposits with other financial institutions (ADIs)

These balances represent term deposits of varying lengths with Australian banks and other Australian ADIs.

NOTE 8: TRADE AND INTEREST RECEIVABLES

Current

Interest receivable – RBA (see (a) below)	164,580	184,522
Interest receivable – banks	945,481	585,008
Trade debtors (see (b) below)	809,135	717,556
	<u>1,919,196</u>	<u>1,487,086</u>

(a) Interest receivable – RBA

Interest receivable represents interest payable by the RBA on funds held in the company's Exchange Settlement Account.

(b) Trade debtors

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for doubtful debts is made when there is objective evidence that a trade receivable is impaired. No allowance has been recognised as an expense for the current year as there is no difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

NOTE 9: OTHER ASSETS

Current

Prepayments	38,853	76,811
Accrued income	3,000	2,000
	<u>41,853</u>	<u>78,811</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
NOTE 10: PROPERTY, PLANT AND EQUIPMENT		
Motor vehicle - at cost	32,686	-
Less: Accumulated depreciation	-	-
	32,686	-
Computer hardware and software - at cost	537,428	530,683
Less: Accumulated depreciation	(217,590)	(94,177)
	319,838	436,506
Office equipment - at cost	41,855	34,157
Less: Accumulated depreciation	(29,101)	(22,662)
	12,754	11,495
Furniture & fittings - at cost	105,302	105,302
Less: Accumulated depreciation	(54,906)	(36,204)
	50,396	69,098
Total plant and equipment	415,674	517,099
Movements in carrying amounts		
Movements in the carrying amounts for each class of plant and equipment are set out below:		
<i>Motor Vehicle</i>		
Carrying amount at beginning of year	-	-
Additions	32,686	-
Disposals	-	-
Depreciation charge for the year	-	-
	32,686	-
<i>Computer hardware and software</i>		
Carrying amount at beginning of year	436,506	178,793
Additions	6,745	339,157
Disposals	-	-
Depreciation charge for the year	(123,413)	(81,444)
	319,838	436,506
<i>Office equipment</i>		
Carrying amount at beginning of year	11,495	31,735
Additions	7,698	13,020
Disposals	-	-
Impairment losses	-	(20,338)
Depreciation charge for the year	(6,439)	(12,922)
	12,754	11,495
<i>Furniture and fittings</i>		
Carrying amount at beginning of year	69,098	35,733
Additions	-	66,850
Disposals	-	-
Impairment losses	-	(15,992)
Depreciation charge for the year	(18,702)	(17,493)
	50,396	69,098
Total property, plant and equipment	415,674	517,099



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 11: TRADE AND OTHER PAYABLES

	2014 \$	2013 \$
<i>Current</i>		
Trade payables (see (a) below)	132,696	527,345
Other payables	1,142,876	613,358
Income received in advance	200,000	-
Interest payable (see (b) below)	538,211	585,939
Total trade and other payables	2,013,783	1,726,642

(a) *Trade payables*

Trade payables are non-interest bearing and are generally on 30 day terms.

(b) *Interest payable*

This represents the interest payable on mandated prudential funds and excess funds placed by members with ASL. Interest is normally paid to members monthly in arrears.

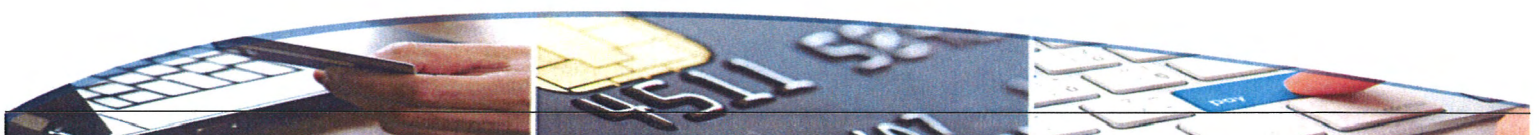
NOTE 12: PROVISIONS

Current

Employee benefits provision		
- Annual Leave	199,895	165,814
	199,895	165,814

Non-Current

Employee benefits provision		
- Long Service Leave	43,051	26,704
Total provisions	242,946	192,518



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 13: CONTRIBUTED EQUITY

	2014 \$	2013 \$
54,627 fully paid ordinary shares (2013: 54,627 shares)	54,627	54,627
2,569,554 fully paid non-voting shares (2013: 2,569,554 shares)	2,569,554	2,569,554
	<u>2,624,181</u>	<u>2,624,181</u>

(a) Ordinary shares

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

(b) Non-voting shares

Fully paid non-voting shares do not carry any voting rights but do carry the rights to dividends.

(c) Capital management

The company manages its capital in order to maintain a sound debt to equity ratio, provide the shareholders with adequate returns and ensure that the company can fund its operations and continue as a going concern.

The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There is an externally imposed minimum capital requirement placed on the company by APRA calculated under Basel III (refer note 18).

The company effectively manages its capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses included management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by the company to manage its capital since the prior year.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 14: COMMITMENTS

	2014 \$	2013 \$
(a) Operating lease commitment		
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable:		
Within one year	263,326	251,573
Later than one year but not later than five years	546,828	810,154
	<u>810,154</u>	<u>1,061,727</u>

The property lease on the Sydney Office is a non-cancellable lease with a five year term commencing 15 September 2012, with rent payable monthly in advance.

The property lease on the Canberra Office is a non-cancellable lease with a five year term commencing 1 September 2012, with rent payable monthly in advance.

The property lease on the Canberra disaster recovery site is a non-cancellable lease with a three year term commencing 1 February 2012, with rent payable monthly in advance.

NOTE 15: SEGMENT REPORTING

The company operates predominantly in one business and one geographical segment. The company's operations are confined to Australia and involve providing members with settlement services for ATM/EFTPOS, VISA, Direct Entry, BPAY and high value transactions, maintaining a risk management system, acting as a focal point for financial institutions to participate in the payments system, and developing payments services and strategies.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 16: CASH FLOW INFORMATION

	Note	2014 \$	2013 \$
<i>(i) Reconciliation of cash</i>			
For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank and on hand and short term deposits. Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:			
Cash and cash equivalents	7	268,449,449	265,991,266
<i>(ii) Reconciliation of profit after income tax to cash flows from operations</i>			
Profit for the year		977,211	620,963
<i>Non-cash flows in profit:</i>			
Depreciation		148,554	111,859
Impairment losses		-	36,329
<i>Changes in assets and liabilities:</i>			
(Increase)/decrease in trade and interest receivables		(432,110)	104,408
(Increase)/decrease in other receivables		36,958	12,554
(Increase)/decrease in current tax assets		330,382	(87,127)
(Increase)/decrease in deferred tax assets		-	49,942
Increase/(decrease) in trade and other payables		287,141	100,607
Increase /(decrease) in provisions		50,428	95,375
Net cash inflow/(outflow) from operating activities		1,398,564	1,044,910



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 17: BORROWINGS

	2014 \$	2013 \$
Mandated Prudential Funds (see (a) below)	136,009,955	141,886,685
Other high quality liquid asset funds (see (b) below)	123,703,632	116,720,154
Perpetual subordinated debt (see (c) below)	2,421,733	2,421,733
	262,135,320	261,028,572
Maturity Analysis		
At call	259,713,587	258,606,839
No maturity specified	2,421,733	2,421,733
	262,135,320	261,028,572

Concentration of borrowings

Except for lease liabilities (when applicable), borrowings are from ADIs who participate in the company's exchange settlement function with the RBA.

(a) Mandated Prudential funds

ASL holds mandated prudential funds from its members to cover settlement obligations. These funds are held in the Exchange Settlement Account at the RBA and in at call deposit accounts with Tier 1 Australian banks.

(b) Other high quality liquid assets

These funds represent the excess of member funds above their individual prudential funding requirements. Members hold excess funds with ASL generally as a tool for their own short-term liquidity management. Any excess funds provided at the discretion of members are held in at call accounts with Tier 1 Australian banks.

(c) Perpetual subordinated debt

Perpetual subordinated debt was issued by ASL. The debt is subordinated to all other creditors of ASL, is perpetual, and the lenders cannot claim repayment of the debt or offset the debt other than in very narrow circumstances.

NOTE 18: CAPITAL ADEQUACY

Risk weighted assets	58,466,526	53,782,499
Tier 1 Capital (minimum 4% of eligible capital)	10.6%	9.1%
Tier 2 Capital (remainder of eligible capital)	3.3%	4.1%
	13.9%	13.2%

The Prudential Standards issued by APRA require ADIs to maintain a risk-based capital ratio in excess of a Prudential Capital Ratio (PCR). The Board of Directors has set the minimum capital ratio at 11% of total risk weighted assets. Eligible capital is assessed in two tiers:

- Tier 1 (core capital) - consisting of the highest quality elements; and
- Tier 2 (supplementary capital) - consisting of other elements which, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of the ADI.

Assets are weighted according to broad categories of relative risk. The higher the risk, the greater the capital backing required.





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
NOTE 19: SYSTEM PARTICIPANT SHARES		
20 fully paid system participant shares (2013: 19 shares)	20	19

Each member of ASL must hold one fully paid system participant share. The effect of holding the share is to bind the member to ASL's By-Laws including the settlement procedures and rules. These shares are redeemable and do not carry any voting rights or the right to dividends.

NOTE 20: SETTLEMENT OBLIGATIONS

The company is liable to settle the liabilities of any member of the company which cannot meet its settlement obligations. The company holds mandated prudential funds from each member specifically for this purpose. At 30 June 2014 all company members within the settlements system met their settlement obligations.

The company may be liable to bear some proportion of the loss in the event that a non-ASL member counterparty in the Bulk Electronic Clearing Stream fails to meet their settlement obligations. At 30 June 2014 there was no such liability.

NOTE 21: DIVIDENDS

No dividend was declared nor paid during the financial year (2013: nil).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 22: FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks, including but not limited to, liquidity risk, credit risk and market risk.

The company's principal financial instruments comprise deposits from members, perpetual subordinated debt, cash and short-term deposits. The main purpose of these financial instruments is to fund the company's settlement operations. The company has other financial assets and liabilities, such as trade receivables and payables, which arise directly from its operations.

The company holds the following financial instruments:

Financial assets	Note	2014 \$	2013 \$
Cash and cash equivalents	7	268,449,449	265,991,266
Trade and interest receivables	8	1,919,196	1,487,086
Total financial assets		270,368,645	267,478,352
Financial liabilities			
Trade and other payables	11	2,013,783	1,726,642
Borrowings	17	262,135,320	261,028,572
Total financial liabilities		264,149,103	262,755,214

i. Financial risk management policies

The Audit and Risk Committee meets on a regular basis to analyse financial risk exposures and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The Committee's overall risk management strategies seek to assist the company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

The Audit and Risk Committee operates under policies approved by the Board of Directors. Risk management policies are approved and reviewed by the Board on a regular basis. These include credit risk policies and future cash flow requirements.

ii. Specific financial risk exposures and management

The main risks the company is exposed to through its financial instruments are liquidity, credit and market risks (foreign exchange, price and interest rate risks). The Audit and Risk Committee constantly monitors these risks through internal reports and take action where appropriate to minimise the impact and likelihood of adverse events.

a) Liquidity risk

The company's major liquidity risk is derived from its function of settling payments system obligations on behalf of its members. Members provide the company with a pool of mandated prudential funds which is used to meet their settlement obligations. The Board has set the level of the pool of mandated prudential funds appropriate to the level of risk. APRA has approved the formula used to determine each members' mandated prudential funds contribution. The amount of prudential funding is recalculated on the last business day of each calendar month to reflect growth in the underlying settlement obligations. Members are prevented from withdrawing the prudential funds whilst ever the company has a settlement exposure to that member.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 22: FINANCIAL RISK MANAGEMENT (CONT.)

The tables below detail the undiscounted cash flows of financial liabilities based on the earliest date the company can be required to pay. The tables include both interest and principal payable and as a result may not reconcile to items on the balance sheet.

Maturity analysis for financial liabilities at 30 June 2014	Less than 6 months	6 – 12 months	1 – 5 years	5+ years	At call	No maturity specified	Total
	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	2,013,783	-	-	-	-	-	2,013,783
Borrowings	-	-	-	-	259,713,587	2,421,733	262,135,320
Total financial liabilities	2,013,783	-	-	-	259,713,587	2,421,733	264,149,103

Maturity analysis for financial liabilities at 30 June 2013	Less than 6 months	6 – 12 months	1 – 5 years	5+ years	At call	No maturity specified	Total
	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	1,726,642	-	-	-	-	-	1,726,642
Borrowings	-	-	-	-	258,606,839	2,421,733	261,028,572
Total financial liabilities	1,726,642	-	-	-	258,606,839	2,421,733	262,755,214

The nature and terms of borrowings are detailed at note 17.

b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in the company suffering a financial loss.

The company's major credit risk relates to its cash and cash equivalents. This risk is mitigated as these assets are held exclusively with the RBA, major Australian banks and other ADI's, in accordance with the Board's Large Exposures Policy. Other receivable balances are monitored on an on-going basis, resulting in the company not having a significant exposure to bad debts. At the reporting date, the carrying value of all classes of financial assets best represents the maximum credit risk exposure, without taking account of the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments. Concentrations of credit risk, where applicable, are identified in the notes to the respective financial assets.

There are no material amounts of collateral held as security at 30 June 2014 (2013: nil).

The company does not have any material credit risk exposure to any single receivable or group of receivables.

c) Market risk

Foreign exchange risk

The company is not exposed to any material fluctuations in foreign currencies.

Price risk

The company is not exposed to any material commodity price risk.

Interest rate risk

Interest rate risk is composed of cash flow and fair value interest rate risks. Financial instruments that expose the company to these risks are set out in the following tables.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 22: FINANCIAL RISK MANAGEMENT (CONT.)

		2014 \$	Weighted Average Interest Rate
i. Financial assets			
<i>Cash and cash equivalents</i>			
Within one year	Non-interest bearing	4,180,977	0.00%
	Floating Rate	264,268,472	2.87%
		<u>268,449,449</u>	
<i>Trade and other receivables</i>			
Within one year	Non-interest bearing	<u>1,919,196</u>	0.00%
ii. Financial liabilities			
<i>Borrowings</i>			
Within one year	Floating Rate	259,713,587	2.46%
No maturity specified	Floating Rate	331,733	2.73%
	Non-interest bearing	<u>2,090,000</u>	0.00%
		<u>262,135,320</u>	
<i>Trade and other payables</i>			
Within one year	Non-interest bearing	<u>2,013,783</u>	0.00%
		2013 \$	Weighted Average Interest Rate
i. Financial assets			
<i>Cash and cash equivalents</i>			
Within one year	Non-interest bearing	4,180,628	0.00%
	Floating Rate	261,810,638	3.51%
		<u>265,991,266</u>	
<i>Trade and other receivables</i>			
Within one year	Non-interest bearing	<u>1,487,086</u>	0.00%
iii. Financial liabilities			
<i>Borrowings</i>			
Within one year	Floating Rate	258,606,839	3.06%
No maturity specified	Floating Rate	331,733	3.06%
	Non-interest bearing	<u>2,090,000</u>	0.00%
		<u>261,028,572</u>	
<i>Trade and other payables</i>			
Within one year	Non-interest bearing	<u>1,726,642</u>	0.00%

The company's exposure to the risk of changes in market interest rates relates primarily to the funds placed on deposit with the company by its members. This risk is mitigated as the company's rules and procedures provide that the interest rate paid on these deposits is less than or equal to the interest rate earned by the company on the funds.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 22: FINANCIAL RISK MANAGEMENT (CONT.)

Sensitivity analysis

The company has performed a sensitivity analysis relating to its exposures to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

At 30 June 2014, the effect on profit and equity as a result of changes in interest rates, with all other variables remaining constant, would be as follows:

	2014 \$	2013 \$
Change in profit		
- Increase in interest rates by 2%	73,274	51,454
- Decrease in interest rates by 2%	(73,274)	(51,454)
Change in equity		
- Increase in interest rates by 2%	73,274	51,454
- Decrease in interest rates by 2%	(73,274)	(51,454)

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged, and has been calculated on net interest revenue.

No sensitivity analysis has been performed on foreign exchange risk, as the entity has only minor exposure to foreign currency fluctuations.

NOTE 23: CONTINGENT LIABILITIES/ASSETS

The company had no contingent liabilities or assets as at 30 June 2014 (2013 – nil).

NOTE 24: EVENTS OCCURRING AFTER THE REPORTING PERIOD

There have been no matters or circumstances that have arisen since 30 June 2014 that are likely to have affected or to significantly affect, in future financial years, the operations of the company, the results of those operations or the state of affairs of the company.





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 25: RELATED PARTY TRANSACTIONS

Australian Settlements Limited had no related party transactions other than those already disclosed in note 6.

Mr MB Williams as CFO and Ms ML Jarvie as the former CRO of Newcastle Permanent Building Society, Mr DA Magin as CEO and Mr BK White as CIO of Greater Building Society, Mr JF Minz as CEO and Mr WJ Williams as COO of Heritage Bank Limited, Mr KP Dupe as CEO of the Community Mutual Group Limited and Mr RJ Ryan as CEO of IMB have interests in contracts pursuant to which the company provides services to their institutions.

NOTE 26: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The company has not adopted any new standards before their operative date. Application of these standards by the company will not materially affect any of the amounts in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTE 27: COMPANY DETAILS

Australian Settlements Limited is an unlisted public company limited by shares and incorporated in Australia. The company is an ADI and operates an ESA at the RBA. The ESA is used for the settlement of payment obligations between certain ADIs, currently building societies, banks and credit unions and other clearers. The registered office and principal place of business of the company is:

Australian Settlements Limited
ASL House
6 Geils Court
Deakin ACT 2600





DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 37 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the entity's financial position as at 30 June 2014 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1 (a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

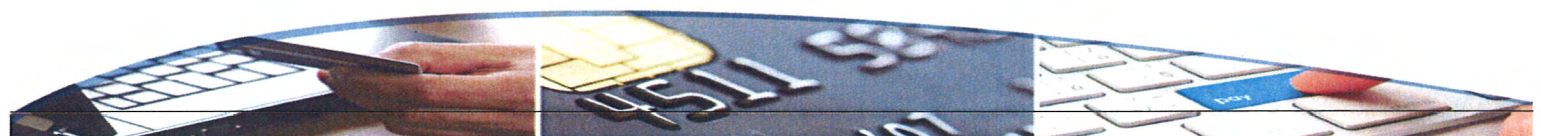
A handwritten signature in black ink, appearing to read 'Peter Milton Andrews', written in a cursive style.

Peter Milton Andrews
Director

A handwritten signature in black ink, appearing to read 'David John Lawler', written in a cursive style.

David John Lawler
Director

Dated this 14th day of August 2014





Independent auditor's report to the members of Australian Settlements Limited

Report on the financial report

We have audited the accompanying financial report of Australian Settlements Limited (the company), which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility 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* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
28 Sydney Avenue, FORREST ACT 2603, GPO Box 447, CANBERRA CITY ACT 2601
T: + 61 2 6271 3000, F: + 61 2 6271 3999, www.pwc.com.au



Auditor's opinion

In our opinion:

- (a) the financial report of Australian Settlements Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

A handwritten signature in black ink, appearing to read 'Priscilla Cooper'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'David Murphy'.

David Murphy
Partner

Canberra
14 August 2014