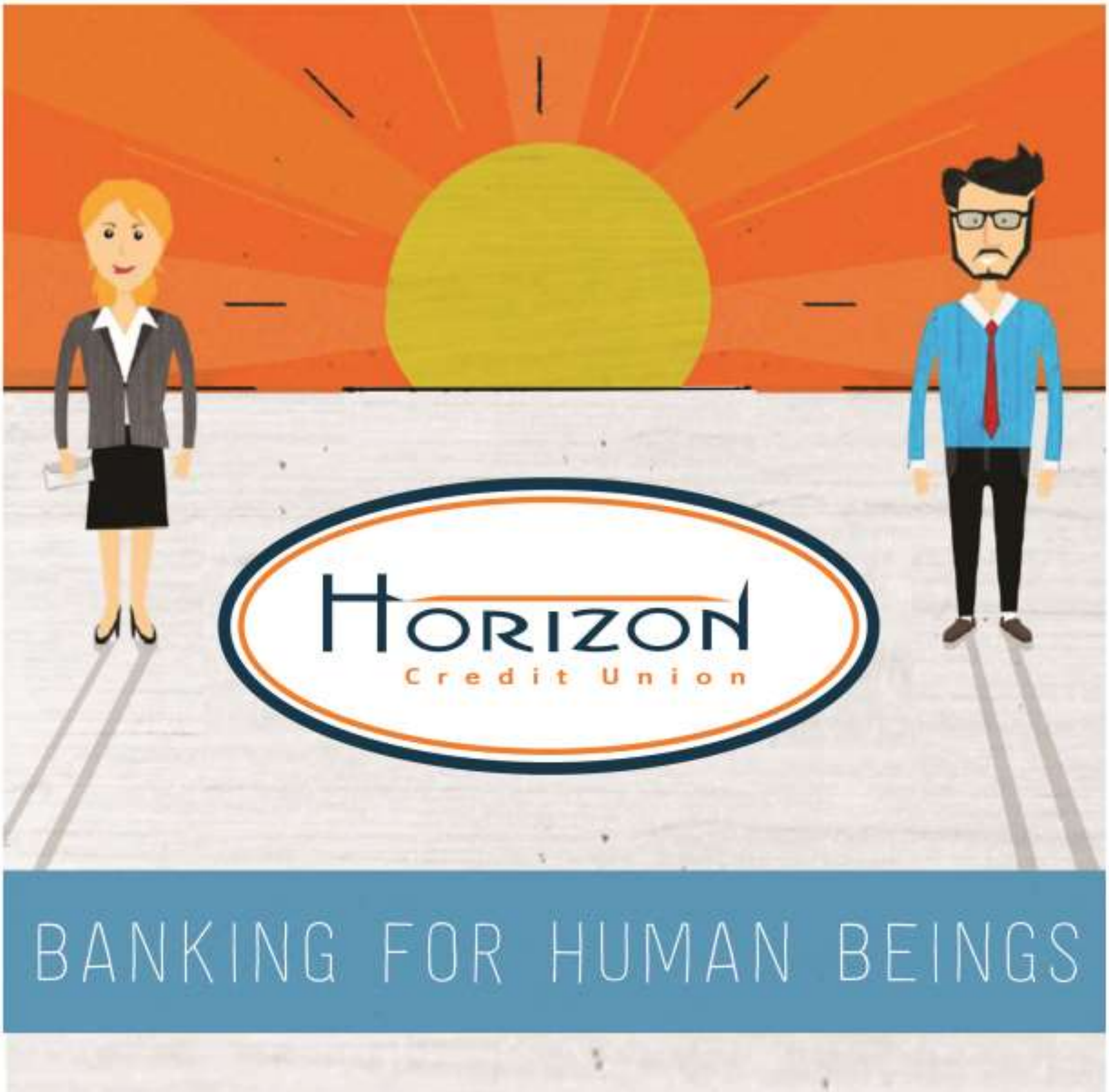
2015 ANNUAL REPORT



CHAIRMANS REPORT

On behalf of the Board of Directors it gives me great pleasure to present the 2015 Horizon Credit Union Annual Report.

Over the last financial year the dynamics around lending have changed. Low interest rates have generated high demand for mortgage loans, especially from investors. However the first home buyers' market is subdued with this particular segment experiencing difficulty in entering the market due to significant increases in housing prices.

There has been a strong focus by the regulator APRA on ensuring borrowers are well positioned should interest rates increase. This has resulted in Horizon reviewing its internal processes with an even more stringent credit assessment approach being implemented.

Notwithstanding these challenges, Horizon has delivered pleasing growth in assets, loans, and deposits.

> “Horizon has delivered pleasing growth in assets, loans, and deposits”

Financial Performance

The credit union's operating surplus of $0.876m surpassed our planned results. This result was lower than the previous year due to increased investment in member services, particularly in information technology, branch refurbishments and ATM upgrades.

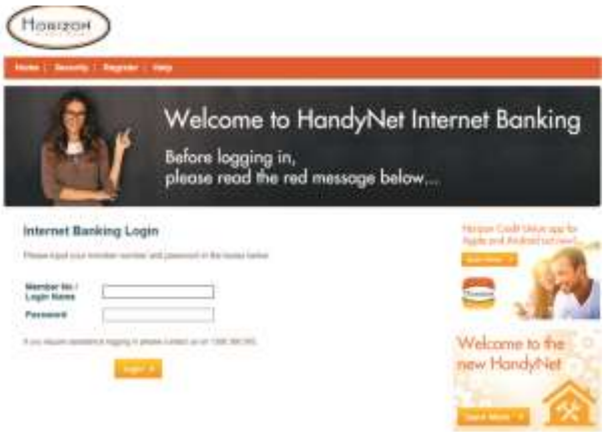
Deposit growth of $13M represented by a 5.5% increase in member funds and in what has been a difficult lending environment, Horizon achieved a 3.9% growth in our loan portfolio with net new funding of $55.9million, being the second highest in our history.

Horizon's bad debt expense of $11K represented just 0.005% of total loans of $229M. This was an exceptional achievement which continues to reflect the quality of our loan book and Horizon’s ability to effectively monitor & manage arrears.

Highlights

Investment in technology in 2015 included:

- An upgrade of our core banking software to the latest available version
- An upgrade of Horizon's mobile banking applications
- Conversion of internet banking software to enable a wider range of services to members



The Year Ahead

The external environment is expected to remain challenging in 2015/16 with uncertain economic conditions and a strong regulatory presence in credit markets. Continuing low interest rates are not only impacting the returns that depositor members receive, but are also depressing net interest margins earned by the credit union.

More encouragingly however, release of the “Financial System Inquiry” conducted by David Murray, has recommended a number of measures designed to increase competition in the Australian banking market. These measures are expected to generally assist the mutual sector.

Internally, the 2015/2016 financial year will see Horizon focussing on enhancing the technology upgrades of 2015 by expanding our digital delivery functionality.

Horizon will also continue to upgrade traditional banking channels such as branches and ATMs such that all member banking preferences are being accommodated.

Importantly, Horizon will continue to focus upon the communities in which we operate, exemplified by the financial literacy program which commenced in 2015. This will continue to roll out across a range of schools in the Illawarra and South Coast.

Acknowledgments

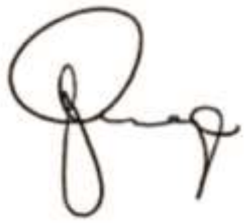
Firstly I would like to thank our members for their ongoing support and loyalty. The trust our members have in Horizon is one of the most important factors behind our continued success in a competitive market.

The last 12 months has seen our staff embrace significant changes as a result of technology upgrades. I would like to thank our staff for their commitment to supporting our members with these changes and enhancements to service delivery options.

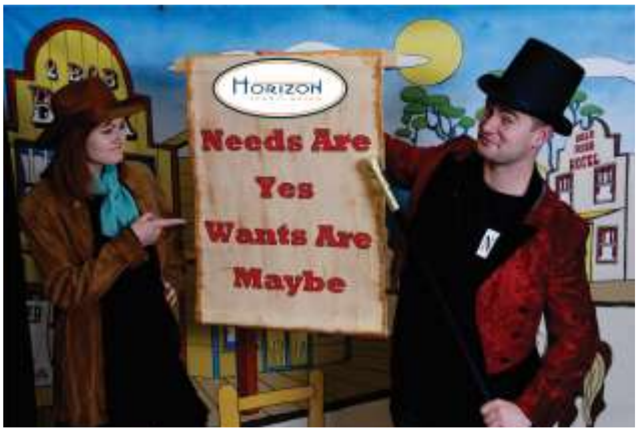
Thank you to our Chief Executive Officer Jon Stanfield, along with his executive team, who have continued to lead the organisation forward and implement necessary changes while still achieving sound financial outcomes.

Finally I would like to acknowledge the efforts of my fellow directors who have demonstrated enthusiasm and a focussed commitment to ensure our credit union continues to be well placed to succeed.

Horizon remains committed to delivering products and services to ensure members’ experience with us is second to none.



Joanne Hinge,
Chairman



DIRECTORS' REPORT

Your Directors present their report on the credit union for the financial year ended 30th June 2015.

The Credit Union is a company registered under the Corporations Act 2001.

Information on Directors

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

Name	*Qualifications*	*Experience*	*Current Responsibilities*
J Hinge	MAICD, MAMI	Director – 2009 to Present	Chairman of the Board Chairman of the Corporate Governance Committee Chairman of the Remuneration Committee
M Crowther	B Com, FCA, MAMI	Director – 2013 to Present	Chairman of the Risk Committee Member of the Audit Committee
P Dun **	B Bus, MBA, MAMI	Director – 2014 to Present	Member of the Corporate Governance Committee Member of the Remuneration Committee
J Hall **	ANZIIF (Fellow) CIP, B Bus, Dip Management, MAMI	Director – 2014 to Present	Member of the Audit Committee Member of the Risk Committee
M Gleeson	FCA, MAICD, MAMI	Director – 2013 to Present	Chairman of the Audit Committee Member of the Risk Committee
M Kerr	MAICD, MAMI	Director – 2012 to Present	Member of the Corporate Governance Committee Member of the Remuneration Committee
G Papac	MAICD, MAMI	Director – 2010 to Present	Member of the Audit Committee Member of the Risk Committee
I Bonella *	B.A., M.Appl. Sci., FAMI	Director – 1988 to 2014	
M Poulton *	FAMI, GAICD	Director – 1987 to 2014	

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

Name	*Qualifications*	*Experience*
J Stanfield	B Ec., ACA, F Fin., MAMI	Chief Executive Officer

Directors' meeting attendance

Director	Board Meetings		Committee Meetings	
	Held	Attended	Held	Attended
J Hinge	13	13	10	10
M Crowther	13	13	12	12
P Dun **	9	8	4	3
J Hall **	9	8	10	10
M Gleeson	13	13	16	16
M Kerr	13	11	9	7
G Papac	13	12	17	15
I Bonella *	4	4	6	6
M Poulton *	4	4	3	3

* Directors I Bonella and M Poulton retired from the Board effective 30th October 2014.
** Directors P Dun and J Hall were elected onto the Board effective 30th October 2014.

Directors' Benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the credit union, controlled 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 31 of the financial report.

Indemnifying Officer or Auditor

Insurance premiums have been paid to insure each of the directors and officers of the credit union, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the credit union. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the credit union.

Financial Performance Disclosures

Principal Activities

The principal activities of the credit union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the constitution.

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

Operating Results

The net profit of the credit union for the year after providing for income tax was $876,263 [2014 $1,032,926].

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the credit union.

Review of Operations

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

Significant Changes In State Of Affairs

There were no significant changes in the state of the affairs of the credit union during the year.

Events occurring after the end of the reporting date

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

Likely Developments and Results

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

- (i) The operations of the credit union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the credit union

in the financial year subsequent to this financial year.

Auditors' Independence

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

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

Michael L. Gleeson

Chairman | Director

Signed and dated this 25th August 2015

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

AUDITOR'S INDEPENDENCE DECLARATION

to the Directors of Horizon Credit Union Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor of Horizon Credit Union Ltd for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, that there have been:

a. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b. no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner – Audit & Assurance

Sydney, 25th August 2015

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
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INDEPENDENT AUDITOR'S REPORT

To the members of Horizon Credit Union Limited

We have audited the accompanying financial report of Horizon Credit Union Ltd (the "Company"), which comprises the statement of financial position as at 30th June 2015, the statement of profit or loss and other comprehensive income, statement of changes in member equity and statement of cash flows for the year ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company.

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. 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. The Directors also state, in the notes to the financial report, 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 misstatements.

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 Company's preparation of the financial report that gives a true and fair view 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 Company'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.

Grant Thornton

Independence

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

Auditor's Opinion

In our opinion:

a. the financial report of Horizon Credit Union Ltd 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 2015 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner – Audit & Assurance

Sydney, 25th August 2015

DIRECTORS' DECLARATION

In the opinion of the directors of Horizon Credit Union Limited:

a. the financial statements and notes of Horizon Credit Union Limited are in accordance with the Corporations Act 2001, including

   i. giving a true and fair view of its financial position as at 30th June 2015 and of its performance for the financial year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. there are reasonable grounds to believe that Horizon Credit Union Limited will be able to pay its debts as and when they become due and payable.

c. The financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Director

Dated this 25th August 2015

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $	2014 $
Revenue			
Interest revenue	2a	13,494,344	13,585,250
Interest expense	2c	(6,090,041)	(6,581,001)
Net interest income		7,404,303	7,004,249
Fees, commission and other income	2b	2,913,113	2,888,623
		10,317,416	9,892,872
Non-interest expenses			
Impaired losses on loans receivable from members	2d	(11,009)	5,045
Fee and commission expenses		(684,552)	(617,501)
General administration			
- Employee costs		(4,204,390)	(3,902,931)
- Depreciation and amortisation		(382,557)	(370,963)
- Information technology		(1,175,540)	(988,146)
- Office occupancy		(603,614)	(615,716)
- Other administration		(496,566)	(531,227)
Other operating expenses		(1,533,165)	(1,436,174)
Total non-interest expenses		(9,091,393)	(8,457,613)
Profit before Income Tax		1,226,023	1,435,259
Income Tax Expense	3	(349,760)	(402,333)
Profit after Income Tax		876,263	1,032,926
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the period		876,263	1,032,926

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

STATEMENT OF CHANGES IN MEMBER EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	Capital Reserve Account $	Retained Earnings $	Reserve for Credit Losses $	Other Reserves $	Total $
Total at 1 July 2013	138,558	16,797,975	1,015,955	280,259	18,232,747
Net Profit for the year	-	1,032,926	-	-	1,032,926
Transfers to (from) Reserves	3,640	32,874	(36,514)	-	-
Total at 30 June 2014	142,198	17,863,775	979,441	280,259	19,265,673
Net Profit for the year	-	876,263	-	-	876,263
Transfers to (from) Reserves	1,866	(95,796)	93,930	-	-
Total as at 30 June 2015	144,064	18,644,242	1,073,371	280,259	20,141,936

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Note	2015 $	2014 $
ASSETS			
Cash and cash equivalents	4	6,641,362	6,173,141
Liquid investments	5	37,459,625	32,863,409
Receivables	6	565,810	508,726
Prepayments		125,382	161,900
Loans to members	7 & 8	229,458,531	220,933,132
Investments	9	549,532	549,532
Property, plant and equipment	10	3,062,038	2,678,224
Intangible assets	11	180,865	41,238
Taxation assets	12	404,228	378,112
TOTAL ASSETS		278,447,373	264,287,414
LIABILITIES			
Borrowings	13	567,226	552,197
Deposits from members	14	254,886,529	241,563,172
Payables	15	2,430,700	2,462,550
Taxation liabilities	16	416,245	443,822
Provisions	17	4,737	-
TOTAL LIABILITIES		258,305,437	245,021,741
NET ASSETS		20,141,936	19,265,673
MEMBERS EQUITY			
Share redemption reserve	18	144,064	142,198
General reserve for credit losses	19	1,073,371	979,441
Asset revaluation reserve	20	280,259	280,259
Retained earnings	21	18,644,242	17,863,775
TOTAL MEMBERS EQUITY		20,141,936	19,265,673

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

Table of other notes to accounts

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $	2014 $
OPERATING ACTIVITIES			
Inflows			
Interest received		13,511,364	13,674,689
Fees and commissions		2,695,250	2,671,122
Dividends Received		77,850	101,241
Other income		65,909	47,023
Outflows			
Interest paid		(6,255,154)	(6,923,633)
Suppliers and employees		(8,503,471)	(8,267,278)
Income taxes (paid)/refunded		(426,170)	(180,676)
Net Cash from Revenue Activities		**1,165,578**	**1,122,488**
Inflows (outflows) from other operating activities			
(Increase) in Member loans (net movement)		(8,514,538)	(5,275,034)
Increase in Member deposits and shares (net movement)		13,323,357	8,761,410
(Increase)/decrease in receivables from financial institutions (net movement)		(4,596,216)	1,844,856
Net Cash from Operating Activities	36b	**1,378,181**	**6,453,720**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of property, plant and equipment		-	-
Less: Outflows			
Purchase of intangible assets		(173,656)	(29,495)
Purchase of property, plant and equipment		(751,333)	(78,639)
Net Cash (used in)/from Investing Activities		**(924,989)**	**(108,134)**
FINANCING ACTIVITIES			
Inflows (Outflows)			
Increase/(Decrease) in borrowings (net movement)		15,029	(11,447,803)
Net Cash (used in)/from Financing Activities		**15,029**	**(11,447,803)**
Total Net Cash increase/(decrease)		468,221	(5,102,217)
Cash at Beginning of Year		6,173,141	11,275,358
Cash at End of Year	36a	**6,641,362**	**6,173,141**

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

1. STATEMENT OF ACCOUNTING POLICIES

The financial report is prepared for Horizon Credit Union Limited as a single entity, for the year ended the 30th June 2015. The report was authorised for issue on 25th August 2015 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Horizon Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of measurement

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

b. Loans to members

(i) Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the statement of profit or loss and other comprehensive income over the period of the loan using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the credit union at balance date, less any allowance or provision against debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

(ii) Interest earned

Term loans - The loan interest is calculated 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.

Overdraft - The loan 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.

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the 28th day of each month, on cash advances and unpaid purchases at the payment due date. Purchases are granted up to 45 days interest free until the due date for payment which is the 12th day of the following month.

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

(iii) 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.

(iv) 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.

(v) Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred, with the exception of fixed rate loan renegotiation fees. Fees charged to members who break their fixed rate loan contract and continue to hold the loan with either a variable interest rate or renegotiated fixed rate, are recognised over the remainder of the fixed rate period.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

c. Loan impairment

(i) Specific and collective provision for impairment

A provision for losses for impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with the terms of the loan agreement. The critical assumptions in the calculation are as set out in Note 8g. Note 22C details the credit risk management approach for loans.

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

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

(ii) Reserve for credit losses

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

- The level of security taken as collateral.
- The concentration of loans taken by employment type.

(iii) Renegotiated loans

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

d. Bad debts written off

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for impairment if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the statement of profit or loss and other comprehensive income.

e. Property, plant and equipment

Land and buildings are measured at cost or deemed cost (being fair value as at 1st July 2005), less accumulated depreciation.

Property plant and equipment, with the exception of freehold land, is depreciated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to the credit union. Estimated useful lives are as follows:

- Buildings – 40 years.
- Leasehold Improvements – 10 years.
- Plant and Equipment – 3 to 7 years.
- Assets less than $300 are not capitalised.

f. Receivables from other financial institutions

Term deposits, Floating Rate Notes and Negotiable Certificates of Deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity or on an annual basis if invested longer than 12 months. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

g. Equity investments and other securities

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

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

All investments are in Australia currency.

h. Member deposits

(i) Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at 30th June 2015.

(ii) Interest payable

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

i. Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss and other comprehensive income over the period of the loans and borrowings using the effective interest method.

j. Provision for employee benefits

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to balance date.

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the credit union expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the credit union does not expect all annual leave for all employees to be used wholly within 12 months of the end of the reporting period. Annual leave liability is still presented as a current liability for presentation purposes under AASB 101 *Presentation of Financial Statements.*

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Provision for long service leave is determined on a pro-rata basis from commencement of employment measured at the present value of the estimates future cash outflows discounted using corporate bond rates.

Annual leave is accrued in respect of all employees on a pro-rata entitlement for a part year of service and leave entitlement due but not taken at reporting date.

Contributions are made by the credit union to an employee's superannuation fund and are charged as expenses when incurred.

k. Leasehold on premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

A provision has not been recognised for the estimate of make good costs on the operating leases, based on the immaterial nature of these expenses and the intention of the credit union to maintain branches at the current locations for the foreseeable future.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

l. Income tax

The income tax expense shown in the statement of profit or loss and other comprehensive income is based on the operating profit before income tax adjusted for any non tax deductible, or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

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

m. Intangible assets

Items of computer software that are not integral to the computer hardware owned by the credit union are classified as intangible assets.

Computer software held as intangible assets is amortised over the expected useful life of the software. These lives range from 3 to 5 years.

n. Goods and services tax

As a financial institution the credit union is input taxed on all income except income from commissions and some fees. An input taxed supply is not subject to goods and services tax (GST) collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases is generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to Reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, 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 where applicable GST is collected. The net amount of GST recoverable from, or payable to the ATO is included as an asset or liability in the statement of financial position. Cashflows are included in the statement of cashflows 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 cashflows.

o. Cash and cash equivalents

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

p. Impairment of assets

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

q. Accounting estimates and judgements

Management have made judgements when applying the credit union's accounting policy with respect to the classification of assets as available for sale.

The detail of the critical accounting estimates and assumptions are set out in Note 8 for the impairment provisions for loans.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

r. New standards applicable for the current year

There were no new or revised accounting standards applicable for financial years commencing from 1st July 2014 that had any significant impact on the financial statements of the credit union.

s. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for the 30th June 2015 reporting period. The credit union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the credit union have not been reported.

AASB 9 Financial Instruments (Issued December 2014)

Nature of change
Amendments the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments Recognition and Measurement* into AASB 9. These include the requirements relating to;

- Classification and measurement of financial liabilities; and
- De-recognition requirements for financial assets and liabilities.

However, AASB9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liabilities credit risk are recognised in other comprehensive income.

Application date
Periods beginning on or after 1st January 2018.

Impact on initial application
Due to the recent release of these amendments and that adoption is only mandatory for the 30th June 2019 year end and the revised Standard is not permitted to be early adopted until at least the year ended 30th June 2016, the credit union has not yet made a detailed assessment of the impact of these amendments. However, based on the preliminary assessment and that the credit union does not have any financial liabilities measured at fair value through the statement of profit or loss and other comprehensive income, there is unlikely to be any impact on the financial statements when these amendments to AASB 9 are first adopted.

AASB 15 Revenue from Contracts with Customers

Nature of change
Revenue from financial instruments is not covered by this new standard, but AASB 15 establishes a new revenue recognition model for other types of revenue.

Application date
Periods beginning on or after 1st January 2017.

Impact on initial application
The credit union is yet to make a detailed assessment of the impact of AASB 15. However, based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted.

2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2015 $	2014 $

a. Analysis of interest revenue

	2015 $	2014 $
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	55,649	134,919
Receivables from financial institutions	1,347,559	1,132,724
Loans to members	12,091,136	12,317,607
	13,494,344	13,585,250

b. Non-interest revenue

	2015 $	2014 $
Fee and commission revenue		
- Loan fee income – other than loan origination fees	519,226	571,364
- Transaction fee income	618,975	648,569
- ATM income	957,114	907,429
- Insurance commissions	356,382	334,523
- Other commissions	317,657	278,474
Total Fee and commission revenue	2,769,354	2,740,359
Other Income		
Dividends received	77,850	101,241
Bad debts recovered	5,110	5,656
Miscellaneous revenue	60,799	41,367
	2,913,113	2,888,623

c. Interest expense

	2015 $	2014 $
Interest expense on liabilities carried at amortised cost		
Short term borrowings	5,743	43,814
Deposits from financial institutions	-	85,687
Deposits from members	6,084,298	6,451,500
	6,090,041	6,581,001

d. Impairment losses on loans and advances

	2015 $	2014 $
(Decrease)/Increase in provision for impairment	11,009	(5,045)
	11,009	(5,045)

e. Individually Significant items of Expenditure (detail)

There are no items of expense shown as part of Administration expenses that are considered to be significant to the understanding of the financial performance.

f. Other prescribed expense disclosures

	2015 $	2014 $
Auditors remuneration (excluding GST)		
Grant Thornton		
- External audit fees	42,100	40,216
- Other compliance fees	2,000	2,000
- Other services	5,200	4,750
	49,300	46,966
KPMG		
- Internal audit fees	52,140	38,360
- Other services	-	20,000
	52,140	58,360
	101,440	105,326
Depreciation of		
- Buildings	19,503	19,483
- Plant and equipment	267,518	254,382
- Leasehold improvements	64,275	64,987
Property leases	515,347	508,180
Net movement in provisions for:		
- Employee entitlements	48,795	(33,220)
- Director entitlements	(10,952)	(10,000)
- Visa Fraud	4,737	-
Supervisory levy paid to APRA	12,310	15,012

3. INCOME TAX EXPENSE

	2015 $	2014 $
a. The income tax expense comprises amounts set aside as:		
Current tax expense	358,177	399,924
Deferred tax	(12,774)	(1,809)
Adjustments from previous years	4,357	600
Total income tax expense in the statement of profit or loss and other comprehensive income	349,760	402,333
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	1,226,023	1,435,259
Prima facie tax payable on profit before income tax at 30%	367,806	430,577
Add tax effect of expenses not deductible		
- Other non-deductible expenses	952	1,380
- Dividend imputation adjustment	10,009	12,953
- Under provision in previous years	4,357	600
Subtotal	383,124	445,510
Less		
- Imputation credits	(33,364)	(43,177)
Income tax expense attributable to current year profit	349,760	402,333
c. Franking Credits		
Franking credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	5,780,998	5,393,813

4. CASH AND CASH EQUIVALENTS

Cash on hand and at bank	3,641,362	3,473,141
Deposits at call	3,000,000	2,700,000
	6,641,362	6,173,141

5. LIQUID INVESTMENTS

a. Investments at amortised cost		
Held to maturity		
Negotiable certificates of deposit	12,869,811	11,363,409
Floating rate notes	18,500,000	18,500,000
Receivables		
Term deposits	6,089,814	3,000,000
	37,459,625	32,863,409
b. Dissection of receivables		
Deposits with banks	5,089,814	3,000,000
Deposits with credit unions	1,000,000	-
	6,089,814	3,000,000

6. RECEIVABLES

Interest receivable on deposits with other financial institutions	178,521	195,541
Sundry debtors and settlement accounts	387,289	313,185
	565,810	508,726

7. LOANS AND ADVANCES

	Note	2015 $	2014 $
a. Amount due comprises:			
Overdrafts and revolving credit		7,273,267	7,012,615
Term loans		222,254,838	214,000,952
		229,528,105	221,013,567
Unamortised loan origination fees		(38,119)	(52,462)
		229,489,986	220,961,105
Unamortised fixed rate loan renegotiation fees		(7,763)	(10,844)
Provision for impaired loans	8	(23,692)	(17,129)
		229,458,531	220,933,132
b. Credit quality - Security held against loans			
Secured by mortgage		213,901,892	206,300,851
Partly secured by goods mortgage		8,647,645	7,831,870
Wholly unsecured and secured by commercial property		6,978,568	6,880,846
		229,528,105	221,013,567

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

	2015 $	2014 $
Security held as mortgage against real estate is on the basis of:		
- LVR of less than 80%	175,987,442	167,248,897
- LVR of more than 80% but mortgage insured	28,208,625	31,882,962
- LVR of more than 80% and not mortgage insured	9,705,825	7,168,992
Total	213,901,892	206,300,851

(LVR – Loan to valuation ratio)

Where the loan value is less than 80% there is a 20% margin to cover the costs of any sale, or potential value reduction.

c. Concentration of Loans

		2015 $	2014 $
(i)	Individual loans which exceed 10% of member funds in aggregate	-	-
(ii)	Loans to members are concentrated in the following areas:		
	- Illawarra	102,280,068	96,019,322
	- Shoalhaven	57,014,272	55,464,608
	- Bega Valley	61,588,336	59,622,351
	- Other	8,645,429	9,907,286
		229,528,105	221,013,567
(iii)	Loans by Customer type were		
	Loans to Natural Persons		
	Residential loans and facilities	210,810,322	203,913,612
	Personal loans and facilities	11,563,183	11,140,867
	Business loans and facilities	7,154,600	5,959,088
		229,528,105	221,013,567

8. PROVISION ON IMPAIRED LOANS

	2015 $	2014 $
a. Total provision comprises		
Collective provisions	17,650	17,129
Individual specific provisions	6,042	-
	23,692	17,129
b. Movement in provision for impairment		
Balance at the beginning of year	17,129	41,901
Add (deduct):		
Transfers from (to) the statement of profit or loss and other comprehensive income	11,009	(5,045)
Bad debts written off provision	(4,446)	(19,727)
Balance at end of year	23,692	17,129

Details of credit risk management are set out in Note 22.

8. PROVISION ON IMPAIRED LOANS (Continued)

	2015 $	2014 $
c. Impaired loans written off:		
Amounts written off against the provision for impaired loans	4,446	19,727
Total Bad Debts	4,446	19,727
Bad debts recovered in the period	5,110	5,656
	5,110	5,656

d. Analysis of loans that are impaired or potentially impaired by class

In the note below:

- Carrying value is the amount shown on the statement of financial position
- Value of impaired loans is the 'on statement of financial position' loan balances that are past due by 90 days or more
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2015 Carrying Value $	2015 Value of Impaired loans $	2015 Provision for impairment $	2014 Carrying Value $	2014 Value of Impaired loans $	2014 Provision for impairment $
Loans to members						
Households	206,117,577	53,283	8,733	199,431,798	9,500	9,500
Personal	9,678,456	15,274	12,947	9,376,875	3,351	3,351
Overdrafts	6,577,472	6,340	2,012	6,245,806	7,303	4,278
Total to natural persons	222,373,505	74,897	23,692	215,054,479	20,154	17,129
Corporate borrowers	7,154,600	42	-	5,959,088	360,361	-
Total	229,528,105	74,939	23,692	221,013,567	380,515	17,129

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

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

	2015 Carrying Value $	2015 Provision $	2014 Carrying Value $	2014 Provision $
Non impaired up to 30 days	92,491	-	53,531	-
30 to 90 days in arrears	136,685	-	970,415	-
90 to 180 days in arrears	762,022	12,607	360,187	-
180 to 270 days in arrears	-	-	-	-
270 to 365 days in arrears	-	-	-	-
Over 365 days in arrears	412,360	9,073	12,851	12,851
Overlimit facilities over 14 days	4,905	2,012	7,477	4,278
Total	1,408,463	23,692	1,404,461	17,129

Impaired loans may or may not be secured against residential property, bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

8. PROVISION ON IMPAIRED LOANS (Continued)

f. Loans with repayments past due but not regarded as impaired

There are loans with a value of $1,378,074 past due which are not considered to be impaired.

2015	1 – 3 mths $	3 – 6 mths $	6 – 12 mths $	> 1 yr $	Total $
Mortgage secured	122,134	745,611	-	403,287	1,271,032
Personal loans	-	-	-	-	-
Credit Cards	97,218	-	-	-	97,218
Overdrafts	9,824	-	-	-	9,824
Total	229,176	745,611	-	403,287	1,378,074

2014					
Mortgage secured	957,074	360,187	-	-	1,317,261
Personal loans	-	-	-	-	-
Credit Cards	46,316	-	-	-	46,316
Overdrafts	20,556	-	-	-	20,556
Total	1,023,946	360,187	-	-	1,384,133

g. Key assumptions in determining the provision for impairment

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

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

9. INVESTMENTS

	2015 $	2014 $
Available for Sale Investments		
Shares in Cuscal	549,532	549,532
	549,532	549,532

Shares in Cuscal

The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies banking related services to financial institutions. The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded is low with few transactions in the last 3 years.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily. The net dividend return in 2014 was 8.5 cents. Management has determined that the cost value of $0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale.

The credit union is not intending to dispose of these shares.

10. PROPERTY, PLANT AND EQUIPMENT

	2015 $	2014 $
Fixed Assets		
Land – at deemed cost	600,000	600,000
Subsequent additions – at cost	589,612	589,612
	1,189,612	1,189,612
Buildings – at deemed cost	700,000	700,000
Subsequent additions – at cost	52,867	46,135
Less: Provision for depreciation	(183,882)	(164,379)
	1,758,597	1,771,368
Plant and equipment - at cost	3,180,025	3,214,517
Less: Provision for depreciation	(2,159,650)	(2,655,002)
	1,020,375	559,515
Capitalised Leasehold Improvements at cost	597,009	597,009
Less: Provision for amortisation	(313,943)	(249,668)
	283,066	347,341
	3,062,038	2,678,224

Movement in the assets balances during the year were:

	2015				2014			
	Property $	Plant & equipment $	Leasehold Improvements $	Total $	Property $	Plant & equipment $	Leasehold Improvements $	Total $
Opening balance	1,771,368	559,515	347,341	2,678,224	1,790,417	735,692	412,328	2,938,437
Purchases in the year	6,732	744,601	-	751,333	434	78,205	-	78,639
Less								
Disposal of assets	-	(16,223)	-	(16,223)	-	-	-	-
Depreciation charge	(19,503)	(267,518)	(64,275)	(351,296)	(19,483)	(254,382)	(64,987)	(338,852)
Balance at the end of the year	1,758,597	1,020,375	283,066	3,062,038	1,771,368	559,515	347,341	2,678,224

11. INTANGIBLE ASSETS

	2015 $	2014 $
Computer Software	723,172	607,490
Less: Provision for amortisation	(542,307)	(566,252)
	180,865	41,238
Movement in the assets balances during the year were:		
Opening balance	41,238	43,854
Purchases	173,656	29,495
Less:		
Disposal of assets	(2,868)	-
Amortisation charge	(31,161)	(32,111)
Balance at the end of the year	180,865	41,238

12. TAXATION ASSETS

Accrual for GST receivable	59,891	46,549
Deferred Tax Asset	344,337	331,563
	404,228	378,112

12. TAXATION ASSETS (Continued)

	2015 $	2014 $
Deferred tax asset comprises:		
Accrued expenses not deductible until incurred	40,873	36,889
Provisions for impairment on loans	7,108	5,139
Provisions for employee benefits	216,442	203,669
Depreciation on fixed assets	66,149	71,894
Effective interest rate	13,765	18,992
Prepayments	-	(5,020)
	344,337	331,563

13. BORROWINGS

Cuscal Limited	567,226	552,197
	567,226	552,197

14. DEPOSITS FROM MEMBERS

Member Deposits		
- at call	154,072,970	130,400,203
- term	100,784,865	111,134,421
Total deposits	254,857,835	241,534,624
Member withdrawable shares	28,694	28,548
	254,886,529	241,563,172

Concentration of Member Deposits

Member deposits at balance date are concentrated in the following areas:

- Illawarra	96,517,994	92,304,361
- Shoalhaven	67,690,637	63,698,195
- Bega Valley	83,933,171	78,739,116
- Other	6,744,727	6,821,500
	254,886,529	241,563,172

15. PAYABLES

Creditors and accruals	823,789	731,450
Directors benefits accrued or payable	-	10,952
Employee entitlements	716,738	667,943
Interest payable on deposits	890,173	1,052,205
	2,430,700	2,462,550

16. TAXATION LIABILITIES

Current income tax liability	153,809	217,445
Deferred tax liability	132,985	132,985
Accrual for GST payable	39,572	34,272
Accrual for other tax liabilities	89,879	59,120
	416,245	443,822

Current income tax liability comprises:		
Balance – previous year	217,445	21,645
Less: paid	(221,801)	(22,245)
Over / under statement in prior year	(4,356)	(600)
Liability for income tax in current year	358,177	375,877
Less: Instalments paid in current year	(204,368)	(158,432)
	153,809	217,445

Deferred tax liability comprises:		
Tax on revalued property held in equity	132,985	132,985
	132,985	132,985

17. PROVISIONS

	2015 $	2014 $
Provision – card fraud	4,737	-
	4,737	-

18. SHARE REDEMPTION RESERVE

	2015 $	2014 $
Balance at the beginning of the year	142,198	138,558
Transfer from retained earnings on share redemptions	1,866	3,640
Balance at the end of year	144,064	142,198

This reserve represents the amount of redeemable Preference Shares redeemed by the credit union since 1st July 1999. The Law requires that the redemption of the shares be made out of profits.

19. GENERAL RESERVE FOR CREDIT LOSSES

	2015 $	2014 $
Balance at the beginning of the year	979,441	1,015,955
Transfer from (to) retained earnings	93,930	(36,514)
Balance at the end of year	1,073,371	979,441

This reserve records an amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA.

20. ASSET REVALUATION RESERVE

	2015 $	2014 $
Asset revaluation reserve	280,259	280,259
	280,259	280,259

This reserve accounts for the unrealised gains on assets due to revaluation.

21. RETAINED EARNINGS

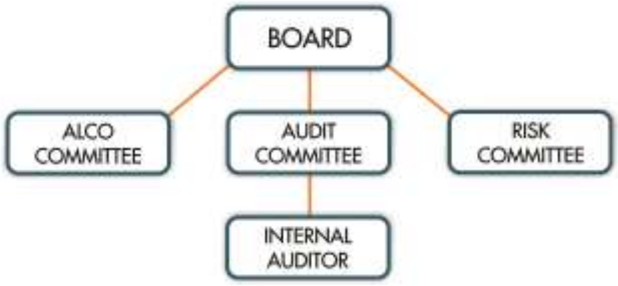
	2015 $	2014 $
Retained Profits at the beginning of the financial year	17,863,775	16,797,975
Add: operating profit for the year	876,263	1,032,926
Add: transfer from capital surplus reserve	-	-
Add/(Less): transfer of reserves to reserve for credit losses	(93,930)	36,514
Less: transfer of reserves to capital account on redemption of shares	(1,866)	(3,640)
Retained Profits at the end of the Financial Year	**18,644,242**	**17,863,775**

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the credit union.

The credit union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Risk Committee which is integral to the management of risk. The following diagram gives an overview of the structure.



The diagram shows the risk management structure. The main elements of risk governance are as follows:

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

Risk Committee: This is a key body in the control of risk. It is comprised of four directors with the Chief Risk Officer, Chief Executive Officer and other members of the Senior Management Team attending meetings as required. The committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by quarterly review of operational reports and control assignments to confirm whether risks are within the parameters outlined by the Board.

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

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

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

Asset & Liability Committee (ALCO): This committee meets monthly and has responsibility for managing interest rate risk exposures and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies. The committee has the ability to make changes to fixed loan and term deposit rates, and to propose changes to variable loan and variable deposit interest rate changes to the Board. The scrutiny of market risk reports is intended to prevent any exposure breaches prior to review by the Board.

Chief Risk Officer: This person has responsibility for both liaising with the operational function to ensure timely production of information for the risk committee and ensuring that instructions passed down from the Board via the Risk Committee are implemented.

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

- Market Risk
- Liquidity Management
- Credit Risk
- Operational Risk

The credit union has undertaken the following strategies to minimise the risks arising from financial instruments.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. MARKET RISK

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

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

The management of market risk is the responsibility of the ALCO Committee, which reports directly to the Board.

INTEREST RATE RISK

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates. The credit union does not trade in financial instruments.

Interest rate risk in the statement of financial position

The credit union is exposed to interest rate risk in its statement of financial position due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the statement of financial position is measured and reported to the ALCO and Board on a quarterly basis.

The most common interest rate risk the credit union faces arises from fixed rate assets and liabilities. This exposes the credit union to the risk of sensitivity should interest rates change.

The 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 currently considered significant enough to warrant the use of derivatives to mitigate the exposure.

Method of managing risk

The credit union manages interest rate risk by the use of interest rate sensitivity analysis. The detail and assumptions used are set out below.

Interest rate sensitivity

The credit union's exposure to market risk is measured and monitored using interest rate sensitivity models. The primary measure used is Present Value of a Basis Point (PVBP). This has been supplemented with Value at Risk (VaR) and Earnings at Risk (EaR) during the year ended 30th June 2015.

Sensitivity or Present Value of a Basis Point (PVBP) is a measure of the change in the present value of an asset or liability due to a change in interest rates of 1 basis point. This impact is extrapolated to 200 points (2.0%) and calculated as a percentage of capital. The 200 basis point parallel shift is a widely used measure.

The policy of the credit union is to maintain a balanced 'on book' strategy by ensuring the gap between assets and liabilities is not excessive. The PVBP to Capital limit (based on a 200 basis point shift in interest rates) has been set by the Board at 6% of Capital. The credit union uses on balance sheet methods to maintain interest rate risk within the acceptable range.

Based on the calculations as at 30th June 2015, a 200bp parallel downward shift would result in a 3.2% gain of capital (2014: -0.2%). The credit union therefore has an exposure to rates increasing.

An independent review of the interest rate risk profile is conducted by Protecht.ALM Pty Ltd, an independent risk management consultant. The Board monitors these risks through the reports from Protecht.ALM Pty Ltd and other management reports.

B. LIQUIDITY RISK

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

The credit union manages liquidity risk by:

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

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

B. LIQUIDITY RISK (Continued)

The credit union is required to maintain at least 9% of total adjusted liabilities as high quality liquid assets (HQLA) capable of being converted to cash within 48 hours under the APRA Prudential standards. The credit union policy is to hold between 14 – 19% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests and loan funding. The ratio is checked daily. Should the liquidity ratio move outside this range, management and Board are to address the matter by implementing the necessary steps set out in the policy, such as reviewing current deposit rates offered for example. Note 29 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific Note 24. Liquidity information over the past year is set out below:

High quality liquid assets	2015	2014
Holdings at 30 June	$38,011,173	$36,036,550
Ratio at 30 June	14.16%	14.15%
Prescribed ratio	9.00%	9.00%
Average ratio for the year	15.65%	15.80%
Minimum ratio during the year	14.15%	14.15%

C. CREDIT RISK

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

CREDIT RISK – LOANS

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

	2015			2014		
Loans to	Carrying value $	Commitments $	Max exposure $	Carrying value $	Commitments $	Max exposure $
Mortgage	206,117,577	9,329,680	215,447,257	199,431,798	8,696,846	208,128,644
Personal	9,678,456	1,543,656	11,222,112	9,376,875	219,167	9,596,042
Credit cards	1,628,358	2,691,574	4,319,932	1,431,147	2,351,038	3,782,185
Overdrafts	4,949,114	5,295,670	10,244,784	4,814,659	5,130,055	9,944,714
Total to natural persons	222,373,505	18,860,580	241,234,085	215,054,479	16,397,106	231,451,585
Corporate borrowers	7,154,600	1,018,380	8,172,980	5,959,088	1,302,586	7,261,674
Total	229,528,105	19,878,960	249,407,065	221,013,567	17,699,692	238,713,259

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (Loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in Note 28.

All loans and facilities are within Australia. A geographic distribution between the three main areas of Illawarra, Shoalhaven & Bega Valley regions is provided in Note 7c(ii).

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

The credit union has established policies over the:

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

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the credit union that requires interest and a portion of the principal 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 the counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once a loan is over 90 days in arrears. The exposure to losses arise predominantly in 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 judgements 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 credit union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the credit union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered.

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the 'on statement of financial position' loan balances which are past due by 90 days or more.

Details are as set out in Note 8.

Bad debts

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

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

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

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the credit union is exposed to risks should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7b describes the nature and extent of the security held against loans as at balance date.

Concentration risk – individuals

Concentration risk is a measurement of the credit union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the credit union's regulatory capital (10 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 credit union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored.

Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as the credit union has a large number of customers dispersed in areas of employment.

The credit union's foundation had a concentration of retail lending and deposits from members who comprised employees and families of local councils. The community basis for which the credit union now relies upon membership means this small concentration is considered acceptable on the basis that the credit union was originally formed to service these members, and the employment concentration is not exclusive. Should members leave the industry, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical concentrations are set out in Note 7c.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK – LIQUID INVESTMENTS

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal and other financial institutions. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 50% of capital can be invested with any one financial institution at a time.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one credit union. Also the relative size of the credit union as compared to the industry is relatively low such that the risk of loss is reduced.

Under the Credit Union Financial Support Scheme (CUFSS), at least 3.2% of the total assets must be invested in an approved manner in order for the scheme to have adequate resources to meet its obligations if needed.

External Credit Assessment for Institution Investments

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

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

	2015			2014		
Investments with	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
Cuscal – rated A+	2,435,850	-	-	2,433,257	-	-
Banks – rated AA and above	-	-	-	-	-	-
Banks – rated below AA	34,023,775	-	-	26,957,523	-	-
Building Societies – rated below AA	-	-	-	-	-	-
Credit Unions – rated below AA	-	-	-	3,472,629	-	-
Unrated institutions	1,000,000	-	-	-	-	-
Total	37,459,625	-	-	32,863,409	-	-

D. CAPITAL MANAGEMENT

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards, capital is determined in three components being credit, market and operational risk. The market risk component is not required as the credit union is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises retained profits, the asset revaluation reserve and other realised reserves.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises a general reserve for credit losses.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

D. CAPITAL MANAGEMENT (Continued)

Capital in the credit union is made up as follows:

	2015	2014
Tier 1		
Capital reserve	144,064	142,198
Asset revaluation reserve on property	280,259	280,259
Retained earnings	18,690,124	17,826,229
	19,114,447	18,248,686
Less prescribed deductions	(941,748)	(789,347)
Net tier 1 capital	18,172,699	17,459,339
Tier 2		
Reserve for credit losses	1,073,371	979,441
	1,073,371	979,441
Less prescribed deductions	-	-
Net tier 2 capital	1,073,371	979,441
Total Capital	19,246,070	18,438,780

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

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

		2015		2014	
		Carrying Value	Risk Weighted Value	Carrying Value	Risk Weighted Value
Cash	0%	3,641,362	-	3,473,141	-
Deposits in highly rated ADI's	20%	36,615,876	7,323,175	35,758,950	7,151,790
Deposits in less highly rated ADI's	50% - 150%	3,015,085	1,507,543	-	-
Deposits in unrated ADI's	20%	1,005,048	201,010	-	-
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	189,555,150	66,344,302	181,494,069	63,522,924
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 75%	22,293,755	12,072,085	22,957,788	12,776,666
Investments in equity instruments	150%	-	-	-	-
Other assets	50% - 100%	21,328,459	20,512,368	19,481,156	18,701,247
Total		277,454,735	107,960,483	263,165,104	102,152,627

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

	2015	2014	2013	2012	2011
	Basel III	Basel III	Basel III	Basel II	Basel II
Capital Ratio	15.00%	15.41%	14.61%	14.59%	14.50%

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 the credit union's capital, the credit union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented that require reporting to the Board and the regulator if the capital ratio falls below 12.75%. Additionally, a 5 year projection of the capital levels is prepared 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 1st January 2012 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

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

Based on this approach, the credit union's operational risk capital requirement as at 30th June 2015 was $15,437,175 [2014: $14,815,367].

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Internal capital adequacy management

The credit union 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 credit union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The forecast capital resource model is updated and the impact upon the overall capital position of the credit union is reassessed.

23. CATEGORIES OF FINANCIAL INSTRUMENTS

a. The following information classifies the financial instruments into measurement classes

	2015 $	2014 $
Financial assets – carried at amortised cost		
Cash and cash equivalents	6,641,362	6,173,141
Receivables	384,539	310,435
Receivables from financial institutions	37,638,146	33,058,950
Loans to members	229,528,105	221,013,567
Total loans and receivables	274,192,152	260,556,093
Available for sale assets	549,532	549,532
	274,741,684	261,105,625
Financial Liabilities		
Borrowings	567,226	552,197
Creditors	823,789	731,450
Deposits from members	255,748,008	242,586,829
Preference Shares	28,694	28,548
	257,167,717	243,899,024

b. Assets measured at fair value

	Note	Balance	Fair value measurement at the end of the reporting period using: Level 1	Level 2	Level 3
Available for sale financial assets	9	549,532	-	-	549,532

The fair value hierarchy has the following levels:

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

The level 3 investments are held at cost and relate to the shares in Cuscal.

24. 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. For term loans the below dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

2015	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	After 5 years $	No maturity $	Total $
Assets							
Cash	3,004,391	-	-	-	-	3,641,362	6,645,753
Receivables	384,539	-	-	-	-	-	384,539
Liquid investments	18,073,391	4,000,000	-	20,274,331	-	-	42,347,722
Loans & advances	1,797,962	3,595,924	14,793,286	70,016,286	275,685,330	-	365,888,788
Total financial assets	23,260,283	7,595,924	14,793,286	90,290,617	275,685,330	3,641,362	415,266,802
Liabilities							
Borrowings	567,226	-	-	-	-	-	567,226
Creditors	823,789	-	-	-	-	-	823,789
Deposits from members – at call	154,072,970	-	2,436	-	-	28,694	154,104,100
Deposits from members – term	21,027,723	36,053,869	41,854,343	3,728,381	-	-	102,664,316
On statement of financial position	176,491,708	36,053,869	41,856,779	3,728,381	-	28,694	258,159,431
Undrawn commitments	-	-	-	-	-	1,432,774	1,432,774
Total financial liabilities	176,491,708	36,053,869	41,856,779	3,728,381	-	1,461,468	259,592,205

2014	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	After 5 years $	No maturity $	Total $
Assets							
Cash	2,716,034	-	-	-	-	3,473,141	6,189,175
Receivables	310,435	-	-	-	-	-	310,435
Liquid investments	17,159,996	-	-	21,183,744	-	-	38,343,740
Loans & Advances	1,708,131	3,416,261	14,908,047	70,638,097	278,123,827	-	368,794,363
Total financial assets	21,894,596	3,416,261	14,908,047	91,821,841	278,123,827	3,473,141	413,637,713
Liabilities							
Borrowings	552,197	-	-	-	-	-	552,197
Creditors	731,450	-	-	-	-	-	731,450
Deposits from members – at call	130,400,203	-	8,541	-	-	28,548	130,437,292
Deposits from members – term	21,704,094	40,968,591	42,747,078	8,222,706	-	-	113,642,469
On statement of financial position	153,387,944	40,968,591	42,755,619	8,222,706	-	28,548	245,363,408
Undrawn commitments	-	-	-	-	-	1,447,803	1,447,803
Total financial liabilities	153,387,944	40,968,591	42,755,619	8,222,706	-	1,476,351	246,811,211

25. FINANCIAL ASSETS AND LIABILITIES MATURING WITHIN 12 MONTHS

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations, we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by members choosing to repay loans earlier. These advance repayments are at the discretion of the members and not able to be reliably estimated.

	2015			2014		
	Within 12 months $	After 12 months $	Total $	Within 12 months $	After 12 months $	Total $
Financial assets						
Cash	6,641,362	-	6,641,362	6,173,141	-	6,173,141
Liquid investments	18,959,625	18,500,000	37,459,625	14,363,409	18,500,000	32,863,409
Loans & advances	16,459,376	213,068,729	229,528,105	15,403,466	205,610,101	221,013,567
Receivables	565,810	-	565,810	508,726	-	508,726
Total financial assets	42,626,173	231,568,729	274,194,902	36,448,742	224,110,101	260,558,843
Financial liabilities						
Borrowings	567,226	-	567,226	552,197	-	552,197
Deposits from members – at call	154,075,406	-	154,075,406	130,408,744	-	130,408,744
Deposits from members – term	98,203,093	3,469,509	101,672,602	104,586,265	7,591,820	112,178,085
Creditors	823,789	-	823,789	731,450	-	731,450
Total financial liabilities	253,669,514	3,469,509	257,139,023	236,278,656	7,591,820	243,870,476

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.

2015	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	3,000,000	-	-	-	3,641,362	6,641,362
Receivables	-	-	-	-	384,539	384,539
Liquid investments	22,610,455	15,025,554	-	-	-	37,636,009
Loans and advances	149,594,229	6,590,547	17,511,928	55,831,400	-	229,528,104
Available for sale investments	-	-	-	-	549,532	549,532
On statement of financial position	175,204,684	21,616,101	17,511,928	55,831,400	4,575,433	274,739,546
Undrawn commitments	-	-	-	-	19,878,960	19,878,960
Total financial assets	175,204,684	21,616,101	17,511,928	55,831,400	24,454,393	294,618,506
Liabilities						
Borrowings	567,226	-	-	-	-	567,226
Creditors	-	-	-	-	823,789	823,789
Deposits from members – at call	154,072,970	-	2,436	-	28,694	154,104,100
Deposits from members – term	21,006,385	35,895,101	41,244,555	3,526,261	-	101,672,302
On statement of financial position	175,646,581	35,895,101	41,246,991	3,526,261	852,483	257,167,417
Undrawn commitments	-	-	-	-	1,432,774	1,432,774
Total financial liabilities	175,646,581	35,895,101	41,246,991	3,526,261	2,285,257	258,600,191

2014	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	2,700,000	-	-	-	3,473,141	6,173,141
Receivables	-	-	-	-	310,435	310,435
Liquid investments	22,005,140	11,053,810	-	-	-	33,058,950
Loans and advances	157,616,093	2,436,839	16,300,477	44,660,158	-	221,013,567
Available for sale investments	-	-	-	-	549,532	549,532
On statement of financial position	182,321,233	13,490,649	16,300,477	44,660,158	4,333,108	261,105,625
Undrawn commitments	-	-	-	-	17,699,691	17,699,691
Total financial assets	182,321,233	13,490,649	16,300,477	44,660,158	22,032,799	278,805,316
Liabilities						
Borrowings	552,197	-	-	-	-	552,197
Creditors	-	-	-	-	731,450	731,450
Deposits from members – at call	130,400,203	-	8,541	-	28,548	130,437,292
Deposits from members – term	21,677,268	40,756,721	42,046,752	7,697,345	-	112,178,086
On statement of financial position	152,629,668	40,756,721	42,055,293	7,697,345	759,998	243,899,025
Undrawn commitments	-	-	-	-	1,447,803	1,447,803
Total financial liabilities	152,629,668	40,756,721	42,055,293	7,697,345	2,207,801	245,346,828

27. NET FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

The information is only relevant to circumstances at 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 credit union and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets. **Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.**

The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term.

	2015			2014		
	Fair Value	Carrying Amount	Variance	Fair Value	Carrying Amount	Variance
Financial Assets	$	$	$	$	$	$
Cash and cash equivalents	6,641,362	6,641,362	-	6,173,141	6,173,141	-
Receivables *	565,810	565,810	-	508,726	508,726	-
Advances to other financial institutions	37,521,215	37,459,625	61,590	32,869,055	32,863,409	5,646
Loans to members	230,014,711	229,458,531	556,180	221,393,551	220,933,132	460,419
Total financial assets	274,743,098	274,125,328	617,770	260,944,473	260,478,408	466,065
Financial Liabilities						
Borrowings	567,226	567,226	-	552,197	552,197	-
Creditors *	2,430,700	2,430,700	-	2,338,497	2,338,497	-
Deposits from members – at call	154,101,664	154,101,664	-	130,428,751	130,428,751	-
Deposits from members – term	101,019,852	100,784,865	234,987	111,265,329	111,134,421	130,908
Total financial liabilities	258,119,442	257,884,455	234,987	244,584,774	244,453,866	130,908

* For these assets and liabilities the carrying value approximates fair value.

Assets where the net fair value is lower than the book value have not been written down in the accounts of the credit union on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

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

Liquid Assets and Receivables from other Financial Institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their net fair value as they are short term in nature or are receivable on demand.

Loans, Advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

For variable rate loans (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of net fair value. The net fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

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

Deposits From Members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the net fair value of other term deposits, based upon the deposit type and the rate applicable to its related period of maturity.

Short Term Borrowings

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

28. FINANCIAL COMMITMENTS

	2015 $	2014 $
a. Outstanding Loan commitments		
Loans approved but not funded as at 30 June	7,324,799	4,868,031
b. Loan Redraw Facility		
Facilities available as at 30 June	4,169,345	4,935,675
c. Undrawn Loan Facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	15,658,083	14,908,600
Less: Amount advanced	(7,273,267)	(7,012,615)
Net undrawn value	8,384,816	7,895,985

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

	2015 $	2014 $
Total financial commitments	19,878,960	17,699,691
d. Computer Software Expense Commitments		
The costs committed under the current Ultradata and TAS contracts are as follows:		
Not later than 1 year	655,557	301,318
Later than 1 year but not 2 years	671,946	-
Later than 2 years but not 5 years	2,019,004	-
Later than 5 years	371,048	-
	3,717,555	301,318
e. Lease commitments for operating leases on property occupied by the credit union		
Not later than 1 year	416,129	412,214
Later than 1 year but not later than 5 years	585,873	688,383
Later than 5 years	2,171	-
	1,004,173	1,100,597

The operating leases are in respect of property used for providing branch and ATM services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are between 2 and 5 years, and options for renewal are usually obtained for a further 3 years.

There are no restrictions imposed on the credit union so as to limit the ability to undertake further leases, borrow funds or issue dividends.

29. STANDBY BORROWING FACILITIES

	2015 $	2014 $
Overdraft facility	2,000,000	2,000,000
Current borrowing	567,226	552,197
Total standby borrowing facilities available	1,432,774	1,447,803

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

Cuscal holds an equitable mortgage charge over all of the assets of the credit union as security against loan and overdraft amounts drawn under the facility arrangements. The facility agreement requires that the credit union maintain liquid investments with Cuscal to the value of 120% of the overdraft facility.

30. CONTINGENT LIABILITIES

Liquidity Support Scheme

The credit union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a company established to provide financial support to members in the event of a liquidity or capital problem. As a member, the credit union is committed to maintaining 3.2% of the total assets in an approved manner.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.2% of the credit union's total assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans outstanding under this arrangement.

Guarantees

The credit union has provided a guarantee to Cuscal for drawings made by members up to a limit of $18,000, to enable Cuscal to settle the funds transferred by way of direct debit with other financial institutions. The guarantees are cancellable by either the credit union or Cuscal. The credit union has an arrangement with the members to maintain sufficient funds in their account to settle the payments as and when required.

31. DISCLOSURES ON DIRECTORS and other KEY MANAGEMENT PERSONNEL

a. Remuneration of key management persons (KMP)

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

Key management persons comprise the directors, the senior managers and chief risk officer who are responsible for the day to day financial and operational management of the credit union.

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

	2015 Directors	2015 Other KMP	2015 Total	2014 Directors	2014 Other KMP	2014 Total
	$	$	$	$	$	$
(a) short-term employee benefits;	127,336	776,087	903,423	138,159	691,428	829,587
(b) post-employment benefits - superannuation contributions	38,972	113,602	152,574	28,756	89,434	118,190
(c) other long-term benefits – net (decrease)/increases in long service leave provision and retirement gifts	(10,952)	(5,466)	(16,418)	466	(2,533)	(2,067)
(d) termination benefits	-	-	-	-	-	-
(e) share-based payment	-	-	-	-	-	-
Total KMP compensation	155,356	884,223	1,039,579	167,381	778,329	945,710

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

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

31. DISCLOSURES ON DIRECTORS and other KEY MANAGEMENT PERSONNEL (Continued)

b. Loans to Directors and other Key Management Persons

The credit union's policy for lending to directors and management is that all loans are approved and deposits accepted on the same terms and conditions that applied to members for each class of loan and deposit.

There are no loans that are impaired in relation to the loans balances of directors or other KMP.

There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans that are impaired in relation to the loan balances with close family relatives of directors and other KMP.

The details of transactions during the year are as follows:

	2015			2014		
	Mortgage Secured	Other term loans	Credit Cards	Mortgage Secured	Other term loans	Credit Cards
	$	$	$	$	$	$
Funds available to be drawn	121,902	947	75,058	46,303	1,578	30,583
Balance	2,251,560	35,868	30,942	1,233,835	1,843	2,917
Amounts disbursed or facilities increased in the year	856,495	30,162	195,869	197,600	-	103,425
Interest and other revenue earned	86,698	24	17,812	64,216	456	220

	2015 $	2014 $
Other transactions between related parties include deposits from directors, and other Key Management Persons are:		
Total value of term and savings deposits of KMP	720,038	1,751,357
Total interest paid on deposits to KMP	17,399	36,509

The credit union's policy for receiving deposits from KMP is that all transactions are accepted on the same terms and conditions that apply to members.

c. Transactions with Other Related Parties

Other transactions between related parties include deposits from director related entities or close family members of directors and other KMP. The credit union's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions that applied to members for each type of deposit.

An amount of $96,080 was paid to a company partly owned by a close family member of a KMP for the purposes of leasing a property. This lease has been in place since 14th November 2005, being prior to the relevant party becoming a KMP and was arranged on a normal arms-length commercial basis by reference to market rentals at the time.

The current lease is in place until 14th November 2017, having a future financial commitment of $232,860 and is included in Note 28e.

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

32. ECONOMIC DEPENDENCY

The credit union has an economic dependency on the following suppliers of services:

a. Cuscal Limited

Cuscal Limited is an Approved Deposit Taking Institution registered under the Corporations Act 2001 (Cwlth) and the Banking Act. This entity:

(i) provides the license rights to Visa Card in Australia and settlement with other institutions for ATM, Visa card and cheque transactions, as well as the production of Visa and Redicards for use by members;

(ii) operates the computer network used to link Redicards and Visa cards operated through ATMs and POS facilities to the credit union's IT systems.

(iii) provides treasury and money market facilities to the credit union.

b. Ultradata Australia Pty Limited

Ultradata Australia Pty Limited provides and maintains the banking software utilised by the credit union.

c. Transaction Solutions Limited (TAS)

Transaction Solutions Limited provides IT facilities management services to the credit union. The credit union has a management contract with TAS to receive computer support services to meet the day-to-day needs of the credit union and ensure compliance with the relevant Prudential Standards.

33. SEGMENTAL REPORTING

The credit union operates exclusively in the retail financial services industry within Australia.

34. SUPERANNUATION LIABILITIES

The credit union contributes primarily to the NGS Super Plan for the purpose of Superannuation Guarantee payments and payment of other superannuation benefits on behalf of employees. An independent Corporate Trustee administers the plan.

The credit union has no interest in any of these superannuation plans (other than as a contributor) and is not liable for the performance nor the obligations of the plans.

35. SECURITISATION

Integris Securitisation Services Pty Limited

The credit union previously held an arrangement with Integris Securitisation Services Pty Limited whereby it acted as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The credit union continues to manage the loans portfolio on behalf of the trust. The credit union bears no risk exposure in respect of these loans. The amount of securitised loans under management as at 30 June 2015 is $0 [2014: $35].

36. NOTES TO STATEMENT OF CASH FLOWS

a. Reconciliation of Cash and cash equivalents

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

	2015 $	2014 $
Cash on hand and at bank	3,641,362	3,473,141
Deposits at call	3,000,000	2,700,000
Total Cash and cash equivalents	6,641,362	6,173,141

b. Reconciliation of cash from operations to accounting profit

The net cash increase/(decrease) from operating activities is reconciled to the operating profit after tax

	2015 $	2014 $
Operating profit after income tax	876,263	1,032,926
Non cash flows		
Depreciation	351,296	338,852
Amortisation of intangibles	31,161	32,111
Loss on sale of assets	19,091	-
Add changes in assets and liabilities		
Increase in other provisions	4,737	-
Increase in employee entitlements	48,795	-
Increase in accrued expenses	81,387	-
Increase in provision for loans	6,563	-
Increase in GST and other tax liabilities	36,059	-
Increase in provision for income tax	-	195,800
Increase in member deposits and shares	13,323,357	8,761,410
Decrease in prepayments	36,518	-
Decrease in interest receivable	17,020	89,439
Decrease in deferred tax	-	26,275
Decrease in receivables from financial institutions	-	1,844,856
Less changes in assets and liabilities		
Decrease in employee entitlements	-	(33,220)
Decrease in accrued expenses	-	(80,673)
Decrease in unamortised fixed rate loan renegotiation fees	(3,081)	(7,465)
Decrease in provision for loans	-	(24,772)
Decrease in GST and other tax liabilities	-	(15,213)
Decrease in effective rate adjustments	(14,343)	(5,564)
Decrease in provision for income tax	(63,636)	-
Decrease in interest payable	(162,032)	(335,167)
Increase in prepayments	-	(16,959)
Increase in sundry debtors and other receivables	(74,104)	(69,237)
Increase in deferred tax	(12,774)	(418)
Increase in taxes receivable	(13,342)	(4,227)
Increase in member loans	(8,514,538)	(5,275,034)
Increase in receivables from financial institutions	(4,596,216)	-
Net cash from operating activities	1,378,181	6,453,720

37. CORPORATE INFORMATION

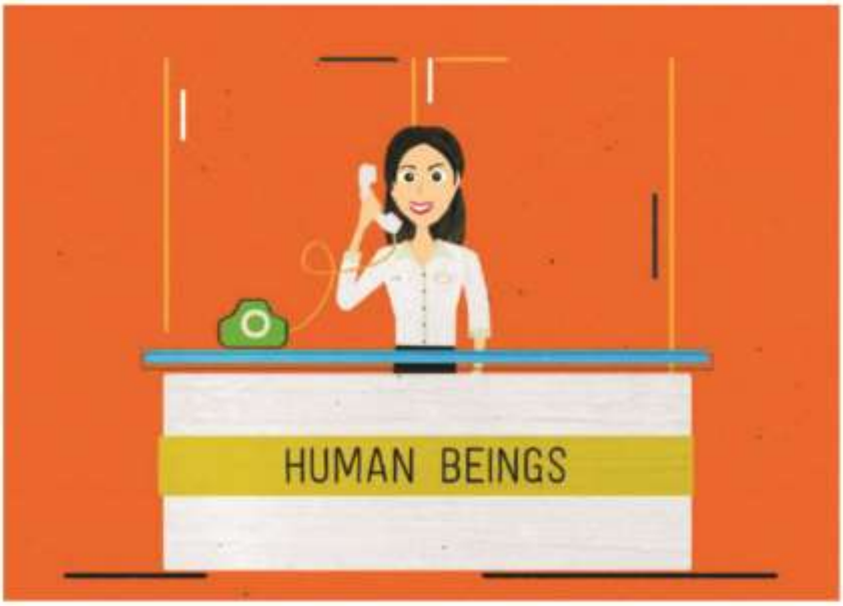
The credit union is a company limited by shares, and is registered under the Corporations Act 2001.

The address of the registered office and main place of business is 27 Stewart Street, Wollongong NSW.

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

administration

Horizon Credit Union Ltd ABN 66 087 650 173
AFSL 240573 Australian credit licence number 240573
27 Stewart Street, Wollongong NSW 2500
Phone: 02 4224 7700 Fax: 02 4224 7799
www.HorizonCreditUnion.com.au
Email: info@horizon.org.au



branches

Albion Park	Shopping Village, Terry Street	© 4257 2244
Bega	186 Carp Street	© 6499 1400
Bermagui	2 Wallaga Street	© 6493 3144
Merimbula	Shop 1/20 Market Street	© 6495 1073
Moruya	81-83 Campbell Street	© 4474 2963
Nowra	Shop 1 , 24 Berry Street	© 4428 9700
Thirroul	277a Lawrence Hargrave Dr	© 4268 1877
Ulladulla	Woolworths Complex, Boree St	© 4454 2099
Wollongong	27 Stewart Street	© 4224 7700

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