2018 Annual Report

Horizon Credit Union

Chair's Report

It is with pleasure that I present my first Annual Chair's Report for Horizon Credit Union.

The financial results achieved during the last year are a testament to the leadership of our CEO Jon Stanfield, his management team and the exceptional staff in the branches and at head office.

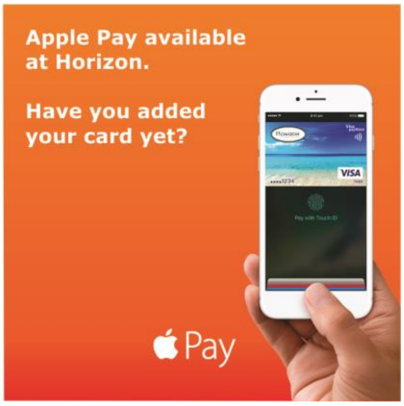
Unlike the "for profit" banks, a credit union exists so "members can help members". The trust and willingness of depositors to deposit with us has enabled record lending. In order to stay relevant and to continue to serve you, our very loyal members, we must deliver sustainable growth. The Board has, and will, continue to provide pertinent products and services via technology and maintain a branch network throughout the Illawarra, South Coast and Far South Coast, servicing the banking needs of over 15,000 members.

With the aforementioned growth in loans and deposits during 2017/18 Horizon achieved a profit after tax of $1.363m, an increase of 16% over the previous year. During that period Horizon lent a record $71m to our members which represented a growth of 10%, well ahead of industry growth at 6.5%. Horizon staff should be proud of their achievement.

Our financial position is unquestionably strong, our capital adequacy increased by 0.35% during the year to 14.96%, at this level we are significantly in excess of the Australian Prudential Regulatory Authority's (APRA) requirements and on target for projections of sustainable loan growth well into the future. All our key performance indicators improved during 2017/18, in particular our return on assets which moved from 0.36% to 0.40%. This result indicates excellent expense control considering the continual significant investment required for technology. Our interest rate margin has been maintained at 2.64%.

Technology plays a huge part in service delivery to our members. Growth in the usage of Apple Pay, Google Pay and Samsung Pay reminds us, your Board, that members desire the very latest banking products and services. Horizon has been a leader in some areas of technology, the implementation of XERO for our small business members in 2016 is a case in point. I believe that over the next twelve months the rollout of the New Payments Platform "NPP", which allows the sending and receipt of funds within seconds, will be adopted quickly and forever change the way payments are made for goods and services.

"Technology plays a significant part in service delivery"



The banking industry is highly regulated and the Royal Commission into Banking Superannuation and Financial Services and the resultant exposure of "bad behaviour" by others in our industry will inevitably result in more regulation and therefore cost to Horizon. As a Board, and with the assistance of our industry association (Customer Owned Banking Association - COBA), we have been on the front foot with the regulators and our politicians, lobbying for consideration to be given to the exorbitant costs associated with new regulations that may potentially be created as a "one size fits all".

In the latter part of 2017 the major banks ceased charging for access to ATMs. Our revenue has been declining for some time from ATMs as the need for cash in everyday living is reduced. We expect an acceleration of the decline and as a consequence we wrote the value of our ATM network down to a nil value at year end. We continue to monitor the situation closely to ensure the right balance is struck between servicing members and ATM viability.

We are extremely proud of our financial literacy programme that educates primary school children on key money management concepts. This live performance in-school programme has been introduced into primary schools across the Illawarra and the South Coast region. Over the last 4 years the programme has been delivered in 40 schools and reached over 15,000 students.

Looking forward to 2018/19, there continues to be a range of projects planned for Horizon, these include:

- The full implementation of an over-arching digital strategy;
- Finalising the rollout of the NPP;
- Refurbishment of our Bega and Nowra branches;
- A new "APP" with improved hand-held banking functionality;
- An upgrade to our website; and
- A review of our brand.

Thank you to our members as it is only with your enduring loyalty and support that we continue to be successful.

Again I would like to thank our executive team and dedicated staff who serve and support Horizon in staying relevant to our members and their communities.

Thank you to my fellow Board members for their continued devotion and commitment to Horizon, with our CEO Jon we have set a culture in place to "serve the members".

Mark Crowther
Chair

Directors’ Report

Your Directors present their report on the credit union for the financial year ended 30th June 2018.

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

Information on Directors

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

Name	*Qualifications*	*Experience*	*Current Responsibilities*
Mark Crowther	B Com, GAICD MAMI,	Director – 2013 to Present	Chairman (appointed 9 November 2017) Chairman of the Corporate Governance Committee Chairman of the Remuneration Committee
Peter Dun	B Bus, MBA, MAMI	Director – 2014 to Present	Member of the Corporate Governance Committee Member of the Remuneration Committee
Michael Gleeson	FCA, GAICD, MAMI	Director – 2013 to Present	Member of the Audit Committee Member of the Risk Committee
Jason Hall	ANZIIF (Fellow) CIP, B Bus, CPRM, GAICD, MAMI	Director – 2014 to Present	Chairman of the Audit Committee Member of the Risk Committee
Joanne Hinge	MAICD, MAMI	Director – 2009 to Present	Chairman (resigned 9 November 2017) Chairman of the Risk Committee Member of the Audit Committee
Maree Kerr	GAICD, MAMI	Director – 2012 to Present	Member of the Audit Committee Member of the Risk Committee
Glenda Papac	MAICD, MAMI	Director – 2010 to Present	Member of the Corporate Governance Committee Member of the Remuneration Committee

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

Name	*Qualifications*	*Experience*
Jon Stanfield	B Ec., CA, MAMI	Chief Executive Officer

Directors’ meeting attendance

Director	**Board Meetings**		**Committee Meetings**	
	Held	**Attended**	**Held**	**Attended**
Mark Crowther	11	11	4	4
Peter Dun	11	9	4	4
Michael Gleeson	11	10	11	11
Jason Hall	11	11	11	11
Joanne Hinge	11	11	13	13
Maree Kerr	11	9	13	11
Glenda Papac	11	8	6	5

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 $1,362,580 [2017 $1,175,242].

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:

Director Director

Signed and dated this 22 August 2018

Auditors Independence Declaration under Section 307C of the Corporations Act 2001
to the Directors of Horizon Credit Union Limited

Auditors' Independence Declaration

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2018, there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

PKF
CHARTERED ACCOUNTANTS

SYDNEY, NSW

22 AUGUST 2018
SYDNEY

STobutt

SCOTT TOBUTT
PARTNER

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HORIZON CREDIT UNION LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Horizon Credit Union Limited (the Credit Union), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Credit Union's financial position as at 30 June 2018 and of its financial performance for the year ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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 described in the Auditor's Responsibility section of our report.

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

Independence

We are independent of the Credit Union in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of Directors for the Financial Report

The Directors of the Credit Union are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

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

PKF(NS) Audit & Assurance Limited Partnership
ABN 91 850 861 839

Liability limited by a scheme approved under Professional Standards Legislation

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Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

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 assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of 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 conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PKF

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PKF
CHARTERED ACCOUNTANTS

SCOTT TOBUTT
PARTNER

SYDNEY, NSW

22 AUGUST 2018
SYDNEY

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 2018 and of its performance for the financial year ended on that date; and

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

b. there are reasonable grounds to believe that 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 as stated in Note 1.

Signed in accordance with a resolution of the directors:

Director

Dated this 22 August 2018

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2018

	Note	2018 $	2017 $
Revenue			
Interest revenue	2a	13,360,070	12,975,028
Interest expense	2c	(4,518,338)	(4,827,095)
Net interest income		**8,841,732**	**8,147,933**
Fees, commission and other income	2b	2,738,506	2,942,748
		11,580,238	11,090,681
Non-interest expenses			
Impaired losses on loans receivable from members	2d	(11,699)	8,162
Fee and commission expenses		(831,110)	(774,048)
General administration			
- Employee costs		(4,472,330)	(4,333,636)
- Depreciation and amortisation	2f	(521,618)	(587,078)
- Impairment expense		(111,437)	-
- Information technology		(1,210,317)	(1,018,309)
- Office occupancy		(682,541)	(661,247)
- Other administration		(426,308)	(476,454)
Other operating expenses		(1,583,589)	(1,600,247)
Total non-interest expenses		(9,850,949)	(9,442,857)
Profit before Income Tax		**1,729,289**	**1,647,824**
Income Tax Expense	3	(366,709)	(472,582)
Profit for the year		**1,362,580**	**1,175,242**
Other comprehensive income			
Surplus on revaluation of land and buildings, net of tax		649,497	-
Total comprehensive income for the period		**2,012,077**	**1,175,242**

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

Statement of Changes in Member Equity

for the year ended 30 June 2018

	Share Redemption Reserve $	General Reserve for Credit Losses $	Asset Revaluation Reserve $	Retained Earnings $	Total $
Total at 1 July 2016	145,668	926,307	280,259	19,887,907	21,240,141
Net Profit for the year	-	-	-	1,175,242	1,175,242
Transfers to (from) Reserves	1,614	(33,046)	-	31,432	-
Total at 30 June 2017	147,282	893,261	280,259	21,094,581	22,415,383
Net Profit for the year	-	-	-	1,362,580	1,362,580
Transfers to (from) Reserves	1,910	74,459	-	(76,369)	-
Surplus on revaluation of land and buildings, net of tax	-	-	649,497	-	649,497
Total as at 30 June 2018	149,192	967,720	929,756	22,380,792	24,427,460

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

Statement of Financial Position

as at 30 June 2018

	Note	2018 $	2017 $
Assets			
Cash and cash equivalents	4	10,231,852	7,629,215
Liquid investments	5	47,218,231	68,723,431
Receivables	6	660,621	643,562
Prepayments		113,476	131,497
Loans to members	7 & 8	282,088,144	256,371,693
Investments	9	549,532	549,532
Property, plant and equipment	10	3,495,479	2,826,126
Intangible assets	11	320,640	184,635
Taxation assets	12	326,925	367,783
TOTAL ASSETS		**345,004,900**	**337,427,474**
Liabilities			
Borrowings	13	3,483,238	-
Deposits from members	14	313,954,973	312,160,603
Payables	15	2,423,999	2,384,701
Taxation liabilities	16	645,230	416,787
Provisions	17	70,000	50,000
Total Liabilities		**320,577,440**	**315,012,091**
Net Assets		**24,427,460**	**22,415,383**
Members Equity			
Share redemption reserve	18	149,192	147,282
General reserve for credit losses	19	967,720	893,261
Asset revaluation reserve	20	929,756	280,259
Retained earnings	21	22,380,792	21,094,581
Total Members Equity		**24,427,460**	**22,415,383**

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

Statement of Cash Flows

for the year ended 30 June 2018

	Note	2018 $	2017 $
Operating Activities			
Inflows			
Interest received		13,390,675	12,960,558
Fees and commissions		2,572,026	2,734,447
Dividends Received		45,794	77,850
Other income		59,386	57,783
Outflows			
Interest paid		(4,458,722)	(4,712,190)
Suppliers and employees		(9,244,537)	(9,147,661)
Income taxes (paid)		(472,155)	(442,422)
Net Cash from Revenue Activities		**1,892,467**	**1,528,365**
Inflows (outflows) from other operating activities			
(Increase) in Member loans (net movement)		(25,690,399)	(8,168,039)
Increase in Member deposits and shares (net movement)		1,794,370	29,234,280
Decrease (Increase) in receivables from financial institutions (net movement)		21,505,200	(24,302,790)
Net Cash (used in) Operating Activities	36b	**(498,362)**	**(1,708,184)**
Investing Activities			
Inflows			
Proceeds on sale of property, plant and equipment		33,280	36,011
Less: Outflows			
Purchase of intangible assets		(275,528)	(103,237)
Purchase of property, plant and equipment		(139,991)	(260,521)
Net Cash (used in) Investing Activities		**(382,239)**	**(327,747)**
Financing Activities			
Inflows			
Increase (decrease) in borrowings (net movement)		3,483,238	(701,150)
Net Cash from Financing Activities		**3,483,238**	**(701,150)**
Total Net Cash increase/(decrease)		2,602,637	(2,737,081)
Cash at Beginning of Year		7,629,215	10,366,296
Cash at End of Year	36a	**10,231,852**	**7,629,215**

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 2018. The report was authorised for issue on 22 August 2018 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. Classification and subsequent measurement of financial assets and financial liabilities

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

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

- loans and receivables
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

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

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

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

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment and are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics.

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

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

1. Statement of Accounting Policies (Continued)

b. Classification and subsequent measurement of financial assets and financial liabilities (continued)

Available-for-sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The credit union's AFS financial asset is the equity investment in Cuscal Limited, which is included in this category.

The equity investment in Cuscal Limited is measured at cost as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

Classification and subsequent measurement of financial liabilities

The credit union's financial liabilities include borrowings, trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

c. 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 55 days interest free until the due date for payment which is the 21st 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)

d. 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; and
- The level of bad debts written off in previous years.

(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.

e. Bad debts written off

Bad debts are written off from time to time as determined by management or 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.

f. Property, plant and equipment

Land and buildings have been revalued as at 30 June 2018, 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 – 16 to 40 years.
- Leasehold Improvements – 8 to10 years.
- Plant and Equipment – 3 to 7 years.
- Assets less than $300 are not capitalised.

A re-assessment of the estimated useful life of ATMs was made due to a significant change in market pricing. As a result, all machines were written off as at 30 June 2018.

g. 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)

h. Equity investment 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.

i. Member deposits

(i) Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at 30th June 2018.

(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.

j. 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.

k. Payables / employee entitlements

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.

l. 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.

Where operating leases are not expected to continue for the foreseeable future, a provision has been raised for the estimate of make good costs on these operating leases, however a provision has not been recognised, based on the immaterial nature of these expenses where the intention of the credit union is to maintain branches or ATMs at the current locations for the foreseeable future.

1. Statement of Accounting Policies (Continued)

m. 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 27.5%.

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.

n. 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.

o. 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.

p. Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

q. Impairment of assets

At each reporting date the credit union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, 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.

r. Accounting estimates and judgements

Management have made the following estimates and judgements when applying the credit union's accounting policy to the:

- Classification of assets as available for sale.
- Impairment provisions for loans as set out in Note 8.
- Revaluation of land and building, resulting in an increase of $1,050,584.
- Raising of an impairment provision for the ATM network. Given the uncertain future of ATMs in the market, an impairment provision equivalent to the remaining depreciation of the ATM network has been raised. This impacted profit by $111,437.

1. Statement of Accounting Policies (Continued)

s. New standards applicable for the current year

There were no new or revised accounting standards applicable for financial years commencing from 1st July 2017 that had any significant impact on the financial statements of the credit union.

t. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for the 30th June 2018 reporting period. The credit union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the credit union have not been reported.

AASB 9 Financial Instruments

Nature of change
The new standard replaces AASB 139 and supersedes AASB 9 versions previously issued in December 2009 and December 2010. It amends the requirements for classification and measurement of financial assets.

AASB 9 introduces a new impairment model based on expected credit losses. Recognition of credit losses are to no longer be dependent on the Credit Union first identifying a credit loss event. The Credit Union will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.

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

Impact on initial application
The classification and measurement of financial assets previously classified as Held to Maturity (HTM) investments have been reclassified to amortised cost and Fair Value of Other Comprehensive Income (FVOCI) categories and the Available For Sale (AFS) investments reclassified as FVOCI.

The new loss impairment model will require more timely recognition of expected credit losses. Adjustments during the transition process will be recognised either in opening retained earnings or the general reserve for credit losses. The credit union's preliminary assessment is that the impact is immaterial.

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. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard replaces AASB 118 Revenue, AASB 111 Construction Contracts and related revenue interpretations.

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

Impact on initial application
The Standard will not have a material impact upon the transactions and balances recognised when it is first adopted as most of the credit union's revenue arises from the provision of financial services which are governed by AASB 9 Financial Instruments. Few revenue transactions of the credit union are impacted by the new standard and that the impact has been determined to be immaterial.

AASB 16 Leases replaces AASB 117

Nature of change
AASB 16 replaces AASB 117 Leases and some lease-related interpretations, and;

- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting;
- requires new and different disclosures about leases.

Application date
Periods beginning on or after 1st January 2019.

1. Statement of Accounting Policies (Continued)

Impact on initial application
The credit union is yet to undertake a detailed assessment of the impact of AASB 16. However, based on a preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30th June 2020. Although the credit union owns its head office, all other branches are leased and will be impacted by this change.

AASB 2016-1 Amendments to Australian Accounting Standards- Disclosure Initiative: Amendments to AASB 112

Nature of change
AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

Application date
1 January 2017.

Impact on initial application
When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.

Nature of change
AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Application date
1 January 2017.

Impact on initial application
When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements.

2. Statement of Profit or Loss and Other Comprehensive Income

	2018 $	2017 $
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	56,165	72,504
Receivables from financial institutions	1,355,167	1,354,418
Loans to members	11,948,738	11,548,106
	13,360,070	12,975,028
b. Non-interest revenue		
Fee and commission revenue		
- Loan fee income – other than loan origination fees	494,668	653,121
- Transaction fee income	521,521	568,317
- ATM income	827,857	824,987
- Insurance commissions	374,616	358,555
- Other commissions	401,028	393,862
Total Fee and commission revenue	2,619,690	2,798,842
Other Income		
Dividends received	45,794	77,850
Bad debts recovered	256	2,760
Gain on disposal of property, plant and equipment	13,636	8,273
Miscellaneous revenue	59,130	55,023
	2,738,506	2,942,748
c. Interest expense		
Interest expense on liabilities carried at amortised cost		
Short term borrowings	43,183	8,105
Deposits from financial institutions	-	810
Deposits from members	4,475,155	4,818,180
	4,518,338	4,827,095
d. Impairment losses on loans and advances		
(Decrease) / increase in provision for impairment	11,699	(8,162)
	11,699	(8,162)

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

	2018 $	2017 $
Auditors remuneration (excluding GST)		
PKF (previously Grant Thornton)		
- External audit fees	36,500	46,390
- Other services – compliance	-	2,165
- Other services – taxation	4,500	5,681
	41,000	54,236
Depreciation of		
- Buildings	20,895	20,895
- Plant and equipment	340,923	349,904
- Leasehold improvements	39,549	126,635
Amortisation of intangibles	120,251	89,644
	521,618	587,078
Property leases	558,011	557,736
Net movement in provisions for:		
- Employee entitlements	(19,899)	(7,404)
- Leased premises make good	20,000	-

3. Income Tax Expense

	2018 $	2017 $
a. The income tax expense comprises amounts set aside as:		
Current tax expense	475,353	437,980
Deferred tax	284,241	34,602
Adjustment to asset revaluation reserve	(401,087)	-
Under provision from prior year	8,202	-
Total income tax expense in the statement of profit or loss and other comprehensive income	366,709	472,582
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	1,729,289	1,647,824
Prima facie tax payable on profit before income tax at 27.5%	475,555	-
Prima facie tax payable on profit before income tax at 30%	-	494,348
Add tax effect of expenses not deductible		
- Other non-deductible expenses	943	1,589
- Dividend imputation adjustment	5,397	10,009
Subtotal	481,895	505,946
Less		
- Over provision in previous years	(95,560)	-
- Imputation credits	(19,626)	(33,364)
Income tax expense attributable to current year profit	366,709	472,582
a. 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:	7,226,071	6,725,401

4. Cash and Cash Equivalents

	2018 $	2017 $
Cash on hand and at bank	3,731,852	4,629,215
Deposits at call	6,500,000	3,000,000
	10,231,852	7,629,215

5. Liquid Investments

	2018 $	2017 $
a. Investments at amortised cost		
Held to maturity		
Negotiable certificates of deposit	10,438,231	10,443,431
Floating rate notes	25,500,000	24,000,000
Receivables		
Term deposits held with authorised deposit taking institutions	11,280,000	34,280,000
	47,218,231	68,723,431
b. Dissection of receivables		
Deposits with banks	2,000,000	18,000,000
Deposits with credit unions	3,000,000	10,000,000
Deposits with industry bodies – Cuscal (refer note 32a)	6,280,000	6,280,000
	11,280,000	34,280,000

6. Receivables

	2018 $	2017 $
Interest receivable on deposits with other financial institutions	195,413	226,018
Sundry debtors and settlement accounts	465,208	417,544
	660,621	643,562

7. Loans and Advances

	Note	2018 $	2017 $
a. Amount due comprises:			
Overdrafts and revolving credit		8,561,931	7,488,868
Term loans		273,492,118	248,874,782
		282,054,049	256,363,650
Unamortised loan origination fees		44,635	22,964
		282,098,684	256,386,614
Unamortised fixed rate loan renegotiation fees		(4,434)	(6,005)
Provision for impaired loans	8	(6,106)	(8,916)
		282,088,144	256,371,693

	2018 $	2017 $
b. Credit quality - Security held against loans		
Secured by mortgage	265,388,385	241,894,112
Partly secured by goods mortgage	8,714,957	8,744,259
Wholly unsecured and secured by commercial property	7,950,707	5,725,279
	282,054,049	256,363,650

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:

	2018 $	2017 $
Security held as mortgage against real estate is on the basis of:		
- LVR of less than 80%	229,419,667	208,443,484
- LVR of more than 80% but mortgage insured	23,796,366	25,840,596
- LVR of more than 80% and not mortgage insured	12,172,352	7,610,032
Total	265,388,385	241,894,112

(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

	2018 $	2017 $
(i) Individual loans which exceed 10% of member funds in aggregate	-	-
(ii) Loans to members are concentrated in the following areas:		
- Illawarra	122,458,150	117,352,153
- Shoalhaven	58,346,270	53,026,038
- Bega Valley	89,093,507	75,462,140
- Other	12,156,122	10,523,319
	282,054,049	256,363,650
(iii) Loans by Customer type:		
Loans to Natural Persons		
Residential loans and facilities	259,058,306	236,996,444
Personal loans and facilities	11,648,127	11,642,702
Business loans and facilities	11,347,616	7,724,504
	282,054,049	256,363,650

8. Provision on Impaired Loans

	2018 $	2017 $
a. Total provision comprises		
Collective provisions	6,106	8,916
Individual specific provisions	-	-
	6,106	8,916
b. Movement in provision for impairment		
Balance at the beginning of year	8,916	36,568
Add (deduct):		
Transfers from (to) the statement of profit or loss and other comprehensive income	11,699	(8,162)
Bad debts written off provision	(14,509)	(19,490)
Balance at end of year	6,106	8,916

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

8. Provision on Impaired Loans (Continued)

	2018 $	2017 $
c. Impaired loans written off:		
Amounts written off against the provision for impaired loans	14,508	19,490
Total Bad Debts	14,508	19,490
Bad debts recovered in the period	256	2,760
	256	2,760

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

	2018			2017		
	Carrying Value $	Value of Impaired loans $	Provision for impairment $	Carrying Value $	Value of Impaired loans $	Provision for impairment $
Loans to members						
Households	254,781,794	1,975	1,975	232,926,212	4,698	4,688
Personal	9,340,476	-	-	9,496,105	3,497	2,848
Overdrafts	6,584,163	5,413	4,131	6,216,829	5,278	1,374
Total to natural persons	270,706,433	7,388	6,106	248,639,146	13,473	8,910
Corporate borrowers	11,347,616	4	-	7,724,504	8	6
Total	282,054,049	7,392	6,106	256,363,650	13,481	8,916

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

	2018		2017	
	Carrying Value $	Provision $	Carrying Value $	Provision $
Non impaired up to 30 days	124,633	-	103,927	-
30 to 90 days in arrears	47,839	-	15,327	-
90 to 180 days in arrears	126,746	-	470,467	756
180 to 270 days in arrears	-	-	3,497	2,098
270 to 365 days in arrears	83,780	-	-	-
Over 365 days in arrears	1,975	1,975	4,688	4,688
Overlimit facilities over 14 days	5,417	4,131	3,406	1,374
Total	390,390	6,106	601,312	8,916

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 $382,997 past due which are not considered to be impaired.

	1 – 3 mths	3 – 6 mths	6 – 12 mths	> 1 yr	Total
2018	$	$	$	$	$
Mortgage secured	-	126,746	83,780	-	210,526
Personal loans	36,245	-	-	-	36,245
Credit Cards	9,575	-	-	-	9,575
Overdrafts	126,651	-	-	-	126,651
Total	172,471	126,746	83,780	-	382,997
2017					
Mortgage secured	-	468,577	-	-	468,577
Personal loans	11,266	-	-	-	11,266
Credit Cards	105,068	-	-	-	105,068
Overdrafts	2,920	-	-	-	2,920
Total	119,254	468,577	-	-	587,831

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

	2018 $	2017 $
Available for Sale Investments		
Shares in Cuscal Limited	549,532	549,532
	549,532	549,532

Shares in Cuscal Limited

The equity investment in Cuscal Limited is measured at cost of $0.60 per share as its fair value cannot currently be estimated reliably. The shares are able to be traded but within a market limited to other mutual ADI's.

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 credit union is not intending to dispose of these shares.

10. Property, Plant and Equipment

	2018 $	2017 $
a. Fixed Assets		
Land – at valuation	1,780,000	600,000
Subsequent additions – at cost	-	589,612
	1,780,000	1,189,612
Buildings – at valuation	995,000	700,000
Subsequent additions – at cost	-	81,369
Less: Provision for depreciation	-	(225,670)
	2,775,000	1,745,311
Plant and equipment - at cost	3,202,513	3,256,203
Less: Provision for depreciation	(2,534,155)	(2,267,058)
	668,358	989,145
Capitalised Leasehold Improvements at cost	597,009	597,009
Less: Provision for amortisation	(544,888)	(505,339)
	52,121	91,670
	3,495,479	2,826,126

b. Land and Building – Valuation

	2018 $	2017 $
Land – at valuation and deemed cost	2,775,000	1,300,000

The valuation of land and buildings at 27 Stewart Street, Wollongong NSW 2500 has been based upon an independent valuation performed by Opteon Property Group Australia as at 12 February 2018. The increase in valuation is reflected in the Asset Revaluation Reserve. Refer to Note 20.

Movement in the assets balances during the year were:

	2018				2017			
	Property $	Plant & equipment $	Leasehold Improvements $	Total $	Property $	Plant & equipment $	Leasehold Improvements $	Total $
Opening balance	1,745,311	989,145	91,670	2,826,126	1,766,206	1,085,102	218,305	3,069,613
Purchases in the year	-	139,991	-	139,991	-	260,521	-	260,521
Revaluation	1,050,584	-	-	1,050,584	-	-	-	-
Less								
Disposal of assets	-	(8,418)	-	(8,418)	-	(6,574)	-	(6,574)
Impairment of ATMs	-	(111,437)	-	(111,437)	-	-	-	-
Depreciation charge	(20,895)	(340,923)	(39,549)	(401,367)	(20,895)	(349,904)	(126,635)	(497,434)
Balance at the end of the year	2,775,000	668,358	52,121	3,495,479	1,745,311	989,145	91,670	2,826,126

11. Intangible Assets

	2018 $	2017 $
Computer Software	1,154,633	898,377
Less: Provision for amortisation	(833,993)	(713,742)
	320,640	184,635
Movement in the assets balances during the year were:		
Opening balance	184,635	197,621
Purchases	275,529	103,237
Less:		
Disposal of assets	(19,273)	(26,579)
Amortisation charge	(120,251)	(89,644)
Balance at the end of the year	320,640	184,635

12. Taxation Assets

	2018 $	2017 $
Accrual for GST receivable	72,752	55,017
Deferred Tax Asset	254,173	312,766
	326,925	367,783

12. Taxation Assets (Continued)

	Note	2018 $	2017 $
Deferred tax asset comprises:			
Accrued expenses not deductible until incurred		48,001	42,732
Provisions for impairment on loans		1,679	2,675
Provisions for employee benefits		177,822	200,934
Provisions for other		21,897	16,911
Depreciation on fixed assets		4,774	49,514
		254,173	312,766

13. Borrowings

	Note	2018 $	2017 $
Cuscal Limited	29	483,238	-
IOOF Investment Management Ltd	29	3,000,000	-
		3,483,238	-

14. Deposits from Members

		2018 $	2017 $
Member Deposits			
- at call		193,658,782	205,907,793
- term		120,266,757	106,223,438
Total deposits		313,925,539	312,131,231
Member withdrawable shares		29,434	29,372
		313,954,973	312,160,603

Concentration of Member Deposits

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

		2018 $	2017 $
- Illawarra		118,346,723	119,971,511
- Shoalhaven		86,021,220	85,166,022
- Bega Valley		100,301,836	97,607,358
- Other		9,285,194	9,415,712
		313,954,973	312,160,603

15. Payables

		2018 $	2017 $
Creditors and accruals		770,646	772,636
Employee entitlements		656,250	676,149
Interest payable on deposits		997,103	935,916
		2,423,999	2,384,701

16. Taxation Liabilities

		2018 $	2017 $
Current income tax liability		177,840	166,440
Deferred tax liability		363,721	138,073
Accrual for GST payable		26,197	40,430
Accrual for other tax liabilities		77,472	71,844
		645,230	416,787
Current income tax liability comprises:			
Balance – previous year		166,440	170,881
Less: paid		(174,643)	(170,881)
Under provision in prior year		8,203	-
		-	-
Liability for income tax in current year		475,352	437,980
Less: Instalments paid in current year		(297,512)	(271,540)
		177,840	166,440
Deferred tax liability comprises:			
Tax on revalued property held in equity		352,666	132,985
Deferred loan fees		11,055	5,088
		363,721	138,073

17. Provisions

	2018 $	2017 $
Lease premises make good		
Balance at the beginning of the year	50,000	50,000
Liability increase in current year	20,000	-
Balance at the end of the year	70,000	50,000

18. Share Redemption Reserve

Balance at the beginning of the year	147,282	145,668
Transfer from retained earnings on share redemptions	1,910	1,614
Balance at the end of year	149,192	147,282

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

Balance at the beginning of the year	893,261	926,307
Transfer from (to) retained earnings	74,459	(33,046)
Balance at the end of year	967,720	893,261

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

Balance at the beginning of the year	280,259	280,259
Add: Land and building revaluation	1,050,584	-
Less: Adjustments transferred to deferred tax liability	(401,087)	-
Balance at the end of year	929,756	280,259

This reserve relates to unrealised gains on land and building at 27 Stewart Street, Wollongong NSW 2500.

21. Retained Earnings

Retained Profits at the beginning of the financial year	21,094,581	19,887,907
Add: operating profit for the year	1,362,580	1,175,242
Add/(Less): transfer of reserves to reserve for credit losses	(74,459)	33,046
Less: transfer of reserves to capital account on redemption of shares	(1,910)	(1,614)
Retained Profits at the end of the Financial Year	**22,380,792**	**21,094,581**

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 reviews risks and controls that mitigate risks including the identification, assessment and reporting of those risks. Regular monitoring is carried out 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 and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits on a monthly basis.

Audit Committee: Its key role in 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 ALCO, 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), supplemented by Value at Risk (VaR) and Earnings at Risk (EaR).

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 (bp). This impact is extrapolated to 200bp (2.0%) and calculated as a percentage of capital. The 200bp 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 200bp 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 2018, a 200bp parallel downward shift would result in a gain of 2.521% of capital (2017: no loss). The credit union therefore is exposed to interest rates increasing and based on this measure would lose 2.521% of capital if interest rates increase 200bps.

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:

HQLA	2018	2017
Holdings at 30 June	$52,450,083	$48,352,646
Ratio at 30 June	15.90%	14.96%
Prescribed ratio	9.00%	9.00%
Average ratio for the year	15.86%	15.57%
Minimum ratio during the year	14.46%	14.66%

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:

	2018			2017		
Loans to	Carrying value $	Commitments $	Max exposure $	Carrying value $	Commitments $	Max exposure $
Mortgage	254,781,794	9,074,435	263,856,229	232,926,212	7,329,605	240,255,817
Personal	9,340,476	824,816	10,165,292	9,496,105	735,106	10,231,211
Credit cards	2,073,952	4,017,509	5,500,514	1,905,338	4,878,916	5,002,956
Overdrafts	4,510,211	5,260,205	9,571,230	4,311,491	5,237,653	9,549,144
Total to natural persons	270,706,433	19,176,965	289,093,265	248,639,146	18,181,280	265,039,128
Corporate borrowers	11,347,616	554,924	11,902,540	7,724,504	1,437,213	9,161,717
Total	282,054,049	19,731,889	300,995,805	256,363,650	19,618,493	274,200,845

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 loan is regarded as impaired, unless other factors indicate 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 may be 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 unlikely. 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 3.0% 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:

	2018			2017		
Investments with	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
Cuscal – rated A+	6,280,000	-	-	6,280,000	-	-
Banks – rated AA and above	-	-	-	-	-	-
Banks – rated below AA	37,938,231	-	-	52,443,431	-	-
Building Societies – rated below AA	-	-	-	5,000,000	-	-
Credit Unions – rated below AA	-	-	-	-	-	-
Unrated institutions	3,000,000	-	-	5,000,000	-	-
Total	47,218,231	-	-	68,723,431	-	-

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:

	2018	2017
Tier 1		
Capital reserve	149,192	147,282
Asset revaluation reserve on property	929,756	280,259
Retained earnings	22,340,594	21,077,623
	23,419,542	21,505,164
Less prescribed deductions	(870,171)	(908,859)
Net tier 1 capital	22,549,371	20,596,305
Tier 2		
Reserve for credit losses	967,720	893,261
	967,720	893,261
Less prescribed deductions	-	-
Net tier 2 capital	967,720	893,261
Total Capital	**23,517,091**	**21,489,566**

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.

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

	2018	2017	2016	2015	2014
	Basel III	Basel III	Basel III	Basel III	Basel III
Capital Ratio	14.96%	14.61%	14.95%	15.00%	15.41%

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 2018 was $18,466,849 [2017: $17,359,137].

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

	2018 $	2017 $
Financial assets – carried at amortised cost		
Cash and cash equivalents	10,231,852	7,629,215
Receivables	465,208	417,544
Receivables from financial institutions	47,413,644	68,949,449
Loans to members	282,054,049	256,363,650
	340,164,753	333,359,858
Available for sale assets	549,532	549,532
	340,714,285	**333,909,390**
Financial Liabilities		
Borrowings	3,487,454	-
Creditors	770,646	772,636
Deposits from members	314,918,426	313,067,147
Members withdrawable shares	29,434	29,372
	319,205,960	**313,869,155**

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 Limited.

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.

2018	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	After 5 years $	No maturity $	Total $
Assets							
Cash	6,503,282	-	-	-	-	3,731,852	10,235,134
Receivables	465,208	-	-	-	-	-	465,208
Liquid investments	10,500,640	11,527,549	11,179,007	23,227,327	-	-	56,434,523
Loans & advances	1,896,627	3,793,254	16,847,229	81,260,367	321,379,513	-	425,176,990
Total financial assets	19,365,757	15,320,803	28,026,236	104,487,694	321,379,513	3,731,852	492,311,855
Liabilities							
Borrowings	3,490,499	-	-	-	-	-	3,490,499
Creditors	770,646	-	-	-	-	-	770,646
Deposits from members – at call	193,658,782	-	9,371	-	-	29,434	193,697,587
Deposits from members – term	18,378,075	33,136,407	63,021,625	8,075,221	-	-	122,611,328
On statement of financial position	216,298,002	33,136,407	63,030,996	8,075,221	-	29,434	320,570,060
Undrawn commitments	-	-	-	-	-	21,248,653	21,248,653
Total financial liabilities	216,298,002	33,136,407	63,030,996	8,075,221	-	21,278,087	341,818,713

2017	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	After 5 years $	No maturity $	Total $
Assets							
Cash	3,017,350	-	-	-	-	4,613,526	7,630,876
Receivables	417,544	-	-	-	-	-	417,544
Liquid investments	20,072,190	25,100,966	17,598,920	9,997,731	-	-	72,769,807
Loans & Advances	1,811,894	3,623,788	15,532,029	74,629,308	294,059,917	-	389,656,936
Total financial assets	25,318,978	28,724,754	33,130,949	84,627,039	294,059,917	4,613,526	470,475,163
Liabilities							
Borrowings	-	-	-	-	-	-	-
Creditors	772,636	-	-	-	-	-	772,636
Deposits from members – at call	205,907,793	-	7,318	-	-	29,372	205,944,483
Deposits from members – term	16,904,092	32,567,215	53,305,394	5,409,199	-	-	108,185,900
On statement of financial position	223,584,521	32,567,215	53,312,712	5,409,199	-	29,372	314,903,019
Undrawn commitments	-	-	-	-	-	21,618,493	21,618,493
Total financial liabilities	223,584,521	32,567,215	53,312,712	5,409,199	-	21,647,865	336,521,512

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.

	2018			2017		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	$	$	$	$	$	$
Financial assets						
Cash	10,231,852	-	10,231,852	7,629,215	-	7,629,215
Liquid investments	26,438,231	20,780,000	47,218,231	59,223,431	9,500,000	68,723,431
Loans & advances	19,140,019	262,914,030	282,054,049	17,256,325	239,107,325	256,363,650
Receivables	660,621	-	660,621	643,562	-	643,562
Total financial assets	56,470,723	283,694,030	340,164,753	84,752,533	248,607,325	333,359,858
Financial liabilities						
Borrowings	3,483,238	-	3,483,238	-	-	-
Deposits from other financial institutions	-	-	-	-	-	-
Deposits from members – at call	193,668,153	-	193,668,153	205,915,111	-	205,915,111
Deposits from members – term	113,633,024	7,621,465	121,254,489	102,046,297	5,105,739	107,152,036
Creditors	770,646	-	770,646	772,636	-	772,636
Total financial liabilities	311,555,061	7,621,465	319,176,526	308,734,044	5,105,739	313,839,783

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.

2018	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	6,500,000	-	-	-	3,731,852	10,231,852
Receivables	-	-	-	-	465,208	465,208
Liquid investments	21,879,560	25,529,152	-	-	-	47,408,712
Loans and advances	134,855,096	2,780,972	23,015,442	121,402,539	-	282,054,049
Available for sale investments	-	-	-	-	549,532	549,532
On statement of financial position	163,234,656	28,310,124	23,015,442	121,402,539	4,746,592	340,709,353
Undrawn commitments	-	-	-	-	19,731,891	19,731,891
Total financial assets	163,234,656	28,310,124	23,015,442	121,402,539	24,478,483	360,441,244
Liabilities						
Borrowings	3,487,454	-	-	-	-	3,487,454
Creditors	-	-	-	-	770,646	770,646
Deposits from members – at call	193,658,782	-	9,371	-	29,434	193,697,587
Deposits from members – term	18,362,408	33,017,641	62,153,221	7,716,921	-	121,250,191
On statement of financial position	215,508,644	33,017,641	62,162,592	7,716,921	800,080	319,205,878
Undrawn commitments	-	-	-	-	1,516,762	1,516,762
Total financial liabilities	215,508,644	33,017,641	62,162,592	7,716,921	2,316,842	320,722,640

2017	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	3,015,689	-	-	-	4,613,526	7,629,215
Receivables	-	-	-	-	417,544	417,544
Liquid investments	23,573,601	36,039,762	9,318,515	-	-	68,931,878
Loans and advances	140,073,572	7,177,759	26,120,258	82,992,061	-	256,363,650
Available for sale investments	-	-	-	-	549,532	549,532
On statement of financial position	166,662,862	43,217,521	35,438,773	82,992,061	5,580,602	333,891,819
Undrawn commitments	-	-	-	-	19,618,493	19,618,493
Total financial assets	166,662,862	43,217,521	35,438,773	82,992,061	25,199,095	353,510,312
Liabilities						
Borrowings	-	-	-	-	-	-
Creditors	-	-	-	-	772,636	772,636
Deposits from members – at call	205,907,793	-	7,318	-	29,372	205,944,483
Deposits from members – term	16,895,757	32,453,388	52,636,083	5,165,583	-	107,150,811
On statement of financial position	222,803,550	32,453,388	52,643,401	5,165,583	802,008	313,867,930
Undrawn commitments	-	-	-	-	2,000,000	2,000,000
Total financial liabilities	222,803,550	32,453,388	52,643,401	5,165,583	2,802,008	315,867,930

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.

	2018			2017		
	Fair Value	**Carrying Amount**	**Variance**	**Fair Value**	**Carrying Amount**	**Variance**
Financial Assets	**$**	**$**	**$**	**$**	**$**	**$**
Cash and cash equivalents	10,231,852	10,231,852	-	7,629,215	7,629,215	-
Receivables *	660,621	660,621	-	643,562	643,562	-
Advances to other financial institutions	47,139,259	47,218,231	(78,972)	68,778,111	68,723,431	54,680
Loans to members	282,589,897	282,088,144	501,753	256,947,228	256,371,693	575,535
Total financial assets	340,621,629	340,198,848	422,781	333,998,116	333,367,901	630,215
Financial Liabilities						
Borrowings	3,000,000	3,000,000	-	-	-	-
Creditors *	2,423,999	2,423,999	-	2,384,701	2,384,701	-
Deposits from members – at call	193,688,216	193,688,216	-	205,937,165	205,937,165	-
Deposits from members – term	120,216,265	120,266,757	(50,492)	106,371,640	106,223,438	148,202
Total financial liabilities	319,328,480	319,378,972	(50,492)	314,693,506	314,545,304	148,202

* 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

	2018 $	2017 $
a. Outstanding Loan commitments		
Loans approved but not funded as at 30 June	7,889,587	6,160,156
b. Loan Redraw Facility		
Facilities available as at 30 June	2,089,865	2,564,255
c. Undrawn Loan Facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	18,314,370	18,382,950
Less: Amount advanced	(8,561,931)	(7,488,868)
Net undrawn value	9,752,439	10,894,082

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

	2018 $	2017 $
Total financial commitments	19,731,891	19,618,493

d. Computer Software Expense Commitments

The costs committed under the current Ultradata and TAS contracts are as follows:

	2018 $	2017 $
Not later than 1 year	841,902	791,556
Later than 1 year but not 2 years	741,756	806,596
Later than 2 years but not 5 years	437,845	1,223,640
Later than 5 years	-	-
	2,021,503	2,821,792

e. Lease commitments for operating leases on property occupied by the credit union

	2018 $	2017 $
Not later than 1 year	523,503	434,593
Later than 1 year but not later than 5 years	786,735	642,870
Later than 5 years	28,807	-
	1,339,045	1,077,463

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

	2018 $	2017 $
Committed facilities		
Cuscal Limited overdraft facility	2,000,000	2,000,000
Current borrowing	(483,238)	-
Total standby borrowing facilities available	1,516,762	2,000,000

Cuscal Limited holds a term deposit as security against overdraft amounts drawn.

	2018 $	2017 $
Uncommitted facilities		
IOOF Investment Management Ltd	20,000,000	-
Current borrowing	(3,000,000)	-
Total standby borrowing facilities available	17,000,000	-

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 3.0% 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 3.0% of the credit union's total assets-. 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 approved 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:

	2018 Directors	2018 Other KMP	2018 Total	2017 Directors	2017 Other KMP	2017 Total
	$	$	$	$	$	$
(a) short-term employee benefits;	136,928	869,852	1,006,780	144,761	840,972	985,733
(b) post-employment benefits - superannuation contributions	38,460	123,609	162,069	19,446	134,040	153,486
(c) other long-term benefits – net (decrease)/increases in long service leave provision and retirement gifts	-	10,921	10,921	-	(12,359)	(12,359)
(d) termination benefits	-	-	-	-	-	-
(e) share-based payment	-	-	-	-	-	-
Total KMP compensation	175,388	1,004,382	1,179,770	164,207	962,653	1,126,860

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:

	2018			2017		
	Mortgage Secured	Other term loans	Credit Cards	Mortgage Secured	Other term loans	Credit Cards
	$	$	$	$	$	$
Funds available to be drawn	340,124	1,074	49,476	371,854	387	34,805
Balance	1,316,962	55,624	48,524	1,946,781	85,293	62,781
Amounts disbursed or facilities increased in the year	-	-	129,405	439,035	38,964	175,053
Interest and other revenue earned	67,573	4,898	12,841	76,541	4,522	12,842

	2018	2017
	$	$
Other transactions between related parties include deposits from directors, and other Key Management Persons are:		
Total value of term and savings deposits of KMP	1,561,829	1,042,442
Total interest paid on deposits to KMP	11,658	11,537

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 $94,644 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 14 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 14 November 2021, having a future financial commitment of $304,149 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 Visa cards operated through ATMs and POS facilities to the credit union's IT systems.
(iii) provides settlement and clearance 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. Events Occurring after the Reporting Period

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

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:

	2018 $	2017 $
Cash on hand and at bank	3,731,852	4,629,215
Deposits at call	6,500,000	3,000,000
Total Cash and cash equivalents	10,231,852	7,629,215

b. Reconciliation of cash from operations to accounting profit

The net cash increase from operating activities is reconciled to the operating profit after tax

	2018 $	2017 $
Operating profit after income tax	**1,362,580**	**1,175,242**
Non cash flows		
Depreciation	512,804	497,434
Amortisation of intangibles	120,251	89,644
Loss on sale of assets	8,046	5,415
Profit on sale of assets	(13,636)	(8,273)
Add changes in assets and liabilities		
Increase in other provisions	20,000	-
Increase in provision for income tax	11,400	-
Increase in unamortised fixed rate loan renegotiation fees	-	3,393
Increase in interest payable	61,187	111,512
Increase in deferred tax liability	225,648	5,088
Increase in member deposits and shares	1,794,370	29,234,280
Decrease in prepayments	18,021	-
Decrease in interest receivable	30,605	-
Decrease in deferred tax asset	58,593	29,513
Decrease in receivables from financial institutions	21,505,200	-
Less changes in assets and liabilities		
Decrease in employee entitlements	(19,899)	(7,404)
Decrease in accrued expenses	(1,990)	(190,787)
Decrease in provision for loans	(2,810)	(27,652)
Decrease in GST and other tax liabilties	(8,605)	(18,911)
Decrease in provision for income tax	-	(4,441)
Decrease in unamortised fixed rate loan renegotiation fees	(1,571)	-
Decrease in effective rate adjustments	(21,671)	(29,617)
Decrease in deferred income tax (asset revaluation reserve)	(401,087)	-
Increase in prepayments	-	(13,017)
Increase in sundry debtors and other receivables	(47,664)	(64,395)
Increase in interest receivable	-	(14,470)
Increase in taxes receivable	(17,735)	(9,909)
Increase in member loans	(25,690,399)	(8,168,039)
Increase in receivables from financial institutions	-	(24,302,790)
Net cash from operating activities	**(498,362)**	**(1,708,184)**

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

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