

Annual Report 2019



CHAIR'S REPORT



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

The financial results for the year just ended, are again to be applauded. In an extremely challenging environment, profit before tax increased 8% to \$1.867m. The increased profit is primarily due to funding a record \$73m in new loans, hence improving net interest income. During the financial year, Horizon broke through \$300m of loans for the first time, ending the year at \$311m. Of course, increased lending also means increased risk of bad debts, however I am pleased to report that our total loan impairment expense was just 0.015% of total loans. This great result is testament to our prudent credit policies, the excellent vetting of loans by our loans staff and, of course, fantastic personal relationships with our members who borrow from Horizon.

Our financial position is again unquestionably strong - this being a key requirement of the Australian Prudential Regulatory Authority (APRA). While capital adequacy did decrease during the year to 14.53% as a result of the loan growth mentioned above, it remains significantly above APRA's mandated capital requirements. With mutual banking institutions such as Horizon only able to support growth through capital generated by operating profits, business growth must be commensurate with the level of retained earnings. Capital management will therefore remain a high focus for Board and Management.

Last year I highlighted that Horizon requires "sustainable growth" to maintain and improve its services to you, our members. We have again in 2019 achieved sustainable growth and some of the new services & improvements that resulted are:



- Implementation of the New Payments Platform (NPP), which enables quicker transfer of payments and deposits;
- Implementation of enhanced loan application and processing systems; and
- Implementation of new IT and telephone infrastructure to improve staff productivity.

During the year, we saw the wrap up of the Royal Commission into Banking, Superannuation and Financial Services. The legacy of Commissioner Hayne's investigation will inevitably be more regulation, hence greater costs to all Australian mutual banking institutions. With the assistance of our industry association, the Customer Owned Banking Association (COBA), our Board and Management have been proactive with policy makers and local Federal Members of Parliament, advocating the threat of "one size fits all" legislation, which has a much greater financial burden to Horizon relative to the "Big 4" banks. To continue providing improved services and technology, we must ensure that compliance costs do not escalate to intolerable levels.

Technology continues to evolve and in banking there is rapid change. At all times, the Board is cognisant that our members expect timely improvements in Internet Banking, Mobile Phone Apps and Communications Technology. A new website and mobile phone app is slated for introduction in September 2019 so that members can transact and communicate more easily.

Horizon Board and Management are always evaluating the challenges ahead. Record low interest rates have stimulated loan demand, but unfortunately, led to lower net interest margins, being our main driver of profitability. Each time Management recommend lowering interest on loans in order to be competitive (and keep our borrower members happy), we have to weigh up the effects on our depositors, particularly those who are retired and reliant on interest income. We seek, as a mutual organisation, to balance all members' needs, when making interest rate decisions.

Our strategy is to continue to invest in new technology and simultaneously continue operating traditional "bricks and mortar" branches in order to provide outstanding service to all our members. This is an expensive strategy, but is one we believe our members and the community expect. Our competitors will continue to downsize, close branches and reduce services, hence emphasising the Horizon "difference".

With a limited marketing budget, Horizon relies largely on 'word of mouth' for growth. Over 75% of our new members join on the recommendation of existing members, so please continue to spread the word to family and friends regarding "how Horizon is different to other banks".

In 2018, Horizon commenced a series of 'meet the members' events. During the year, Board and Management have met with members in Albion Park, Merimbula, Bega and Moruya. These meetings will continue throughout 2019 and into 2020. They are invaluable as an insight into understanding our members' needs and issues.



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

Again, I would like to thank our CEO Jon Stanfield, the executive team and our 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. Together with our fabulous management and staff, 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 30 June 2019.

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: -

<i>Name</i>	<i>Qualifications</i>	<i>Experience</i>	<i>Current Responsibilities</i>
Mark Crowther	B Com, GAICD MAMI,	Director – 2013 to Present	Chairman 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 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: -

<i>Name</i>	<i>Qualifications</i>	<i>Experience</i>
Jon Stanfield	B Ec., CA, MAMI	Chief Executive Officer

Directors' meeting attendance

Director	Board Meetings		Committee Meetings	
	Held	Attended	Held	Attended
Mark Crowther	10	10	5	5
Peter Dun	10	8	5	5
Michael Gleeson	10	10	12	12
Jason Hall	10	10	12	12
Joanne Hinge	10	10	12	12
Maree Kerr	10	9	12	12
Glenda Papac	10	10	5	3

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 \$1,359,628 [2018 \$1,362,580].

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 28 August 2019



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 2019, 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
Chartered Accountants

Sydney, NSW

Dated: 28 August 2019

SCOTT TOBUTT
Partner

PKF(NS) Audit & Assurance Limited
Partnership
ABN 91 496 289 999

Chartered Accountants
Sydney, NSW
Sydney, NSW
PO Box 5246 Sydney, NSW 2001

Sydney

175 Hunter Street
Sydney, NSW 2000 Australia
PO Box 5246 Sydney, NSW 2001
p +61 2 4962 2899
f +61 2 4962 3245

Newcastle

175 Hunter Street
Newcastle West NSW 2312 Australia
PO Box 2368 Dangar, NSW 2309
p +61 2 4962 2899
f +61 2 4962 3245

PKF International Limited comprises a network of legally independent firms which form independent business entities. PKF (NS) Audit & Assurance Limited is a member firm of the network. PKF (NS) Audit & Assurance Limited is a Chartered Accountant. For further details visit www.pkf.com.au

INDEPENDENT AUDIT 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 2019, 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 2019 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.

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error 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.

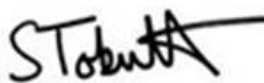
We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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
CHARTERED ACCOUNTANTS
SYDNEY, NSW



SCOTT TOBUTT
PARTNER

28 AUGUST 2019
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 30 June 2019 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 28 August 2019

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2019

	Note	2019 \$	2018 \$
Revenue			
Interest revenue	2a	14,307,599	13,360,070
Interest expense	2c	(5,178,687)	(4,518,338)
Net interest income		9,128,912	8,841,732
Fees, commission and other income	2b	2,729,323	2,738,506
		<u>11,858,235</u>	<u>11,580,238</u>
Non-interest expenses			
Impaired losses on loans receivable from members	2d	(46,710)	(11,699)
Fee and commission expenses		(904,514)	(831,110)
General administration			
- Employee costs		(4,428,099)	(4,472,330)
- Depreciation and amortisation	2f	(513,772)	(521,618)
- Impairment expense		-	(111,437)
- Information technology		(1,456,991)	(1,210,317)
- Office occupancy		(677,515)	(682,541)
- Other administration		(413,420)	(426,308)
Other operating expenses		(1,549,409)	(1,583,589)
Total non-interest expenses		<u>(9,990,430)</u>	<u>(9,850,949)</u>
Profit before Income Tax		1,867,805	1,729,289
Income Tax Expense	3	(508,177)	(366,709)
Profit for the year		1,359,628	1,362,580
Other comprehensive income			
Surplus on revaluation of land and buildings, net of tax		-	649,497
Surplus on revaluation of Cuscal shares, net of tax		423,176	-
Total comprehensive income for the period		1,782,804	2,012,077

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

Statement of Changes in Member Equity

for the year ended 30 June 2019

	Share Redemption Reserve \$	General Reserve for Credit Losses \$	Asset Revaluation Reserve \$	Retained Earnings \$	Total \$
Total at 1 July 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
Total as at 1 July 2018					
Changes on initial adoption of AASB 9	-	-	423,176	-	423,176
Adjusted balance as at 1 July 2018	149,192	967,720	1,352,932	22,380,792	24,850,636
Net Profit for the year	-	-	-	1,359,628	1,359,628
Transfers to (from) Reserves	1,954	(36,764)	-	34,810	-
Total as at 30 June 2019	151,146	930,956	1,352,932	23,775,230	26,210,264

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

Statement of Financial Position

as at 30 June 2019

	Note	2019 \$	2018 \$
Assets			
Cash and cash equivalents	4	6,205,449	10,231,852
Liquid investments	5	51,810,681	47,218,231
Receivables	6	436,097	660,621
Prepayments		180,433	113,476
Loans to members	7 & 8	311,228,769	282,088,144
Investments	9	1,133,223	549,532
Property, plant and equipment	10	3,474,100	3,495,479
Intangible assets	11	335,709	320,640
Taxation assets	12	343,481	326,925
TOTAL ASSETS		375,147,942	345,004,900
Liabilities			
Borrowings	13	1,149,364	3,483,238
Deposits from members	14	344,165,442	313,954,973
Payables	15	2,815,295	2,423,999
Taxation liabilities	16	684,488	645,230
Provisions	17	123,089	70,000
Total Liabilities		348,937,678	320,577,440
Net Assets		26,210,264	24,427,460
Members Equity			
Share redemption reserve	18	151,146	149,192
General reserve for credit losses	19	930,956	967,720
Asset revaluation reserve	20	1,352,932	929,756
Retained earnings	21	23,775,230	22,380,792
Total Members Equity		26,210,264	24,427,460

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

Statement of Cash Flows

for the year ended 30 June 2019

	Note	2019 \$	2018 \$
Operating Activities			
Inflows			
Interest received		14,369,111	13,390,675
Fees and commissions		2,642,787	2,572,026
Dividends Received		22,897	45,794
Other income		208,783	59,386
Outflows			
Interest paid		(4,881,591)	(4,458,722)
Suppliers and employees		(9,369,483)	(9,244,537)
Income taxes (paid)		(656,194)	(472,155)
Net Cash from Revenue Activities		2,336,310	1,892,467
Inflows (outflows) from other operating activities			
(Increase) in Member loans (net movement)		(29,152,193)	(25,690,399)
Increase in Member deposits and shares (net movement)		30,210,469	1,794,370
(Increase) Decrease in receivables from financial institutions (net movement)		(4,592,450)	21,505,200
Net Cash (used in) Operating Activities	36b	(1,197,864)	(498,362)
Investing Activities			
Inflows			
Proceeds on sale of property, plant and equipment		46,847	33,280
Less: Outflows			
Purchase of intangible assets		(187,561)	(275,528)
Purchase of property, plant and equipment		(353,951)	(139,991)
Net Cash (used in) Investing Activities		(494,665)	(382,239)
Financing Activities			
Inflows			
(Decrease) Increase in borrowings (net movement)		(2,333,874)	3,483,238
Net Cash from Financing Activities		(2,333,874)	3,483,238
Total Net Cash increase/(decrease)		(4,026,403)	2,602,637
Cash at Beginning of Year		10,231,852	7,629,215
Cash at End of Year	36a	6,205,449	10,231,852

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 2019. The report was authorised for issue on 28 August 2019 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. Changes in significant accounting policies

(i) New standards applicable for the current year

AASB 15 Revenue from contracts with customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related interpretations. The new standard applies as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The timing or amount of the Credit Union's fee and commission income has not been impacted by the adoption of AASB 15.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major change to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

When adopting AASB 9, the credit union has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

AASB 9 also contains new requirements on the application of hedge accounting, however as at 30 June 2019, the credit union was not involved in hedging.

The adoption of AASB 9 has impacted the classification and measurement of the credit union's financial assets.

AASB 9 allows for three categories of classification of financial assets:

- amortised cost,
- FVOCI (Fair Value through Other Comprehensive Income), and
- FVPL (Fair Value through Profit and Loss).

Classification is based on the business model in which a financial asset is managed and the related contractual cashflows. AASB 9 eliminates previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged. Refer to the below table for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

Impairment of financial assets

Financial assets carried at amortised cost and those carried at fair value through other comprehensive income (FVOCI) are subject to AASB 9's new three-stage expected credit loss model. Loss allowances are measured at an amount equal to lifetime expected credit losses (ECL), except for the following, which are measured as 12 months ECL:

- debt investment securities that are determined to have a low credit risk at the reporting date; and
- other financial instruments on which credit risk has not significantly increased since initial recognition.

	Measurement Category		Carrying Amount		
	Original AASB 139 category	New AASB 9 Category	Closing balance 30 June 2018 (AASB 139)	Adoption of AASB 9	Opening balance 1 July 2018 (AASB 9)
Assets					
Cash	Amortised cost	Amortised cost	10,231,852	-	10,231,852
Liquid investments	Held to maturity	Amortised cost	47,218,231	-	47,218,231
Loans & advances	Loans and receivables	Amortised cost	282,054,049	-	282,054,049
Investment securities - Cuscal shares	Available for sale (AFS)	FVOCI	549,532	583,691	1,133,223
Receivables	Receivables	Amortised cost	660,621	-	660,621
Total financial assets			340,714,285	583,691	341,297,976
Liabilities					
Borrowings	Amortised cost	Amortised cost	3,483,238	-	3,483,238
Deposits from members	Amortised cost	Amortised cost	314,922,642	-	314,922,642
Creditors	Creditors	Amortised cost	770,646	-	770,646
Total financial liabilities			319,176,526	-	319,176,526

1. Statement of Accounting Policies (Continued)

On adoption of AASB 9, the credit union revalued its shares in Cuscal. This revaluation is reflected in the creation of a Fair Value through Other Comprehensive Income Reserve. A deferred tax liability at 27.5% partly offset this revaluation. There was no other impact on the financial statements.

AASB 9 contains exemptions from full retrospective application for the classification and measurement requirements of the new standard, including impairment. These include an exception from the requirement to restate comparative information. Because the credit union has elected not to restate comparatives, different accounting policies apply to financial assets and liabilities pre and post adoption of the standard. Therefore, both the pre and post adoption accounting policies for financial instruments are disclosed in the note below.

Financial assets and liabilities

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

(ii) Policy applicable from 1 July 2018

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, the credit union's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

Financial liabilities include borrowings, member deposits and other payables. They are initially measured at fair value, and where applicable, adjusted for transaction costs unless the credit union designated a financial liability at fair value through the profit and loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in the profit and loss.

All interest related charges and if applicable, changes in an instrument's fair value that are reported in profit and loss are included within interest or non-interest expenses.

Classification of financial assets

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

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

- Amortised cost
- Fair value through profit and loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

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

Classifications are determined by both:

- The credit union's business model for managing the financial asset, and
- The contractual cash flow characteristics of the financial assets.

Subsequent measurement of financial assets

Financial assets at amortised costs

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Cash, cash equivalents and trade receivables fall into this category of financial instruments as well as bonds that were previously classified as held to maturity under AASB 139.

1. Statement of Accounting Policies (Continued)

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

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Irrespective of the business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL.

Fair Value through Other Comprehensive Income (FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities such as shares in Cuscal Ltd that were previously classified as 'available for sale' under AASB 139.

Loans to member

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

Loans and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the credit union did not intend to sell immediately or in the near term.

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.

Loan origination fees and discounts

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

Transaction costs

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

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.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the credit union changes its business model for managing financial assets. There were no changes to any of the credit union business models during the current year (2018: Nil).

1. Statement of Accounting Policies (Continued)

(iii) Policy applicable before 1 July 2018

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;
- financial assets at FVPL;
- held-to-maturity (HTM) investments; and
- 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.

Financial assets at FVPL

Financial assets at FVPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Held to Maturity (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.

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.

All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

1. Statement of Accounting Policies (Continued)

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

b. Loan impairment

Policy applicable after 1 July 2018

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses – the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

A broader range of information is considered when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, three distinction stages of impairment are made:

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

Measurement of ECL

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

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

Note 22 details the credit risk management approach for loans.

Credit-impaired financial assets

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

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance on terms that would otherwise not be considered;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision; and
- Where a financial instrument includes both a drawn and undrawn component, and ECL cannot be identified on the loan commitment component separately from those on the drawn component, a combined loss allowance for both components is presented. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

1. Statement of Accounting Policies (Continued)

Write-off

Loans and debt securities are written off, either partially or in full, when there is no realistic prospect of recovery. This is generally the case when it is determined the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the procedures for recovery of amounts due.

Policy applicable before 1 July 2018

(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) General 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.

c. 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.

d. 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 to 10 years.
- Plant and Equipment – 3 to 7 years.
- Assets less than \$300 are not capitalised.

In line with the re-assessment of the estimated useful life of ATMs made as at 30 June 2018, which resulted in all machines being written off, any additional capital costs incurred on ATMs during the year were written off as at 30 June 2019.

1. Statement of Accounting Policies (Continued)

e. 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.

f. Equity investment and other securities

Investments in shares are classified as fair value through other comprehensive income (FVOCI).

Investments in shares that do not have a ready market and are not capable of being reliably valued are recorded at the assessed fair value amount.

All investments are in Australia currency.

g. Member deposits

Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at 30th June 2019.

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.

h. 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.

i. 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.

j. 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)

k. 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.

l. 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.

m. 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.

n. 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.

o. 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.

1. Statement of Accounting Policies (Continued)

p. Accounting estimates and judgements

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

Various models and assumptions are used in measuring fair value of financial assets such as Cuscal shares. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of price risk and factors such as sales evidence, dividend history, price earning multiple and overall market conditions.

Management have also made ~~critical~~ accounting estimates when applying accounting policies with respect to the measurement of expected credit loss (ECL) allowance. In the current year, the approach to estimation of impairment losses has been revised following adoption of AASB 9 effective 1 July 2018. Key areas of judgement to be considered under the new standard include:

- Recognition of credit losses based on "Stage 1" 12 month expected losses and "State 2" and "Stage 3" lifetime expected credit losses;
- Determining criteria for significant increase in credit risk: an asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the credit union takes into account qualitative and quantitative reasonable and supportable forward looking information.
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL: when ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

q. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for the 30th June 2019 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 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.

Impact on initial application

The credit union will recognise a right of use (ROU) asset and a corresponding liability for operating leases held over its branches and equipment (**Note 28e**). However, based on preliminary assessments carried out, the adoption of the Standard will not have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ended 30 June 2020.

The account treatment will be to amortise the ROU asset and lease liability to an expense account over the term of the lease.

2. Statement of Profit or Loss and Other Comprehensive Income	2019	2018
	\$	\$
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	2,060	56,165
Receivables from financial institutions	1,319,539	1,355,167
Loans to members	12,986,000	11,948,738
	<u>14,307,599</u>	<u>13,360,070</u>
b. Non-interest revenue		
Fee and commission revenue		
- Loan fee income – other than loan origination fees	500,860	494,668
- Transaction fee income	485,887	521,521
- ATM income	718,813	827,857
- Insurance commissions	353,671	374,616
- Other commissions	420,544	401,028
Total Fee and commission revenue	<u>2,479,775</u>	<u>2,619,690</u>
Other Income		
Dividends received	22,897	45,794
Bad debts recovered	30	256
Gain on disposal of property, plant and equipment	17,868	13,636
Miscellaneous revenue	208,753	59,130
	<u>2,729,323</u>	<u>2,738,506</u>
c. Interest expense		
Interest expense on liabilities carried at amortised cost		
Short term borrowings	40,497	43,183
Deposits from financial institutions	48	-
Deposits from members	5,138,142	4,475,155
	<u>5,178,687</u>	<u>4,518,338</u>
d. Impairment losses on loans and advances		
Increase in provision for impairment	46,710	11,699
	<u>46,710</u>	<u>11,699</u>
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		
Auditors remuneration (excluding GST)		
PKF		
- External audit fees	37,595	36,500
- Other services – taxation	4,635	4,500
	<u>42,230</u>	<u>41,000</u>
Depreciation of		
- Buildings	24,875	20,895
- Plant and equipment	289,096	340,923
- Leasehold improvements	27,309	39,549
Amortisation of intangibles	172,492	120,251
	<u>513,772</u>	<u>521,618</u>
Property leases	544,509	558,011
Net movement in provisions for:		
- Employee entitlements	47,781	(19,899)
- Leased premises make good	38,000	20,000
- Card fraud	15,089	-

3. Income Tax Expense	2019	2018
	\$	\$
a. The income tax expense comprises amounts set aside as:		
Current tax expense	503,451	475,353
Deferred tax	4,726	284,241
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	<u>508,177</u>	<u>366,709</u>
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	<u>1,867,805</u>	<u>1,729,289</u>
Prima facie tax payable on profit before income tax at 27.5%	513,646	475,555
Add tax effect of expenses not deductible		
- Other non-deductible expenses	1,645	943
- Dividend imputation adjustment	2,699	5,397
Subtotal	<u>517,990</u>	<u>481,895</u>
Less		
- Over provision in previous years	-	(95,560)
- Imputation credits	(9,813)	(19,626)
Income tax expense attributable to current year profit	<u>508,177</u>	<u>366,709</u>
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:	<u>7,553,532</u>	<u>7,226,071</u>
4. Cash and Cash Equivalents		
Cash on hand and at bank	2,605,449	3,731,852
Deposits at call	3,600,000	6,500,000
	<u>6,205,449</u>	<u>10,231,852</u>
5. Liquid Investments		
a. Amortised Cost Investments		
Negotiable certificates of deposit	15,430,681	-
Floating rate notes	26,100,000	-
Receivables		
Term deposits held with authorised deposit taking institutions	10,280,000	-
Held to maturity Investments		
Negotiable certificates of deposit	-	10,438,231
Floating rate notes	-	25,500,000
Receivables		
Term deposits held with authorised deposit taking institutions	-	11,280,000
	<u>51,810,681</u>	<u>47,218,231</u>
b. Dissection of receivables		
Deposits with banks	2,000,000	2,000,000
Deposits with credit unions	2,000,000	3,000,000
Deposits with industry bodies – Cuscal (refer note 32a)	6,280,000	6,280,000
	<u>10,280,000</u>	<u>11,280,000</u>

6. Receivables	Note	2019 \$	2018 \$
Interest receivable on deposits with other financial institutions		133,901	195,413
Sundry debtors and settlement accounts		302,196	465,208
		<u>436,097</u>	<u>660,621</u>
7. Loans and Advances			
a. Amount due comprises:			
Overdrafts and revolving credit		8,084,544	8,561,931
Term loans		303,121,698	273,492,118
		<u>311,206,242</u>	<u>282,054,049</u>
Unamortised loan origination fees		68,210	44,635
		<u>311,274,452</u>	<u>282,098,684</u>
Unamortised fixed rate loan renegotiation fees		(6,933)	(4,434)
Provision for impaired loans	8	(38,750)	(6,106)
		<u>311,228,769</u>	<u>282,088,144</u>
b. Credit quality - Security held against loans			
Secured by mortgage		295,058,988	265,388,385
Partly secured by goods mortgage		9,029,913	8,714,957
Wholly unsecured and secured by commercial property		7,117,341	7,950,707
		<u>311,206,242</u>	<u>282,054,049</u>
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:			
Security held as mortgage against real estate is on the basis of:			
- LVR of less than 80%		258,599,830	229,419,667
- LVR of more than 80% but mortgage insured		25,394,881	23,796,366
- LVR of more than 80% and not mortgage insured		11,064,277	12,172,352
Total		<u>295,058,988</u>	<u>265,388,385</u>
<i>(LVR – Loan to valuation ratio)</i>			
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			
(i) Individual loans which exceed 10% of member funds in aggregate		-	-
(ii) Loans to members are concentrated in the following areas:			
- Illawarra		135,275,046	122,458,150
- Shoalhaven		62,405,814	58,346,270
- Bega Valley		100,415,419	89,093,507
- Other		13,109,963	12,156,122
		<u>311,206,242</u>	<u>282,054,049</u>
(iii) Loans by Customer type:			
Loans to Natural Persons			
Residential loans and facilities		286,498,412	259,058,306
Personal loans and facilities		12,081,154	11,648,127
Business loans and facilities		12,626,676	11,347,616
		<u>311,206,242</u>	<u>282,054,049</u>

8. Provision on Impaired Loans

a. Amounts arising from Expected Credit Loss (ECL)

The loss allowance as of the year end by class of exposure/asset are summarised in the table below. Comparative amounts for 2018 represent allowance account for credit losses and reflect measure bases under AASB 139.

	2019			2018		
	Gross Carrying Value \$	ECL Allowance \$	Carrying Value \$	Gross Carrying Value \$	Provision for impairment \$	Carrying Value \$
Loans to members						
Mortgages	282,799,551	-	282,799,551	254,781,794	1,975	254,779,819
Personal	9,545,587	11,654	9,533,933	9,340,476	-	9,340,476
Overdrafts	6,234,428	27,096	6,207,332	6,584,163	4,131	6,580,032
Total to natural persons	298,579,566	38,750	298,540,816	270,706,433	6,106	270,700,327
Corporate borrowers	12,626,676	-	12,626,676	11,347,616	-	11,347,616
Total	311,206,242	38,750	311,167,492	282,054,049	6,106	282,047,943

An analysis of the credit union's credit risk exposure per class of financial asset and "stage" without reflecting on the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial asset, the amounts in the table represent gross carrying amounts.

	2019			
	Stage 1 12 month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	Total \$
	Loans to members			
Mortgage secured	-	-	-	-
Personal loans	11,654	-	-	11,654
Overdrafts	3,183	23,913	-	27,096
Corporate borrowers	-	-	-	-
Loss allowance	-	-	-	-
Total	14,837	23,913	-	38,750

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

	2019			
	Stage 1 12 month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	Total \$
	Loans to members			
Balance at 1 July 2018 per AASB 139	-	6,106	-	6,106
Adjustment on initial application of AASB 9	16,340	-	-	16,340
Balance at 1 July 2018 per AASB 9	16,340	6,106	-	22,446
Changes in the loss allowance	-	-	-	-
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	(14,066)	14,066	-
- Transfer to stage 3	-	-	-	-
- Net movement due to change in credit risk	(1,503)	31,873	-	30,370
- Write-offs	-	-	(14,066)	(14,066)
Balance at 30 June 2019	14,837	23,913	-	38,750

8. Provision on Impaired Loans (Continued)

Key assumptions in determining the ECL

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

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

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

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

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The credit union estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and for real estate lending, reflect possible changes in property values.

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

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

- Mortgage loans
- Personal loans
- Other – overdrafts

Stage 3 of the impairment model will be assessed on an individual basis based on the provisioning requirement in APS220.

Significant increase in credit risk

The credit union is not required to develop an extensive list of factors in defining a 'significant increase in credit risk'. In assessing significant increase in credit risk where a loan or group of loans must move to Stage 2, the following factors have been considered in the credit union's current model:

- Loans more than 30 days past due
- Loans with approved hardship or modified terms

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

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

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

The credit union has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. The credit union considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the credit union for other purposes such as strategic planning and budgeting. Periodically the credit union carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

8. Provision on Impaired Loans (Continued)

Impaired financial assets – 2018 comparative information under AASB 139	2019 \$	2018 \$
a. Total provision comprises		
Collective provisions		6,106
Individual specific provisions		-
		<u>6,106</u>
b. Movement in provision for impairment		
Balance at the beginning of year		8,916
Add (deduct):		
Transfers from (to) the statement of profit or loss and other comprehensive income		11,699
Bad debts written off provision		<u>(14,509)</u>
Balance at end of year		<u>6,106</u>
Details of credit risk management are set out in Note 22 C.		
c. Impaired loans written off:		
Amounts written off against the provision for impaired loans	<u>14,066</u>	<u>14,508</u>
Total Bad Debts	<u>14,066</u>	<u>14,508</u>
Bad debts recovered in the period	<u>30</u>	<u>256</u>
	<u>30</u>	<u>256</u>

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		
	Carrying Value	Value of Impaired loans	Provision for impairment
	\$	\$	\$
Loans to members			
Mortgages	254,781,794	1,975	1,975
Personal	9,340,476	-	-
Overdrafts	6,584,163	5,413	4,131
Total to natural persons	<u>270,706,433</u>	<u>7,388</u>	<u>6,106</u>
Corporate borrowers	11,347,616	4	-
Total	<u>282,054,049</u>	<u>7,392</u>	<u>6,106</u>

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

	2018	
	Carrying Value	Provision
	\$	\$
Non impaired up to 30 days	103,927	-
30 to 90 days in arrears	15,327	-
90 to 180 days in arrears	470,467	756
180 to 270 days in arrears	3,497	2,098
270 to 365 days in arrears	-	-
Over 365 days in arrears	4,688	4,688
Overlimit facilities over 14 days	3,406	1,374
Total	<u>601,312</u>	<u>8,916</u>

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.

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

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

	2019 \$	2018 \$
Equity investment securities designated as FVOCI		
Shares in Cuscal Limited	1,133,223	-
Available for Sale Investments		
Shares in Cuscal Limited	-	549,532
	<u>1,133,223</u>	<u>549,532</u>

Shares in Cuscal Limited

Cuscal supplies end-to-end payments services. At 1 July 2018, the credit union designated its investment in Cuscal shares to be \$1.24 per share as a Fair Value through Other Comprehensive Income (FVOCI). In FY 2018, these investments were classified as available-for-sale and measured at cost of \$0.60 per share.

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

10. Property, Plant and Equipment

	2019 \$	2018 \$
a. Fixed Assets		
Land – at valuation	1,780,000	1,780,000
Subsequent additions – at cost	-	-
	<u>1,780,000</u>	<u>1,780,000</u>
Buildings – at valuation	995,000	995,000
Subsequent additions – at cost	-	-
Less: Provision for depreciation	(24,875)	-
	<u>2,750,125</u>	<u>2,775,000</u>
Plant and equipment - at cost	3,132,175	3,202,513
Less: Provision for depreciation	(2,433,012)	(2,534,155)
	<u>699,163</u>	<u>668,358</u>
Capitalised Leasehold Improvements at cost	588,606	597,009
Less: Provision for amortisation	(563,794)	(544,888)
	<u>24,812</u>	<u>52,121</u>
	<u><u>3,474,100</u></u>	<u><u>3,495,479</u></u>
b. Land and Building – Valuation		
Land – at valuation and deemed cost	2,775,000	2,775,000

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:

	2019				2018			
	Property \$	Plant & equipment \$	Leasehold Improvements \$	Total \$	Property \$	Plant & equipment \$	Leasehold Improvements \$	Total \$
Opening balance	2,775,000	668,358	52,121	3,495,479	1,745,311	989,145	91,670	2,826,126
Purchases in the year	-	353,952	-	353,952	-	139,991	-	139,991
Revaluation	-	-	-	-	1,050,584	-	-	1,050,584
Less:								
Disposal of assets	-	(34,051)	-	(34,051)	-	(8,418)	-	(8,418)
Impairment of ATMs	-	(15,896)	-	(15,896)	-	(111,437)	-	(111,437)
Depreciation charge	(24,875)	(273,200)	(27,309)	(325,384)	(20,895)	(340,923)	(39,549)	(401,367)
Balance at the end of the year	<u>2,750,125</u>	<u>699,163</u>	<u>24,812</u>	<u>3,474,100</u>	<u>2,775,000</u>	<u>668,358</u>	<u>52,121</u>	<u>3,495,479</u>

11. Intangible Assets

	2019 \$	2018 \$
Computer Software	1,342,194	1,154,633
Less: Provision for amortisation	(1,006,485)	(833,993)
	<u>335,709</u>	<u>320,640</u>
Movement in the assets balances during the year were:		
Opening balance	320,640	184,635
Purchases	187,561	275,529
Less:		
Disposal of assets	-	(19,273)
Amortisation charge	(172,492)	(120,251)
Balance at the end of the year	<u>335,709</u>	<u>320,640</u>

12. Taxation Assets

Accrual for GST receivable	59,959	72,752
Deferred Tax Asset	283,522	254,173
	<u>343,481</u>	<u>326,925</u>

12. Taxation Assets (Continued)	Note	2019 \$	2018 \$
Deferred tax asset comprises:			
Accrued expenses not deductible until incurred		45,408	48,001
Provisions for impairment on loans		10,656	1,679
Provisions for employee benefits		191,549	177,822
Provisions for other		35,909	21,897
Depreciation on fixed assets		-	4,774
		<u>283,522</u>	<u>254,173</u>
13. Borrowings			
Cuscal Limited	29	1,149,364	483,238
IOOF Investment Management Ltd	29	-	3,000,000
		<u>1,149,364</u>	<u>3,483,238</u>
14. Deposits from Members			
Member Deposits			
- at call		199,157,121	193,658,782
- term		144,978,903	120,266,757
Total deposits		<u>344,136,024</u>	<u>313,925,539</u>
Member withdrawable shares		29,418	29,434
		<u>344,165,442</u>	<u>313,954,973</u>
Concentration of Member Deposits			
Member deposits at balance date are concentrated in the following areas:			
- Illawarra		125,683,057	118,346,723
- Shoalhaven		95,580,274	86,021,220
- Bega Valley		112,238,572	100,301,836
- Other		10,663,539	9,285,194
		<u>344,165,442</u>	<u>313,954,973</u>
15. Payables			
Creditors and accruals		819,564	770,646
Employee entitlements		704,031	656,250
Interest payable on deposits		1,291,700	997,103
		<u>2,815,295</u>	<u>2,423,999</u>
16. Taxation Liabilities			
Current income tax liability		25,097	177,840
Deferred tax liability		558,311	363,721
Accrual for GST payable		20,491	26,197
Accrual for other tax liabilities		80,589	77,472
		<u>684,488</u>	<u>645,230</u>
Current income tax liability comprises:			
Balance – previous year		177,840	166,440
Less: paid		(177,840)	(174,643)
Under provision in prior year		-	8,203
		<u>-</u>	<u>-</u>
Liability for income tax in current year		503,451	475,352
Less: Instalments paid in current year		(478,354)	(297,512)
		<u>25,097</u>	<u>177,840</u>
Deferred tax liability comprises:			
Tax on revalued property held in equity		352,666	352,666
Tax on revalued investments held in equity		160,515	-
Deferred loan fees		16,851	11,055
Prepayments less than \$1,000		4,682	-
Depreciation on fixed assets		23,597	-
		<u>558,311</u>	<u>363,721</u>

17. Provisions	2019	2018
	\$	\$
Fraud		
Balance at the beginning of the year	-	-
Liability increase in current year	15,089	-
Balance at the end of the year	<u>15,089</u>	<u>-</u>
Lease premises make good		
Balance at the beginning of the year	70,000	50,000
Liability increase in current year	38,000	20,000
Balance at the end of the year	<u>108,000</u>	<u>70,000</u>
Total provisions	<u>123,089</u>	<u>70,000</u>

18. Share Redemption Reserve

Balance at the beginning of the year	149,192	147,282
Transfer from retained earnings on share redemptions	1,954	1,910
Balance at the end of year	<u>151,146</u>	<u>149,192</u>

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	967,720	893,261
Transfer (to) from retained earnings	(36,764)	74,459
Balance at the end of year	<u>930,956</u>	<u>967,720</u>

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	929,756	280,259
Add: Land and building revaluation	-	1,050,584
Add: Cuscal shares restated at FV	583,691	
Less: Adjustments transferred to deferred tax liability	(160,515)	(401,087)
Balance at the end of year	<u>1,352,932</u>	<u>929,756</u>

This reserve relates to unrealised gains on land and building at 27 Stewart Street, Wollongong NSW 2500 as well as shares held in Cuscal Limited.

21. Retained Earnings

Retained Profits at the beginning of the financial year	22,380,792	21,094,581
Add: operating profit for the year	1,359,628	1,362,580
Add/(Less): transfer of reserves to reserve for credit losses	36,764	(74,459)
Less: transfer of reserves to capital account on redemption of shares	(1,954)	(1,910)
Retained Profits at the end of the Financial Year	<u>23,775,230</u>	<u>22,380,792</u>

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 30 June 2019, a 200bp parallel downward shift would result in a loss of 0.372% of capital (2018: gain of 2.521%). The credit union therefore is exposed to interest rates increasing and based on this measure would lose 0.372% of capital if interest rates decrease 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	2019	2018
Holdings at 30 June	\$54,016,130	\$52,450,083
Ratio at 30 June	14.85%	15.90%
Prescribed ratio	9.00%	9.00%
Average ratio for the year	15.87%	15.86%
Minimum ratio during the year	14.69%	14.46%

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:

	2019			2018		
	Carrying value \$	Commitments \$	Max exposure \$	Carrying value \$	Commitments \$	Max exposure \$
Loans to						
Mortgage	282,799,551	13,680,739	296,480,290	254,781,794	9,074,435	263,856,229
Personal	9,545,587	90,695	9,636,282	9,340,476	824,816	10,165,292
Credit cards	2,264,310	3,832,858	6,097,168	2,073,952	4,017,509	6,091,461
Overdrafts	3,970,118	5,017,176	8,987,294	4,510,211	5,260,205	9,770,416
Total to natural persons	298,579,566	22,621,468	321,201,034	270,706,433	19,176,965	289,883,398
Corporate borrowers	12,626,676	1,656,925	14,283,601	11,347,616	554,924	11,902,540
Total	311,206,242	24,278,393	335,484,635	282,054,049	19,731,889	301,785,938

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

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

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

The credit union has established policies over the:

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

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

22. Financial Risk Management Objectives and Policies (Continued)

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the credit union that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that the counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants 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:

Investments with	2019			2018		
	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	43,530,681	-	-	37,938,231	-	-
Building Societies – rated below AA	-	-	-	-	-	-
Credit Unions – rated below AA	-	-	-	-	-	-
Unrated institutions	2,000,000	-	-	3,000,000	-	-
Total	51,810,681	-	-	47,218,231	-	-

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:

	2019	2018
Tier 1		
Capital reserve	151,146	149,192
Asset revaluation reserve on property	1,352,932	929,756
Retained earnings	23,713,952	22,340,594
	<u>25,218,030</u>	<u>23,419,542</u>
Less prescribed deductions	(1,468,932)	(870,171)
Net tier 1 capital	<u>23,749,098</u>	<u>22,549,371</u>
Tier 2		
Reserve for credit losses	930,956	967,720
	<u>930,956</u>	<u>967,720</u>
Less prescribed deductions	-	-
Net tier 2 capital	<u>930,956</u>	<u>967,720</u>
Total Capital	<u><u>24,680,054</u></u>	<u><u>23,517,091</u></u>

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

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance 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

	2019	2018	2017	2016	2015
	Basel III	Basel III	Basel III	Basel III	Basel III
Capital Ratio	14.53%	14.96%	14.61%	14.95%	15.00%

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 30 June 2019 was \$19,721,666 [2018: \$18,466,849].

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

	2019 \$	2018 \$
a. The following information classifies the financial instruments into measurement classes		
Financial assets – carried at amortised cost		
Cash and cash equivalents	6,205,449	10,231,852
Receivables	302,196	465,208
Receivables from financial institutions	51,944,582	47,413,644
Loans to members	311,206,242	282,054,049
	<u>369,658,469</u>	<u>340,164,753</u>
Assets carried at FVOCI	1,133,223	-
Available for sale assets	-	549,532
	<u>370,791,692</u>	<u>340,714,285</u>
Financial Liabilities – carried at amortised cost		
Borrowings	1,149,364	3,487,454
Creditors	819,564	770,646
Deposits from members	345,427,724	314,918,426
Members withdrawable shares	29,418	29,434
	<u>347,426,070</u>	<u>319,205,960</u>

b. Assets measured at fair value

Fair value measurement at the end of the reporting period using:

	Note	Balance	Level 1	Level 2	Level 3
Equity investment securities designated as FVOCI	9	1,133,223	-	-	1,133,223

The fair value hierarchy has the following levels:

- quoted prices (unadjusted in active markets for identical assets or liabilities (Level 1);
- 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
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

The level 3 equity investment securities designated as FVOCI relate to the shares in Cuscal Limited, which have been restated at fair value at 1 July 2018.

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.

2019	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	After 5 years	No maturity	Total
	\$	\$	\$	\$	\$	\$	\$
Assets							
Cash	3,605,133	-	-	-	-	2,605,449	6,210,582
Receivables	302,196	-	-	-	-	-	302,196
Liquid investments	9,613,335	13,511,718	4,054,988	30,934,792	-	-	58,114,833
Loans & advances	2,037,888	4,075,777	18,126,116	87,700,723	354,387,479	-	466,327,983
FVOCI equity investment	-	-	-	-	-	1,133,223	1,133,223
Total financial assets	15,558,552	17,587,495	22,181,104	118,635,515	354,387,479	3,738,672	532,088,817

Liabilities							
Borrowings	1,149,364	-	-	-	-	-	1,149,364
Creditors	819,564	-	-	-	-	-	819,564
Deposits from members – at call	199,157,121	-	8,886	-	-	29,418	199,195,425
Deposits from members – term	20,160,075	34,682,258	84,643,708	8,502,330	-	-	147,988,371
On statement of financial position	221,286,124	34,682,258	84,652,594	8,502,330	-	29,418	349,152,724
Undrawn commitments	-	-	-	-	-	25,927,845	25,927,845
Total financial liabilities	221,286,124	34,682,258	84,652,594	8,502,330	-	25,957,263	375,080,569

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
Available for sale investments	-	-	-	-	-	549,532	549,532
Total financial assets	19,365,757	15,320,803	28,026,236	104,487,694	321,379,513	4,281,384	492,861,387

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

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.

	2019			2018		
	Within 12 months \$	After 12 months \$	Total \$	Within 12 months \$	After 12 months \$	Total \$
Financial assets						
Cash	6,205,449	-	6,205,449	10,231,852	-	10,231,852
Liquid investments	23,430,681	28,380,000	51,810,681	26,438,231	20,780,000	47,218,231
Loans & advances	19,477,464	291,728,778	311,206,242	19,140,019	262,914,030	282,054,049
Receivables	436,097	-	436,097	660,621	-	660,621
FVOCI equity investments	1,133,223	-	1,133,223	-	-	-
Available for sale investments	-	-	-	549,532	-	549,532
Total financial assets	50,682,914	320,108,778	370,791,692	57,020,255	283,694,030	340,714,285
Financial liabilities						
Borrowings	1,149,364	-	1,149,364	3,483,238	-	3,483,238
Deposits from other financial institutions	-	-	-	-	-	-
Deposits from members – at call	199,166,007	-	199,166,007	193,668,153	-	193,668,153
Deposits from members – term	138,283,332	7,978,385	146,261,717	113,633,024	7,621,465	121,254,489
Creditors	819,564	-	819,564	770,646	-	770,646
Total financial liabilities	339,418,267	7,978,385	347,396,652	311,555,061	7,621,465	319,176,526

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.

2019	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Non-interest bearing	Total
	\$	\$	\$	\$	\$	\$
Assets						
Cash and cash equivalents	3,600,000	-	-	-	2,605,449	6,205,449
Receivables	-	-	-	-	302,196	302,196
Liquid investments	24,889,270	27,088,255	-	-	-	51,977,525
Loans and advances	146,069,200	9,209,995	53,774,936	102,152,111	-	311,206,242
FVOCI equity investments	-	-	-	-	1,133,223	1,133,223
On statement of financial position	174,558,470	36,298,250	53,774,936	102,152,111	4,040,868	370,824,635
Undrawn commitments	-	-	-	-	25,077,209	25,077,209
Total financial assets	174,558,470	36,298,250	53,774,936	102,152,111	29,118,077	395,901,844
Liabilities						
Borrowings	1,149,364	-	-	-	-	1,149,364
Creditors	-	-	-	-	819,564	819,564
Deposits from members – at call	199,157,121	-	8,886	-	29,418	199,195,425
Deposits from members – term	20,141,447	34,551,791	83,483,795	8,084,683	-	146,261,716
On statement of financial position	220,447,932	34,551,791	83,492,681	8,084,683	848,982	347,426,069
Undrawn commitments	-	-	-	-	850,636	850,636
Total financial liabilities	220,447,932	34,551,791	83,492,681	8,084,683	1,699,618	348,276,705
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

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.

	2019			2018		
	Fair Value	Carrying Amount	Variance	Fair Value	Carrying Amount	Variance
	\$	\$	\$	\$	\$	\$
Financial Assets						
Cash and cash equivalents	6,205,449	6,205,449	-	10,231,852	10,231,852	-
Receivables *	436,097	436,097	-	660,621	660,621	-
Advances to other financial institutions	52,295,176	51,810,681	484,495	47,139,259	47,218,231	(78,972)
Loans to members	311,310,480	311,228,769	81,711	282,589,897	282,088,144	501,753
FVOCI equity investments	1,133,223	1,133,223	-	-	-	-
Available for sale investments	-	-	-	549,532	549,532	-
Total financial assets	371,380,425	370,814,219	566,206	341,171,161	340,748,380	422,781
Financial Liabilities						
Borrowings	-	-	-	3,000,000	3,000,000	-
Creditors *	2,815,295	2,815,295	-	2,423,999	2,423,999	-
Deposits from members – at call	199,186,539	199,186,539	-	193,688,216	193,688,216	-
Deposits from members – term	145,741,214	144,978,903	762,311	120,216,265	120,266,757	(50,492)
Total financial liabilities	347,743,048	346,980,737	762,311	319,328,480	319,378,972	(50,492)

* 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	2019	2018
	\$	\$
a. Outstanding Loan commitments		
Loans approved but not funded as at 30 June	13,220,801	7,889,587
b. Loan Redraw Facility		
Facilities available as at 30 June	1,674,334	2,089,865
c. Undrawn Loan Facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	18,266,618	18,314,370
Less: Amount advanced	(8,084,544)	(8,561,931)
Net undrawn value	10,182,074	9,752,439
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	25,077,209	19,731,891
d. Computer Software Expense Commitments		
The costs committed under the current Ultradata and TAS contracts are as follows:		
Not later than 1 year	774,174	841,902
Later than 1 year but not 2 years	403,625	741,756
Later than 2 years but not 5 years	99,092	437,845
Later than 5 years	-	-
	1,276,891	2,021,503
e. Lease commitments for operating leases on property occupied by the credit union		
Not later than 1 year	467,723	523,503
Later than 1 year but not later than 5 years	779,056	786,735
Later than 5 years	-	28,807
	1,246,779	1,339,045

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

Committed facilities

Cuscal Limited overdraft facility	2,000,000	2,000,000
Current borrowing	(1,149,364)	(483,238)
Total standby borrowing facilities available	850,636	1,516,762

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

Uncommitted facilities

IOOF Investment Management Ltd	27,000,000	20,000,000
Current borrowing	-	(3,000,000)
Total standby borrowing facilities available	27,000,000	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:

	Directors	2019 Other KMP	Total	Directors	2018 Other KMP	Total
	\$	\$	\$	\$	\$	\$
(a) short-term employee benefits;	146,161	905,310	1,051,471	136,928	869,852	1,006,780
(b) post-employment benefits - superannuation contributions	38,665	118,043	156,708	38,460	123,609	162,069
(c) other long-term benefits – net (decrease)/increases in long service leave provision and retirement gifts	-	(4,830)	(4,830)	-	10,921	10,921
(d) termination benefits	-	-	-	-	-	-
(e) share-based payment	-	-	-	-	-	-
Total KMP compensation	184,826	1,018,523	1,203,349	175,388	1,004,382	1,179,770

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:

	Mortgage Secured	2019 Other term loans	Credit Cards	Mortgage Secured	2018 Other term loans	Credit Cards
	\$	\$	\$	\$	\$	\$
Funds available to be drawn	425,427	1,219	53,885	340,124	1,074	49,476
Balance	1,695,626	28,535	44,115	1,316,962	55,624	48,524
Amounts disbursed or facilities increased in the year	707,210	-	123,503	-	-	129,405
Interest and other revenue earned	75,852	2,791	534	67,573	4,898	12,841

2019
\$

2018
\$

Other transactions between related parties include deposits from directors, and other Key Management Persons are:

Total value of term and savings deposits of KMP	2,951,737	1,561,829
Total interest paid on deposits to KMP	27,895	11,658

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

	2019	2018
	\$	\$
a. Reconciliation of Cash and cash equivalents		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand and at bank	2,605,449	3,731,852
Deposits at call	3,600,000	6,500,000
Total Cash and cash equivalents	<u>6,205,449</u>	<u>10,231,852</u>
b. Reconciliation of cash from operations to accounting profit		
The net cash increase from operating activities is reconciled to the operating profit after tax		
Operating profit after income tax	1,359,628	1,362,580
Non cash flows		
Depreciation	341,280	512,804
Amortisation of intangibles	172,492	120,251
Loss on sale of assets	5,071	8,046
Profit on sale of assets	(17,868)	(13,636)
Add changes in assets and liabilities		
Increase in provision for loans	32,644	-
Increase in other provisions	53,089	20,000
Increase in employee entitlements	47,781	-
Increase in accrued expenses	48,918	-
Increase in provision for income tax	-	11,400
Increase in unamortised fixed rate loan renegotiation fees	2,499	-
Increase in interest payable	294,597	61,187
Increase in deferred tax liability	34,075	225,648
Increase in member deposits and shares	30,210,469	1,794,370
Decrease in prepayments	-	18,021
Decrease in taxes receivable	12,793	-
Decrease in sundry debtors and other receivables	163,012	-
Decrease in interest receivable	61,512	30,605
Decrease in deferred tax asset	-	58,593
Decrease in receivables from financial institutions	-	21,505,200
Less changes in assets and liabilities		
Decrease in employee entitlements	-	(19,899)
Decrease in accrued expenses	-	(1,990)
Decrease in provision for loans	-	(2,810)
Decrease in GST and other tax liabilities	(2,589)	(8,605)
Decrease in provision for income tax	(152,743)	-
Decrease in unamortised fixed rate loan renegotiation fees	-	(1,571)
Decrease in effective rate adjustments	(23,575)	(21,671)
Decrease in deferred income tax (asset revaluation reserve)	-	(401,087)
Increase in sundry debtors and other receivables	-	(47,664)
Increase in deferred tax asset	(29,349)	-
Increase in prepayments	(66,957)	-
Increase in taxes receivable	-	(17,735)
Increase in member loans	(29,152,193)	(25,690,399)
Increase in receivables from financial institutions	(4,592,450)	-
Net cash from operating activities	<u>(1,197,864)</u>	<u>(498,362)</u>

37. Corporate Information

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

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

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

Administration

Horizon Credit Union Ltd ABN 66 087 650 173
AFSL 240573 Australian credit licence number 240573
27 Stewart Street, Wollongong NSW 2500

