2018-2019 Annual Report

MACQUARIE CREDIT UNION

a closer connection

ABN 85 087 650 253 | AFSL 241132 | BSB 802 126

OUR MISSION

TO PROVIDE FRIENDLY, PERSONAL AND EFFICIENT FINANCIAL SERVICES AT THE LOWEST POSSIBLE COST TO OUR MEMBERS

PROVIDING FINANCIAL SERVICES TO OUR MEMBERS AT THE LOWEST POSSIBLE COST IS SOMETHING THAT THIS CREDIT UNION PRIDES ITSELF IN ACHIEVING.

Front cover image Kindly supplied by Peter Woodward

ANNUAL REPORT 18-19
TABLE OF CONTENTS

General Manager's Report	3 - 5
Staff Charity Initiatives	6
Chairman's Report	7 - 8
Financial Report for the year ended 30 June, 2019	9 - 76
Credit Union Contacts	77

GENERAL MANAGER'S REPORT

It is with pleasure that we present the Macquarie Credit Union's Annual Report for the 2018/19 financial year. While I am very proud to report on our results and accomplishments for the year, the year was not without its challenges to say the least. On a national scale, the slowing economy and some nervousness in the housing market has affected investment across a large part of regional NSW, and coupled with local and regional issues around the devastating drought which continues to cause great concern for all of us.

Over the year the Credit Union continued to perform soundly notwithstanding operating in a very low interest rate environment with very little sign that this will change significantly in medium term.

The very low interest rate environment we are operating in is good news for borrowers, but it significantly impacts on our depositors. A large number of these depositors are self-funded retirees who are feeling the impact of long term reductions in cash flows. This impact is always considered as part of our decision making process on deposit interest rates.

The past year has been another busy year for the Credit Union with everyone working extremely hard to provide outstanding service to members and first rate products. This the Credit Unions fourth year at our new premises in Dubbo continues to provide the best member experience through outstanding personal service. While many of the big banks are reducing staff numbers and turning to Skype to conduct loan interviews, Macquarie Credit Union prides itself by providing the "face to face" experience that people want.

The Banking Royal Commission has uncovered many dubious practices employed by the major banks that have lead to an erosion of trust in the major banks. Macquarie Credit Union has continued to deliver a suite of competitive loan and deposit products in a completely ethical fashion. We exercise caution in the way that we apply our lending assessment criteria and we always ensure we have our Members' interests at the forefront with any decision made. We do not pay any of our staff performance bonuses or incentives to sell to our members.

Our customers are also our members and our shareholders, there is no difference, so the Credit Union's focus is on offering the most competitive products and services whilst committing to sustainable long-term relationships rather than short-term profits. Our mutual model is the only alternative that can claim it is solely customer focused because 100% of profits are used to benefit customers.

We strive to be the financial institution of choice for all our members, and to deliver this outcome we need to continue to invest in our staff, systems, processes, products, and channels of delivery. This investment while important also needs to be balanced in an environment where interest rates are at historic lows, which in turn squeezes profitability.

We are very excited about the projects we are working on with a new Mobile Banking App set for rollout in the new year, and a number of other enhancements which will continually improve member experience.

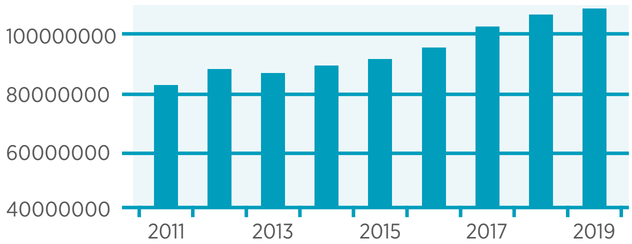
I would like to thank your Board of Directors for another year of wise counsel and direction. The Board continues to show strong leadership and support in investing for the future of Macquarie Credit Union.

To the staff of Macquarie Credit Union, we are a small yet mighty team. What we deliver on a daily, monthly, and annual basis continues to amaze me. We deliver products and services that compare favorably with our "major bank" competitors, with a fraction of their resources and budgets. We are a passionate and dedicated team, absolutely committed to providing members with the best possible service. I am very proud to lead a team that consistently strives to do the best they can for our members. We can be proud of our products and services and how we deliver them.

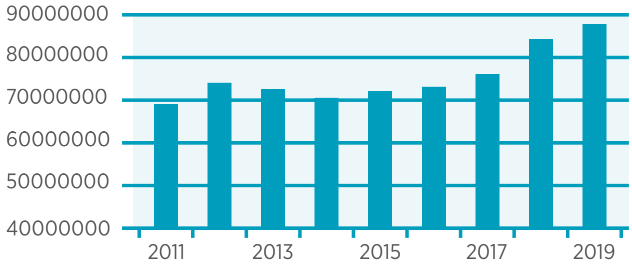
PERFORMANCE OVER TIME

The following graphs provide a simple picture of how the Credit Union has performed over the past few years.

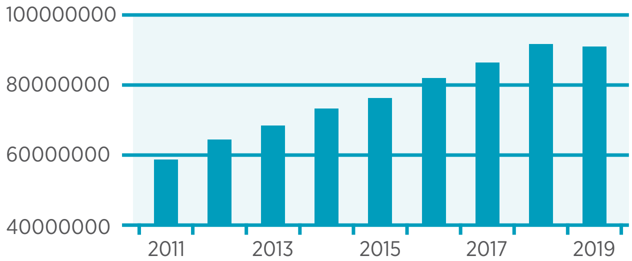
Assets



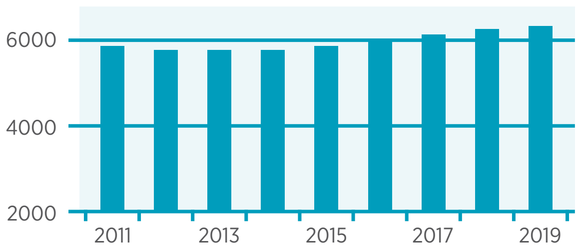
Loans



Deposits



Members



COMMUNITY AND CHARITY

Community and charity involvement is a longstanding tradition at Macquarie Credit Union. We are constantly looking for ways to benefit and engage with both members and our community at large.

We are proud to support and 'give' to many organisations throughout the year. This provides a great foundation to align both our organisational values and culture for the greater good of our members and community.

MACQUARIE CREDIT UNION DREAM FESTIVAL

Macquarie Credit Union is proud to support the Macquarie Credit Union Dream Festival as the Major Sponsor. The festival is growing perpetually with over 22,000 attendees recorded in 2018. The Dream Festival promotes creativity and provides an annual platform to celebrate and encourage Dubbo Regional Entertainment, Art and Music.

In 2018 our dedicated staff volunteered and marched proudly in the annual Lantern Parade. We assisted the Dream Festival committee at the Markets by distributing glow in the dark supplies and colourful Macquarie Credit Union balloons. Our efforts splashed colour over Dubbo for the night and delighted event attendees, especially families with young children.

The 2019 Dream Festival is shaping up to be even better than the previous years. Production is underway for the addition of our own lanterns this year.

MACQUARIE CREDIT UNION

dream

DUBBO REGIONAL ENTERTAINMENT ARTS AND MUSIC FESTIVAL

DUBBO STAMPEDE

As a sponsor and as a team, Macquarie Credit Union joined the herd participating in the Annual Dubbo Stampede. The inclusive event is consistently popular amongst seasoned athletes, first timers, families and local businesses.

The popular event draws thousands of participants to Taronga Western Plains Zoo for a fun filled morning. The very welcome rain in 2018 didn't deter participants, instead adding to the celebratory atmosphere.

DUBBO BIKE RALLY

We were a proud sponsor of the first ever 'Inaugural Dubbo Bike Rally' in March. The successful event was held in nearby Church Street and gathered bike enthusiasts and community members to the CBD.

NARROMINE MS SUPPORT GROUP

The Narromine MS Support Group Golf Day was held on Mothers Day at the Narromine Golf Club. Players competed in the tournament for the Macquarie Credit Union $1,000 hole-in-one prize as well as a bounty of prizes provided by our Staff Charity Fund.

A raffle and barbeque lunch for the players and supporters was also organised for the day.

Organisations supported by Macquarie Credit Union as well as our Staff Charity Fund in 2018 - 2019 include:

- Macquarie Credit Union Dream Festival
- Dubbo Stampede
- Orana Relay for Life
- Dubbo & District Junior Cricket Association
- St John's College
- Black Dog Ride 1 Dayer
- Dubbo Bike Rally
- Nyngan Show Society
- Dubbo Show Society
- Narromine MS Support Group
- Dubbo Base Hospital Spring Ball
- Ride for Crossy
- Credit Union Foundation Australia (CUFA)
- McGrath Foundation
- Sarah Bromhead-Dunn (Songs for Sarah)
- Can Assist Dubbo
- Jeans for Genes
- Meals on Wheels
- Dubbo Evening View Club
- Dubbo Community Kitchen

MEMBERS COCKTAIL PARTY

The Member's Cocktail Party was introduced in 2018, providing a fresh annual event for Member's to join the Macquarie Credit Union Board and Team. This was a fun filled night of delicious food, live entertainment and prizes. The sold out event held at Bellotti's Italian Restaurant was a huge hit on the night with over 100 in attendance. Talented local musician Sam Coon entertained the crowd with his vocal and guitar performance. The Photo Booth was also a popular feature of the night with many happy party-goers capturing new and old friendships.

Matthew Bow
General Manager

STAFF CHARITY INITIATIVES

Our Weekly Staff Charity Initiative continues to add value to a diverse range of organisations, financially and 'in kind' by donating both time and people power. Our Staff Charity involvement is focused predominantly on local causes but also spans nationally and internationally.

MACQUARIE CREDIT UNION DREAM FESTIVAL

Macquarie Credit Union's involvement in the Dream Festival could not be achieved without the huge volunteer support offered annually by our Macquarie Credit Union Staff.

Employees and their families volunteer their personal time to work at the Dream Festival Markets selling glow products, handing out balloons and representing the Credit Union in the Lantern Parade.

We are proud to be able to assist the Dream Festival Committee at the Markets to sell glow products.

MCGRATH FOUNDATION

For the month of October 2018, we supported the McGrath Foundation. Our Fundraising efforts included wearing pink and selling delicious snacks including cupcakes and lollies!

SONGS FOR SARAH

We contributed to the 'Songs for Sarah' fundraiser in April 2019. A local charity event organised for local Sarah Bromhead-Dunn, who has Rett Syndrome. Funds raised going towards the purchase of a life changing gravity chair for Sarah.

CREDIT UNION FOUNDATION AUSTRALIA

Cufa assists the most disadvantaged communities to break the poverty cycle through programs focusing on economic development and self-determination. Cufa's work covers all areas of economic development: micro-enterprise, social enterprises, employment placement programs, financial literacy education for both children and adults, as well as livelihoods programs.

CAN ASSIST DUBBO BRANCH

Donation to Can Assist (Dubbo Branch). Can Assist provide accommodation and practical support for country families affected by cancer. They work hard to raise awareness of the inequities facing country people affected by any type of cancer.

JEANS FOR GENES DAY

Our staff were actively involved in Jeans for Genes Day selling official merchandise, hosting a morning tea and all wearing denim on the day. Funds raised are donated to the Children's Medical Research Institute, who research cures for children's genetic diseases.

DUBBO COMMUNITY KITCHEN

Our Staff Charity has a longstanding relationship with the Dubbo Community Kitchen making consistent contributions since 2015. This has continued to help provide meals for those in need.

DUBBO EVENING VIEW CLUB

A little effort goes a long way for the Dubbo Evening View Club. Our staff volunteer once a month to make their event easier by setting up the tables and chairs for their card tournament.

MEALS ON WHEELS

For over a decade, our staff have been proudly delivering meals to the Dubbo community as Meals on Wheels Volunteers. Donating personal time for the greater good of the community.

CHAIRMAN'S REPORT

The ending of the 2018/19 financial year sees the Credit Union in a healthy and well managed financial position. This is not to say that the year has not been without its challenges. Continuing drought, low interest rates and a slow housing market have impacted all mutually owned banking institutions.

Through these conditions the Credit Union has been able to continue to grow and increase membership, particularly within the Dubbo local government area.

The Credit Union's business can best be described as the provision of simple, easily understood and relatively risk-free financial services. The Credit Union's business objectives are to provide products and services to meet member needs. The Credit Union Board aims to retain and grow the Credit Union's business, offering leading edge products, increasing membership and developing a proactive culture for the Credit Union in the market place.

The rise of short-term lay-by lenders has some governing bodies concerned. Whilst these can be convenient and low cost there is a concern that, as they are not subject to the credit code regulations, some vulnerable consumers could over commit themselves. The Credit Union adheres to the regulatory codes and as such is required to comply with responsible lending practices.

Fallout from the Banking Royal Commission is still filtering down through the regulators, board attitudes and cultures have come in for some scrutiny. APRA has made some recommendations to the industry regarding the governance and cultural attitudes of boards overseeing their institutions. At Macquarie Credit Union your board has always taken a responsible attitude to risk management and good governance and have had no significant issues resulting from APRA reviews. Even so the board has taken steps to strengthen our board assessment process with the addition of a "non-financial risk "element as recommended by the regulator.

FINANCIAL ENVIRONMENT

The financial environment and competitive nature in which the Credit Union operates affects our results. Low interest rates, low wages growth, subdued retail spending and drought are all conditions that need to be dealt with and considered when making budgetary decisions. Despite these conditions the Credit Union has been able to show an increase in loans to members over the past year. Similarly, asset growth and overall membership numbers have grown but somewhat less than budget estimates.

As the level of official interest rates, as set by the RBA become very low, the result is a squeeze on margins and hence the overall profitability of the Credit Union. As a result, our profit after tax for the year was slightly less than last year. Whilst this is not ideal it is a reality within the industry with most other institutions of comparable size facing a downturn in profit. We are however vigorously pursuing more business through member analysis, active marketing, event sponsorship and generally raising our brand name in the local and wider areas. Existing members are also being encouraged to make the Credit Union their main financial institution. We are confident that even with these external conditions the Credit Union has a secure place in the local financial landscape.

EVENTS

The Credit Union continues to involve itself in a variety of community events. The pinnacle of these is the Macquarie Credit Union DREAM festival which continues to go from strength to strength. As the major sponsor of this festival we look forward to participating in the Music and Markets, Lantern Parade and the spectacular Lights and Laser show.

The Dubbo Stampede also has our support and we were represented by a group of staff and directors who completed the 5km course wearing our Credit Union shirts and promoting our brand.

Other events sponsored include; The Dubbo Motor Bike Rally, Narromine MS Support Group, Black Dog Ride, Orana Relay for Life and several other worthwhile groups. The Credit Union is open to applications for sponsorship and our website has application details.

Our Member's Cocktail Party at Bellotti's Italian Dining last year was a chance for members to renew old friendships and was a very enjoyable and social evening. The event is on again this year on 8 November and with the experience of last year's gathering promises to be even better this year.

Finally, the 55th Annual General Meeting of the Credit Union is set down for 22 November. The meeting is to be held in the Credit Union office at 165 Brisbane Street.

ACKNOWLEDGEMENTS

To Matthew Bow, our General Manager, my sincere appreciation for the dedication not only to our own credit union but for his commitment to the industry by participating in associated support groups. Matt is well known and respected in the mutual sector.

Our Deputy General Manager Leanne Bourne has been with Macquarie Credit Union for 15 years and has announced that she will be retiring from the end of October this year. Leanne has been a committed and driven manager and has assisted in the introduction of many reforms and educational programs that have modernised and reformed many work practices. Her expertise and deep banking knowledge will be hard to replace. The board wishes Leanne and husband David every enjoyment in their new life in Tasmania.

To all the staff, my sincere thanks for your efforts in promoting the Credit Union and for providing excellent service to our members. I appreciate the fact that many of you have willingly stepped up to cover additional duties during the year and also given your time to attend our sponsored functions outside of normal hours.

My fellow directors have been very supportive as we negotiated the many challenges that are thrust upon us in these testing economic times. They too, have given their time to stay well informed and abreast of current trends in member's expectations and banking applications.

To all the members who support the Credit Union in good faith, whether you live locally and can access the branch or conduct business remotely, I thank you for your ongoing support and use of our services. The board and management are consciously focused on providing you with modern services that make your banking easy.

Paul Nolan.

Paul Nolan
Chairman

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

TABLE OF CONTENTS

Directors' Report	10 - 13
Auditor's Independence Declaration	14
Directors' Declaration	15
Statement of Comprehensive Income	16
Statement of Financial Position	17
Statement of Changes in Equity	17
Statement of Cash Flows	18
Notes to the Financial Statements	19 - 74
Independent Audit Report to the Members	75 - 76

DIRECTORS' REPORT

Your Directors present their report on the Credit Union for the financial year ended 30 June 2019.

DIRECTORS

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

A Field	PM Nolan
J Gray	DAJ Rootes
RK Mills	CJ Shepherd
J Moss	

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

ASSOCIATE DIRECTOR

Mr Peter Woodward has been an Associate Director since the start of the financial year to the date of this report.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Matthew Bow – Mr Bow has worked for Macquarie Credit Union Limited for the past fourteen years and was appointed the General Manager of the Credit Union on 19 November 2007. He was also appointed company secretary on 19 November 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Credit Union during the year were the provision of financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the constitution. There were no significant changes in the nature of the Credit Union's activities during the year.

OPERATING RESULTS

The profit of the Credit Union for the financial year after providing for income tax was $272,000 (2018 - $282,000).

DIVIDENDS RECOMMENDED

The Credit Union's constitution does allow the payment of a dividend, but the Directors of the Credit Union have elected not to pay a dividend for the year ended 30 June 2019.

REVIEW OF OPERATIONS

The Credit Union recorded a profit of $272,000 compared to $282,000 in the 2018 year. The directors are satisfied with the result given the challenging economic conditions that prevail upon the financial services industry and continued low interest rate environment that Australia is experiencing.

Profit before income tax expense has decreased by $36,000 (8.9%) to 371,000 (2018 - $407,000).

Interest revenue has increased by $132,000 (3.1%) to $4,333,000 due to a 5% growth in members loans during the year. Interest expense increased by $70,000 (5.1%) to $1,453,000.

Other revenue has decreased by $72,000 (14.1%) to $437,000 due to a decrease in fees and commissions income. Employee benefits expense has increased by $19,000 (1.6%) to $1,190,000 and other expenses have decreased by $46,000 to $1,325,000.

ENVIRONMENTAL ISSUES

The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or State.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Credit Union during the financial year.

EVENTS AFTER THE REPORTING PERIOD

No matters or circumstances have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union in future financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

During the next financial year the Directors do not expect any significant changes in the operations or services of the Credit Union which will affect the results of the Credit Union.

Further information as to future developments, prospects and business strategies of the Credit Union have not been included in this report as the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the interests of the Credit Union.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments) by reason of a contract made by the Credit Union or a related corporation with a Director or with a firm of which he or she is a member, or with an entity in which he or she has a substantial financial interest.

INDEMNIFYING OFFICERS AND AUDITOR

The Credit Union has a Directors' and Officers' liability insurance policy covering all Directors. The premium paid in respect of this policy in force at the date of this report was $380.

No indemnities have been given or agreed to be given or insurance premiums paid or agreed to be paid, during or since the end of the financial year, for the auditor of the Credit Union.

INFORMATION ON DIRECTORS

The Directors in office at the date of this report are:

Mr P M Nolan	Chairman since 29/11/17
Experience	Board Member since 1/11/03
Interest in Shares	One ordinary share in the Credit Union

Mrs. A Field	Director
Experience	Board Member since 25/01/17
Interest in Shares	One ordinary share in the Credit Union

Mr J Gray	Director
Experience	Board Member since 10/10/12
Interest in Shares	One ordinary share in the Credit Union

Mr R K Mills	Director
Experience	Board Member since 22/05/06
Interest in Shares	One ordinary share in the Credit Union

Mr J Moss	Director
Experience	Board Member since 24/02/09
Interest in Shares	One ordinary share in the Credit Union

Mr D A J Rootes	Deputy Chairman since 29/11/17
Experience	Board Member since 30/08/06
Interest in Shares	One ordinary share in the Credit Union

Mr C J Shepherd	Director
Experience	Board Member since 19/04/71
Interest in Shares	One ordinary share in the Credit Union

GENERAL BOARD ATTENDANCE

During the financial year the following meetings of Directors were held. Attendances were:

	Board Meetings Eligible to Attend	Board Meetings Attended	Audit Committee Meetings Eligible to Attend	Audit Committee Meetings Attended
A Field	12	12	6	3
J Gray	12	8	-	-
RK Mills	12	10	6	5
J Moss	12	11	6	6
PM Nolan	12	10	6	5
DAJ Rootes	12	12	6	5
CJ Shepherd	12	12	-	-

	Risk Committee Meetings Eligible to Attend	Risk Committee Meetings Attended	Remuneration Committee Meetings Eligible to Attend	Remuneration Committee Meetings Attended
A Field	5	2	3	3
J Gray	-	-	3	3
RK Mills	5	4	3	3
J Moss	5	5	3	3
PM Nolan	5	5	3	3
DAJ Rootes	5	4	3	3
CJ Shepherd	-	-	3	3

PROCEEDINGS ON BEHALF OF CREDIT UNION

No person has applied for leave of Court to bring proceedings on behalf of the Credit Union or intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings.

The Credit Union was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2019 has been received and can be found on page 14 of the financial statements.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the audit and risk committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the audit; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethics Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2019:

	$
Taxation services	1,800
Other services	6,500
	$8,300

PRUDENTIAL STANDARD APS 330 – PUBLIC DISCLOSURES

As required by the Prudential Standards, the Credit Union's public disclosures of prudential information are located at www.macquariecu.com.au/aboutus/aps330 Prudential Disclosures.

Signed in accordance with a resolution of the Board of Directors at Dubbo on 4 September 2019 for and on behalf of the Directors by:

Paul Nolan

John Moss

AUDITOR'S DECLARATION

Luka Group
ACCOUNTANTS & ADVISORS

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF MACQUARIE CREDIT UNION LIMITED

I declare that to the best of my knowledge and belief, during the year ended 30 June 2019 there has 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.

Luka Group

2 River Street
Dubbo
Dated: 4 September 2019

JM Shanks
Partner

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Liability limited by a scheme, approved under Professional Standards Legislation

DIRECTORS' DECLARATION

The Directors of Macquarie Credit Union Limited declare that:

1. The financial statements and notes set out on pages 16 to 76 are in accordance with the Corporations Act 2001; and

   i) comply with Accounting Standards and the Corporations Regulations 2001; and

   ii) give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of the Credit Union.

2. In the Directors' opinion there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed at Dubbo on 4 September 2019 for and on behalf of the Directors by:

Paul Nolan

John Moss

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $'000	2018 $'000
Interest revenue	3	4,333	4,201
Interest expense	4	(1,453)	(1,383)
Net interest revenue		2,880	2,818
Other revenue	3	437	509
Impairment losses on loans and advances	4	(20)	(6)
Employee benefits expense	4	(1,190)	(1,171)
Occupancy expense	4	(272)	(250)
Depreciation and amortisation expense	4	(139)	(122)
Other expenses	4	(1,325)	(1,371)
Profit before income tax expense		371	407
Income tax expense	5	(99)	(125)
Profit for the year after income tax expense		**272**	**282**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**$272**	**$282**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Cash and cash equivalents	7	19,296	21,285
Accrued receivables	8	231	249
Loans and advances	9	87,372	83,526
Other investments	10	163	163
Property, plant and equipment	11	378	453
Intangibles	12	173	169
Deferred tax assets	13	239	228
Other assets	14	86	76
TOTAL ASSETS		**107,938**	**106,149**
LIABILITIES			
Deposits and short term borrowings	15	91,121	91,483
Payables and other liabilities	16	362	488
Interest bearing liabilities	17	3,000	1,000
Tax liabilities	18	63	66
Provisions	19	272	264
TOTAL LIABILITIES		**94,818**	**93,301**
NET ASSETS		**$13,120**	**$12,848**
EQUITY			
Reserves	20	572	552
Retained profits	21	12,548	12,296
TOTAL EQUITY		**$13,120**	**$12,848**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Retained Profits $'000	Credit Losses Reserve $'000	Total $'000
Balance at 1 July 2017	**12,051**	**515**	**12,566**
Profit for the year	282	-	282
Transfer from reserves for credit loss for the year	(37)	37	-
Total other comprehensive income for the year	-	-	-
Balance at 30 June 2018	**12,296**	**552**	**12,848**
Profit for the year	272	-	272
Transfer from reserves for credit loss for the year	(20)	20	-
Total other comprehensive income for the year	-	-	-
Balance at 30 June 2019	**$12,548**	**$572**	**$13,120**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest on loans		3,856	3,699
Interest on investments		489	529
Other non-interest income		458	543
Interest paid on members' savings		(1,340)	(1,334)
Interest paid on other finance		(84)	(35)
Payments to suppliers and employees		(2,959)	(2,707)
Income tax paid		(113)	(56)
Members' loan repayments		18,136	17,062
Members' loans' disbursed		(22,002)	(25,359)
Net cash provided by (used in) operating activities	**28.3**	**(3,559)**	**(7,658)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale of property, plant and equipment		-	32
Purchase of property, plant and equipment		(12)	(82)
Purchase of intangibles		(56)	(89)
Net cash used in investing activities		**(68)**	**(139)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		2,000	-
Net movement in member savings		(362)	5,627
Repayment of borrowings		-	(1,000)
Net cash provided by (used in) financing activities		**1,638**	**4,627**
NET INCREASE / (DECREASE) IN CASH HELD		**(1,989)**	**(3,170)**
Cash at beginning of year		21,285	24,455
CASH AT END OF YEAR	**28.2**	**$19,296**	**$21,285**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements are for Macquarie Credit Union Limited as an individual entity. Macquarie Credit Union Limited is a financial institution, incorporated and domiciled in Australia.

The financial statements of Macquarie Credit Union Limited comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The financial statements were authorised for issue on 4 September 2019 in accordance with a resolution of the Board of Directors.

Unless otherwise indicated, amounts in the financial statements have been rounded off to the nearest thousand dollars.

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial statements. The accounting policies have been consistently applied unless otherwise stated.

1.1 Basis of Preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

1.2 Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Credit Union will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

1.3 Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Credit Union commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Office equipment	10% - 50%
EDP equipment	33.3%
Office furniture and fittings	33.3%
Motor vehicles	22%

Assets with a cost less than $1,000 are not capitalised.

1.4 Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets, not as part of property, plant and equipment. Computer software is amortised over the expected useful life of the software at 33.3% per year.

Amortisation has been included within depreciation, amortisation and impairment of non-financial assets.

Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

1.5 Loans to Members

(i) Basis of Inclusion

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans 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 comprehensive income over the period of the loans using the effective interest method.

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

(ii) Interest Earned

Term Loans - The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Overdraft – The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of the month.

Non-Accrual Loan Interest – while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member has deceased, or, where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors. Australian Prudential Regulation Authority (APRA) has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility, or 90 days for an over limit overdraft facility.

(iii) Loan Origination Fees and Discounts

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

1.6 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.
The Credit Union considers a broader range of information 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, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (underperforming loans) ('Stage 2').
- 'Stage 3' would cover 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 to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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 by the Credit Union on terms that the Credit Union would not consider otherwise;
- 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 an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

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 the Credit Union determines that 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 Credit Union's procedures for recovery of amounts due.

Policy applicable prior to 1 July 2018

(i) Specific and Collective Provision

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis.

The amount provided is determined by management and the Board of Directors to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

The APRA Prudential Standards requires 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 reporting date to determine whether there is objective evidence that a specific financial asset or Credit Union of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

(ii) Reserve for Credit Losses

In addition to the above specific provision, the Board of Directors 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. The reserve is based on estimation of potential risk in the loan portfolio.

(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.

1.7 Bad Debts Written Off

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for doubtful debts 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 comprehensive income.

1.8 Equity Investments

Investments in shares, which do not have a ready market and are not capable of being reliably valued, are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for impairment.

Realised net gains and losses on available for sale financial assets taken to the statement of comprehensive income comprises only gains and losses on disposal.

All investments are in Australian currency.

1.9 Members' Deposits

(i) Basis for Measurement

Member savings and term investments are quoted at the aggregate amount of money owing to depositors.

(ii) Interest Payable

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

1.10 Provision for Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured at the present value of the estimated future cash outflows to be made by the Credit Union in respect of services provided by employees up to the reporting date.

The provision for annual leave was reviewed with entitlements not expected to be used within twelve months being measured at the present value of the estimated future cash outflows.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged as expenses when incurred. The Credit Union has no legal obligation to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

1.11 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and at call deposits with banks or financial institutions, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in interest bearing liabilities in the statement of financial position.

1.12 Impairment of Assets

At each reporting date, the Credit Union assesses whether there is an indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the statement of comprehensive income where the asset's carrying value exceeds its recoverable amount. 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.

1.13 Provisions

Provisions are recognised when the Credit Union has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

1.14 Leases

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to the ownership of the asset but not the legal ownership are transferred to the Credit Union, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values.

Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the Credit Union will obtain ownership of the asset. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses on a straight line basis over the lease term.

1.15 Fair Value of Assets and Liabilities

The Credit Union measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Credit Union would receive to sell an asset or would have to pay to transfer a liability in an orderly transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair value of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from the principal market for the asset or liability (that is, the market with the greatest volume and level of activity for the asset or liability). In the absence of such a market, information is extracted from the most advantageous market available to the Credit Union at reporting date (that is, the market that maximises the receipts from the sale of the asset or minimises the payment made to transfer the liability, after taking into account transaction costs and transport costs).

For non financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities may be valued, where there is no observable market price in relation to the transfer of an identical or similar financial instrument, by reference to observable market information where identical or similar assets are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective notes to the financial statements.

1.16 Financial Instruments

Policy applicable from 1 July 2018
AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major changes 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. As at the 30 June 2019 the Credit Union did not use hedge accounting.

The adoption of AASB 9 has impacted the following areas:

Classification and measurement of the Credit Union's financial assets AASB 9 allows for three classification categories for 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 table on next page for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

Impairment of the Credit Union's financial assets

The Credit Union's 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. The Credit Union measures loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12 months expected credit losses.

- 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.

No impairment allowance was included on 1 July 2018 in respect of loans and advances to members under the expected credit losses model. No impairment allowance was recognised for other investments under the expected credit losses model.

Reconciliation of financial instruments on adoption of AASB 9

Category	Original AASB 139	New AASB 9
Assets		
Loans and advances to members	Loans and receivables	Amortised cost
Receivable	Receivables	Amortised cost
Investment securities	Amortised cost	Amortised cost
Cash / Term Deposits	Amortised cost	Amortised cost
Floating Rate Notes	FVPL	FVPL
Liabilities		
Deposits from members	Amortised cost	Amortised cost
Other financial institutions	Amortised cost	Amortised cost
Bank borrowings	Amortised cost	Amortised cost

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 financial liabilities pre- and post-adoption of the standard.

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.

The Credit Union's financial liabilities include borrowings, members deposits and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Credit Union's designated a financial liability at fair value through profit or 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 profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within interest expense, 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 or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 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 at FVPL:

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

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

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

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

for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Fair Value through Other Comprehensive Income (FVOCI)

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

Policy applicable before 1 July 2018

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Credit Union becomes party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Credit Union commits itself to either purchase or sell the asset (that is, trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs except where the instrument is classified "at fair value through profit or loss" in which case transaction costs are recognised in profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is the amount for which a financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between the initial amount and the maturity amount calculated using the effective interest method.

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

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking. Realised and unrealised gains and losses arising from changes in fair value are included in the statement of comprehensive income in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

iii) Held to maturity investments

Held to maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Credit Union's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

(iv) Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (that is, gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial instrument is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Credit Union assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified into profit or loss at this point.

Derecognition

Financial assets are derecognised where the contractual right to receipt of cash flows expires or the asset is transferred to another party whereby the Credit Union no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including non-cash assets or liabilities assumed is recognised in profit or loss.

1.17 Goods and Services Tax

As a financial institution the Credit Union is input taxed on all income except other 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 are 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 a current asset or current liability in the statement of financial position.

Cashflows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

1.18 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 adoption of AASB 15 has had an impact on the following for the Credit Union:

- Account fees
- Insurance commissions

Account fees

Many of the Credit Union's savings and current account contracts with members comprise a variety of performance obligations including, but not limited to processing of transfers, use of ATMs for cash withdrawals, the issue of original debit cards, and provision of account statements. Under AASB 15, the Credit Union must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both of the following criteria are met:

- the customer benefits from the good or service either on its own or together with other readily available resources; and

- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the Credit Union does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance had no impact on the timing or amount of revenue recognised by the Credit Union during the year.

Insurance commission

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

Trailing commission – at the time of policy inception, trailing commission revenue and the related contract asset are recognised at the estimated 'expected value' of the variable consideration being present value of the expected future trailing commission to be received from the insurance companies. Subsequent to initial recognition, the carrying amount of the contract asset is adjusted to reflect actual and revised estimated cash flows by recalculating the net present value of estimated future cash flows at the original effective rate. Any resulting adjustment to the carrying value due to the significant financing component is recognised in profit or loss.

The adoption of AASB 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities of the Credit Union.

1.19 Comparative Amounts

When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable.

1.20 Accounting estimates and judgments

The Credit Union uses various models and assumptions in measuring fair value of financial assets. (e.g. Cuscal Shares). Judgment 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 the Credit Union's accounting policies with respect to the measurement of expected credit loss (ECL) allowance – [refer Note 9]. 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 "Stage 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 tor the measurement of expected credit losses;
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses: When expected credit losses are measured on a collective basis; the financial instruments are grouped on the basis of shared risk characteristics.

2. INTEREST REVENUE AND INTEREST EXPENSE

The following tables show the average balance for each of the major categories of interest bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are monthly averages, and are representative of the Credit Union's operations during the period.

	Average Balance $'000	Interest $'000	Average Rate %
Interest revenue – 2019			
Deposits with financial institutions	20,058	476	2.3%
Loans and advances (other than Commercial loans)	84,497	3,795	4.5%
Commercial loans	852	62	7.3%
	105,407	**4,333**	
Interest revenue – 2018			
Deposits with financial institutions	22,622	502	2.2%
Loans and advances (other than Commercial loans)	78,546	3,632	4.6%
Commercial loans	898	67	7.4%
	102,066	**4,201**	
Borrowing costs - 2019			
Customer deposits	89,466	1,369	1.5%
Short-term borrowings	3,250	84	2.6%
	92,716	**1,453**	
Borrowing costs – 2018			
Customer deposits	87,648	1,348	1.5%
Short-term borrowings	1,500	35	2.3%
	89,148	**1,383**	

3. REVENUE FROM ORDINARY ACTIVITIES

	2019	2018
	$'000	$'000
Interest revenue	$4,333	$4,201
Non-interest revenue		
Dividends received	10	17
Fees and commissions		
- Fees and charges	208	258
- Commissions	138	140
Bad debts recovered	2	2
Other revenue	79	92
Total non-interest revenue	**$437**	**$509**

4. PROFIT FROM OPERATIONS

Profit from operations before income tax expense has been determined after recognising the following expenses:-

Interest expense		
- Deposits from members	1,369	1,348
- Short term borrowings	84	35
	$1,453	**$1,383**

Impairment losses		
- Bad debts written off directly against profit	5	17
- Addition/(reversal) of amounts against provision for impaired loans	15	(11)
	$20	**$6**

Depreciation and amortisation		
- Office equipment	5	4
- Office furniture and fittings	47	47
- Motor vehicles	15	14
- EDP hardware	20	20
- Amortisation of intangible assets	52	37
	$139	**$122**

Occupancy expenses	**$272**	**$250**

4. PROFIT FROM OPERATIONS (CONTINUED)

	2019 $'000	2018 $'000
Employee benefits expense		
- Salaries	975	928
- Superannuation contributions	106	109
- Annual leave	2	32
- Long service leave	6	7
- Payroll tax	10	16
- Directors allowance	29	28
- Other	62	51
	$1,190	**$1,171**

Other expenses		
- Fees and commissions	215	235
- Loans administration	150	127
- Data processing	498	485
- Marketing	73	105
- General administration	389	419
	$1,325	**$1,371**

5. INCOME TAX EXPENSE

The components of income tax expense comprise:

Provision for income tax	110	140
Decrease / (increase) in deferred tax assets	(11)	(15)
	$99	**$125**

The prima facie tax on operating profit before income tax is reconciled to income tax as follows:

Prima facie tax on operating profit @ 27.5% (2018 – 27.5%)	102	111
Add tax effect of non allowable items		
- Under provision of income tax in the prior year	-	18
Less tax effect of:		
- Rebateable fully franked dividends	(3)	(4)
Income tax expense attributable to operating profit	**$99**	**$125**

The applicable weighted average effective tax rate is 27% (2018 - 30%)

6. AUDITOR'S REMUNERATION

	2019 $'000	2018 $'000
Amounts received or due and receivable by the auditors of the Credit Union for:		
- Audit of the financial statements	42	40
- Audit of the APRA returns	8	7
- Other services	8	8
	$58	**$55**

7. CASH AND CASH EQUIVALENTS

Imprest accounts	143	321
Deposits at call	1,885	1,805
Interest earning deposits	10,635	12,638
Floating rate note	6,633	6,521
	$19,296	**$21,285**

8. ACCRUED RECEIVABLES

Members clearing accounts	144	152
Interest receivable	87	97
	$231	**$249**

9. LOANS AND ADVANCES

Overdrafts	454	656
Visa	518	535
Term loans	86,417	82,337
	87,389	83,528
Provision for impaired loans	(17)	(2)
	$87,372	**$83,526**

9.1 Maturity Analysis

Overdrafts	455	656
Visa	518	535
Not longer than 3 months	1,004	932
Longer than 3 months but less than 12 months	2,930	2,804
Longer than 1 year but less than 5 years	14,183	13,239
Longer than 5 years	68,299	65,362
	$87,389	**$83,528**

9.2 Security Dissection

	2019	2018
	$'000	$'000
Secured by mortgage over real estate	81,948	77,632
Partly secured by goods mortgage	3,032	3,240
Wholly unsecured	2,409	2,656
	$87,389	**$83,528**

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown of the quality of the security on a portfolio basis is as follows:

	2019	2018
	$'000	$'000
Security held as mortgages against real estate is on the basis of:		
- loan to valuation ratio of less than 80%	72,021	66,867
- loan to valuation ratio of greater than 80% and mortgage insured	9,480	9,757
- loan to valuation ratio of greater than 80% and not mortgage insured	447	1,008
	$81,948	**$77,632**

9.3 Concentration of Risk

	2019	2018
	$'000	$'000

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

i) Geographical Area		
- New South Wales	85,093	80,057
- Other States and Territories	2,296	3,471
	$87,389	**$83,528**

ii) Loans to members who individually have a loan and overdraft facility, which represents in total 10% or more of capital in aggregate value - two members for $2,874,000 (2018 – $1,485,000).

9.4 Amount arising from Expected Credit Loss

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 measurement basis under AASB 139.

	2019 Carrying Value $'000	2019 ECL Allowance $'000	2019 Carrying Value $'000
Loans to members			
- Residential	82,277	10	82,267
- Personal	4,139	5	4,134
- Overdrafts/Visa	973	2	971
Total	**$87,389**	**$17**	**$87,372**

	2018 Carrying Value $'000	2018 Impaired Loans $'000	2018 Provision for Impairment $'000
Loans to members			
- Residential	77,632	1	77,631
- Personal	4,705	-	4,705
- Overdrafts/Visa	1,191	1	1,190
Total	**$83,528**	**$2**	**$83,526**

9.4 Amount arising from Expected Credit Loss (continued)

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

	2019	2019	2019	2019	2019
	Stage 1	**Stage 2**	**Stage 3**	**Credit Impaired**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Loans to members					
- Residential	-	-	10	-	10
- Personal	-	-	5	-	5
- Overdrafts/Visa	-	-	2	-	2
Total	**$-**	**$-**	**$17**	**$-**	**$17**

		2019	2018
		$'000	**$'000**
Movement in the Provision			
Opening balance		2	13
Bad debts written off against provision		(1)	(12)
Reversals during the year		(1)	(1)
Loans provided for during the year		17	2
Total		**$17**	**$2**

Key assumptions in determining the Expected Credit Loss

Measurement of Expected Credit Loss (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).

9.4 Amount arising from Expected Credit Loss (continued)

Category	Stages	Company definition of category	Basis for recognition of expected credit loss provision
Performing	Stage 1	Customers have a low risk of default and a strong capacity to meet contractual cash flows.	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected are measured as its expected lifetime.
Underperforming	Stage 2	Loans for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and or/ principal repayments are 30 days past due.	Lifetime expected losses.
Non-performing	Stage 3	Interest and/or principal repayments are 90 days past due.	Lifetime expected losses.
Write-off		Interest and/or principal repayments are 180 days past due and there is no reasonable expectation of recovery.	Asset is written off.

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

Loss given default is the magnitude of the likely loss if there is a default. The Credit Union estimates loss given default parameters based on the history of recovery rates of claims against defaulted counterparties. The loss given default 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 are a key parameter in determining loss given default. Loss given default estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

Exposure at default represents the expected exposure in the event of a default. The Credit Union derives the exposure at default from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The exposure at default of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the exposure at default 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.

9.4 Amount arising from Expected Credit Loss (continued)

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 increases 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 the Credit Union has reasonable and supportable information that demonstrates otherwise.

The approach to determining the expected credit loss 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 expected credit loss for such factors. The Credit Union considers the expected credit loss 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.

9.5 Analysis of Loans that are impaired or potential impaired by class

	2019 Carrying Value $'000	2019 Impaired Loans $'000	2019 Expected Credit loss $'000
Loans to members			
- Residential	82,277	135	10
- Personal	4,139	5	5
- Overdrafts/Visa	973	15	2
Total	**$87,389**	**$155**	**$17**

	2018 Carrying Value $'000	2018 Impaired Loans $'000	2018 Provision for Impairment $'000
Loans to members			
- Residential	77,632	18	1
- Personal	4,705	-	-
- Overdrafts/Visa	1,191	2	1
Total	**$83,528**	**$20**	**$2**

It is not practicable to determine the fair value of all collateral as at reporting date due to the variety of asset conditions.

9.6 Analysis of Loans that are Impaired or Potential Impaired Based on Age of Repayments Outstanding

Days in Arrears	2019 Carrying Value $'000	2019 Provision $'000	2018 Carrying Value $'000	2018 Provision $'000
0 – 90 days	10	-	5	-
91 – 182 days	117	6	18	1
183 – 273 days	-	-	-	-
274 – 365 days	-	-	-	-
Over 365 days	23	9	-	-
Over limit facilities over 14 days	5	2	2	1
	$155	**$17**	**$25**	**$2**

The provision based on the age of repayments outstanding has been taken from the June D2A return, and is based on the formula for impairment provided by APRA. The impaired loans are generally not secured against residential property. Some impaired loans are secured by a 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 reporting date due to the variety of assets and condition.

9.7 Assets Acquired Via Enforcement of Security

At reporting date there was no assets acquired via enforcement of security (2018 – Nil).

9.8 Loans with Repayments Past Due but not Regarded as Impaired

There are no loans past due by 90 days or more which are not considered to be impaired. (2018 – Nil)

9.9 Loans restructured

There were no loans restructured during the year. (2018 – Nil)

9.10 Key Assumptions in Determining 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 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.

10. OTHER INVESTMENTS

	2019 $'000	2018 $'000
Shares held with Special Service Providers		
- Ordinary shares	156	156
Shares – at cost		
- Unlisted	7	7
	$163	**$163**

CUSCAL Limited
The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member Credit Unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services. The shares are not able to be traded and are not redeemable.

The financial statements of CUSCAL record that the net tangible asset backing of these shares exceeds their cost value. Based on the net assets of CUSCAL, any fair value determination on these shares is likely to be greater than their cost value, but due to the nature of services supplied a market value is not able to be determined readily.

The Credit Union is not intending, nor is it able to dispose of these shares as the services supplied by the company relate to the day to day activities of the Credit Union.

Transaction Solutions Limited (TAS)
The shareholding in TAS is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member Credit Unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential Information Technology services.

11. PROPERTY, PLANT AND EQUIPMENT

	2019	2018
	$'000	$'000
Office furniture - at cost	610	610
Less: provision for depreciation	(318)	(271)
	292	**339**
Office equipment - at cost	117	117
Less: provision for depreciation	(108)	(103)
	9	**14**
Motor vehicles - at cost	178	178
Less: provision for depreciation	(127)	(112)
	51	**66**
EDP hardware - at cost	360	348
Less: provision for depreciation	(334)	(314)
	26	**34**
	$378	**$453**

Movement in carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year.

	Office Furniture	Office Equipment	Motor Vehicles	EDP Hardware	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018	339	14	66	34	453
Additions	-	-	-	12	12
Disposals	-	-	-	-	-
Depreciation expense	(47)	(5)	(15)	(20)	(87)
Balance at 30 June 2019	**292**	**9**	**51**	**26**	**378**
Balance at 1 July 2017	376	18	19	48	461
Additions	10	-	66	6	82
Disposals	-	-	(5)	-	(5)
Depreciation expense	(47)	(4)	(14)	(20)	(85)
Balance at 30 June 2018	**339**	**14**	**66**	**34**	**453**

12. INTANGIBLES

	2019 $'000	2018 $'000
EDP software	992	937
Accumulated amortisation	(819)	(768)
	$173	**$169**

Movement in carrying amounts for each class of intangibles between the beginning and end of the current financial year.

Opening balance at 1 July	169	117
Additions	56	89
Depreciation expense	(52)	(37)
Closing balance at 30 June	**$173**	**$169**

13. DEFERRED TAX ASSETS

	2019 $'000	2018 $'000
Deferred tax assets	**$239**	**$228**

14. OTHER ASSETS

Prepayments	**$86**	**$76**

15. DEPOSITS AND SHORT TERM BORROWINGS

Term deposits	31,402	27,977
Call deposits	59,666	63,453
Withdrawable shares	53	53
	$91,121	**$91,483**

15.1 Maturity Analysis

On call	59,719	63,506
Not longer than 3 months	11,069	13,570
Longer than 3 and not longer than 12 months	20,333	14,407
	$91,121	**$91,483**

15.2 Concentration of Deposits

i) There are no members who individually have deposits, which represent 10% or more of total liabilities (2018: Nil).

ii) Details of the geographic concentration of the deposits are set out below.

	2019 $'000	2018 $'000
Geographical Area		
- New South Wales	88,762	88,172
- Other States and Territories	2,359	3,311
	$91,121	**$91,483**

16. PAYABLES AND OTHER LIABILITIES

Payables and accrued expenses	88	127
Accrued interest payable	240	211
Members' clearing accounts	34	150
	$362	**$488**

17. INTEREST BEARING LIABILITIES

Deposits from other AFI	**$3,000**	**$1,000**

18. TAX LIABILITIES

Income tax	**$63**	**$66**

19. PROVISIONS

Employee leave entitlements	**$272**	**$264**

Opening balance at 1 July	264	227
Additional provisions raised during the year	83	103
Amounts used	(75)	(66)
Balance at 30 June	**$272**	**$264**

20. RESERVES

Reserve for credit losses	**$572**	**$552**

This reserve records amounts previously set aside as a General provision on loans and advances and is maintained to comply with the Prudential Standards set down by APRA.

	2019 $'000	2018 $'000
Balance at the beginning of the year	552	515
Transfer to/from retained profits	20	37
Balance at end of year	**$572**	**$552**

21. RETAINED PROFITS

	2019 $'000	2018 $'000
Retained profits at the beginning of the financial year	12,296	12,051
Net profit attributable to members	272	282
Transfer to/from reserves	(20)	(37)
Retained profits at the end of the financial year	**$12,548**	**$12,296**

Balance of franking credits held by the Credit Union after adjustments for credits that will arise from the payment of income tax payable as at the end of the financial year is $3,307,000 (2018 - $3,197,000). Franking credits represent reserves upon which income tax has been paid.

22. DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSURES

22.1 Names of Directors and other Key Management Personnel

During the course of the financial year the following were the key management persons of the Credit Union:

A Field	DAJ Rootes
J Gray	CJ Shepherd
RK Mills	M Bow
J Moss	L Bourne
PM Nolan	T Emerton

22.2 Key Management Personnel Compensation

Key management personnel 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 the Credit Union. *Control* is the power to govern the financial and operating policies of the Credit Union so as to obtain benefits from its activities.

Key Management Persons (KMP) have been taken to comprise the Directors and the three members of the executive management team during the financial year (2018 – 3), responsible for the day to day financial and operational management of the Credit Union.

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

	2019 $'000	2018 $'000
Salary and fee	421	364
Superannuation contributions	36	54
	$457	**$418**

22.2 Key Management Personnel Compensation (continued)

Compensation includes all employee benefits (as defined in AASB 119 *Employee Benefits*). Employee benefits are all forms of consideration paid, payable or provided by the Credit Union, or on behalf of the Credit Union, in exchange for services rendered to the Credit Union.

Compensation includes:

(i) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(ii) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(iii) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;

(iv) termination benefits; and

(v) share-based payment.

22.3 Loans to Key Management Persons

Loans provided to key management persons are on conditions no more favourable than those extended to members. Security has been obtained for these loans in accordance with the Credit Union's lending policy.

There is no provision for impairment in relation to any loan extended to key management persons. No loan impairment expense in relation to these loans has been recognised during the year.

There are no benefits on concessional terms and conditions applicable to the close family members of the key management persons. There are no loans which are impaired in relation to the loan balances with close family relatives of directors and management.

	2019 $'000	2018 $'000
Aggregate value of loans and overdrafts to Directors and other Key Management Personnel at reporting date	$559	$856
Aggregate value of loans disbursed to Directors and Key Management Personnel during the year	$-	$325
Aggregate value of revolving credit facilities limits granted or increased to Directors and Key Management Personnel during the year	$-	$-
Interest earned on loans and revolving credit facilities to Directors and Key Management Personnel during the year	$23	$22

22.4 Savings of Key Management Personnel

	2019 $'000	2018 $'000
Total value of term and savings deposits from Directors and Key Management Personnel at reporting date	$1,114	$995
Total interest paid on deposits to Directors and Key Management Personnel during the year	$18	$16

Directors and key management personnel have received interest on deposits with the Credit Union during the financial year. Interest has been paid on terms and conditions no more favourable to those available on similar transactions to members of the Credit Union.

22.5 Other Transactions with Related Parties

Other transactions between related parties include deposits from Directors and their Directors related entities, which are received on the same terms and conditions as applicable to members.

There were no benefits paid or payable to the close family members of the key management personnel.

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

The Credit Union's policy for receiving deposits from other related parties and, in respect of other related party transactions, is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

23. EXPENDITURE AND CREDIT COMMITMENTS

23.1 Future Capital Commitments

At 30 June 2019 the Credit Union has no future capital commitments (2018: $Nil).

23.2 Lease Expenditure Commitments

	2019 $'000	2018 $'000
Operating leases		
Within 1 year	222	194
1 to 5 years	889	730
Later than 5 years	222	365
	$1,333	**$1,289**

The property lease is a 10 year lease. An option exists to renew the lease at the end of the 10 year period for a further two 5 year options.

23.3 Other Expenditure Commitments

The costs committed under contracts with Ultradata and Transaction Solutions (TAS) are as follows:

	2019 $'000	2018 $'000
Within 1 year	336	229
1 to 5 years	361	462
	$697	**$691**

23.4 Outstanding Loan Commitments

Loans approved by the Board but not funded as at 30 June 2019 amounted to $1,930,000 (2018: $1,650,000).

The withdrawal of these funds is at the discretion of the Board subject to available liquid funds. It is anticipated all of the commitment will be paid within 12 months.

23.5 Unfunded Loan Facilities

Loan facilities to members for overdrafts approved but unfunded at 30 June 2019 amounted to $2,636,000 (2018: $2,548,000). Total facilities decreased by $130,000 during the year (2018: increase of $185,000). There are no restrictions to withdrawal of the funds provided normal payments are maintained.

23.6 Other

In the normal course of business the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of the members. The Credit Union applies the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

24. STANDBY BORROWING FACILITIES

	2019 $'000	2018 $'000
The Credit Union has gross borrowing facilities with IOOF Investment Management Ltd of:		
Loan facility – The Cash Management Fund		
Gross	5,000	5,000
Current borrowing	(3,000)	-
Net available	**$2,000**	**$5,000**

24. STANDBY BORROWING FACILITIES (continued)

	2019	2018
	$'000	**$'000**
CUSCAL Overdraft facility		
Gross	800	800
Current borrowing	-	(195)
Net available	**$800**	**$605**

There are no restrictions as to withdrawal of these funds. The borrowing facilities with CUSCAL are secured by a security deposit.

25. CONTINGENT LIABILITIES

Credit Union Financial Support System

The Credit Union is a participant in the Credit Union financial support scheme (CUFSS). The purpose of the CUFSS is to protect the interests of Credit Union members, increase stability in the industry and provide liquidity in excess of current borrowing limits in times of need.

An Industry Support Contract made in 1999 between CUSCAL Limited, Credit Union Financial Support System Limited and participating Credit Unions required the Credit Union to execute an equitable charge in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of the Credit Union and secures any advances which may be made to the Credit Union under the scheme. The balance of the debt at 30 June 2019 was $Nil (2018: $Nil).

There are no other contingent liabilities at reporting date or the date of this report.

26. ECONOMIC DEPENDENCY

The Credit Union has an economic dependency on the following suppliers of services:

CUSCAL Limited
This entity supplies financial banking services to the Credit Union and is an approved Special Service Provider for the provision of financial intermediation services. The Credit Union has invested all of its high quality liquid assets and operating liquid assets with the entity to maximise return on funds and to comply with the Emergency Liquidity Support requirements under the Prudential Standards.

This entity also supplies the Credit Union rights to members' cheques and Visa cards in Australia and provides services in the form of settlement with bankers for members' cheques and Visa card transactions and the production of Visa cards for use by members.

Ultradata Australia Pty Limited
This company provides and maintains the application software utilised by the Credit Union.

TransAction Solutions Pty Ltd (TAS)
This entity provides computing services to the Credit Union.

27. SEGMENTAL REPORTING

The Credit Union operates predominantly in the finance industry within New South Wales.

28. CASH FLOW INFORMATION

28.1 Cash flows presented on a net basis

Cash arising from the following activities are presented on a net basis in the statement of cash flows:

i) member deposits to and withdrawals from savings, money market and other deposit accounts;

ii) sales and purchases of maturing certificates of deposit;

28.2 Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at call with other financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2019 $'000	2018 $'000
Cash on hand and at SSP's	2,028	2,126
Interest earning deposits	10,635	12,638
Floating rate note	6,633	6,521
Cash as per Statement of Cash Flows	**$19,296**	**$21,285**

28.3 Reconciliation of Net Cash Provided by Operating Activities to Net Profit for the year after Income Tax expense

	2019	2018
	$'000	**$'000**
Operating profit after tax	272	282
Non cash flow items:		
Employee leave entitlements	8	37
Depreciation and amortisation	139	122
Bad debts written off	20	6
Gain on sale of property, plant and equipment	-	(27)
Changes in assets and liabilities:		
Decrease/(Increase) in accrued receivables	18	52
(Increase)/Decrease in prepayments	(10)	(2)
(Increase)/Decrease in deferred tax assets	(11)	(16)
(Decrease)/Increase in payables	(126)	101
(Decrease)/Increase in provision for income tax	(3)	84
Net cash from revenue activities	**307**	**639**
Non-revenue operations		
Movement in members loans	(3,866)	(8,297)
	$(3,559)	**$(7,658)**

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

INTRODUCTION

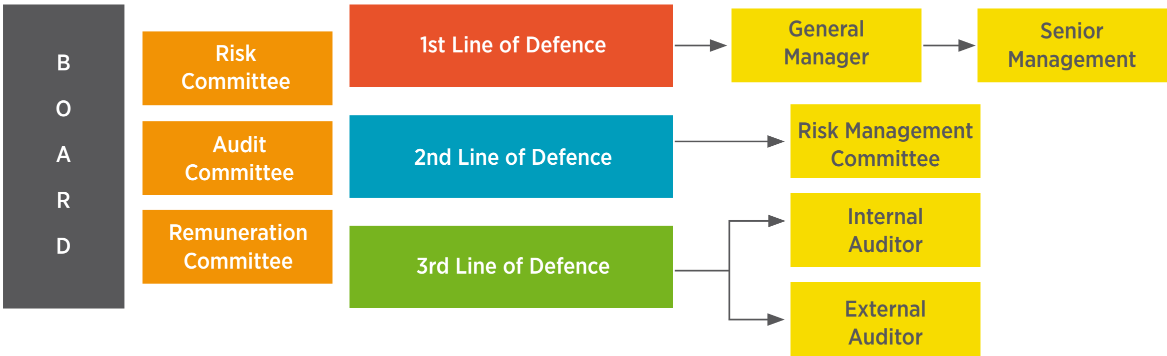
The Credit Union has a risk management framework that is appropriate to its size, business mix, and complexity and views effective risk management as key to achieving and maintaining its operational and strategic objectives. The Credit Union has policies in place that identify, measure, evaluate, monitor, report, and control all internal and external sources of risk.

The Board is responsible for the overall management of risk. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks. Authority flows from the Board of Directors to the Audit Committee and Risk Committee which is integral to the management of risk.

All matters pertaining to risk are developed and maintained with direct alignment to the Risk Management Framework with consideration to the Three Lines of Defence.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The diagram below gives an overview of the Credit Union's Lines of Defence Organisational Structure.



1st Line of Defence

The first line-of-defence comprises the business management who assume ownership of risks. They are responsible for day-to-day risk management decision-making involving risk identification, assessment, mitigation, monitoring and management. The roles and responsibilities of risk owners are clearly defined and incorporated into performance reviews.

2nd Line of Defence

The second line-of-defence comprises the specialist risk management function(s) that are functionally independent from the first line-of-defence. The second line-of-defence supports the Board of Directors (the Board) and its committees by:

(a) Developing risk management policies, systems and processes to facilitate a consistent approach to the identification, assessment and management of risks;
(b) Providing specialist advice and training to the Board and first line-of-defence on risk related matters;
(c) Objective review and challenge of the consistent and effective implementation of the Risk Management Framework, and the data and information captured as part of the Risk Management Framework which are used in the decision-making processes within the business, in particular the completeness and appropriateness of the risk identification and analysis, ongoing effectiveness of risk controls, and prioritisation and management of action plans; and
(d) Oversight of the risk profile and its reporting and escalation to the Board.

3rd Line of Defence

The third line-of-defence comprises the independent assurance function, each of whom provides independent assurance to the Board and its committees that:

(a) The Risk Management Framework is appropriate, consistently implemented and operating effectively. This includes an assessment of the overall framework and the effectiveness of risk management practices, including its influence on decision-making; and
(b) The policies, procedures and systems are appropriately designed and consistently implemented to operate effectively.

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.

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Audit Committee is responsible for overseeing and monitoring the Credit Union's compliance systems in place by which management discharges its legal obligations in respect of the Credit Union's business.

Risk Committee: The role of the Risk Committee is to oversee the adequacy of the Credit Union's risk management framework. This includes the formulation of the Credit Union's risk strategies, the formulation of policies pertaining to the risk strategies and the monitoring of adherence to those policies.

Risk Management Committee: The Risk Management Committee is the key component of the Second Line of Defence and reports directly to the Risk Committee in relation to the Risk Management Framework and to the General Manager in relation to operation matters.

Supporting the Risk Committee the purpose is the review and challenge with respect to the organisation's risk and compliance functions. The Risk Management Committee will provide Independent oversight of the risk profile and Risk Management Framework, including:

(a) effective challenge to activities and decisions that materially affect the Credit Union's risk profile;
(b) assistance in developing and maintaining the Risk Management Framework; and
(c) independent reporting lines to appropriately escalate issues.

The Risk Management Committee oversees the compliance function independently of business lines, report's findings to the Risk Committee and works with management to enhance compliance outcomes.

Remuneration Committee: Its key role is to ensure that the Credit Union's remuneration arrangements align with its circumstances and advance the Credit Union's mission of serving its members. The Remuneration Committee is to also ensure that the Credit Union's Remuneration Policy and practices appropriately aligns remuneration and risk management in compliance with CPS 510: Governance and PPG 511: Remuneration.

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

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

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

- Interest rate risk;
- Liquidity management;
- Credit risk management; and
- Operations risk management including data risk management.

A. MARKET RISK AND HEDGING POLICY

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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest Rate Risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within its treasury operations. This Credit Union does not have a treasury operation and does not trade in financial instruments.

Interest Rate Risk in the Banking Book

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

The interest rate risk on the banking book is measured monthly, and reported to the Board by the General Manager.

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 31 below. The table set out in Note 31 displays the period that each asset and liability will reprice as at reporting date. The risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of Managing Risk

The Credit Union manages its interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

Interest Rate Sensitivity

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

The policy of the Credit Union to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Union's exposure to interest rate risk is set out in Note 31 which details the contractual interest change profile.

Based on calculations as at 30 June 2019, the net profit impact for a 1% movement in interest rates would be $103,000 (2018 - $115,000).

The Credit Union performs a sensitivity analysis to measure market risk exposures.

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

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by a deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;

- mortgage loans and personal loans would all reprice to the new interest rate within 28 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

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

Price Risk – Equity Investments

The Credit Union is not exposed to price risk on the value of shares.

B. LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, eg. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that treasury maintains adequate cash reserves and committed credit facilities so as to meet the 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 service, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should support be necessary at short notice.

The Credit Union is required to maintain at least 12% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union policy is to apply 14% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 23 describe the borrowing facilities as at reporting 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 30. The ratio of liquid funds over the past year is set out below:

APRA	2019	2018
	%	%
To total adjusted liabilities		
As at 30 June	15.23	14.80
Minimum during the year	13.28	13.89
To total member deposits		
As at 30 June	18.08	16.91

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

Loans to	2019 Carrying Value $'000	2019 Off Balance Sheet $'000	2019 Max Exposure $'000	2018 Carrying Value $'000	2018 Off Balance Sheet $'000	2018 Max Exposure $'000
Residential	82,277	8,872	91,149	77,632	8,798	86,430
Personal	4,139	292	4,431	4,705	47	4,752
Overdraft/Visa	973	2,594	3,567	1,191	2,548	3,739
Total	**$87,389**	**$11,758**	**$99,147**	**$83,528**	**$11,393**	**$94,921**

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, lines of credit facilities, overdraft facilities, credit card limits).

All loans and facilities are within Australia. Concentrations are described in Note 9.

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 policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

The 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 Credit Unions 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.

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 comprehensive income. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant 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 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. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in country risk, changes in a counterparty's industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

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

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.

Details are as set out in Note 9.

Bad debts

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

On secure 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 9.

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 in the reduction the Loan to Value (LVR) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

The Board policy is to maintain at least 70% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 9 describes the nature and extent of the security held against the loans held as at reporting date.

Concentration risk – Individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or Credit Union of related parties). If prudential limits are exceeded as a proportion of the Credit Union's Tier 1 capital (10%) a large exposure is considered to exist. No capital is required to be held against these but the 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 aggregate value of large exposure loans are set out in Note 9. (The Credit Union holds no significant concentrations of exposures to members). Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5% of Tier 1 capital.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of at least 80% and bi-annual reviews of compliance with this policy are conducted.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 has a concentration in the retail lending for members who comprise employees and family in the electricity industry and all levels of government. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical concentrations are set out in Note 9.

Credit Risk – Liquid Investments

The Investment Policy of the Credit Union governs investments made by the Credit Union in Minimum Liquidity Holding assets ("MLH", as defined by APRA in APS 210: Liquidity), and "non-MLH" assets which constitute loans and advances made to other Authorised Deposit Taking Institutions ("ADIs") that are classified as MLH assets due to the rating of the institution, the type of product, or the structure of the product falling outside the definition of MLH.

Each MLH investment must be made with an APRA regulated ADI in accordance with the following MLH limits and Tier 1 Capital limits. The Tier 1 Capital is reported in the Credit Union's APS 330 return for the previous quarter as follows:

	Credit Limit (% of total MLH)	Institution Limit (% of Tier 1 Capital)
CUSCAL and Government	100%	200%
AA- Australian Major Bank	100%	50%
AA- and above (other)	50%	50%
A- to A+ ADIs	50%	50%
BBB- to BBB+ ADIs	20%	25%
Unrated ADIs	Nil	Nil

Each Non-MLH investment must be made with an Australian ADI in accordance with the following limits, with a maximum dollar value as follows:

	Institution Limit Max Institution Exposure ($) or % of Tier 1 Capital	Non-MLH Portfolio Limit Max Exposure ($) or (%)
Australian Credit Unions (Assets greater than $100M)	$1 million	$5 million
Other Australian Credit Unions (Assets less than $100M)	$500,000	$2 million
Other Unrated ADI's	$1 million	$5 million
Cuscal and Government	200%	100%
AA- Australian Major Bank	50%	100%
AA- and above (other)	50%	50%
A- to A+ ADI's	50%	50%
BBB- to BBB+ ADI's	25%	50%

The risk exposure parameters of this mix ensure that there is no undue concentration of liquid asset holdings in any one form or with any one counter-party.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

External Credit Assessment for Institution Investments

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

Investments with	2019 Carrying value $'000	2019 Past due value $'000	2019 Provision $'000	2018 Carrying value $'000	2018 Past due value $'000	2018 Provision $'000
CUSCAL	4,555	-	-	2,670	-	-
Banks	13,598	-	-	15,489	-	-
Other ADI	1,000	-	-	1,000	-	-
Total	**19,153**	**-**	**-**	**19,159**	**-**	**-**

D. OPERATIONAL RISK

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in process, personnel, technology, infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud, and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of error and inappropriate behaviour;
- implementation of the whistle blowing policies to promote a complaint cultures and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses;
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

Fraud

Fraud can arise from member card PINS, and internet passwords being compromised where not protected adequately by the member. It can also arise from other systems failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud is potentially a real cost to the Credit Union.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

IT Systems

The worst case scenario would be the failure of the Credit Union's core banking system and IT network suppliers, to meet customer obligations and service requirements. The Credit Union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of Credit Unions and Mutual Banks. This organisation has the experience in–house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Credit Union by CUSCAL to service the settlements with other financial institutions for direct entry, ATM and Visa cards, and BPay etc.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

E. CAPITAL MANAGEMENT

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk;
- Market risk (trading book);
- Operations 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:

- Preference share capital;
- Retained profits;
- Realised reserves.

The preference shares issues are approved by APRA and qualify as Tier 1 capital.

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:

- Available for sale reserves which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in fair value of those assets in the year. This is included within upper Tier 2 capital.
- A subordinated loan, which is not applicable to the Credit Union.
- A general reserve for credit losses.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At 30 June 2019, the Credit Union's capital comprises:

Tier 1 Capital	June 2019 $'000
Fundamental Tier 1 Capital:	
- Retained earnings	12,296
- Transfer to general reserve	(20)
- Current year earnings net of expected dividends and tax expenses	272
Gross Tier 1 Capital	**12,548**
Deductions from Tier 1 Capital:	
- Deferred tax assets	(239)
- Information technology assets	(173)
- Equity in other ADI's	(156)
	(568)
Net Tier 1 Capital	**11,980**
Tier 2 Capital	
Upper Tier 2 Capital	
- General reserve for credit losses	572
Deductions from Tier 2 Capital	-
Net Tier 2 Capital	**572**
Capital Base	**12,552**

At 30 June 2019, the Credit Union's risk weighted assets reported to APRA were as follows:

Credit Risk Items	June 2019 $'000
Credit Risk Items – Standardised Approach	
- On and Off Balance Sheet	49,338
Operational Risk	
- Standardised Approach	6,300
Market Risk	**-**
Total Risk Weighted Assets	**55,638**
Capital Adequacy Ratio	**22.6%**

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

To manage the Credit Union's capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. If the capital adequacy ratio declines by more than 0.5% for 3 consecutive quarters or reaches 17%, management advises the Board. Management's advice will show how growth, profit levels, mix of loan products and the acquisition of other assets has affected the capital adequacy ratio.

Pillar 2 Capital on Operational Risk

The Credit Union uses the Standardised approach which is considered to be the 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 and net non-interest income to the Credit Union's various business lines.

Based on this approach, the Credit Union's operational risk requirement is $6,300,000.

Internal Capital Adequacy Management

The Credit Union manages its internal capital levels for both current and future activities through the Audit Committee and Risk Committee. The output of the Audit Committee and Risk Committee is 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.

30. CORPORATE GOVERNANCE DISCLOSURES

Board

The Credit Union Board has responsibility for the overall management and strategic direction of the Credit Union.

Board members are independent of management and are either Board appointed or elected by members on a rotation of every 3 years. Currently there is one Board appointed Director. Each Director must be eligible to act under the constitution as a member of the Credit Union and Corporations Act 2001 criteria. Directors need to also satisfy the fit and proper criteria set down by APRA.

The Board has established policies to govern conduct of the Board meetings, director conflicts of interest and training so as to maintain director awareness of emerging issues and to satisfy all governance requirements.

The Board is responsible for:

- Monitoring matters of operational risk management and APRA reporting obligations;
- Monitoring compliance with applicable laws;
- General Manager remuneration and benefits;
- Staff remuneration policies;
- Financial budgets and performance criteria;
- Approval of large loans or commercial loans; and
- The acknowledgement of management approved interest rate changes.

Board Remuneration

The Board receives remuneration from the Credit Union in the form of Director fees approved by members and reimbursement of out of pocket expenses. There are no other benefits received from the Credit Union by the Directors.

Audit Committee

An Audit Committee has been formed to assist the Board in relevant matters of financial prudence. The Committee is comprised of a number of directors and has senior management participation.

30. CORPORATE GOVERNANCE DISCLOSURES (continued)

The Audit Committee oversees the financial reporting and audit process. Its role includes:

- The oversight of all statutory reporting requirements;
- Monitoring audit reports received from internal and external auditors and management's responses thereto;
- Liaising with the auditors (internal and external) on the scope and results of their work;
- Ensuring the external auditors remain independent in the areas of work conducted;
- The oversight of the Credit Union's compliance function.

Risk Committee

A Risk Committee has been formed to assist the Board in managing the risk framework of the Credit Union. The Committee is comprised of a number of directors and has senior management participation. Its role includes:

- The oversight of management's responsibilities to assess and manage the Credit Union's credit risk, market risk, liquidity risk, insurance risk, operational risk, capital risk and strategic and business risk; and
- Reviewing issues raised by the Internal and External Auditors that impact the Credit Union's risk management framework.

Compliance

The Credit Union's Compliance Function is an internal staffing resource which has been established to assist with the provision of structure, co-ordination of compliance functions and systems, and the performance of regular internal 'compliance checking' procedures.

The Credit Union's Compliance Function has the combined role of establishing, developing and increasing the culture of compliance within the Credit Union.

External Audit

Audit is performed by the Luka Group (formerly the audit practice of Morse Group). Through their prior history with Morse Group, Luka Group has been auditing credit unions for many years.

The work performed by the external auditors is examined by the Audit Committee to ensure that it is consistent with the current external audit reporting role and does not impair their independence.

Internal Audit

An internal audit function has been established using the services of DBP Consulting Pty Ltd (Glenn Pannam) to deal with the areas of internal control compliance and regulatory compliance.

Regulation

The Credit Union is regulated by:

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of the Credit Union.
- Australian Securities and Investments Commission (ASIC) for adherence to Corporations Act 2001, Accounting Standards disclosures in the financial statements and FSR requirements and for compliance with the National Consumer Credit Protection Act. The FSR legislation requires the Credit Union to disclose details of products and services, maintain training for all staff that deal with the members and provide an effective and independent complaints handling process. Under the FSR licensing arrangements all staff which deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Both ASIC and APRA conduct periodic inspections and the auditors report to both regulators annually on compliance with respective requirements. The external auditors also report to both ASIC on the FSR compliance and APRA on the prudential policy compliance.

30. CORPORATE GOVERNANCE DISCLOSURES (continued)

Work Health & Safety (WHS)

The nature of the finance industry is such that the risk of injury to staff and the public are less apparent than in other high risk industries. Nevertheless the Credit Union's two most valuable assets are staff and members and steps need to be taken to maintain their security and safety when circumstances warrant.

WHS policies have been established for the protection of both members and staff and are reviewed at least annually for relevance and effectiveness.

Staff are trained in robbery procedures and offices are designed to detract from such acts by:

- Little or no cash being held in accessible areas
- Cameras and monitoring equipment visible throughout the office

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs to the public and staff. Independent security consultants report regularly on the areas of improvement which may be considered.

The Credit Union has established a WHS checklist that is completed quarterly by staff. Any concerns raised are actioned in a prompt manner. Secure cash handling policies are in place and injury from lifting heavy weights and RSI are managed by proper techniques to minimise the risk of damage.

All staff have access to trauma counsellors where required following an incident which may impair their feeling of safety in the work place.

31. FINANCIAL INSTRUMENTS

31.1 Terms, Conditions and Accounting Policies

The Credit Union's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at reporting date, are as follows:

Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
(i) Financial assets			
Loans and advances	9	The loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month, and on the 3rd day for overdrafts.	All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
Short-term deposits	7	Short-term deposits are stated at the lower of cost and net realisable value. Interest is recognised in the profit and loss when earned.	Short-term deposits have an average maturity of 30 days and effective interest rates of 1.5% to 2.5%.
Unlisted shares	10	Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are received.	
Accrued Receivables	8	The carrying value of receivables is at their nominal amounts due.	

31. FINANCIAL INSTRUMENTS (continued)

31.1 Terms, Conditions and Accounting Policies (continued)

Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
(ii) Financial liabilities			
Bank overdrafts	15	The bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate.
Payables and other liabilities	16	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Credit Union.	Trade liabilities are normally settled on 30 day terms.
Deposits and short term borrowings	15	Deposits are recorded at the principal amount.	Details of maturity terms are set out in Note 15.

31.2 Net Fair Values

Net 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 the 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 reporting 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.

	Total carrying amount in the statement of financial position		Aggregate net fair value	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Financial assets				
Cash and liquid assets	19,296	21,285	19,296	21,285
Accrued receivables	231	249	231	249
Other investments	163	163	163	163
Loans and advances	87,372	83,526	87,234	83,508
Total financial assets	**107,062**	**105,223**	**106,924**	**105,205**

31.2 Net Fair Values (continued)

	Total carrying amount in the statement of financial position		Aggregate net fair value	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Financial liabilities				
Deposits and short term borrowings	91,121	91,483	91,121	91,483
Payables and other liabilities	362	488	362	488
Interest bearing liabilities	3,000	1,000	3,000	1,000
Total financial liabilities	**94,483**	**92,971**	**94,483**	**92,971**

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

Cash and liquid assets

The carrying values of cash and liquid assets approximate their net fair value as they are short term in nature or are receivable on demand.

Accrued receivables

The carrying amounts approximate fair value because they are short term in nature.

Loan and other advances

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.

Other Investments

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security.

Other financial liabilities

This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value. For liabilities which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

Receivables

The carrying amounts approximate fair value because they are short term in nature.

Payables and other liabilities

The carrying amounts approximate fair value as they are short term in nature.

31.2 Net Fair Values (continued)

Members deposits

This includes interest and unrealised expenses payable for which the carrying amount is considered to be reasonable estimate of net fair value. For liabilities, which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities. The fair value of deposits at call is the amount payable on demand at the reporting date.

31.3 Credit Risk Exposures

The Credit Union's maximum exposures to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

31.4 Concentrations of Credit Risk

The Credit Union minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members.

FINANCIAL INSTRUMENTS (continued)

31.5 Interest rate risk

The Credit Union's exposure to interest rate risks which is the risk that a financial instruments value will fluctuate as a result of changes in market rates and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at reporting date, are as follows:-

Financial instruments	Floating interest rate		1 year or less		1 to 5 Years		Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest rate	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%	%
(i) Financial assets												
Cash and liquid assets	1,885	1,805	10,635	12,638	6,633	6,521	143	321	19,296	21,285	2.3	2.2
Accrued receivables	-	-	-	-	-	-	231	249	231	249	-	-
Other investments	-	-	-	-	-	-	163	163	163	163	-	-
Loans and advances	87,372	83,526	-	-	-	-	-	-	87,372	83,526	4.5	4.6
Total financial assets	**89,257**	**85,331**	**10,635**	**12,638**	**6,633**	**6,521**	**537**	**733**	**107,062**	**105,223**		
(ii) Financial liabilities												
Deposits and short term borrowings	59,666	63,453	31,402	27,977	-	-	53	53	91,121	91,483	1.5	1.5
Payables and other liabilities	-	-	-	-	-	-	362	488	362	488	-	-
Interest bearing liabilities	-	-	3,000	1,000	-	-	-	-	3,000	1,000	2.6	2.3
Total financial liabilities	**59,666**	**63,453**	**34,402**	**28,977**	**-**	**-**	**415**	**541**	**94,483**	**92,971**		

31. FINANCIAL INSTRUMENTS (continued)

31.6 Maturity profile of financial instruments

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

Financial instruments	Within 3 months		3-12 months		1-5 Years		> 5 years		At Call		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
(i) Financial assets												
Cash and liquid assets	8,283	8,769	3,880	3,937	5,140	6,531	-	-	2,080	2,145	19,383	21,382
Accrued receivables	-	-	-	-	-	-	-	-	144	152	144	152
Loans to members	2,023	1,938	5,839	5,632	27,644	26,367	98,307	94,879	-	-	133,813	128,816
Other investments	-	-	-	-	-	-	-	-	163	163	163	163
Total financial assets	**10,306**	**10,707**	**9,719**	**9,569**	**32,784**	**32,898**	**98,307**	**94,879**	**2,387**	**2,460**	**153,503**	**150,513**
(ii) Financial liabilities												
Deposits	12,916	13,579	18,725	14,607	-	-	-	-	59,719	63,506	91,360	91,692
Interest bearing liabilities	3,011	1,002	-	-	-	-	-	-	-	-	3,011	1,002
Payables and other liabilities	-	-	-	-	-	-	-	-	122	277	122	277
Total financial liabilities	**15,927**	**14,581**	**18,725**	**14,607**	**-**	**-**	**-**	**-**	**59,841**	**63,783**	**94,493**	**92,971**

32. FAIR VALUE MEASUREMENTS

The Credit Union measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

- Financial assets at fair value through profit and loss; and
- Available-for-sale financial assets.

The Credit Union does not subsequently measure any liabilities at fair value on a recurring basis, or any assets or liabilities at fair value on a no-recurring basis.

a. Fair Value Hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

Valuation techniques

The fair values of assets and liabilities that are not traded in an active market are determined by using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Credit Union selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Credit Union are consistent with one or more of the following valuation approaches.

- ***Market approach:*** valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- ***Income approach:*** valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- ***Cost approach:*** valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

32. FAIR VALUE MEASUREMENTS (continued)

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Credit Union gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following tables provide the fair values of the Credit Union's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy.

2019	**Note**	**Level 1 $'000**	**Level 2 $ '000**	**Level 3 $ '000**	**Total $ '000**
Recurring fair value measurements *Financial assets* Available for sale financial assets:					
- shares in unlisted companies	10	-	163	-	163
Total financial assets recognised at fair value		**-**	**163**	**-**	**163**
Non-financial assets					
Intangible - EDP software	12	-	173	-	173
Total non-financial assets recognised at fair value		**-**	**173**	**-**	**173**

2018	**Note**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements *Financial assets* Available for sale financial assets:					
- shares in unlisted companies	10	-	163	-	163
Total financial assets recognised at fair value		**-**	**163**	**-**	**163**
Non-financial assets					
Intangible - EDP software	12	-	169	-	169
Total non-financial assets recognised at fair value		**-**	**169**	**-**	**169**

There were no transfers between Level 1 and Level 2 for assets measured at fair value on a recurring basis during the reporting period (2018: no transfers).

32. FAIR VALUE MEASUREMENTS (continued)

b. Valuation Techniques and Inputs Used to Measure Level 2 Fair Values

Description	Fair value at 30 June 2019 $'000	Valuation Technique(s)	Inputs Used
Financial assets			
Shares in unlisted companies	163	Market approach using sector price-earnings ratio of similar size listed entities	Sector Price earnings ratios
Non-financial assets			
Intangible - EDP software	173	Market approach using recent observable market data for similar products; income approach using discounted cash flow methodology	Average replacement cost of similar products.

There were no changes during the period in the valuation techniques used by the Credit Union to determine Level 2 fair values.

c. Disclosed Fair Value Measurements

The following assets and liabilities are not measured at fair value in the statement of financial position, but their fair values are disclosed in the notes.

- Loans and advances;

The following table provides the level of the fair value hierarchy within which the disclosed fair value measurements are categorised in their entirety and a description of the valuation technique(s) and inputs used.

Description	Note	Fair Value Hierarchy Level	Valuation Technique(s)	Inputs Used
Assets				
Loan and advances	9	2	Income approach using discounted cash flow methodology	Market interest rates for similar assets

There has been no change in the valuation technique(s) used to calculate the fair values disclosed in the financial statements.

33. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

The following Australian Accounting Standards have been issued or amended and are applicable to the Credit Union but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

- AASB 16 *Leases*
  - AASB 16 *Leases* (AASB 16) is effective from reporting periods commencing on or after 1 January 2019.
  - For lessees, AASB 16 will result in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised at the commencement of the lease. The only exceptions are short-term and low-value leases. AASB 16 will therefore increase assets and liabilities reported on the Statement of Financial Position. It will also increase depreciation and interest expenses and reduce operating lease rental expenses on the Statement of Comprehensive Income. Expenses recognised in the earlier years of the lease term will be higher as the interest charges will be calculated on a larger lease liability balance. Existing finance leases are not expected to be significantly impacted from the transition to AASB 16.
  - The accounting for lessors under AASB 16 will not significantly change. The Credit Union will however review the classification of sub-leases in which the Credit Union is a lessor. Finance lease receivables will be recognised for sub-leases reclassified as finance leases.
  - The Credit Union will adopt AASB 16 on 1 July 2019 through application of the partial retrospective approach, where only the current year is adjusted as though AASB 16 had always applied. Comparative information will not be restated. The Credit Union will also adopt the practical expedient whereby the fair value of the right-of use asset will be the same as the lease liability at 1 July 2019.
  - Based on the impact assessments the Credit Union has undertaken on currently available information, the Credit Union estimates additional lease liabilities of $3,023,043 and right-of-use assets of $3,023,043 will be recognised as at 1 July 2019 for leases in which Council is a lessee. Most operating lease expenses will be replaced by depreciation of the right of use asset and interest on the lease liability. The impact on the statement of comprehensive income is expected to be further expenses of $135,394.

34. COMPANY DETAILS

The registered office of the Credit Union is:-

Macquarie Credit Union Limited
165 Brisbane Street
Dubbo NSW 2830

(End of Audited Financial Statements)

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MACQUARIE CREDIT UNION LIMITED

Opinion

We have audited the financial statements of Macquarie Credit Union Limited, which comprises the statement of financial position as at 30 June 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, accompanying notes to the financial statements and directors' declaration.

In our opinion, the financial statements of Macquarie Credit Union Limited are in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Basis for Opinion

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

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

Other Information

The Directors are responsible for the other information. This is the other information contained in the annual report apart from the financial statement of the Credit Union for the year ended 30 June 2019.

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

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

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

Responsibilities of Management and the Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, and for such internal control as management deems necessary to enable the preparation of the financial statements that are free from material misstatement, where due to fraud or error.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACQUARIE CREDIT UNION LIMITED (Continued)

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 it 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, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 Company'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 statements 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors, 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 the audit.

Luka Group

LUKA GROUP

JM Shanks

JM SHANKS
PARTNER

2 River Street
Dubbo
Dated: 4 September 2019

CREDIT UNION CONTACTS

Baradine Multi Purpose Centre	J Varley
Bogan Shire Council	C Ellison
Coonabarabran Essential Energy	L Roberts
Coonamble Essential Energy	M Vallett
Coonamble Multi Purpose Centre	J Keizer
Dubbo Shire Council	K Thomas
Dubbo Essential Energy	J Morrison
Dubbo Hospital	R Woodman
Dunedoo Essential Energy	S Curtis
Dunedoo Multi Purpose Centre	C Warwicker
Forbes Essential Energy	J Cannon
Gilgandra Essential Energy	M Colwell
Gilgandra Multi Purpose Centre	K McWhirter
Gilgandra Shire Council	E McCutcheon
Gulgong Wenonah Lodge	V Saint
Kanandah Retirement House	D Fitzgerald
Mudgee Essential Energy	B Forgione
Mudgee Hospital	S Jakins
Narromine Essential Energy	A Smith
Narromine Shire Council	J Sinclair
Narromine Hospital	P Young
Nyngan Multi Purpose Centre	L Hawley
Nyngan Essential Energy	M Bush
Orange Essential Energy	D Knight
Parkes Essential Energy	K Howard
Pioneer House	J Woolley
Warren Shire Council	J Murray
Warren Multi Purpose Centre	L Clark
Wellington Essential Energy	P Everingham
Wellington Hospital	S Loughnan
Wellington Shire Council	K Adams

STAFF

Matthew Bow	General Manager
Leanne Bourne	Deputy General Manager
Tim Emerton	Business Development Manager
Sally McDonnell	Office Supervisor
Jennylee Millgate	Loans Supervisor
Gary Beggs	Senior Loans Officer
Greg Heath	Loans Officer
Michael Tritton	Loans Officer
Matthew Mcfetridge	Loans Officer
Georgie-Anne Pomfret	Member Service Officer
Kate Bailey	Member Service Officer
Gemma Harley	Trainee Member Service Officer
Carol Carolan	Collections Officer
Leanne Soper	Business Development Officer
Stephanie Semmler	Business Development & Marketing Officer

DIRECTORS

A Field	J Gray	RK Mills	J Moss
PM Nolan	DAJ Rootes	CJ Shepherd	

ASSOCIATE DIRECTOR

P Woodward

REGISTERED OFFICE

165 Brisbane Street,
PO Box 1618, Dubbo NSW 2830

Telephone: 1300 885 480

Facsimile: (02) 6882 6909

Telephone Banking: 1300 885 480

Email: info@macquariecu.com.au

Web: macquariecu.com.au

AUDITORS

LUKA GROUP
2 River Street, Dubbo NSW 2830

SOLICITOR

Nelson, Keane & Hemingway
Church Street, Dubbo NSW 2830

BANKER

Cuscal Ltd.
National Australia Bank, Sydney

MACQUARIE
CREDIT UNION
a closer connection