First Option Credit Union Limited

2017 Financial Report

for the period ended 30 June 2017

be money happy

Chairman's Report

On behalf of the Board of Directors, I am pleased to present the Annual Report for 2017 to members of First Option Credit Union Limited.

Overview

In general, the 2016/17 financial year was impacted by the continuation of historically low interest rates, domestic and overseas economic and political uncertainty, home affordability and household debt issues which necessitated action from the industry regulator Australian Prudential Regulation Authority (APRA), low consumer confidence and strong competition from major financial institutions. However, for First Option, strong growth in loans, deposits and membership highlighted the year. This strong operating performance resulted in a creditable Operating Profit after Income Tax and prudential capital and liquidity ratios above the statutory limits.

Market Conditions

The competition for deposits and loans intensified during FY17, with an increase in the number of small low-end financial operators entering the personal loan market and the major banks regularly adjusting mortgage loan rates, both fixed and variable, to achieve growth targets and meet profitability forecasts. Regular deposit "specials" from major financial organisations throughout the year led to strong competition for these funds at attractive interest rates.

This competition resulted in First Option continually reviewing loan and deposit interest rates to ensure members were receiving value added financial products and services.

Official interest rates remained on hold during the majority of the year, with the RBA last cutting official interest rates in August 2016 to an historic low of 1.50%. However, despite record low interest rates, consumer and business confidence remained subdued during most of the year.

Property prices (particularly in Sydney and Melbourne) continued to increase during the year to record levels, pushing the ability to acquire a house beyond the financial capability of many prospective owner- occupied borrowers. These borrowers also faced strong competition from property investors both domestically and internationally.

Concerned about record levels of household debt particularly associated with investor/interest-only mortgage loan products, the industry regulator, APRA, introduced loan growth caps that restrict the amount financial institutions can lend to borrowers relating to investment loans and interest-only loans.

This action will reduce forecast mortgage loan growth for First Option and will further increase the competition for owner-occupied mortgage loans. Already, interest rates for owner-occupied loans have reduced, putting further pressure on interest rate margins. Also, in response to APRA's action, many financial institutions have increased interest rates on investor/interest-only mortgage loans to restrict the growth of these types of loans within their overall loan portfolio.

Financial and Operational Highlights

Despite the challenging year, I am pleased to announce that, in all cases, major strategic targets set by directors were exceeded.

Total Assets grew to $190.9 million, up $14.1 million (8%), Total Loans increased by $11.9 million (9%) to $151.9 million and Total Deposits reached $171.7 million, up $11.4 million (7%).

Operating profit after income tax for the full year was $551,963 ($708,274 in FY16). The reduced profit was a direct result of a lower interest rate margin operating throughout most of the year following action by the RBA to reduce official interest rates in August 2016. However, by offering competitive interest rates, improved interaction with members, cost control and member ongoing support, the final FY17 profit was very pleasing.

Members' Equity increased by $0.5 million to $13.6 million.

At year-end, First Option's financial position was sound, with a capital adequacy ratio of 14.5% (minimum regulatory requirement 8%) and a level of liquidity at 19.1% (minimum regulatory requirement 9%).

The outstanding results achieved in FY17 indicate that, even in an environment of historically low interest rates and strong external competition, your Credit Union has been able to strengthen its overall financial position, continue to provide high quality member services and products and remain a fair fee financial provider.

In March 2017, First Option undertook a brand review with the aim of modernising our brand and to provide a concise message to our members. The outcome of this review was a simple message to our members – we want members to "be money happy".

During May 2017, your credit union launched a new Online Lending Service. Members can now simply login to internet banking and complete and submit the online application form.

For the fourth year in a row, First Option has won the Money magazine's best "Kids Bonus Saver Account" (non bank) award – a great result considering the competition faced.

Where to Next?

No doubt the coming year will again be impacted by international and domestic political and economic conditions. Hopefully, less volatility will occur as world economies continue to recover/stabilise, and various central banks consider reducing the "free" money stimulus that has been ongoing since the GFC and commence increasing interest rates. In response to the inconsistent recovery of the domestic economy in Australia, the RBA has been unable to change interest rates since August 2016 and indeed many economists are now predicting no change to rates until 2018.

In the short-term, strong profit growth will be difficult to achieve due to the current low interest rate environment, restricted investor mortgage loan growth due to APRA caps, strong competition for loans and deposits and ongoing cost increases.

Within this operating environment, to achieve the strategic goals necessary to grow the credit union both financially and operationally, your Directors will continue to invest in future technology and conduct ongoing reviews of potential products and member services.

On Budget night, the Federal Government announced that financial institutions with less than $50 million in capital would be able, for the first time, to include the word "Bank" in their name. Once the legislation is passed it will provide these small organisations, including First Option, greater opportunity to compete with the major financial institutions that currently benefit from the reputational advantages of the term "Bank".

Two major projects currently underway at year end are:

- the implementation of a National Payments Platform. This new infrastructure is being developed by the banking industry and will provide a nation-wide real time solution for payments across financial institutions

- the relocation of the Melbourne Head Office due to the sale and subsequent demolition of the current Head Office building.

Appreciations

My sincere thanks to Dean and the Credit Union staff for their outstanding level of member service and contribution to the continuing success of the Credit Union.

On behalf of the Directors and Management, I would like to express my gratitude to our industry hosts (Tabcorp Holdings, Star Entertainment, Tatts Group, Mobil Oil Australia, Ericsson Australia, Qenos, Mondelez International, ACI Pilkington and Laminex) for their ongoing support.

I also thank my fellow directors for their dedication and contribution to what has been a challenging but very successful and rewarding year.

Finally, I thank all members for supporting the credit union, as without this continuing support, the financial strength, quality member services and competitive products offered by your credit union could not be maintained.

Graeme Yeo
Chairman

Directors' Report

Your Directors present their report on First Option Credit Union for the financial year ended 30 June 2017. The Credit Union is a company registered under the Corporations Act 2001.

Information on Directors

Name	Qualifications	Experience	Responsibilities
Graeme John Yeo	BBus (Acc), CPA	Director for 9 years (previously 25 years) Chairperson 8 years	Chairperson of the Board
Cathryn Mary Garrigan	BSpThy, MBA Graduate Australian Institute of Company Directors, Associate Australasian Compliance Institute	Director for 16 years	Member of the Risk Committee, Member of the Audit Committee
Dharmendra Kumar	BA, MBA, Diploma in Financial Planning, Member Australian Institute of Company Directors, Senior Associate Financial Institute of Australasia, Member of Professional Risk Managers Association	Director for 8 years	Chairperson of the Risk Committee, Member of the Audit Committee
Annette Susan Mathews	BAppSc (Comp), Graduate Australian Institute of Company Directors, Member Australian Institute of Company Directors, Organisational Coaching Certificate, Alumni Member Institute of Executive Coaching	Director for 22 years	Member of the Risk Committee, Member of the Audit Committee
Timothy Matthews	BBusSt, FCPA, Graduate Australian Institute of Company Directors	Director for 10 years (EECC for 16 years)	Chairperson of the Audit Committee, Member of the Risk Committee
Gregory Noel Moore		Director for 18 years	
Anthony McAvaney	BE (Chem) Hons, BComm, Member Australian Institute of Company Directors, Director of OC Connections, Trustee of the Gus Theobald Foundation	Director for 6 years	
Lorna Clerkin	BSc (Hons), MBA	Director for 1 year (OGCU for 11 years)	

Note: EECC denotes Ericsson Employees Credit Co-operative, OGCU denotes Old Gold Credit Union Co-Operative

Company Secretary

Name	Qualifications	Experience
Dean Jepsen	Bachelor of Economics (Acctg), AFAMI, FCPA	Chief Executive Officer for 3 years

Directors' Meeting Attendance

Director	Board		Audit Committee		Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Graeme Yeo	11	11	-	-	-	-
Cathryn Garrigan	11	11	2	2	4	3
Dharmendra Kumar	11	9	4	3	4	3
Annette Mathews	11	9	2	2	4	3
Timothy Matthews	11	11	4	4	2	2
Gregory Moore	11	10	2	2	-	-
Anthony McAvaney	11	11	2	2	2	2
Lorna Clerkin	11	7	-	-	-	-

Periods of Appointment

Graeme Yeo	2017 AGM	Timothy Matthews	2019 AGM
Cathryn Garrigan	2019 AGM	Gregory Moore	2017 AGM
Dharmendra Kumar	2018 AGM	Anthony McAvaney	2017 AGM
Annette Mathews	2019 AGM	Lorna Clerkin	2019 AGM

Directors' Benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 28 of the complete set of financial statements.

Director and Officer Insurances and Indemnities

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

No insurance cover has been provided for the benefit of the auditors of the Credit Union.

Principal Activities

The principal activities of the Credit Union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by its Constitution.

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

Operating Results

The operating profit of the Credit Union for the year after providing for income tax was $551,963 [2016: $708,274].

Dividends

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

Review of Operations

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

Significant Changes in State Of Affairs

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

Events Occurring after Balance Date

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

Likely Developments and Results

No other matter, circumstance or likely development in our operations has arisen since the end of the financial year that has 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 the financial years subsequent to this financial year.

Auditors' Independence

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001.

Mr Graeme Yeo
Chairperson

Mr Timothy Mathews
Director

Signed and dated this 19th September 2017

Grant Thornton

Level 17, 383 Kent Street
Sydney NSW 2000

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

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

Auditor's Independence Declaration
To the Directors of First Option Credit Union Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of First Option Credit Union Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Claire Gilmartin

Claire Gilmartin
Partner - Audit & Assurance

Sydney, 19 September 2017

GrantThornton

Level 17, 383 Kent Street
Sydney NSW 2000

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

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

Independent Auditor's Report
To the members of First Option Credit Union Limited

Auditor's Opinion

We have audited the financial report of First Option Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration of the Company at the year's end.

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

a giving a true and fair view of the entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be in the same terms if given to the Directors as at the time of this auditor's report.

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

Information other than the Financial Report and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Grant Thornton

Our opinion on the financial report 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 report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The Directors responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar7.pdf. This description forms part of our auditor's report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Claire Gilmartin

Claire Gilmartin
Partner - Audit & Assurance

Sydney, 19 September 2017

Directors' Declaration

In the opinion of the directors of First Option Credit Union Limited:

1. The financial statements and accompanying notes of the company are in accordance with the Corporations Act 2001, including:

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

    b. giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the financial year ended on that date.

2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

Chairperson ______________________

Mr Graeme Yeo

Dated this 19th day of September 2017.

Statement of Profit or Loss and Comprehensive Income
for the year ended 30th June 2017

	Note	2017 $	2016 $
Interest revenue	2.a	7,226,350	7,518,836
Interest expense	2.c	2,787,764	2,947,423
Net interest income		4,438,586	4,571,413
Other income	2.b	673,637	710,580
Net Income		5,112,223	5,281,993
Non interest expenses			
Impairment losses on loans and advances	2.d	89,188	185,154
General administration			
- Employees compensation and benefits		1,826,535	1,753,568
- Depreciation and amortisation		64,256	74,201
- Information technology		1,190,963	1,140,270
- Office occupancy		209,353	121,641
- Other administration		417,215	652,862
Total general administration		3,708,322	3,742,542
Other operating expenses		614,210	415,495
Total non interest expenses		4,411,720	4,343,191
Operating Profit before Income Tax		700,503	938,802
Income tax expense	3	148,540	230,528
Operating Profit after Income Tax		551,963	708,274
Other Comprehensive Income		-	-
Total Comprehensive Income		551,963	708,274

This statement should be read in conjunction with the attached notes

Statement of Changes in Member Equity
for the year ended 30 June 2017

	Redeemed Capital Reserve $	Reserve for Credit Losses $	General Reserves $	Retained Profits $	Total $
Total at 1 July 2015	16,646	343,974	11,226,812	-	11,587,432
Transfer of business	5,370	19,500	772,199	-	797,069
Income and expense recognised directly in equity	-	-	-	-	-
Profit for the year	-	-	-	708,274	708,274
Totals brought forward	22,016	363,474	11,999,011	708,274	13,092,775
Transfers to (from) Reserves	716	16,224	691,334	(708,274)	-
Total as at 30 June 2016	22,732	379,698	12,690,345	-	13,092,775
Total at 1 July 2016	22,732	379,698	12,690,345	-	13,092,775
Transfer of business adjustments	-	-	(84,342)	-	(84,342)
Income and expense recognised directly in equity	-	-	-	-	-
Profit for the year	-	-	-	551,963	551,963
Totals brought forward	22,732	379,698	12,606,003	551,963	13,560,396
Transfers to (from) Reserves	726	5,091	546,146	(551,963)	-
Total as at 30 June 2017	23,458	384,789	13,152,149	-	13,560,396

This statement should be read in conjunction with the attached notes

Statement of Financial Position
as at 30 June 2017

	Note	2017 $	2016 $
ASSETS			
Cash	4	9,481,837	8,775,658
Liquid investments	5	27,876,739	26,811,292
Receivables	6	437,660	483,173
Loans and advances to members	7 & 8	151,789,713	139,712,511
Investments	9	440,200	440,200
Property, plant and equipment	10	338,380	50,009
Taxation assets	11	305,102	353,500
Intangible assets	12	158,212	126,510
Total Assets		190,827,843	176,752,853
LIABILITIES			
Short term borrowings	13	2,000,000	-
Deposits from members	14	171,716,049	160,294,901
Creditors	15	2,994,388	2,700,557
Taxation liabilities	16	-	123,006
Provisions	17	557,010	541,614
Total Liabilities		177,267,447	163,660,078
Net Assets		13,560,396	13,092,775
MEMBERS' EQUITY			
Capital reserve	18	23,458	22,732
Reserve for credit losses	19	384,789	379,698
General Reserve	20	13,152,149	12,690,345
Total Members' Equity		13,560,396	13,092,775

This statement should be read in conjunction with the attached notes

Statement of Cash Flows
for the year ended 30 June 2017

	Note	2017	2016
OPERATING ACTIVITIES		$	$
Interest received		7,157,959	7,546,818
Borrowing Costs		(2,787,764)	(2,947,423)
Other income		704,942	655,234
Income Tax Paid		(223,148)	(219,530)
Cash Paid to Suppliers & Employees		(3,794,686)	(3,366,054)
Net cash from revenue operations	32.b	1,057,303	1,669,045
Other operating activities			
Net increase in deposits and other borrowings		11,421,148	3,848,985
Net increase in loans and advances		(12,238,154)	(19,004,720)
Total cash used in operations		240,297	(13,486,690)
INVESTING ACTIVITIES			
Increase in deposits with other ADIs		(1,065,447)	19,728,746
Purchase of equipment and software		(384,329)	(59,391)
Net cash from transfer of business of Old Gold Credit Union		(84,342)	788,284
Net cash from investing activities		(1,534,118)	20,457,639
FINANCING ACTIVITIES			
Net increase in financing activities		2,000,000	-
Net cash provided by financing activities		2,000,000	-
Net increase / (decrease) in cash held		706,179	6,970,949
Cash at the beginning of reporting period		8,775,658	1,804,709
Cash at the End of the Reporting Period	32.a	9,481,837	8,775,658

This statement should be read in conjunction with the attached notes

1. Statement of Accounting Policies

This financial report is prepared for First Option Credit Union Limited as a single entity, for the year ended 30 June 2017. The report was authorised for issue on 19th September 2017 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

The financial report is a general purpose financial report which has been prepared in accordance with Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). First Option Credit Union is a for-profit entity for the purposes of preparing the financial statements.

a. Basis of Measurement

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

b. Classification and subsequent measurement of financial assets and liabilities

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

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

Classification and subsequent measurement of financial assets

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

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets

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

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

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

Loans and receivables

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Credit Unions, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified Credit Union.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. The Credit Union does not operate a trading book.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Credit Union has the intention and ability to hold them until maturity. The Credit Union currently holds Term deposits, Negotiable Certificates of Deposit (NCD), Bonds eligible for repurchase with the Reserve Bank of Australia and Corporate Subordinated Notes in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available For Sale financial assets.

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

AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's AFS assets are limited to the equity investment in Cuscal Limited. All other financial assets are classified as HTM.

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

Classification and subsequent measurement of financial liabilities

The Credit Union's financial liabilities include borrowings, and other payables. Financial liabilities are measured subsequently at amortised cost using the effective interest method.

c. Loans to Members

(i) Basis of recognition

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the statement of profit or loss and other 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 balance date, less any allowance or provision against debts considered doubtful.

(ii) Interest earned

Term loans – interest is calculated on the basis of daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Overdraft – interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Credit Cards – interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month. Purchases are granted up to 55 days interest free until the due date for payment.

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 is deceased, or, where a loan is impaired.

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

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

(v) Loans Fees

Fees charged on loans after origination of the loan are recognised in income when the service is provided or costs are incurred.

d. Loan Impairment

(i) Specific & Collective Provision for Impairment

Provisions for losses on impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The amount provided for doubtful debts is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions in the calculation are as set out in note 8.

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

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

(ii) Reserve for Credit Losses

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

- known asset risks as well as externalities
- the history of credit losses

e. 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 profit or loss and comprehensive income.

f. Property, Plant and Equipment

Property, plant and equipment with the exception of freehold land, are depreciated on a straight line basis so as to write-off the net cost of each asset over its expected useful life to the Credit Union. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the balance date are as follows:

- Leasehold Improvements - up to 10 years
- Plant and Equipment - 3 to 7 years
- Assets less than $1000 are not capitalised

g. Receivables from Other Financial Institutions

Term deposits and Negotiable Certificates of Deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the balance sheet.

h. Equity Investments and Other Securities

(i) Investments in marketable financial instruments

Available for sale financial instruments are measured at fair value.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

(ii) Investments in Shares

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

Investments in shares listed on the stock exchanges are revalued to fair value based on the market bid price at the close of business on statement of financial position date. The gains and losses in fair value are reflected in equity through the asset revaluation reserve.

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.

All investments are in Australian currency.

i. Member Deposits

(i) Basis for Determination

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

(ii) Interest Payable

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

j. Borrowings

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

k. Provision for Employee Benefits

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

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates. Provision for long service leave is on a pro-rata basis from commencement of employment with the credit union based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the sundry creditors and accruals.

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

l. Leasehold on premises

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

m. Income Tax

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

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 27.5% (2016: 30%).

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

n. Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets.

Computer software held as intangible assets is amortised over the expected useful life of the software. These useful lives range from 2 to 5 years.

o. 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 (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST. For assets where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO) then in these circumstances, the GST is recognised as part of the cost of acquisition of the asset.

Receivables and payables are stated with the amount of GST excluded 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 balance sheet. Cash flows are included in the cash flow statement on a net 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.

p. Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits.

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

q. Business Combinations

The Credit Union applies the acquisition method in accounting for business combinations.
Under the Financial Sector (Transfers of Business) Act 1999, all the assets and liabilities of the transferring body, wherever those assets and liabilities are located, become (respectively) assets and liabilities of the receiving body without any transfer, conveyance or assignment.

The Credit Union recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the Acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill (if applicable) is stated after separate recognition of any identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the Acquiree and (c) acquisition-date fair value of any existing equity interest in the Acquiree, over the acquisition-date fair values of identifiable net assets.

Where the fair values of identifiable net assets exceed the sum calculated above, the excess amount is recognised directly in equity for a mutual organisation (as prescribed by AASB 3 Guidance B47).

Acquisition costs are expensed as incurred.

r. Impairment of Assets

At each reporting date the Credit Union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the statement of profit or loss and 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.

s. Accounting Estimates and Judgements

Management has made judgements when applying the Credit Union’s accounting policies with respect to the impairment provisions for loans – see note 8.

t. New Accounting Standards Applicable for the Current Year

There were no new or revised accounting standards applicable for the financial year commencing from 1st July 2016 that had any significant impact on the financial statements of the Credit Union.

u. New or emerging Accounting Standards not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods. The credit union’s assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the credit union have not been reported.

AASB Reference	Nature of Change	Application Date	Impact on initial application
AASB 9 Financial Instruments December 2014	Amends the requirements for classification and measurement of financial assets. Recognition of credit losses are to no longer be dependent on the Credit Union first identifying a credit loss event. The Credit Union will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.	Periods beginning on or after 1 January 2018	The Credit Union has carried out a preliminary assessment of the impact of the new standard. The classification and measurement of financial assets is expected to remain largely unchanged with HTM investments to be reclassified to amortised cost and FVOCI categories and the AFS

			investments reclassified as FVOCI. The new expected loss impairment model will require more timely recognition of expected credit losses. The overall impact of applying AASB 9 has not yet been determined. Adjustments during the transition process will be recognised either in opening retained earnings or the general reserve for credit losses.
AASB 15 Revenue from Contracts with Customers	Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue.	Periods beginning on or after 1 January 2018	Based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted, as few revenue transactions of the credit union are impacted by the new standard.
AASB 16 Leases Replaces AASB 117	• Replaces AASB 117 Leases and some lease-related Interpretations • Requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases • Provides new guidance on the application of the definition of lease and on sale and lease back accounting • Requires new and different disclosures about leases	Periods beginning on or after 1 January 2019	The Credit Union is yet to undertake a detailed assessment of the impact of AASB 16.
AASB 2016-1 Amendments to Australian Accounting Standards-Disclosure Initiative: Amendments to AASB 112	AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.	1 January 2017	When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.	AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements.

2.	Statement of Profit or Loss and Other Comprehensive Income	2017 $	2016 $
a.	Analysis of interest revenue		
	Cash – deposits at call	160,472	116,915
	Receivables from financial institutions	258,276	367,848
	Investment Securities	530,060	633,585
	Loans and advances to members	6,277,542	6,400,488
	Total interest revenue	7,226,350	7,518,836
b.	Other Income		
	Fee income	285,536	373,410
	Insurance commissions	64,444	59,107
	Other commissions	184,602	172,001
	Dividends received	62,360	62,985
	Bad debts recovered	23,960	8,121
	Miscellaneous revenue	52,735	34,956
	Total other income	673,637	710,580
c.	Analysis of interest expense		
	Deposits from members	2,762,328	2,947,293
	Borrowings	25,436	130
	Total interest expense	2,787,764	2,947,423
d.	Impairment losses on loans and advances		
	Increase in provision for impairment	89,188	185,154
	Total impairment losses on loans and advances	89,188	185,154
e.	Prescribed expense disclosures		
	General Administration - employees costs include:		
	Net movement in provisions for annual leave	25,065	103
	Net movement in provisions for LSL	(4,312)	36,435
	General Administration - depreciation expense:		
	Plant and equipment	16,913	27,781
	Amortisation of software	47,344	46,420
	General Administration – office occupancy costs:		
	Property operating lease payments		
	- minimum lease payments	198,057	110,820
	Other Operating expenses include:		
	Defined contribution superannuation expenses	144,581	137,046
	Net movement in provisions for other liabilities	(289,314)	19,294
	Auditor's remuneration (excluding GST)		
	- Audit fees - Grant Thornton	66,094	57,400
	- Other services – Taxation - Other	3,060	2,995
	Total auditor's remuneration	69,154	60,395

3.	Income Tax Expense	2017 $	2016 $
a.	Income tax expense comprises amounts set aside as:		
	Provision for income tax - current year	148,540	123,006
	Increase in the deferred tax	-	107,522
	Under provision from the previous year		-
	Income tax expense attributable to profit	148,540	230,528
b.	The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
	Prima facie tax payable on profit before tax at 27.5% (2016: 30%)	192,638	281,641
	Dividend imputation adjustment	7,528	8,066
		200,166	289,707
	Adjustment to deferred tax asset	(24,900)	(32,704)
	Franking rebate	(26,726)	(26,475)
	Income tax expense attributable to profit	148,540	230,528

		2017	2016
4.	Cash	$	$
	Cash on hand	208,778	226,115
	Deposits at call	9,273,059	8,549,543
		9,481,837	8,775,658

5. Liquid Investments

a. Investments at amortised cost

	2017	2016
Held to maturity – Negotiable Certificates of Deposit	8,500,000	8,000,000
Held to maturity – Bonds	10,000,000	10,000,000
Held to maturity – Corporate Notes	-	2,000,000
Receivables – Term Deposits / Other Deposits	9,376,739	6,811,292
	27,876,739	26,811,292

b. Dissection of receivables

	2017	2016
Deposits with banks	2,000,000	4,111,292
Deposits with credit unions	7,376,739	2,700,000
	9,376,739	6,811,292

6. Receivables

	2017	2016
Interest receivable	139,153	101,447
Prepayments	57,220	139,819
Sundry debtors	241,287	241,907
	437,660	483,173

7. Loans to Members

a. Amount due comprises

	2017	2016
Overdrafts and revolving credit	2,455,422	3,244,863
Term loans	149,427,327	136,724,369
Subtotal	151,882,749	139,969,232
Less:		
Unearned Income	4,267	7,000
Subtotal	151,878,482	139,962,232
Less:		
Provision for impaired loans (note 8)	88,769	249,721
	151,789,713	139,712,511

7.	Loans to Members - continued	2017 $	2016 $
b.	Credit quality - security held against loans		
	Secured by mortgage over business assets	5,089,719	4,634,894
	Secured by mortgage over real estate or cash	137,613,351	121,960,065
	Partly secured by goods mortgage	4,847,383	7,311,081
	Wholly unsecured	4,332,296	6,063,192
		151,882,749	139,969,232

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

	2017	2016
Loan to valuation ratio of less than 80%	135,066,365	120,644,353
Loan to valuation ratio of more than 80% but mortgage insured	3,228,834	1,499,844
Loan to valuation ratio of more than 80% and not mortgage insured	-	-
	138,295,199	122,144,197

c. Concentration of loans

	2017	2016
(i) Total of loans to individual or related groups of members which exceed 10% of member funds in aggregate	-	-

(ii) Loans to members are concentrated to individuals employed in the gaming, leisure, hospitality, telecommunications and energy industries.

(iii) Geographical concentrations	2017	2016
New South Wales	75,209,099	70,712,851
Victoria	67,025,205	59,756,691
Queensland	5,311,733	5,447,465
South Australia	2,639,545	2,028,598
Western Australia	210,787	500,450
Tasmania	841,654	349,428
Northern Territory	26,071	44,742
Australian Capital Territory	525,620	872,285
	151,789,713	139,712,511

(iv) Loans by customer type	2017	2016
Residential loans and facilities	136,987,095	121,663,374
Personal loans and facilities	9,497,990	13,196,923
Business loans and facilities	5,304,628	4,852,214
	151,789,713	139,712,511

		2017	2016
8.	Provision on impaired loans	$	$
a.	Total provision comprises		
	Prescribed provision required under the APRA Prudential Standards	82,360	241,209
	Individual specific provisions	6,409	8,512
		88,769	249,721
b.	Movement in provision for impairment		
	Balance at the beginning of year	249,721	100,761
	Add / (deduct):		
	Transfers from / (to) combined statement of profit or loss and other comprehensive income	86,388	185,154
	Provision acquired from Transfer of Business	-	78,073
	Bad debts written off provision	(247,340)	(114,267)
	Balance at end of year	88,769	249,721

8. Provision on Impaired Loans - continued

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

In the note below:

* Carrying Value is the amount on the Statement of Financial Position gross of provision (net of deferred fees)
* Impaired loans value is the 'on Statement of Financial Position' loan balances which are past due by 90 days or more plus the value of other loans less than 90 days considered to be potentially impaired
* Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2017 Carrying Value $	2017 Impaired Loans $	2017 Provision for Impairment $	2016 Carrying Value $	2016 Impaired Loans $	2016 Provision for Impairment $
Mortgage	136,779,373	-	-	121,176,370	-	-
Personal	7,401,505	282,923	73,859	10,770,248	487,070	178,842
Credit cards	1,794,654	19,866	11,549	1,742,586	41,604	24,561
Overdrafts	602,590	3,361	3,361	1,427,814	60,080	46,160
Total to natural persons	146,578,121	306,150	88,769	135,117,018	588,754	249,563
Corporate borrowers	5,304,628	-	-	4,852,214	405	158
Total	151,882,749	306,150	88,769	139,969,232	589,159	249,721

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

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

	2017 Carrying Value $	2017 Provision $	2016 Carrying Value $	2016 Provision $
30 to 90 days in arrears	122,706	-	261,491	-
90 to 180 days in arrears	40,576	28,362	87,940	35,176
180 to 270 days in arrears	70,904	6,315	12,429	7,457
270 to 365 days in arrears	10,525	42,493	66,470	61,687
Over 365 days in arrears	45,106	-	127,322	127,322
Overlimit facilities < 14 days	1,745	-	1,892	-
Overlimit facilities > 14 days	14,589	11,599	31,615	18,079
Total	306,150	88,769	589,159	249,721

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

8. Provision on Impaired Loans - continued

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

There are loans with a value of $811,815 (2016: $1,150,192) past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

	1- 3 Mths $	3-6 Mths $	6-12 Mths $	> 1 Year $	Total $
2017					
Mortgage secured	811,815	-	-	-	811,815
Personal loans	-	-	-	-	-
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Total	811,815	-	-	-	811,815
2016					
Mortgage secured	1,150,192	-	-	-	1,150,192
Personal loans	-	-	-	-	-
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Total	1,150,192	-	-	-	1,150,192

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

f. Key assumptions in determining provision for impairment

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

Period of impairment	% of balance
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 265 days	80
Over 365 days	100

9. Investments	2017 $	2016 $
Shares in unlisted companies – at cost		
- Cuscal Ltd	440,200	440,200
	440,200	440,200

Cuscal Limited

The shareholding in Cuscal is measured at its cost value in the Consolidated Statement of Financial Position. This company supplies services to the member organisations which are all mutual banks and credit unions. The credit union holds shares in Cuscal to enable the credit union to receive essential banking services – refer to Note 29. The shares are able to be traded but within a market limited to other mutual ADIs. The volume of shares traded in the shares is low.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily.

10. Property, Plant and Equipment	2017 $	2016 $
Total property, plant and equipment		
Plant and equipment - at cost	449,915	336,286
Less: provision for depreciation	(111,535)	(286,277)
	338,380	50,009

Movement in the assets balances during the year were:

	2017 Plant & equipment $	2017 Total $	2016 Plant & equipment $	2016 Total $
Opening balance	50,009	50,009	70,007	70,007
Purchases	305,283	305,283	7,783	7,783
Less				
Assets disposed	-	-	-	-
Depreciation charge	16,912	16,912	27,781	27,781
Balance at the end of the year	338,380	338,380	50,009	50,009

11. Taxation Assets	2017 $	2016 $
Current tax receivable	35,943	-
Deferred tax asset comprise the tax effect of the following balances:		
Accrued expenses not deductible until incurred	125,999	155,265
Provisions for impairment on loans	24,411	74,916
Provisions for employee benefits	118,749	123,319
	305,102	353,500

12. Intangible Assets

Computer software	493,337	461,102
Less provision for amortisation	(335,125)	(334,592)
	158,212	126,510

Movement in the assets balances during the year were:

Opening balance	126,510	121,322
Purchases	79,046	51,608
Less		
Assets disposed	-	-
Amortisation charge	47,344	46,420
Balance at the end of the year	158,212	126,510

13. Short Term Borrowings

IOOF Wholesale Trust borrowings	2,000,000	-
Other borrowings	-	-
Total Short Term Borrowings	2,000,000	-

14. Deposits from Members

a. Total deposits comprises:

Member Deposits		
- At Call	104,004,192	100,440,924
- Term	67,690,463	59,832,533
Member withdrawable shares	21,394	21,444
Total deposits and shares	171,716,049	160,294,901

b. Concentration of member deposits

(i) Total of significant individual member deposits which in aggregate represent more than 10% of the total liabilities:	-	-

(ii) Member deposits at balance date were received from individuals employed in Australia and principally in the gaming, leisure, hospitality, telecommunications and energy industries.

	2017	2016
14. Deposits from Members - continued	$	$
b. Concentration of member deposits - continued		
(iii) Geographical Concentrations		
New South Wales	97,138,556	90,405,386
Victoria	66,003,943	60,183,387
Queensland	4,795,670	6,811,330
South Australia	588,284	518,371
Western Australia	1,528,354	1,228,349
Tasmania	364,383	136,938
Northern Territory	10,052	111,103
Australian Capital Territory	1,286,807	900,037
	171,716,049	160,294,901

15. Creditors

	2017	2016
Creditors and accruals	37,018	516,241
Settlement and Clearing Accounts	2,039,132	1,505,856
Interest payable on borrowings	5,129	-
Interest payable on deposits	611,097	636,594
Overdraft clearing	302,012	41,866
Total amounts payable	2,994,388	2,700,557

16. Taxation Liabilities

	2017	2016
Current income tax liability	-	123,006
	-	123,006
Current income tax liability comprises:		
Balance – previous year	123,006	55,711
Less paid / refund received	(123,006)	(57,261)
Over/(under) provision for year	-	(1,550)
Liability for income tax in current year	148,540	288,372
Less instalments paid in current year	(184,483)	(163,816)
Transfer to Taxation Assets (Note 11)	35,943	-
	-	123,006

17. Provisions

	2017	2016
Annual leave	159,251	134,186
Long service leave	272,565	276,878
Provisions – other	125,194	130,550
Total provisions	557,010	541,614

18. Capital Reserve	2017 $	2016 $
Balance at the beginning of the financial year	22,732	16,646
Redeemed share capital acquired from Transfer of Business	-	5,370
Transfer from retained earnings on share redemptions	726	716
Balance at the end of financial year	23,458	22,732

Share redemption

The accounts represent the amount of redeemable preference shares redeemed by the Credit Union since 1 July 1999. The Law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

19. Reserve for Credit Losses		
General reserve for credit losses	384,789	379,698
Total reserves	384,789	379,698

General reserve for credit losses

This reserve records amount previously set aside as a General provision and is maintained to comply with the Prudential Standards set down by APRA

Balance at the beginning of the financial year	379,698	343,974
Reserves acquired from Transfer of Business	-	19,500
Inc/(dec) transferred from/(to) retained earnings	5,091	16,224
Balance at the end of the financial year	384,789	379,698

20. General Reserves		
Balance at the beginning of the financial year	12,690,345	11,226,812
Reserves acquired from Transfer of Business	-	772,199
Adjustment of reserves due to Transfer of Business	(84,342)	
Operating profit transferred from retained earnings	551,963	708,274
Transfer from/(to) General Reserve for Credit Losses	(5,091)	(16,224)
Transfer from/(to) Capital Reserve for Share redemption	(726)	(716)
Balance at the end of the financial year	13,152,149	12,690,345

21. Interest Rate Change Profile of Financial Assets and Liabilities

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

2017	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	After 5 years $	Non interest bearing $	Total $
Assets							
Cash	9,273,059	-	-	-	-	208,778	9,481,837
Advances to other financial institutions	3,500,000	14,300,000	10,076,739	-	-	-	27,876,739
Receivables	-	-	-	-	-	437,660	437,660
Loans & Advances	131,585,445	3,985,445	10,973,945	5,248,650	89,264	-	151,882,749
Investments	-	-	-	-	-	440,200	440,200
Total Financial Assets	144,358,504	18,285,445	21,050,684	5,248,650	89,264	1,086,638	190,119,185
Liabilities							
Borrowings	2,000,000	-	-	-	-	-	2,000,000
Deposits from members	110,369,469	14,858,745	41,758,464	4,729,371	-	-	171,716,049
Creditors	-	-	-	-	-	2,994,388	2,994,388
Total Financial Liabilities	110,369,469	14,858,745	41,758,464	4,729,371	-	2,994,388	174,710,437

2016	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	After 5 years $	Non interest bearing $	Total $
Assets							
Cash	8,549,543	-	-	-	-	226,115	8,775,658
Advances to other financial institutions	1,611,292	23,700,000	1,500,000	-	-	-	26,811,292
Receivables	-	-	-	-	-	483,173	483,173
Loans & Advances	108,354,718	4,004,741	12,607,876	14,752,867	249,030	-	139,969,232
Investments	-	-	-	-	-	440,200	440,200
Total Financial Assets	118,515,553	27,704,741	14,107,876	14,752,867	249,030	1,149,488	176,479,555
Liabilities							
Deposits from members	106,642,582	12,318,681	35,843,327	5,490,311	-	-	160,294,901
Creditors	-	-	-	-	-	2,700,557	2,700,557
Total Financial Liabilities	106,642,582	12,318,681	35,843,327	5,490,311	-	2,700,557	162,995,458

22. Maturity Profile of Financial Assets and Liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, 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 Combined Statement of Financial Position.

2017	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Greater than 5 years $	No maturity $	Total $
Assets							
Cash	9,285,902					208,778	9,494,680
Advances to other financial institutions	3,517,589	14,316,817	10,647,849	-	-	-	28,482,255
Receivables	-	-	-	-	-	437,660	437,660
Loans & Advances	2,455,422	3,239,795	9,293,637	41,375,360	169,634,834	-	225,999,048
Investments						440,200	440,200
Total Financial Assets	15,258,913	17,556,612	19,941,486	41,375,360	169,634,834	1,086,638	264,853,843
Liabilities							
Borrowings	2,005,129	-	-	-	-	-	2,005,129
Deposits from members	110,454,064	15,092,961	42,737,496	5,013,918	-	-	173,298,439
Creditors	-	-	-	-	-	2,299,155	2,299,155
On balance sheet total	112,459,193	15,092,961	42,737,496	5,013,918	-	2,299,155	177,602,723
Undrawn Commitments	21,865,896	-	-	-	-	-	21,865,896
Total Financial Liabilities	134,325,089	15,092,961	42,737,496	5,013,918	-	2,299,155	199,468,619

2016	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Greater than 5 years $	No maturity $	Total $
Assets							
Cash	8,577,678	-	-	-	-	226,116	8,803,794
Advances to other financial institutions	1,621,518	23,777,538	1,513,286	-	-	-	26,912,342
Receivables	-	-	-	-	-	483,173	483,173
Loans & Advances	3,244,863	3,419,549	9,625,600	41,819,973	157,494,144	-	215,604,129
Investments	-	-	-	-	-	440,200	440,200
Total Financial Assets	13,444,059	27,197,087	11,138,886	41,819,973	157,494,144	1,149,489	252,243,638
Liabilities							
Deposits from members	106,721,614	12,512,624	36,745,783	5,797,070	-	-	161,777,091
Creditors	-	-	-	-	-	2,102,530	2,102,530
On balance sheet total	106,721,614	12,512,624	36,745,783	5,797,070	-	2,102,530	163,879,621
Undrawn Commitments	18,933,698	-	-	-	-	-	18,933,698
Total Financial Liabilities	125,655,312	12,512,624	36,745,783	5,797,070	-	2,102,530	182,813,319

23. Financial Assets and Liabilities Maturing Within 12 Months

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

	2017			2016		
	Within 12 months $	After 12 months $	Total $	Within 12 months $	After 12 months $	Total $
Financial assets						
Cash	9,481,837	-	9,481,837	8,775,658	-	8,775,658
Liquid assets	27,876,739	440,200	28,316,939	26,811,292	440,200	27,251,492
Loans & Advances	146,544,835	5,337,914	151,882,749	124,967,335	15,001,897	139,969,232
Receivables	437,660	-	437,660	483,173	-	483,173
Total Financial Assets	184,341,071	5,778,114	190,119,185	161,037,458	15,442,097	176,479,555
Financial liabilities						
Borrowings	2,000,000	-	2,000,000	-	-	-
Deposits from members	166,986,678	4,729,371	171,716,049	154,804,590	5,490,311	160,294,901
Creditors	2,994,388	-	2,994,388	2,700,557	-	2,700,557
Total Financial Liabilities	171,981,066	4,729,371	176,710,437	157,505,147	5,490,311	162,995,458

24. Fair Value of Financial Assets and Liabilities

A review of the fair value calculation indicated that there were no significant variances between the book and fair values for the Credit Union. As a result the fair value details have not been included. Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

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

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the credit union and there is no active market to assess the value of the financial assets and liabilities. Assets where the fair value is lower than the book value have not been written down in the accounts of the credit union on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

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

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 3 months approximate their fair value as they are short term in nature or are receivable on demand.

24. Fair Value of Financial Assets and Liabilities - continued

Loans and advances

The carrying value of loans and advances is net of unearned income and specific provisions for doubtful debts. For variable rate loans, (excluding impaired loans) the amount shown in the Statement of Financial Position is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

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

Deposits from members

The fair value of non interest bearing, call and variable rate deposits and fixed rate deposits repricing within six months is the amount shown in the Statement of Financial Position as at June 30. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value of other term deposits.

Short term borrowings

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

25. Financial Commitments	2017 $	2016 $
a. Outstanding loan commitments		
Loans approved but not funded	5,221,724	2,333,088
b. Loan redraw facilities		
Loan redraw facilities available	13,011,014	13,061,347
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	6,088,580	6,784,126
Less: Amount advanced	(2,455,422)	(3,244,863)
Net undrawn value	3,633,158	3,539,263

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

d. Future capital commitments

The Credit Union has entered into a contract to purchase (computer equipment and software) for which the amount is to be paid over the following periods:-

	2017 $	2016 $
Within 1 year	144,804	110,000
1 to 2 years	-	-
2 to 5 years	-	-
	144,804	110,000

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

	2017 $	2016 $
Not later than one year	226,470	112,704
Later than one year but not later than five years	639,759	48,630
Over five years	-	-
	866,229	161,335

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

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

26. Standby Borrowing Facilities

The Credit Union has a borrowing facility with Credit Union Services Corporation (Australia) Limited (CUSCAL) of:

	2017		
	Gross $	Current borrowing $	Net available $
Overdraft facility	500,000	-	500,000
Total standby borrowing facilities	500,000	- -	500,000

	2016		
	Gross $	Current borrowing $	Net available $
Overdraft facility	500,000	-	500,000
Total standby borrowing facilities	500,000	-	500,000

Withdrawal of the overdraft facility is subject to the availability of funds at CUSCAL.

CUSCAL holds an equitable mortgage charge over all of the assets of the Credit Union as security against any loan and overdraft amounts drawn.

27. Contingent Liabilities

Liquidity support scheme

The Credit Union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member Credit Unions in the event of a liquidity or capital issue. As a member, the Credit Union is committed to maintaining 3% of its total assets as either deposits with CUSCAL or investments held within the Austraclear system.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Credit Union would be 3% of the Credit Union's Total Assets. This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

Guarantees

The Credit Union has issued guarantees on behalf of members for the purpose of security bond. The guarantee is payable only on the member defaulting on the contractual repayments to the Lessor / supplier. The guarantees are fully secured against registered first mortgages or cash deposits. The total value of guarantees as at 30 June 2017 was $395,500 (2016: $425,000).

28. Disclosures on Directors and Other Key Management Personnel

a. Remuneration of key management persons [KMP]

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

KMP have been taken to comprise the Directors and the 3 (2016: 4) members of the executive management responsible for the day to day financial and operational management of the Credit Union.

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

		2017 $	2016 $
(i)	Short-term employee benefits	443,207	510,777
(ii)	Director fees	59,482	53,004
(iii)	Other long-term benefits – net increases in long service leave provision	14,418	16,271
	Total compensation	517,107	580,052

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

All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Credit Union.

b. Loans to Directors and KMP

2017	Mortgage Secured $	Other Term Loans $	Credit Cards /Revolving Credit $
Funds available to be drawn (redraws, overdrafts, credit cards, LOC)	219,159	-	47,657
Balance as at end of year	1,794,436	24,863	21,713
Amounts disbursed or facilities increased during the year	156,000	29,000	-
Interest and other revenues earned	41,310	1,063	1,267

2016	Mortgage Secured $	Other Term Loans $	Credit Cards /Revolving Credit $
Funds available to be drawn (redraws, overdrafts, credit cards, LOC)	144,285	-	31,431
Balance as at end of year	2,005,041	1,171	64,851
Amounts disbursed or facilities increased during the year	312,800	3,164	15,000
Interest and other revenues earned	70,913	710	1,570

28. Disclosures on Directors and Other Key Management Personnel - continued

b. Loans to Directors and KMP - continued

The Credit Union's policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit.

There are no loans which are impaired in relation to the loan balances with Directors or other KMP.

Staff may have received a concessional rate of interest on their loans and facilities as a result of the transfer from mergers. There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMP.

Other transactions between related parties include deposits from Directors and other KMP:

	2017 $	2016 $
Total value term and savings deposits from Directors/KMP	905,891	752,893
Total Interest paid on deposits to Directors/KMP	11,982	15,762

The Credit Union's policy for receiving deposits from Directors/KMP is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

c. Transactions with related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors and other KMP.

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

There are no benefits paid or payable to the close family members of the KMP.

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

29. Outsourcing Arrangements

The Credit Union has arrangements with other organisations to facilitate the supply of services to members.

a. Cuscal Limited

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. This entity:

(i) Acts as the credit union's banker

(ii) Provides the licence rights to Visa Card in Australia and settlement with other financial institutions for ATM, Visa card, direct entry and cheque transactions, as well as the production of Visa and Redicards for use by members;

(iii) Provides treasury and money market facilities to the Credit Union. The Credit Union has invested sufficient liquid assets to comply with the Liquidity Support Scheme requirements; and

(iv) Operates the computer network used to link Redicards and Visa cards operated through RediATMs and other approved ATM suppliers to the Credit Union's EDP systems.

b. Ultradata Australia Pty Limited

Provides and maintains the application software utilised by the Credit Union.

c. Transaction Solutions Limited

This entity operates the computer facility on behalf of the Credit Union in conjunction with other Credit Unions. The Credit Union has a management contract with the company to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with the relevant Prudential Standards.

d. ETOS Australia

This entity acts as a Proxy Settlement service for settling transactions in the Austraclear system on behalf of the Credit Union.

30. Superannuation Liabilities

The Credit Union mainly contributes to the NGS Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plans are administered by independent corporate trustees.

The Credit Union has no interest in the superannuation plans (other than as a contributor) and is not liable for the performance of the plans, or the obligations of the plans.

31. Securitisation

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on-sale to an investment trust. The Credit Union also manages the loans portfolio on behalf of the trust. The Credit Union bears no risk exposure in respect of these loans. The amount of securitised loans under management as at 30 June 2017 is $233,502 (2016: $303,131).

		2017	2016
32.	Notes to Consolidated Statement of Cash Flows	$	$
a.	Reconciliation of cash		
	Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
	Cash on hand	208,778	226,115
	Deposits at call	9,273,059	8,549,543
	Total Cash	9,481,837	8,775,658
b.	Reconciliation of cash from operations to accounting profit		
	Operating Profit after income tax	551,963	708,274
	Non-cash movements:		
	Provision for Impairment	160,952	148,960
	Depreciation & Amortisation of fixed assets	64,256	74,201
	Provisions for employee entitlements	20,752	36,538
	Changes in assets and liabilities:		
	Receivables	45,513	(110,910)
	Taxation assets	48,398	(56,297)
	Payables	293,831	781,689
	Taxation liabilities	(123,006)	67,295
	Provisions	(5,356)	19,295
	Total operating cash flows	1,057,303	1,669,045

33. Financial Risk Management Objectives and Policies

a. Introduction

The Board has endorsed a framework of compliance and risk management to suit the risk profile of the Credit Union. The Credit Union's risk management focuses on the major areas of liquidity risk, market risk, credit risk, operational risk and governance risk. Authority flows from the Board of Directors to the Risk Committee and to the Audit Committee which are integral to the management of risk. The following diagram gives an overview of the risk management structure:

The main elements of risk governance are as follows:

Board of Directors

This is the primary governing body. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks.

Risk Committee

This is a key body in the control of risk. It has representatives from the board as well as the Chief Risk Officer. The Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Risk Committee through quarterly review of operational reports and control assignments are reviewed by the Risk Committee to confirm whether risks are within the parameters outlined by the board.

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

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

33. Financial Risk Management Objectives and Policies - continued

a. Introduction - continued

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 plan. The Audit Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the risk committee for their consideration.

Asset and Liability Committee (ALCO)

This committee of Senior Management and the Chair of the Board meets regularly and has responsibility for managing credit and market risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the board. The ALCO also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determine controls that need to be in put in place regarding the authorisation of new loans.

The ALCO Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All loans are managed regularly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or over limit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Board monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the statement of financial position date.

The ALCO also has responsibility for managing interest rate risk exposures and ensuring the the Finance function adheres to exposure limits as outlined in policy.

Risk Officer

This person has responsibility for the daily management of the risk and compliance functions, including both liaising with the operational function to ensure timely production of information for the Board, Audit Committee and Risk Committee and ensuring that instructions passed down from the Board and committees are implemented.

Internal Audit

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

Risk management policies

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

* Market (Interest rate) risk
* Liquidity management
* Credit risk management
* Operational risk management including data risk management

33. Financial Risk Management Objectives and Policies - continued

b. Market and interest rate risk

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

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

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

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. 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 reviewed by the Board. The level of mismatch in the banking book is set out in note 21. The table set out at note 21 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing interest rate 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. Large exposures to interest rate movements are measured monthly with any being rectified through targeted fixed rate interest products (available through investment assets), and term deposits liabilities 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 Unions exposure to interest rate risk is set out in note 21 which details the contractual interest change profile.

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

Based on the calculations as at 30 June 2017, the pre-tax profit impact for a 0.75% decrease in interest rates over the next 12 months would be $126,366 (2016: $79,495).

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 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 deposit with similar terms and rates applicable;
* savings deposits would reprice in 1 month;

33. Financial Risk Management Objectives and Policies - continued

b. Market risk - continued

* fixed rate loans would all reprice to the new interest rate at the contracted date;
* mortgage loans would all reprice to the new interest rate in 3 months;
* personal loans would reprice to the new interest rate in 3 months;
* 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.

The interest rate sensitivity is not representative of the risk inherent in the financial instruments during the financial year due to the changes in asset mix of fixed rate loans and longer term deposits / investments.

b. Liquidity risk

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

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 2 business days under the APRA Prudential standards. The Credit Union policy is to apply 12.5% of total adjusted liabilities 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, management and Board will review the situation and act according to the Liquidity Management Policy. Note 26 describes the borrowing facilities as at balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and liabilities, based on the contractual repayment terms are set out in the specific note 22.

33. Financial Risk Management Objectives and Policies - continued

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.

(i) Credit risk - loans

The analysis of the Credit Union's loans by class, is as follows:

	2017 Carrying value $	2017 Undrawn Facilities $	2017 Maximum exposure $	2016 Carrying value $	2016 Undrawn Facilities $	2016 Maximum exposure $
Mortgage	136,779,373	12,156,615	148,935,988	121,176,370	12,457,923	133,634,293
Personal	7,401,505	514,912	7,916,417	10,770,248	580,606	11,350,854
Credit cards	1,794,654	2,266,784	4,061,438	1,742,586	2,133,121	3,875,707
Overdrafts	602,590	1,366,374	1,968,964	1,427,814	1,089,473	2,517,287
Total to natural persons	146,578,121	16,304,685	162,882,806	135,117,018	16,261,123	151,378,141
Corporate borrowers	5,304,628	339,487	5,644,115	4,852,214	339,487	5,191,701
Total	151,882,749	16,644,172	168,526,921	139,969,232	16,600,610	156,569,842

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (Loans approved not advanced, redraw facilities, overdraft facilities and credit cards limits). The details are shown in note 25 and a summary is in note 7a.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in note 7c.

The method of managing credit risk is by way of strict adherence to the Credit Union's 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, security requirements;
* Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
* Reassessing and review of the credit exposures on loans and facilities;
* Establishing appropriate provisions to recognise the impairment of loans and facilities;
* Debt recovery procedures; and
* Review of compliance with the above policies.

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

33. Financial Risk Management Objectives and Policies - continued

(i) Credit risk - loans - continued

Past due loans

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 next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate 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 predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of profit or loss and other comprehensive income. In estimating these cash flows, management makes a judgement about counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, the Credit Union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Balance sheet provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment

The provisions 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 8.

Bad debts

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

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

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

33. Financial Risk Management Objectives and Policies - continued

(i) Credit risk - loans - continued

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.

Concentration risk – individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but 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 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 per cent of the capital base.

The Credit Union's policy on exposures of this size is to insist on an initial LVR of 80 per cent or less and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – industry

The Credit Union has a concentration in retail lending to members who comprise employees and family in the gaming, leisure, hospitality, telecommunications and energy industries. 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 and industry concentrations are set out in note 7.

33. Financial Risk Management Objectives and Policies - continued

(ii) Credit risk - liquid investments

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

The Credit Union's credit policy is that investments are only made to institutions that are creditworthy. Directors have established policies that enforce maximum exposure limits to different counterparties. These policies have been determined in line with APRA prudential standards.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the maximum exposure limits. Also the relative size of the Credit Union as compared to the industry is relatively low such that the risk of loss is reduced.

Under the Liquidity Support Scheme at least 3% of total assets must be invested in Cuscal and/or other CUFSS-approved ADI to allow the scheme to have adequate resources to meet its obligations if needed.

Board policy limits investments outside of Cuscal to Australian Authorised Deposit-Taking Institutions (ADI) with a rating of BBB- or higher. ADIs with a rating less than this may be approved at the discretion of the Board of Directors. Investments in non-ADIs may also be permitted at the discretion of the Board of Directors.

External Credit Assessment for Institution Investments

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

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

	2017 Carrying value $	2017 Past due value $	2017 Provision $	2016 Carrying value $	2016 Past due value $	2016 Provision $
Cuscal (AA-)	600,000	-	-	600,000	-	-
Banks (AA- and above)	5,535,000	-	-	3,200,000	-	-
Banks (between BBB and A+)	16,365,000	-	-	16,311,292	-	-
Non-ADI (BBB- and above)	-	-	-	2,000,000	-	-
Unrated ADI	5,376,739	-	-	4,700,000	-	-
Total	27,876,739	-	-	26,811,292	-	-

33. Financial Risk Management Objectives and Policies - continued

d. Capital management

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

* Credit risk
* Market risk (trading book)
* Operational risk

The market risk component is not required as the Credit Union is not engaged in a trading book for financial instruments.

Common Equity Tier 1 Capital (CET1)

Common Equity Tier 1 capital comprises:

* Retained profits
* Realised reserves

Additional Tier 1 Capital (AT1)

The Credit Union holds no Additional Tier 1 capital.

Tier 2 Capital (T2)

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 comprises the General Reserve for Credit Losses.

Capital in the Credit Union is made up as follows:

	2017 $	2016 $
Tier 1 Capital		
Common Equity Tier 1 Capital:		
General/Capital reserve	12,623,644	12,004,803
Retained earnings	551,963	708,274
	13,175,607	12,713,077
Less prescribed deductions	903,514	920,209
Net Common Equity Tier 1 Capital	12,272,093	11,792,868
Additional Tier 1 Capital	-	-
Total Tier 1 Capital	12,272,093	11,792,868
Tier 2 Capital		
General reserve for credit losses	384,789	379,698
	384,789	379,698
Less prescribed deductions	-	-
Net tier 2 Capital	384,789	379,698
Total Capital	12,656,882	12,172,566

33. Financial Risk Management Objectives and Policies - continued

d. Capital management - continued

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

The risk weights attached to each asset are based on the weights prescribed by APRA in its Standard APS 112. The rules apply the risk weights according to the level of underlying security.

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

2017	2016	2015	2014	2013
Basel III	Basel III	Basel III	Basel III	Basel II
14.54%	14.29%	13.94%	15.03%	15.89%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below certain levels. Further a capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

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

Operational risk requirement	2017:	$10,123,720	2016:	$9,259,361

It is considered that the Standardised approach accurately reflects the Credit Union's operational risk other than for the specific items set out below.

Internal capital adequacy assessment process (ICAAP)

The Credit Union manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Credit Union is reassessed.

The credit union has assessed the need for additional capital charges under its ICAAP and has determined that prudential capital is sufficient to cover growth and unforeseen circumstances.

Additional capital charge	2017:	-	2016:	-

34. Categories of Financial Instruments

a. Financial instruments classified by measurement class

	Note	2017 $	2016 $
Financial assets - carried at amortised cost			
Cash	4	9,481,837	8,775,658
Negotiable Certificates of Deposit	5	8,500,000	8,000,000
Receivables from financial institutions	5	19,376,739	16,811,292
Receivables from corporates	5	-	2,000,000
Receivables	6	437,660	483,173
Loans to members	7 & 8	151,789,713	139,712,511
Total loans and receivables		189,585,949	175,782,634
Available for sale investments - carried at cost	9	440,200	440,200
Total available for sale investments		440,200	440,200
Total Financial Assets		190,026,149	176,222,834
Financial liabilities			
Short term borrowings	13	2,000,000	-
Creditors	15	2,994,388	2,700,557
Deposits from members	14	171,716,049	160,294,901
Total Financial Liabilities		176,710,437	162,995,458

34. Categories of Financial Instruments - continued

b. Assets measured at fair value

2017	Balance $	Level 1 $	Level 2 $	Level 3 $
		Fair value measurement at end of the reporting period using:		
Equity investments	440,200	-	-	440,200
Total	440,200	-	-	440,200

2016	Balance $	Level 1 $	Level 2 $	Level 3 $
		Fair value measurement at end of the reporting period using:		
Equity investments	440,200	-	-	440,200
Total	440,200	-	-	440,200

The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

35. Corporate Information

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

Registered office: Level 6 437 St Kilda Road Melbourne Victoria

Principal place of business: Level 6 437 St Kilda Road Melbourne Victoria

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

Corporate Governance Disclosures

Board

The Credit Union Board has responsibility for the overall management and strategic direction of First Option Credit Union. All Board members are independent of management and are elected by members on a rotation of every 3 years.

Each Director must be eligible to act, under the Constitution of the Credit Union and the Corporations Act 2001. Directors also need to satisfy the Fit and Proper policy of the Credit Union.

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

Board Remuneration

The Board receives remuneration from the Credit Union in the form of allowances agreed to by members each year at the AGM. Directors are reimbursed for any out-of-pocket expenses. Directors receive no other benefits from the Credit Union.

Board Committees

A Risk Committee and Audit Committee operate to assist the Board in relevant matters of financial prudence. The Directors form these committees with CEO and management participation.

A Nominations Committee has been formed to assess the fit and proper status of persons seeking to become a Director, in line with APRA's Prudential Standard CPS 520: Fit and Proper. This committee comprises all Directors who are not standing for re-election in the current year.

Policies

The Board has endorsed a framework of compliance and risk management to suit the risk profile of the Credit Union's ethical guidelines to staff, to reinforce the practice of providing courteous and efficient service to members and recognition of members as owners.

Risk Officer

The Credit Union has a Risk Officer who is responsible for maintaining the awareness of staff for all changes in legislation and responding to staff inquiries on compliance matters. The Risk Officer also monitors the FSR Licence obligations and responds to all member complaints and disputes should they arise.

External Audit

The external audit is performed by Grant Thornton Audit Pty Ltd, a major international accounting body. The firm utilises sophisticated Computer Assisted Audit Software to supplement compliance testing.

Internal Audit

An internal audit function has been established using the services of an independent third party to review areas of internal control compliance and regulatory compliance only. The work performed by the internal auditor is examined by the Audit Committee and Risk Committee to ensure appropriate management action is taken in relation to issues raised. The findings of the internal auditor are also made available to the external auditor.

This role is also supplemented by other external compliance reviews performed by security audits on the Data Processing centre for adequacy of the back up, disaster recovery and internet security systems.

Regulation

The Credit Union is regulated by:

- APRA – for the prudential risk management of the Credit Union.

- ASIC – for adherence to Corporations Act 2001, Accounting Standards disclosures in the financial report, Financial Services Reform (FSR) requirements. The FSR legislation requires that the Credit Union disclose details of products and services; maintains training for all staff that deals with the members, and provide an effective and independent complaints handling process. ASIC also oversees Responsible Lending and credit licensing requirements.

Under the financial services and credit licensing requirements, all staff who 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 annually on compliance with respective requirements. The external auditor also reports to both ASIC on the FSR compliance and APRA on the Prudential policy compliance.

Workplace Health & Safety (WHS)

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

Staff are trained in robbery procedures and offices are designed to detract from such acts by:
- holding little or no cash in accessible areas
- utilisation of security measures including cameras and counter screens, card only secure access and onsite security personnel

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to ensure the safety of the public and staff. All matters of concern are reported to the CEO for actioning by management and reported to the Board. 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.

firstoptioncu.com.au

MELBOURNE
Level 6, 437 St Kilda Road
Melbourne VIC 3004
PO Box 7063
St Kilda Rd VIC 8004

TABCORP
1 Memorial Drive
Granville NSW 2142
Locked Bag 7000
Granville NSW 2142

MOBIL REFINERY
Corner Millers Road & Kororoit Creek Road
Altona VIC 3018

QENOS
Maidstone Street
Altona VIC 3018

MONDELEZ/CADBURY
323 Canterbury Road
Ringwood VIC 3134

TEL 1300 855 675
FAX 1800 356 675
EMAIL info@firstoptioncu.com.au
BSB 802 876

First Option Credit Union Limited ABN 95 087 650 735 AFSL / Australian Credit Licence no. 236 509