NOVA CREDIT UNION LIMITED

ABN 40 087 650 440

53rd Annual Report

For the Year Ended 30th June 2017

CONTACT DETAILS

Australian Financial Services Licence 240918

General Manager

David Franklin

Assistant General Manager and Compliance Manager

Yvonne Armstrong

Office Staff

Lynne Guy - Loans Manager

Leanne West - Member Service Officer

Emma Dodds - Loans Officer

Kathryn O'Connor - Finance Officer

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Fax: 02 4929 4751

Postal Address: P O Box 789 Newcastle 2300

Email: info@novacu.com.au

Web Site: www.novacu.com.au

External Auditors

NorthCorp Accountants

Chartered Accountants

10 - 12 Short Street

Port Macquarie NSW 2444

CHAIRMAN'S REPORT 2016-2017

Our 53rd year of operation has passed and once again it pleases me to present to you Nova Credit Unions Annual Report.

Despite one of the most challenging years experienced by the Board of Nova Credit Union in recent times, the Board remains focused on:

- providing members with services which rival those of our competitors
- upholding business practices which ensure our long term viability

Over recent years we have had to continually cope with the seemingly never ending challenge of a low interest margin, increased regulatory compliance, increased competition with the major banks and other lenders, the pursuit of cost effective funding and the need to build up capital. Smaller Credit Unions in particular, have found the going just too tough over recent years and a number of our peers have elected to merge with bigger Credit Unions or Mutual Banks. Whilst this approach ensured the business remains a Mutual entity and the member continues to be served, the downside is that the merging Credit Union more than often loses its identity and its point of difference.

To be proactive your Board has looked at alternative strategies that will ensure our ability to retain the reserves that the members have built up over many years and keep our individual identity. The Alliance Bank option that the Board are pursuing enables Nova to keep its individual identity, maintaining current staff employment and have continued control over our member relationships (including product pricing) without the need to merge.

<u>Financial</u>

Low interest rates continue to provide borrowers with attractive mortgage rates in an environment of incredibly high competition between mortgage providers. Despite the increased competition it is pleasing to acknowledge the trust and confidence demonstrated by our members in enabling us to continue to grow our market share.

Further reassurance from members is evident in our deposit growth which provides us with increased opportunity to fund most of our loan demand from existing deposits.

During 2016/17 Nova settled $6.9m of loans which resulted in strong growth in the on-balance sheet loans portfolio from $19.4m to 20.8m at the end of the financial year. When combined with the off-balance sheet loans portfolio of $19m this equates to total loans under management as at 30 June 2017 of $39.9m. Early indications of the year ahead suggest we are capable of sustaining this growth.

To support this strong growth in on-balance sheet lending, Nova's funding (deposits from members, deposits from other institutions and short term borrowings) grew from $22.5m to $23.4m during the year.

<u>Profit/Loss</u>

This year saw Nova post a loss of $78,969, which can be attributed to the expense of the setup of the Alliance Bank model and costs associated with the member votes in February and March.

Nova Credit Union Limited
ABN: 40 087 650 440
Chairman's Report
2016/17

Acknowledgements

I would like to take this opportunity to thank each of our Directors for their valuable contribution during the year.

On behalf of the Board, I acknowledge the support and service of Mr. David Franklin and the whole team at Nova.

Thank you to our members for continuing to support Nova Credit Union. We will continue to uphold the trust that you have shown in us looking after your financial interests.

Martin Cushing
Chairman

Nova Credit Union Limited

ABN: 40 087 650 440

Financial Statements

For the Year Ended 30 June 2017

Nova Credit Union Limited
ABN: 40 087 650 440
Financial Statements
For the Year Ended 30 June 2017

CONTENTS

	Page
Directors' Report	1
Auditor's Independence Declaration	6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
Directors' Declaration	58
Independent Auditor's Report	59

Your Directors present their report on the Credit Union for the financial year ended 30 June 2017.

Directors

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

- Martin Cushing (Chairman)
- Stephen Pyke (Deputy Chairman)
- Ron Brooks
- Karen Keegan
- Rosalie Taggart
- Nicholas Bell (Appointed: 17 January 2017)
- Jeannie Dyson (Resigned: 24 August 2016)

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

Company Secretary

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

- David Franklin. David has been the General Manager of the Credit Union for 16 years and was appointed company secretary on the 20 February 2001.

Principal Activities

The principal activity of the Credit Union during the financial year was the provision of financial products and services to members.

There has been no significant change in the nature of this principal activity during the financial year.

Operating Results

The loss of the Credit Union after providing for income tax amounted to $78,969 for the financial year ended 30 June 2017.

Dividends Recommended

The Directors do not recommend payment of a dividend.

Review of Operations and Results

Financial performance

The Credit Union's after tax operating result decreased by $98,708 during the year from a profit of $19,739 in 2016 to a loss of $78,969 in 2017. Interest revenue decreased by $50,910 to $1,158,429. The Credit Union has continued to maintain reserve and capital adequacy levels above statutory requirements.

Financial position

The accompanying statement of financial position show that member deposits with the Credit Union increased by $458,901 or 2.18%. Loans balances increased by $1,431,822 or 7.37% during the 12 months to 30 June 2017. Net assets of the Credit Union were $2,738,238 as at 30 June 2017.

Significant Changes in State of Affairs

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

After Balance Date Events

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

Future Developments

The Directors continue to look for opportunities to strengthen the Credit Union's competitive position and ability to improve services to members. We have this year considered an option that will ensure our individual viability and continued control over the member relationship (including product pricing) without having to merge with a larger institution and lose our identity. Ultimately, any proposal put forward by the Board, will be subject to a member vote, meaning it is the members who will decide if any course of action proposed by the Board be pursued.

Environmental Issues

The Credit Union's operations are not subject to any significant environmental regulation under a law of the Commonwealth or of a state or territory.

The Directors believe the Credit Union has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Credit Union.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 has been received and is included in this financial report.

Indemnifying Officers or Auditors

During the financial year, a premium was paid in respect of a contract insuring Directors and Officers of the Credit Union against liability. The officers of the Credit Union covered by the insurance contract include the Directors, executive officers, secretary and employees.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract 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.

Directors' Emoluments

Since the end of the previous financial year no Director has been paid or become entitled to be paid a benefit (other than a benefit included in the aggregate amount of emoluments paid or due and payable to Directors shown in the financial statements) by reason of a contract made by the Credit Union 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.

Proceedings on Behalf of the Credit Union

No person has applied for leave of Court to bring proceedings on behalf of the Credit Union or intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings. The Credit Union was not a party to any such proceedings during the year.

Prudential Standard APS 330- Public Disclosure

The disclosure requirements of APS 330 are published on the Credit Union's website at:

http://www.novacu.com.au/info.html

Meetings of Directors

The following table sets out the number of meetings of the Credit Union's Directors (including meetings of committees of Directors) held during the year ended 30 June 2017 and the number of meetings attended by each Director.

Committee Meetings

	Directors' Meetings		Audit Committee		Risk Committee		Credit Risk Committee		Marketing Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Martin Cushing	12	12	5	5	10	9					3	3
Stephen Pyke	12	11	5	4	10	10						
Ron Brooks	12	12					2	2				
Karen Keegan	12	6	2	2	10	3			3	1	3	3
Rosalie Taggart	12	11	3	3			2	2	3	3	3	3
Nicholas Bell	6	5										
Jeannie Dyson	2	1										

Information on Current Directors

Martin Cushing

Qualifications	BA, CA, Grad Dip Computing
Experience	Board member since 2004
Interest in Shares	1 ordinary share in the Credit Union
Special Responsibilities	Chairman of the Board
	Member of the Audit Committee
	Member of the Risk Committee
	Member of the Remuneration Committee

Stephen Pyke

Qualifications	FCA, CTA, RCA
Experience	Board member since 2013
Interest in Shares	1 ordinary share in the Credit Union
Special Responsibilities	Deputy Chairman of the Board
	Chairman of the Risk Committee
	Chairman of the Audit Committee

Ron Brooks

Qualifications	BCom
Experience	Board member since 1992
Interest in Shares	1 ordinary share in the Credit Union
Special Responsibilities	Chairman of the Credit Risk Committee

Karen Keegan

Qualifications	Cert IV OHS, Dip HRM, Dip Quality Auditing (IMS, QM, EM, OH&S)
Experience	Board member since 2005
Interest in Shares	1 ordinary share in the Credit Union
Special Responsibilities	Member of Risk Committee Member of the Marketing Committee Member of the Remuneration Committee

Rosalie Taggart

Qualifications	Over 40 years experience in marketing/advertising in the media
Experience	Board member since 2008
Interest in Shares	1 ordinary share in the Credit Union
Special Responsibilities	Chairman of the Marketing Committee Member of the Audit Committee Member of the Credit Risk Committee Member of the Remuneration Committee

Nicholas Bell

Qualifications	BLaws/BBus-Accountancy, Grad Dip Applied Corporate Governance, Grad Dip In Financial Planning, Grad Dip In Applied Finance and Investment
Experience	Board member since 2017
Interest in Shares	1 ordinary share in the Credit Union
Special Responsibilities	N/A

Signed in accordance with a resolution of the Board of Directors:

Director: Martin Cushing

Chairman

Dated this 20th day of September 2017

PARTNERS
Robert Magnussen B Bus FCA
Paul Fahey B Bus CA
Rodney Smith B Fin Admin FCA
Bart Lawler B Com CA
Patrick Brennan B Com CA

AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*
TO THE DIRECTORS OF NOVA CREDIT UNION LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017 there have been no contraventions of:

(i) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

NorthCorp Accountants

J Thomas

Jodie Thomas
Lead Auditor

10 – 12 Short Street
Port Macquarie NSW 2444

Dated: 20th September 2017

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3/80 High Street, Wauchope NSW 2446 | PO Box 166, Port Macquarie NSW 2444

Statement of Comprehensive Income
For the Year Ended 30 June 2017

	Note	2017 $	2016 $
Interest revenue	2(a)	**1,158,429**	1,209,339
Interest expense	2(b)	**(475,995)**	(489,569)
Net interest income		**682,434**	719,770
Other income	2(c)	**297,220**	308,953
Net operating income		**979,654**	1,028,723
Non-interest expense			
Bad and doubtful debts expense	2(d)	**(13,947)**	(12,803)
Depreciation and amortisation expense	2(d)	**(72,480)**	(60,959)
Employee benefits expense	2(d)	**(418,941)**	(397,281)
Other expenses	2(d)	**(490,604)**	(538,873)
Business transfer expenses	2(d) , 2(e)	**(78,993)**	-
Total non-interest expense		**(1,074,965)**	(1,009,916)
Profit before income tax		**(95,311)**	18,807
Income tax (expense) / benefit	3	**16,342**	932
Profit after income tax		**(78,969)**	19,739
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**(78,969)**	19,739
Profit attributable to members of the Credit Union		**(78,969)**	19,739
Total comprehensive income attributable to members of the Credit Union		**(78,969)**	19,739

These financial statements should be read in conjunction with the attached Independent Auditor's Report.
The accompanying notes form part of the financial statements.

Statement of Financial Position

For the Year Ended 30 June 2017

	Note	**2017** $	2016 $
ASSETS			
Cash and cash equivalents	4	**2,038,148**	2,879,920
Receivables due from other financial institutions	5	**2,884,975**	2,472,809
Accrued receivables	6	**4,718**	17,068
Loans and advances	7,8	**20,847,819**	19,415,997
Other financial assets	9	**65,216**	65,216
Property, plant and equipment	10	**628,983**	656,304
Deferred tax assets	16	**73,561**	57,219
Intangible assets	11	**12,314**	51,279
Other assets	12	**43,489**	68,572
TOTAL ASSETS		**26,599,223**	25,684,384
LIABILITIES			
Deposits from members	13	**21,467,044**	21,008,143
Deposits from other financial institutions	14	**2,000,000**	1,500,000
Payables and other liabilities	15	**280,285**	266,067
Provisions	17	**113,656**	92,967
TOTAL LIABILITIES		**23,860,985**	22,867,177
NET ASSETS		**2,738,238**	2,817,207
EQUITY			
Reserves	18	**74,839**	70,581
Retained earnings		**2,663,399**	2,746,626
TOTAL EQUITY		**2,738,238**	2,817,207

Nova Credit Union Limited
ABN: 40 087 650 440
Statement of Changes in Equity
For the Year Ended 30 June 2017

2017	Retained Earnings	General Reserve for Credit Losses	Total
	$	$	$
Balance at 1 July 2016	**2,746,626**	**70,581**	**2,817,207**
Profit attributable to members of the Credit Union	**(78,969)**	**-**	**(78,969)**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income for the year	**(78,969)**	**-**	**(78,969)**
Transfer to (from) reserves	**(4,258)**	**4,258**	**-**
Balance as at 30 June 2017	**2,663,399**	**74,839**	**2,738,238**

2016	Retained Earnings	General Reserve for Credit Losses	Total
	$	$	$
Balance at 1 July 2015	2,732,996	64,472	2,797,468
Profit attributable to members of the Credit Union	19,739	-	19,739
Other comprehensive income	-	-	-
Total comprehensive income for the year	19,739	-	19,739
Transfer to (from) reserves	(6,109)	6,109	-
Balance as at 30 June 2016	2,746,626	70,581	2,817,207

Nova Credit Union Limited
ABN: 40 087 650 440
Statement of Cash Flows
For the Year Ended 30 June 2017

	Note	**2017** $	2016 $
Cash Flows from Operating Activities:			
Interest received		**1,170,779**	1,229,399
Dividends received		**9,239**	9,239
Receipts from customers		**358,521**	299,952
Payments to suppliers and employees		**(1,011,618)**	(909,292)
Interest paid		**(461,897)**	(520,407)
Income tax (paid) / refunded		**-**	2,514
Net (increase) / decrease in loans and advances to members		**(1,447,337)**	(251,596)
Net (increase) / decrease in receivables due from other financial institutions		**(412,166)**	(47,349)
Net increase / (decrease) in deposits from members		**458,901**	(876,923)
Net Cash Flows from (used in) Operating Activities	21(a)	**(1,335,578)**	(1,064,463)
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment		**(6,194)**	(666,236)
Proceeds from sale of property, plant and equipment		**-**	23,199
Payments for intangible assets		**-**	(8,497)
Net Cash Flows from (used in) Investing Activities		**(6,194)**	(651,534)
Cash Flows from Financing Activities:			
Net increase / (decrease) in deposits from other financial institutions		**500,000**	1,500,000
Net Cash Flows from (used in) Financing Activities		**500,000**	1,500,000
Net Increase / (Decrease) in Cash Held		**(841,772)**	(215,997)
Cash and Cash Equivalents at Beginning of Financial Year		**2,879,920**	3,095,917
Cash and Cash Equivalents at End of Financial Year	4	**2,038,148**	2,879,920

These financial statements should be read in conjunction with the attached Independent Auditor’s Report.
The accompanying notes form part of the financial statements.

The financial statements are for Nova Credit Union Limited as an individual entity. Nova Credit Union Limited is a Company limited by shares, incorporated and domiciled in Australia.

The financial statements were authorised for issue on 20 September 2017 by the Board of Directors.

Note 1 Summary of Significant Accounting Policies

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied, unless otherwise stated.

The financial statements, except for the cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting Policies

(a) Income Tax

The income tax expense / (income) for the year comprises current income tax expense / (income) and deferred tax expense / (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income for the current period. Current tax liabilities/ (assets) are therefore measured at the amounts expected to be paid to / (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense / (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Note 1 Summary of Significant Accounting Policies (Continued)

(a) Income Tax (Continued)

No deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other financial institutions, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Cash and cash equivalents are stated at the lower of cost and net realisable value. Bank overdrafts are shown within borrowings on the Statement of Financial Position.

For the purposes of the statement of cash flows, cash includes cash on hand, deposits at call with banks and other financial institutions, net of outstanding bank overdrafts.

(c) Receivables due from Other Financial Institutions

Receivables from other financial institutions are primarily interest bearing deposits due from banks and other financial institutions with a carrying amount equal to their principal amount. Interest is brought to account in the Statement of Comprehensive Income when earned.

The accrual for interest receivable is calculated on a proportional basis on the expired period of the term of the deposit. Interest receivable is included in the amount of accrued receivables in the Statement of Financial Position.

Note 1 Summary of Significant Accounting Policies (Continued)

(d) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Credit Union commits itself to either purchase or sell the asset.

Financial instruments are initially measured at fair value plus transaction costs except where the instrument is classified at 'fair value through profit or loss' in which case transaction costs are recognised immediately as expenses in profit or loss.

Classification and Subsequent Measurement

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

Amortised cost is calculated as:

- the amount at which the financial asset or financial liability is measured at initial recognition;
- less principal repayments;
- plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Note 1 Summary of Significant Accounting Policies (Continued)

(d) Financial Instruments (Continued)

Classification and Subsequent Measurement (Continued)

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

Financial assets are classified at “fair value through profit or loss” when they are held for trading for the purpose of short-term profit taking. Such assets are subsequently measured at fair value with changes in carrying value included in profit or loss.

(ii) Loans and receivables

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

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loan origination fees and direct and incremental transaction costs are initially deferred as part of the loan balance, and are brought to account as either income or an expense over the expected life of the loan. The amounts brought to account are included in profit or loss.

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. They are subsequently measured at fair value.

(v) Financial liabilities

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

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions and reference to similar instruments.

Note 1 Summary of Significant Accounting Policies (Continued)

(d) Financial Instruments (Continued)

Impairment

At the end of each reporting period, the Credit Union assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised immediately in the Statement of Comprehensive Income.

Loan Impairment

(i) Provision for impairment

Losses for 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. Losses expected from potential future losses are not recognised. The Credit Union determines the amount provided for doubtful debts based on the probability of loan amounts not being collected in accordance with terms of the loan agreement. The key judgments used to determine the specific provision for impairment are outlined in Note 8 (d).

The Prudential Standards issued by APRA require a minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held.

(ii) General reserve for credit losses

In addition to the specific provision for impairment, the Credit Union has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve, at a minimum, is based on 0.5% of risk-weighted assets (2016: 0.5%).

(iii) Bad debts

Bad debts are written off from time to time as determined by the Board of Directors and management when it is reasonable to expect that the recovery of the debt is unlikely. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Comprehensive Income.

The various components of impaired assets are as follows:

Note 1 Summary of Significant Accounting Policies (Continued)

(d) Financial Instruments (Continued)

Loan Impairment (Continued)

- ***Non-accrual loans***: Are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.
- ***Restructured loans****:* Arise when the borrower is granted a concession due to continuing difficulties in meeting the original loan terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required.
- ***Assets acquired through the enforcement of security:*** Are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

(e) Property, Plant and Equipment

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

Buildings

Buildings are initially measured at cost. Subsequent to initial recognition buildings are carried at their fair value (being the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction), based on periodic , but at least triennial, valuations by external independent valuers, less subsequent depreciation.

Increases in the carrying amount arising on revaluation of buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the Statement of Comprehensive Income.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less, where applicable, accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and

Note 1 Summary of Significant Accounting Policies (Continued)

(e) Property, Plant and Equipment (Continued)

subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets, including buildings, is depreciated on a straight line basis over the asset's useful life to the Credit Union commencing from the time the assets are held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	***Depreciation Rate***
Buildings	2.5%
Plant and Equipment	12.5% to 40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in the statement of comprehensive income in the period in which they arise.

(f) Intangibles

Software

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.

Note 1 Summary of Significant Accounting Policies (Continued)

(g) Impairment of Assets

At the end of each reporting period, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Other Financial Assets

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.

Shares in listed companies are valued by Directors at those shares' market value at the end of each reporting period. The carrying amount of investments is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these investments.

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

Dividends are brought to account in the Statement of Comprehensive Income when the right to receive the dividend has been established.

Realised net gains and losses on available-for-sale financial assets taken to the Statement of Comprehensive Income comprise only of gains and losses on disposal.

(i) Members' Deposits

Members' deposits are brought to account at the gross value of the outstanding balance. Interest on deposits is brought to account on an accruals basis. Interest accrued at the end of the reporting period is included in the amount of payables and other liabilities in the Statement of Financial Position.

Note 1 Summary of Significant Accounting Policies (Continued)

(j) Payables and Other Liabilities

Liabilities for trade creditors and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Credit Union.

(k) Employee Benefits

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. 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.

In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy vesting requirements.

Contributions are made by the Credit Union to an employee superannuation fund and are charged as expenses when incurred.

(l) Provisions

Provisions are recognised when the Credit Union has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(m) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised.

Fees and commissions

Control of a right to be compensated for services is attained and usually evidenced by approval of a contract by the member. Fee and commission income is recognised as revenue on an accrual basis.

Note 1 Summary of Significant Accounting Policies (Continued)

(m) Revenue (Continued)

Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained, and usually evidenced by approval of a contract by the member. Interest income is taken into account on an accrual basis. Interest on members' loans and overdrafts is calculated on the daily outstanding balance and is charged in arrears to the members' loan accounts on the last day of each month.

All revenue is stated net of the amount of goods and services tax (GST).

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). Receivables and payables are stated inclusive of the amount of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(o) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(p) Critical Accounting Estimates and Judgements

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Credit Union.

Note 1 Summary of Significant Accounting Policies (Continued)

(p) Critical Accounting Estimates and Judgements (Continued)

Key estimates Impairment

The Credit Union assesses impairment at the end of each reporting period by evaluating conditions specific to the Credit Union that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value in use calculations which incorporate various key assumptions.

Estimation has been exercised when applying the Credit Union's accounting policies with respect to determining the provision for impairment of loans as disclosed in Note 8 (d).

(q) Adoption of New and Revised Accounting Standards

During the current year there were no new or revised Australian Accounting Standards and Interpretations applicable to the operations of the Credit Union which became mandatory.

Note 1 Summary of Significant Accounting Policies (Continued)

(r) New Accounting Standards for Application in Future Periods

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Credit Union, together with an assessment of the potential impact of such pronouncements on the Credit Union when adopted in future periods, are discussed below:

Title of Standard	Future Reporting Requirements	Operative Date
AASB 9: Financial Instruments and Associated Amending Standards.	This Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.	1st January 2018
AASB 15: Revenue from Contracts with Customers.	This Standard provides a comprehensive framework for determining whether, how much and when revenue is recognised. When effective, this Standard will replace the current accounting requirements applicable with a single, principles based model.	1st January 2018
AASB 16: Leases	This Standard will replace the current accounting requirements applicable to Leases in AASB 117: Leases and Related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirements for leases to be classified as operating or finance leases. The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.	1st January 2019

The abovementioned Standards are applicable for annual reporting periods commencing on the operative date. Application of these Standards is not expected to materially affect any of the amounts recognised in the financial statements.

Note 2 Profit Before Income Tax

(a) Analysis of Interest Revenue

	2017	2016
	$	$
Cash and cash equivalents	**396**	322
Deposits with other financial institutions	**95,565**	142,101
Loans and advances	**1,062,468**	1,066,916
Interest revenue	**1,158,429**	1,209,339

(b) Analysis of Interest Expense

	2017	2016
Members' deposits	**475,918**	489,459
Borrowings	**77**	110
Interest Expense	**475,995**	489,569
Net Interest Income	**682,434**	719,770

(c) Analysis of Non-Interest Revenue

	2017	2016
Bad debts recovered	**5,517**	3,661
Dividends received	**9,239**	9,239
Fees and commissions	**280,941**	281,047
Profit on disposal of property, plant and equipment	**-**	7,804
Other income	**1,523**	7,202
Total Non-Interest Revenue	**297,220**	308,953
Net Operating Income	**979,654**	1,028,723

Note 2 Profit Before Income Tax (Continued)

(d) Analysis of Non-Interest Expense

	Note	2017 $	2016 $
Bad and Doubtful Debts			
Bad debts written off directly to the statement of comprehensive income	8(c)	**-**	-
Increase / (decrease) in provision for impairment	8(a)	**13,947**	12,803
		13,947	12,803
Depreciation and Amortisation Expense			
Buildings	10(a)	**11,684**	3,878
Plant and equipment	10(a)	**21,831**	16,759
Intangible assets	11(a)	**38,965**	40,322
		72,480	60,959
Employee Benefits			
Salaries and wages		**352,034**	344,975
Provision for employee benefits		**20,689**	(114)
Superannuation		**35,082**	40,548
Other		**11,136**	11,872
		418,941	397,281
Other Expenses			
EDP expenses		**146,421**	139,131
General administration		**84,084**	87,235
Loan administration		**53,557**	59,411
Member protection and benefits		**86,893**	86,781
Motor vehicle expenses		**11,098**	12,830
Occupancy		**14,380**	53,067
Redicard expenses		**15,693**	15,277
Other operating expenses		**78,478**	85,141
		490,604	538,873
Business Transfer Expenses		**78,993**	-
Total Non-Interest Expense		**1,074,965**	1,009,916
Net (Loss) /Profit Before Income Tax		**(95,311)**	18,807

Note 2 Profit before Income Tax (Continued)

	2017 $	2016 $
(e) Significant Revenue and Expenses		
The following significant expense item is relevant in explaining the financial performance for the year:		
Business transfer expenses	78,993	-

Note 3 Income Tax Expense

(a) The income tax expense (benefit) comprises amounts set aside as:

	2017 $	2016 $
Current tax	**-**	-
Deferred tax	**(16,342)**	(932)
	(16,342)	(932)

(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense (revenue) as follows:

	2017 $	2016 $
Prima facie tax payable on profit from ordinary activities before income tax at 27.5% (2016:30%)	**(26,211)**	5,642
Add / (Less) Tax effect of:		
- Section 23G exempt income	**(2,927)**	(2,303)
- Other assessable items	**1,089**	-
- Rebateable fully franked dividends	**(3,959)**	(3,959)
- Origination and reversal of temporary differences	**(16,342)**	(312)
- Current deferred tax benefits not brought to account	**32,008**	-
Income tax attributable to profit from ordinary activities	**(16,342)**	(932)

Note 4 Cash and Cash Equivalents

	2017 $	2016 $
Cash on hand	**117,453**	82,139
Deposits at call	**1,920,695**	2,797,781
	2,038,148	2,879,920

Reconciliation of Cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

	2017 $	2016 $
Cash and cash equivalents	**2,038,148**	2,879,920

Note 5 Receivables Due from Other Financial Institutions

	Note	2017 $	2016 $
Interest earning deposits		**2,884,975**	2,472,809

(a) Maturity Analysis

		2017 $	2016 $
Not longer than 3 months		**2,884,975**	2,472,809
Longer than 3 and not longer than 12 months		**-**	-
Longer than 1 and not longer than 5 years		**-**	-
Longer than 5 years		**-**	-
No maturity specified		**-**	-
		2,884,975	2,472,809

Note 6 Accrued Receivables

		2017 $	2016 $
Interest receivable		**4,718**	17,068

Note 7 Loans and Advances

	Note	2017 $	2016 $
Overdrafts and revolving credit		**656,738**	713,281
Term loans		**20,220,908**	18,717,028
Gross loans and advances		**20,877,646**	19,430,309
Add: Capitalised brokerage and loan origination expenses		**14,920**	15,830
Less: Unamortised loan origination fees		**(20,661)**	(18,310)
Less: Provision for impairment	8	**(24,086)**	(11,832)
Adjustments to gross loans and advances		**(29,827)**	(14,312)
Net loans and advances		**20,847,819**	19,415,997

(a) Maturity Analysis

		2017 $	2016 $
Overdrafts and revolving credit		**656,738**	713,281
Not longer than 3 months		**572,223**	558,743
Longer than 3 and not longer than 12 months		**1,791,119**	1,703,501
Longer than 1 and not longer than 5 years		**8,229,792**	7,718,703
Longer than 5 years		**9,597,947**	8,721,769
		20,847,819	19,415,997

Note 7 Loans and Advances (Continued)

(b) Concentration of Loans

	2017	2016
	$	$
There were 14 loans (2016:12 loans) to individual or related groups of members which exceeded 10% or more of capital. These concentrations of credit risk to individual members relate to investment property and residential mortgage loans	**5,328,062**	4,330,268

Loans to members are concentrated solely in Australia and principally in the following regions:

	2017	2016
- New South Wales	**20,071,239**	18,715,616
- Other States	**776,580**	700,381
	20,847,819	19,415,997

(c) Security Analysis

	2017	2016
Secured by mortgage over real estate	**14,656,698**	13,701,036
Partly secured by goods service agreement	**4,535,529**	4,468,248
Wholly unsecured	**1,655,592**	1,246,713
	20,847,819	19,415,997

It is not practicable to value all collateral as at the end of the reporting period due to the variety of assets and conditions present.

Note 8 Impairment of Loans and Advances

	2017	2016
Total provision for impairment	**24,086**	11,832

(a) Movement in provision

	2017	2016
Balance at beginning of year	**11,832**	4,119
Transfer from / (to) statement of comprehensive income	**13,947**	12,803
Bad debts written off against provision	**(1,693)**	(5,090)
Balance of provision at end of year	**24,086**	11,832

Note 8 Impairment of Loans and Advances (Continued)

(b) The provision consists of:

	2017	2016
	$	$
Prescribed provision required under APRA Prudential Standards	**11,531**	11,832
Addition / (reduction) to specific provision	**12,555**	-
	24,086	11,832

(c) Impaired loans written off

Amounts written off against the provision for impairment	**1,693**	5,090
Amounts written off directly to the statement of comprehensive income	**-**	-
	1,693	5,090
Bad debts recovered	**5,517**	3,661

(d) Key assumptions in determining the provision for impairment

In the course of the preparation of the financial 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 economic circumstances. In identifying the impairment likely from these events the Credit Union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

Period of Impairment	**% of Balance**
Up to 90 days	0
91 days to 181 days	40
182 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

In addition, a review of loans was undertaken to identify specific loans where an additional amount to that calculated under the method above is required.

Note 8 Impairment of Loans and Advances (Continued)

(d) Key assumptions in determining the provision for impairment (Continued)

The amount of impairment loss on the specific loans was measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The value of security was considered as part of this process including an assessment of the relevance of the existing valuation in current market conditions.

(e) Analysis of impaired loans by class

	Carrying Value	Impaired Loans	Provision for Impairment
2017	**$**	**$**	**$**
Loans			
Mortgage Loans	**14,035,456**	-	-
Personal Loans	**6,185,452**	**28,828**	**24,086**
Revolving Credit	**656,738**	**-**	**-**
Total	**20,877,646**	**28,828**	**24,086**
2016	**$**	**$**	**$**
Loans			
Mortgage Loans	13,036,725	-	-
Personal Loans	5,680,303	26,686	11,832
Revolving Credit	713,281	-	-
Total	19,430,309	26,686	11,832

Loans and advances may be unsecured, secured against residential property, or secured by a goods service agreement over motor vehicles or other assets of varying values. It is not practicable to determine the fair value of all collateral as at the end of the reporting period due to the variety of assets and conditions.

Note 8 Impairment of Loans and Advances (Continued)

(f) Analysis of impaired loans by age of repayments

	2017 $ Impaired Loans	2017 $ Provision for Impairment	2016 $ Impaired Loans	2016 $ Provision for Impairment
Up to 90 days in arrears	**-**	**-**	8	3
91 to 180 days in arrears	**28,828**	**24,086**	24,748	9,899
181 to 270 days in arrears	**-**	**-**	-	-
271 to 365 days in arrears	**-**	**-**	-	-
Over 365 days in arrears	**-**	**-**	1,930	1,930
Over limit facilities 14 days and over	**-**	**-**	-	-
Total	**28,828**	**24,086**	26,686	11,832

(g) Loans with repayments past due but not impaired

2017	Mortgage Loans $	Personal Loans $	Revolving Credit $	Total $
Days in arrears:				
Less than 1 month	**-**	**19,207**	**152**	**19,359**
1 to 2 months	**-**	**32,527**	**-**	**32,527**
2 to 3 months	**-**	**-**	**-**	**-**
Greater than 3 months	**-**		**-**	**-**
Total	**-**	**51,734**	**152**	**51,886**

2016	Mortgage Loans $	Personal Loans $	Revolving Credit $	Total $
Days in arrears:				
Less than 1 month	-	72,937	264	73,201
1 to 2 months	-	1,742	-	1,742
2 to 3 months	-	13,582	-	13,582
Greater than 3 months	-	-	-	-
Total	-	88,261	264	88,525

Note 8 Impairment of Loans and Advances (Continued)

(h) Assets acquired via enforcement of security

	Note	2017 $	2016 $
Real estate		-	-
Other		-	-
		-	-

The Credit Union did not obtain any financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees). In the event that the Credit Union takes possession of an asset that is not readily convertible to cash, the Credit Union may sell the asset at auction or by private treaty with the objective of obtaining maximum value. The Credit Union also has discretion to retain the asset for its use in operations.

(i) Renegotiated loans not impaired

Renegotiated loans arise when the borrower is granted a concession due to continual difficulties in meeting the original terms and the revised terms are not comparable to new or existing loan facilities.

There were no loans that were previously past due or impaired which had been renegotiated by the Credit Union as at 30 June 2017 (2016: Nil).

(j) Revenue on impaired loans

Interest and other revenue recognised as revenue earned		**4,309**	1,908
Interest foregone on impaired loans		**547**	905

Note 9 Other Financial Assets

Available-for-sale financial assets comprise:

Shares in unlisted investments at cost:			
Cuscal Limited	9(a)	**65,216**	65,216
Total shares in unlisted corporations at cost		**65,216**	65,216
Total available-for-sale financial assets		**65,216**	65,216

Note 9 Other Financial Assets (Continued)

(a) Disclosures on available-for-sale financial assets

Cuscal Limited (Cuscal) previously Credit Union Services Corporation (Australia) Limited

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. The Credit Union receives essential banking services from CUSCAL (see Note 26).

The financial statements 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 an absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

	2017	2016
Note 10 Property, Plant and Equipment	**$**	**$**
Buildings		
Buildings at fair value	**467,367**	467,367
Accumulated depreciation	**(15,562)**	(3,878)
Total Buildings	**451,805**	463,489
Plant and equipment		
Plant and equipment at cost	**259,569**	253,375
Accumulated depreciation	**(82,391)**	(60,560)
Total plant and equipment	**177,178**	192,815
Total property, plant and equipment	**628,983**	656,304

(a) Movements in carrying amounts

2017	**Buildings**	**Plant and Equipment**	**Total**
	$	**$**	**$**
Balance at July 2016	**463,489**	**192,815**	**656,304**
Additions	**-**	**6,194**	**6,194**
Disposals	**-**	**-**	**-**
Depreciation	**(11,684)**	**(21,831)**	**(33,515)**
Balance at 30 June 2017	**451,805**	**177,178**	**628,983**
2016			
Balance at July 2015	-	26,100	26,100
Additions	467,367	198,869	666,236
Disposals	-	(15,395)	(15,395)
Depreciation	(3,878)	(16,759)	(20,637)
Balance at 30 June 2016	463,489	192,815	656,304

(b) Historical Cost of Buildings

If buildings were stated at historical cost, the carrying amount would be as follows:

	$	**$**
Buildings at cost	**467,367**	467,367
Provision for depreciation on buildings	**(15,562)**	(3,878)
Total buildings at written down value	**451,805**	463,489

Note 11 Intangible Assets

	Note	2017 $	2016 $
Computer Software - at cost		**308,994**	308,994
Accumulated amortisation		**(296,680)**	(257,715)
Net carrying value		**12,314**	51,279

(a) Movement in carrying amount

	Note	2017 $	2016 $
Opening balance		**51,279**	83,104
Additions		**-**	8,497
Disposals		**-**	-
Amortisation	2(d)	**(38,965)**	(40,322)
Total		**12,314**	51,279

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the Statement of Comprehensive Income.

Note 12 Other Assets

	2017 $	2016 $
Prepayments	**31,679**	18,181
Sundry debtors	**11,810**	50,391
Income tax refundable	**-**	-
	43,489	68,572

Note 13 Deposits from Members

	2017 $	2016 $
Member deposits at call (including withdrawable shares)	**8,828,480**	8,614,684
Member term deposits	**12,638,564**	12,393,459
	21,467,044	21,008,143

(a) Concentration of members' deposits

The deposit portfolio of the Credit Union does not include any deposit which represents 10% or more of total liabilities. The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments as follows:

	2017 $	2016 $
New South Wales residents	**20,687,852**	20,773,930
Other depositors	**779,192**	234,213
	21,467,044	21,008,143

	2017	2016
	$	$
Note 14 Deposits from Other Finiancial Institutions		
Term deposits	**2,000,000**	1,500,000
Note 15 Payables and Other Liabilities		
Unsecured liabilities		
Accrued interest payable	**111,703**	97,605
Other creditors and accruals	**168,582**	168,462
	280,285	266,067
Note 16 Taxation		
(a) Current tax liabilities		
Income tax payable	**-**	-
(b) Deferred tax assets		
Deferred tax assets are comprised off:		
Provisions	**31,255**	27,890
Impairment of loans and advances	**6,624**	3,550
Property, plant and equipment	**512**	559
Deferred loan origination fees	**5,682**	5,493
Other deferred tax assets	**12,110**	13,059
Tax losses related to unused franking credits	**-**	6,668
Section 40-880 business costs	**17,378**	-
	73,561	57,219

	Opening Balance	Charged to Income	Charged to Equity	Change in Tax Rate	Charged to Income
	$	$	$	$	$
Property, plant and equipment	559	-	-	(47)	512
Provisions	27,890	5,689	-	(2,324)	31,255
Impairment of loans and advances	3,550	3,370	-	(296)	6,624
Deferred loan origination fees	5,493	647	-	(458)	5,682
Tax losses originating from unused franking credits	6,668	(6,668)	-	-	-
Section 40-880 business costs	-	17,378	-	-	17,378
Other	13,059	964	-	(1,913)	12,110
Balance at 30 June 2017	57,219	21,380		(5,038)	73,561

Note 17 Provisions

	Note	2017 $	2016 $
Employee benefits	17(a)	**113,656**	92,967

(a) Movement in carrying amounts

	2017	2016
Opening balance as at 1 July 2016	**92,967**	93,081
Additional provision	**43,505**	36,675
Amounts used	**(22,816)**	(36,789)
Balance as at 30 June 2017	**113,656**	92,967

(b) Provision for employee benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave and is inclusive of related on-costs. Refer to Note 1 (k) for further information relating to this provision.

Note 18 Reserves

(a) General reserve for credit losses

This reserve records an amount previously set aside as a general provision for impairment on loans and is maintained to comply with the Prudential Standards set by APRA.

Note 19 Superannuation Commitments

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

Note 20 Capital and Leasing Commitments

(a) Operating lease commitments

The Credit Union had no operating lease commitments at the end of the reporting period (2016:Nil).

(b) Capital expenditure commitments

No capital expenditure had been committed to at the end of the reporting period (2016:Nil).

Note 21 Cash Flow Information

(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax

	2017 $	2016 $
Profit for the year attributable to members of the Credit Union	**(78,969)**	19,739
Non-cash flows in profit		
Provision for impairment	**12,254**	7,713
Depreciation and amortisation	**72,480**	60,959
Net loss/(gain) on sale of property, plant and equipment	**-**	(7,804)
Changes in assets and liabilities:		
(Increase) / decrease in interest receivable	**12,350**	20,060
(Increase) / decrease in prepayments	**(13,498)**	(2,511)
(Increase) / decrease in sundry debtors	**38,581**	(24,689)
(Increase) / decrease in income tax refundable	**-**	2,514
(Increase) / decrease in deferred tax asset	**(16,342)**	(932)
(Increase) / decrease in loans and advances to members	**(1,444,076)**	(241,870)
(Increase) / decrease in receivables due from other financial institutions	**(412,166)**	(47,349)
Increase / (decrease) in deposits from members	**458,901**	(876,923)
Increase / (decrease) in other creditors and accruals	**14,218**	26,744
Increase / (decrease) in income tax payable/refundable	**-**	-
Increase / (decrease) in provision for employee benefits	**20,689**	(114)
Net cash inflow (outflow) from operating activities	**(1,335,578)**	(1,064,463)

(b) Credit Standby Arrangements

	$	$
Overdraft facility	**100,000**	100,000
Bank overdraft	**-**	-
Unused credit facility	**100,000**	100,000

The bank overdraft facility is secured by a fixed and floating charge over the assets and undertakings of the Credit Union. The interest rate applicable to the overdraft facility is 5.50% (2016: 5.75%)

Note 22 Contingent Liabilities and Credit Commitments

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

(a) Credit Union Financial Support System

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

An Industry Support Contract made on the 1 July 1999 between Cuscal Limited (Cuscal), Credit Union Financial Support System Limited and participating credit unions required the Credit Union to execute an equitable charge in favour of Cuscal. The charge is a fixed and floating charge over the assets and undertakings of the Credit Union and secures any advances which may be made to the Credit Union under the scheme. At the end of the reporting period there were no loans issued under this arrangement.

(b) Credit related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

	2017	2016
	$	$
Approved but undrawn loans and credit limits	**478,185**	347,030
Loans approved but not advanced	**325,693**	506,699
	803,878	853,729

Note 23 Auditor's Remuneration

	2017	2016
	$	$
Audit Services:		
- Audit of the financial statements	**29,050**	28,600
- Other regulatory audit services	**11,100**	10,900
Total Auditor's Remuneration	**40,150**	39,500

Note 24 Securitisation

The Credit Union has arrangements with Integris Securitisation Services Pty Limited and Indue Securitisation Pty Limited whereby they act as agents to promote loans on their behalf for on sale to investment trusts. The Credit Union also manages the loans portfolios on behalf of the trusts. The Credit Union bears no risk exposure in respect of these loans. The amount of securitised loans under management as at 30 June 2017 was $19,798,648 (2016: $18,145,879).

Revenue from securitisation trusts is recognised when it is considered probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Note 25 Disclosures on Key Management Personnel

Key management personnel (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.

(a) Directors

During the financial year the following Directors held office:

- Martin Cushing (Chairman)
- Stephen Pyke (Deputy Chairman)
- Ron Brooks
- Karen Keegan
- Rosalie Taggart
- Nicholas Bell (Appointed 17 January 2017)
- Jeannie Dyson (Resigned 24 August 2016)

(b) Other key management personnel

The following persons also had responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly during the financial year:

David Franklin	General Manager
Yvonne Armstrong	Assistant General Manager

(c) Key management personnel compensation

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

	2017	2016
	$	$
Short-term employee benefits	**236,582**	221,469
Post-employment benefits	**20,112**	33,750
Other long-term benefits	**3,990**	3,887
Termination benefits	**-**	-
	260,684	259,106

Note 25 Disclosures on Key Management Personnel (Continued)

(c) Key management personnel compensation (Continued)

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

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

(d) Loans to Directors and Other Key Management Personnel

The following details of loans are inclusive of loans to Directors, other key management personnel and close family members of Directors and other key management personnel.

	2017	2016
	$	$
(i) The aggregate value of loans to Directors and other KMP as at balance date amounted to:	**214**	214
Made up as follows:		
- Term loans	**214**	214
- Revolving credit loans	**-**	-
	214	214
(ii) The total value of revolving credit facilities to Directors and other KMP, as at balance date amounted to:	**-**	-
Less: amounts drawn-down and included in (i) above	**-**	-
	-	-
(iii) During the year the aggregate value of loans disbursed to Directors and other KMP amounted to:	**-**	-
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to Directors and other KMP amounted to:	**-**	-
(v) Interest and other revenue earned on loans and revolving credit facilities to Directors and other KMP	**30**	709

Directors and other KMP concerned with the above balances at the end of the reporting period were:

R. Brooks

Note 25 Disclosures on Key Management Personnel (Continued)

(d) Loans to Directors and Other Key Management Personnel (Continued)

The Credit Union's policy for lending to Directors and other KMP 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.

All loans disbursed to Directors and other KMP were approved on the same terms and conditions which are applicable to members for each class of loan. There are no loans which are impaired in relation to the loan balances with Directors and other KMP.

There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMP.

(e) Other Transactions with Related Parties

The Credit Union has received deposits from Directors and other KMP and their close family relatives. These amounts were received on the same terms and conditions as are applicable to members generally and are trivial or domestic in nature.

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

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

During the 2017 financial year an amount of $4,457(2016: $NIL) was paid to Stephen G. Pyke Chartered Accountants for accounting and taxation services. Stephen G. Pyke Chartered Accountants is a related entity of Director Stephen Pyke.

Note 26 Economic Dependency

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

Cuscal Limited (Cuscal) formerly Credit Union Services Corporation (Australia) Limited supplies the Credit Union rights to Member Cheques, Redicards and Bpay in Australia and provides services in the form of settlement with Bankers for Member Cheques, EFT and Bpay transactions, and the production of Redicards for use by members. This entity provides central banking facilities and Emergency Liquidity Support to the Credit Union. Cuscal also provides the switching computer used to link Redicards operated through ATM and EFTPOS networks to the Credit Union's data systems.

Note 26 Economic Dependency (Continued)

Ultradata Australia Pty Ltd provides and maintains the application core banking software utilised by the Credit Union.

The System Works Group (TSWG) is an Integrated Data Processing Centre(IDPC) and as such provides the electronic data processing services for the Credit Union. TSWG also provides the Credit Union's internet banking software package and mobile banking application and is engaged to maintain the Credit Union's website.

Note 27 Risk Management and Financial Instruments

The Credit Union has exposure to the following risks from its use of financial instruments:

- Credit Risk;
- Liquidity Risk;
- Market Risk;
- Capital Risk; and
- Operational Risk.

The Credit Union has implemented the following strategies to measure and manage these risks.

(a) RISK MANAGEMENT FRAMEWORK

The Board of Directors has the overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks.

The Board of Directors has established the Risk Committee which is responsible for developing and monitoring the Credit Union's risk management policies. The Committee is comprised of three non-executive Directors and reports to the Board of Directors on its activities.

The Credit Union's risk management policies are established to identify and analyse the risks faced by the Credit Union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed on at least an annual basis.

The Risk Committee is responsible for monitoring compliance with the Credit Union's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Credit Union. The Risk Committee is assisted in these functions by the Management Risk Committee which was established as a result of the implementation of Prudential Standard CPS220 Risk Management.

Note 27 Risk Management and Financial Instruments (Continued)

(a) RISK MANAGEMENT FRAMEWORK (Continued)

The Management Risk Committee comprises the General Manager, the Assistant General Manager and the Loans Manager and has responsibility for the oversight of the Credit Union's risk management framework and policies, including the identification, analysis, evaluation, treatment and monitoring of risks at all levels of the Credit Union and reports directly to the Risk Committee.

The Board of Directors has also appointed an Internal Auditor to assess whether the controls implemented in relation to risk management are operating effectively. The Internal Auditor provides reports on risk management compliance to the Board of Directors and the Audit Committee and the Risk Committee on a regular basis.

(b) CREDIT RISK

Credit risk is the risk of financial loss to the Credit Union should a member or counterparty to the financial instrument fail to meet their contractual obligations. Credit risk arises principally from the Credit Union's loans and advances to members, deposits with other authorised deposit-taking institutions and investments in available-for-sale assets.

Management of Credit Risk

Loans and Advances

The credit risk associated with loans and advances to members has been minimised through the implementation of credit assessment policies and procedures before these loans and advances are approved. Loans in default are also reviewed on a regular basis.

The Credit Union's policies govern:

- Credit assessment and approval of loans and facilities;
- Security requirements in respect to the acceptable types of security and maximum loan to security value ratios;
- Limiting concentrations of exposures to individual borrowers, industry groups and geographic locations;
- Reassessment of and review of credit exposures and facilities;
- Establishment of appropriate provisions to recognise the impairment of loans and advances;
- Debt recovery procedures; and
- Regular review of compliance with credit risk policies.

Note 27 Risk Management and Financial Instruments (Continued)

(b) CREDIT RISK (Continued)

Receivables Due from Other Financial Institutions

Credit risk with other financial institutions has been minimised through the implementation of investment policies, which include the types of acceptable investments and limitations on concentrations of deposits. The General Manager is responsible for managing and monitoring compliance with these policies and limits.

Exposure to Credit Risk

The Credit Union's maximum credit risk exposure, without taking into account the value of any collateral or other security held, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the Statement of Financial Position.

Impaired Loans

Impaired loans are loans for which the Credit Union determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

Loans Past Due but not Impaired

Loans that are past due but not impaired include loans where contractual interest or principal payments are past due but the Credit Union believes that impairment is not appropriate on the basis of the level of security or collateral available and the stage of collection of amounts owed to the Credit Union.

Restructured Loans

Restructured loans have renegotiated terms due to deterioration in the borrower's financial position and where the Credit Union has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowance for Impairment

The Credit Union establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures subject to individual assessment for impairment, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are not subject to individual assessment for impairment.

Note 27 Risk Management and Financial Instruments (Continued)

(b) CREDIT RISK (Continued)

Write-Off Policy

The Credit Union writes off a loan balance (and any related allowances for impairment losses) when the loan has been determined to be uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral Securing Loans

The Credit Union holds collateral against loans and advances to members in the form of mortgage interests over property, other registered securities over assets and guarantees. Mortgage insurance contracts are entered into in order to manage the credit risk around the residential loan mortgage portfolio. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to other ADIs and available-for-sale investments.

Concentration of Credit Risk

The Credit Union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of members. Credit risk is currently managed in accordance with the Prudential Standards to reduce the Credit Union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

Concentrations of credit risk arise in the following categories:

	Loans and Advances to Members		**Receivables Due from Other Financial Institutions**	
	2017	**2016**	**2017**	**2016**
	$	$	**$**	$
New South Wales	**20,071,239**	18,715,616	**-**	-
Other States and Territories	**776,580**	700,381	**2,884,975**	2,472,809
	20,847,819	19,415,997	**2,884,975**	2,472,809

Concentration by location for loans and advances to members is measured based on the location of the borrower. Concentration by location for recievables due from other financial institutions is measured based on the location of the counterparty.

Note 27 Risk Management and Financial Instruments (Continued)

(b) CREDIT RISK (Continued)

Concentration of Credit Risk (Continued)

Concentrations of risk on loans to individual members (including associated members) greater than 10% of capital are detailed below. These concentrations of credit risk on loans to individual members relate to investment property and residential mortgage loans.

	2017	2016
Number of Loans	**14**	12
Outstanding Balance ($)	**5,328,062**	4,330,268

(c) LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations arising from its financial liabilities.

Management of Liquidity Risk

The Credit Union's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation. The Credit Union's policies and procedures for managing liquidity include:

- Daily monitoring of liquidity position with regards to internal and regulatory limits;
- Monitoring the maturity profiles of financial assets and financial liabilities; and
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

Exposure to Liquidity Risk

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to total adjusted liabilities. The Credit Union's regulator, APRA, has set a minimum ratio of at least 12% of liquid assets to total liabilities. The Credit Union's minimum internal liquidity ratio is 15%.

Note 27 Risk Management and Financial Instruments (Continued)

(c) LIQUIDITY RISK

Exposure to Liquidity Risk (Continued)

Details of the Credit Union's ratio of liquid assets to total adjusted liabilities at the reporting date and during the reporting period were as follows:

	2017	2016
Liquidity Ratios	%	%
As at 30 June	**20.21**	22.18
Average liquidity for the period	**20.77**	18.31
Minimum liquidity for the period	**15.45**	15.00
Maximum liquidity for the period	**25.82**	22.15

Financial Instrument Composition and Maturity Analysis

The following table details the Credit Union's expected and remaining contractual maturities for its financial assets and financial liabilities. The balance for financial assets is based on the undiscounted maturities including interest that will be earned on those assets except where the Credit Union anticipates that the cash flow will occur in a different period. The balance of financial liabilities is based on the undiscounted cash flows at the earliest date on which the Credit Union can be required to pay. The amounts include both interest and principal cash flows.

Note 27 Risk Management and Financial Instruments (Continued)

Residual contractual maturities of financial assets and financial liabilities

Financial assets cash flows realisable	At call		Not longer than 3 months		Longer than 3 and not longer than 12 months		Longer than 1 and not longer than 5 years		Longer than 5 years		No Maturity		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	$	$	$	$	$	$	$	$	$	$	$	$	$	$
Cash and cash equivalents	**2,038,147**	2,879,920	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**2,038,147**	2,879,920
Receivables due from other financial institutions	**-**	-	**2,884,975**	2,472,809	**-**	-	**-**	-	**-**	-	**-**	-	**2,884,975**	2,472,809
Accrued receivables	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**4,718**	17,068	**4,718**	17,068
Loans and advances	**656,738**	713,281	**572,223**	558,743	**1,791,119**	1,703,501	**8,229,792**	7,718,703	**9,597,947**	8,721,769	**-**	-	**20,847,819**	19,415,997
Other financial assets	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**65,216**	65,216	**65,216**	65,216
Total anticipated inflows	**2,694,885**	3,593,201	**3,457,198**	3,031,552	**1,791,119**	1,703,501	**8,229,792**	7,718,703	**9,597,947**	8,721,769	**69,934**	82,284	**25,840,875**	24,851,010

Note 27 Risk Management and Financial Instruments (Continued)

Residual contractual maturities of financial assets and financial liabilities (Continued)

	At call		Not longer than 3 months		Longer than 3 and not longer than 12 months		Longer than 1 and not longer than 5 years		Longer than 5 years		No Maturity		Total	
Financial liabilities	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
due for payment	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Deposits from members	**8,828,481**	8,614,684	**6,513,523**	4,518,915	**6,125,040**	7,619,544	**-**	255,000	**-**	-	**-**	-	**21,467,044**	21,008,143
Deposits from other financial institutions	**-**	-	**2,000,000**	500,000	**-**	1,000,000	**-**	-	**-**	-	**-**	-	**2,000,000**	1,500,000
Payables and other liabilities	**-**	-	**280,285**	266,067	**-**	-	**-**	-	**-**	-	**-**	-	**280,285**	266,067
Total anticipated outflows	**8,828,481**	8,614,684	**8,793,808**	5,284,982	**6,125,040**	8,619,544	**-**	255,000	**-**	**-**	**-**	**-**	**23,747,329**	22,774,210
Net inflow / (outflow) on financial instruments	**(6,133,596)**	(5,021,483)	**(5,336,610)**	(2,253,430)	**(4,333,921)**	(6,916,043)	**8,229,792**	7,463,703	**9,597,947**	8,721,769	**69,934**	82,284	**2,093,546**	2,076,800

Note 27 Risk Management and Financial Instruments (Continued)

(d) MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates or other prices, will affect the Credit Union's income or the value of its financial assets and financial liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable limits.

The Credit Union does not trade in financial instruments, and is not exposed to currency or other significant price risks.

The Credit Union is only exposed to interest rate risk arising from changes in market interest rates.

Interest Rate Risk

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

Management of Interest Rate Risk

The Credit Union has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. The Credit Union does not operate a trading book.

Overall authority for market risk is vested with the Board of Directors, who are responsible for the development of detailed risk management policies.

Exposure to Interest Rate Risk

The following sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 1% higher or lower, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

Note 27 Risk Management and Financial Instruments (Continued)

(d) MARKET RISK (Continued)

Exposure to Interest Rate Risk (Continued)

	Carrying Amount	-1% Profit	-1% Equity	1% Profit	1% Equity
	$	$	$	$	$
Assets					
Deposits at call	2,038,148	(20,381)	(20,381)	20,381	20,381
Receivables due from other financial institutions	2,884,975	(28,850)	(28,850)	28,850	28,850
Loans and advances	20,847,819	(208,478)	(208,478)	208,478	208,478
Liabilities					
Deposits from members	21,467,044	214,670	214,670	(214,670)	(214,670)
Deposits from other financial institutions	2,000,000	20,000	20,000	(20,000)	(20,000)
Increase / (Decrease)		**(23,039)**	**(23,039)**	**23,039**	**23,039**

(e) CAPITAL MANAGEMENT REGULATORY CAPITAL

The Credit Union's regulator (APRA) sets and monitors capital requirements for the Credit Union. The Credit Union reports to APRA on a regular basis and has adopted the standardised approach for credit risk and operational risk as documented in the Internal Capital Adequacy Assessment Plan.

The Credit Union's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes general reserves and retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on readily marketable securities classified as available-for-sale.

Note 27 Risk Management and Financial Instruments (Continued)

(e) CAPITAL MANAGEMENT REGULATORY CAPITAL (Continued)

Various limits are applied to elements of the capital base. The amount of fundamental tier 1 capital must constitute at least 75% of net tier 1 capital. Residual tier 1 capital is limited to 25% of net tier 1 capital and innovative tier 1 securities cannot exceed 15% of net tier 1 capital. Net tier 1 capital must constitute at least 50% of capital. Total tier 2 capital is limited to 100% of net tier 1 capital and total tier 2 capital net of deductions and amortisation is limited to 50% of tier 1 capital.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures. The Credit Union's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Credit Union has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Credit Union's management of capital during the period.

The Credit Union's regulatory capital position at 30 June was as follows:

	2017	2016
	$	$
Tier 1 Capital		
Retained earnings	**2,746,626**	2,732,996
Current year earnings	**(78,969)**	19,739
Less: Deductions	**(166,009)**	(189,544)
Total Tier 1 Capital	**2,501,648**	2,563,191
Tier 2 Capital		
General reserve for credit losses	**74,839**	70,581
Less: Deductions	**-**	-
Total Tier 2 Capital	**74,839**	70,581
Total Regulatory Capital	**2,576,487**	2,633,772

Note 27 Risk Management and Financial Instruments (Continued)

(e) CAPITAL MANAGEMENT REGULATORY CAPITAL (Continued)

	2017	2016
	$	$
Capital requirements (in terms of risk weighted assets) for:		
Credit risk	**13,628,306**	12,865,844
Operational risk	**1,369,165**	1,338,008
Market risk	**-**	-
Total risk weighted assets	**14,997,471**	14,203,852

Capital Ratios

	2017	2016
	%	%
Total regulatory capital expressed as a percentage of total risk weighted assets	**17.18**	18.54
Total Tier 1 capital expressed as a percentage of total risk weighted assets	**16.68**	18.05

(f) OPERATIONAL RISK

Operational risk is the risk of the direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to those risks arising from a number of sources including legal compliance; business continuity; data infrastructure; outsourced services failures; fraud; and employee errors. The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness.

Operational risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Credit Union standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;

Note 27 Risk Management and Financial Instruments (Continued)

(f) OPERATIONAL RISK (Continued)

- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with Credit Union standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of these reviews are discussed with management with summaries submitted to the Audit Committee and the Risk Committee and the Board of Directors of the Credit Union.

Fraud

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

IT Systems

The worst case scenario would be the failure of the Credit Union's core banking and IT network suppliers, to meet customer obligations and service requirements. The Credit Union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC). This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Credit Union by the industry body Cuscal to service the settlements with other financial institutions for direct entry, ATM and Visa cards, and Bpay. A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

Note 27 Risk Management and Financial Instruments (Continued)

(g) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(i) **Liquid assets and receivables due from other financial institutions** - the carrying values of cash, liquid assets and advances to other financial institutions redeemable within 3 months approximate their net fair value as they are short term in nature or are receivable on demand.

(ii) **Investment securities and other financial assets** - for financial instruments traded in organised financial markets, fair value is the quoted market value for the asset. For investments where there is no quoted market value, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same.

(iii) **Accrued receivables** – this includes interest receivable on investments for which the carrying amount is considered to be a reasonable estimate of net fair value.

(iv) **Loans and advances** - the fair value of loans, advances and other receivables is based on their carrying amount net of the specific provision for impairment.

(v) **Deposits from members** - the fair value of deposits from members is based on their carrying amount.

(vi) **Deposits from other financial institutions and short term borrowings** - the carrying value of amounts due to other financial institutions approximates their net fair value as they are short term in nature and reprice frequently.

(vii) **Payables and other liabilities** - this includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value.

Note 27 Risk Management and Financial Instruments (Continued)

(g) FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at the end of the reporting period:

	2017		2016	
	Carrying amount	Net Fair value	Carrying amount	Net Fair value
	$	$	$	$
Financial Assets				
Cash and cash equivalents	**2,038,148**	**2,038,148**	2,879,920	2,879,920
Receivables due from other financial institutions	**2,884,975**	**2,884,975**	2,472,809	2,472,809
Accrued receivables	**4,718**	**4,718**	17,068	17,068
Loans and advances	**20,847,819**	**20,847,819**	19,415,997	19,415,997
Other financial assets	**65,216**	**65,216**	65,216	65,216
	25,840,876	**25,840,876**	24,851,010	24,851,010
Financial Liabilities				
Deposits from members	**21,467,044**	**21,467,044**	21,008,143	21,008,143
Deposits from other financial institutions	**2,000,000**	**2,000,000**	1,500,000	1,500,000
Payables and other liabilities	**280,285**	**280,285**	266,067	266,067
	23,747,329	**23,747,329**	22,774,210	22,774,210

Note 28 Company Details

The registered office and principal place of business of the Credit Union is:

Nova Credit Union Limited
3 / 71 King Street
Newcastle NSW 2300

The Directors of the Nova Credit Union Limited declare that:

1. The financial statements, comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to and forming part of the financial statements, are in accordance with the *Corporations Act 2001* and:
   (a) comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
   (b) give a true and fair view of the financial position of the Credit Union as at 30 June 2017 and of its performance for the year ended on that date.

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

This declaration is made in accordance with a resolution of the Board of Directors.

Director: Martin Cushing

Chairman

Dated: 20th September 2017

NorthCorp
accountants + financial services

PARTNERS
Robert Magnussen B Bus FCA
Paul Fahey B Bus CA
Rodney Smith B Fin Admin FCA
Bart Lawler B Com CA
Patrick Brennan B Com CA

Independent Auditor's Report

to the Members of Nova Credit Union Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Nova Credit Union Ltd which comprises the Statement of Financial Position as at 30 June 2017, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion:

(a) the accompanying financial report of Nova Credit Union Ltd is in accordance with the *Corporations Act 2001*, including:

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

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. 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 Credit Union in accordance with the auditor independence requirements of 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditor's Report (Continued)

Information Other than the Financial Report and Auditor's Report Thereon

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

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

In preparing the financial report, the Directors are responsible for assessing the Credit Union'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 the Directors either intend to liquidate the Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, 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.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

PARTNERS
Robert Magnussen B Bus FCA
Paul Fahey B Bus CA
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Patrick Brennan B Com CA

Independent Auditor's Report (Continued)

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

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

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

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

NorthCorp Accountants

J Thomas

Jodie Thomas
Lead Auditor

10 – 12 Short Street
Port Macquarie NSW 2444

20 September 2017