

TRANSPORT MUTUAL CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2016 ANNUAL

FINANCIAL REPORT

Registered Office:

**Level 2 KMS Building
8-24 Kippax Street
SURRY HILLS NSW 2010**

Notice of 52nd Annual General Meeting

The 52nd Annual General Meeting of Transport Mutual Credit Union Limited (ABN 78 087 650 600 – AFSL / Australian Credit Licence 240718) will be held at Rydges Sydney Central, 28 Albion Street Surry Hills NSW on Friday 25th November 2016, commencing at 12.30pm.

Members of the Board of Directors

Noel Hancock	Chair, Board Audit Committee Member, Board Risk Committee Member
Vince Taranto	Deputy Chair, Product Innovation Committee Chair
Anthony Dann	Director, Board Audit Committee Chair, Board Risk Committee Chair
Meredyth-Ann Williams	Director, Board Audit Committee Deputy Chair, Board Risk Committee Deputy Chair
Jacqui McDonald	Director, Whistleblower Complaints Officer
Clement Siu	Director, Product Innovation Committee Member
Philip Mortimer	Director

Administration

John Kavalieros	Chief Executive Officer & Company Secretary
Kathy Loutas	Finance Manager
John Watt	Operations Supervisor
Helen Baber	Business Development Officer
Greg Arvanitakis	Senior Loans Officer
Harry Maragos	Loans and I.T. Officer
Catherine Burgess	Branch Administrator
Jack Lehane	Branch Administrator

External Auditor

Grant Thornton Audit Pty Ltd
Level 17, 383 Kent Street, Sydney NSW

Internal Auditor

Glenn Pannam
DBP Consulting Pty Ltd
Level 2, 499 St Kilda Road, Melbourne VIC

Solicitors

Daniels Bengtsson Lawyers
Level 4, 171 Clarence Street, Sydney NSW

Hall & Wilcox Lawyers
Level 9 Castlereagh Street, Sydney NSW

Bankers

Cuscal Limited Centralised Banking Scheme – National Australia Bank
1 Margaret Street, Sydney NSW

Transport Mutual Credit Union Limited

Year ended 30 June 2016

Abbreviations

APRA		Australian Prudential Regulation Authority
		Federal Government regulatory body responsible for the prudential supervision of banks, life insurers, general insurers, superannuation funds, building societies, Credit Unions and friendly societies. APRA is fully funded by the industries that it supervises.
ASIC		Australian Securities and Investments Commission
		Federal Government corporate and financial services regulator. Regulations include advising, selling and disclosure of financial products and services, protection of markets and consumers from manipulation, deception and unfair practices, and promotion of honesty and fairness in securities and futures markets and in company affairs.
CUFSS		Credit Union Financial Support Scheme
		An industry based liquidity support system with the objective of protecting the interests of Credit Union Members as depositors and to promote financial sector stability in relation to Credit Unions.
Cuscal		Cuscal Limited
		An organisation which provides assistance to Credit Unions with wholesale banking, electronic funds transfers and other services. Cuscal is registered under the Corporations Act, and is subject to direct supervision by APRA. Refer Notes 9 & 28 for further information.
		Note: Any further reference to the "company" is reference to Transport Mutual Credit Union Limited (the Credit Union) and vice versa. Transport Mutual Credit Union Limited (ABN 78 087 650 600 – AFSL / Australian Credit Licence 240718) is a public company limited by shares, under the Corporations Act 2001.

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KEY STATISTICS OF THE CREDIT UNION

	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16
Members (No.)	4,027	4,036	3,998*	4,041	4,104
Deposits \$	44,849,461	45,134,837	45,561,411	44,804,544	49,717,494
Average Member Deposits \$	11,137	11,183	11,396	11,087	12,114
Loans \$	45,231,594	46,600,674	45,818,812	48,992,245	53,825,326
Average Loan balances \$	11,232	11,546	11,460	12,124	13,115
Loans funded in the year \$M	9.0	10.7	12.5	16.4	15.5
Bad debts written off against profit \$	-	\$454	\$5,184	-	\$5,109
Capital Adequacy ratio %	28.62	27.69	28.82	29.53	26.28
Total Reserves \$	8,560,043	8,653,562	8,843,477	9,045,342	9,157,920
Total Assets \$	58,260,738	58,006,608	58,513,661	58,063,669	67,337,320
Reserves to Assets %	14.67	14.92	15.11	15.58	13.60
Return/Average Assets %	0.36	0.16	0.33	0.35	0.18
Staff / Member ratio	1:575	1:576	1:571	1:577	1:513
Staff / Assets ratio	1:\$8.32m	1:\$8.29m	1:\$8.36m	1:\$8.29m	1:\$8.42m

* In 2014, to bring internal reporting in line with the requirements of the Constitution, 81 legacy share linkages were removed i.e. a joint account incorrectly recorded in internal reports as two separate shareholdings. The figure recorded in the Member Register (3998 Shareholders) is correct as at 30th June 2014.

PRODUCTS AND SERVICES

Loans and Other Services	Deposits and Access Services
FastRoad Home Loan	At Call Savings
1 Year Fixed Home Loan	Fixed Term Deposits
Other Housing or Investment Loans	BPAY
Red Hot Car Loan	Bank@Post
Green Car Loan	Visa Debit Cards
Personal Loans	Payroll Deposits and Direct Credits
FreeWheel Bicycle Loan	Direct Debits
Personal Overdrafts	Financial Planning Services
NetTeller – Internet Banking	Multi-Currency Cash Passport
Telephone Banking	Traveller's Cheques
Mobile Banking	ATM and EFTPOS access

CHAIR'S REPORT

I am pleased on behalf of the Board of Directors of Transport Mutual Credit Union to present our 52nd Annual Report for the financial year ended 30th June 2016.

The Year in Review

The 2016 financial year has continued the low interest rate environment that we have seen for the last few years and in fact has seen some of the lowest interest rates in living memory. This has been a cause of concern for your Directors and Management as low rates put a squeeze on margins and make it difficult to operate at a profit. However, we have continued to operate profitably whilst maintaining interest rates that are comparable to the market and in many cases better than our competitors.

Apart from a lower profit when compared to last year, almost every other measure of performance is up. Membership has increased from 4041 to 4104, Deposits are up from \$44.8m to \$49.7m, Loans are up from \$49.0m to \$53.8m and Assets have increased from \$58.1m to \$67.3m. You can see therefore that the Credit Union has really performed well given the very difficult interest rate environment throughout the period.

Long term Members will know that the Credit Union has been a tenant of the DMR, RTA or other landlords for all of its existence. I am very glad to report that this will not be the case for very much longer. Towards the end of this year we purchased our own premises and will be moving into them when the fitout has been completed. I see this as a milestone in the evolution of the Credit Union and I must congratulate John Kavalieros, Kathy Loutas and Anthony Dann for all of their hard work in achieving this purchase.

As I reported last year the Board and Management have maintained a focus on our traditional markets throughout the year but with some effort being made to enter into other areas following our name change. One of these areas which has been especially pleasing has been in relation to the FreeWheel Bicycle Loans which have introduced a great many new Members to the Credit Union and has really enhanced our reputation for corporate responsibility by enabling many Members to commute to work on bicycles thus reducing traffic and enhancing the health of the community. A number of bicycle retailers have taken a great interest in this product and are referring their customers to us for finance.

Highlights 2015 – 2016

As I stated earlier our profit this year was down on last year but I consider it to be satisfactory given the interest rates and I would like to touch on this and a few other major points:

- Profit before tax of \$142,995 (2015 \$287,375)
- Profit after tax of \$112,578 (2015 \$201,865)
- Loan funding of \$15.5 million compared with \$16.4 million in 2015. The second highest funding level ever.
- Purchase of our new premises – Ground Floor, 410 Elizabeth Street Surry Hills NSW

During the year our Credit Card Crusher loan has continued to assist Members who were having difficulty in managing credit card debt because of the excessive interest rates of up to 22% charged by Banks on the outstanding balance. The personal loan rate that we provide on this product is less than of that charged on most bank issued cards.

I thank the staff and Management of your Credit Union for their dedication throughout the year and for their continued effort in providing excellent service to you and all our Members in 2015 – 2016.

The Year Ahead

The year ahead will continue to provide challenges because of the low interest environment and will test the skills of the Board and Management to ensure that we achieve the profit target that we have in the 2016 – 2017 budget. If the Reserve Bank continues to reduce interest rates, the Credit Union will be forced to revise the profit target downwards and this has implications on the value of loans that we can finance at the higher end of applications.

On the brighter side we will be calling tenders for fitting out the new premises and we will be looking forward to moving into our new premises as soon as possible.

On behalf of the Board of Directors, I commend this report to you. I thank the Directors for their ongoing commitment and thank you, the Members of the Credit Union for your loyalty and patronage.

We look forward to your continuing support.



Noel J T Hancock
Chair
28th September 2016

DIRECTORS' REPORT

Your Directors present their report on the Credit Union for the financial year ended 30th June 2016.

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

INFORMATION ON DIRECTORS

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

Name	Position	Qualifications	Experience	Responsibilities
Noel J. T. Hancock	Chair	BBus, CPA, FAMI	20 Years	Chair, Board Audit Committee Member, Board Risk Committee Member
Vincent E. Taranto	Deputy Chair	BSc, DipTCP, MAMI	18 Years	Deputy Chair, Product Innovation Committee Chair
Meredyth-Ann Williams	Director	DipTeach, BA (Hons) Psych, Dip.Clin.Hyp, MAMI	11 Years	Board Audit Committee Deputy Chair, Board Risk Committee Deputy Chair
Anthony J. Dann	Director	BEC, CPA, MAcc, MAMI, AFIAA	10 Years	Board Audit Committee Chair, Board Risk Committee Chair
Jacqui McDonald	Director	MAMI	8 Years	Whistleblower Complaints Officer
Clement Siu	Director	B.Com, CPA, MAMI	6 Years	Product Innovation Committee Member
Philip Mortimer	Director	M.I.A.M.E, JP, MAMI	3 Years	

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

Name	Qualifications	Experience
John Kavalieros	DipFS, AIM, FAMI	20 Years

The Credit Union's *Associate Directorship* programme allows prospective directors to gain experience and understanding of Board membership prior to possible future nomination as full directors on the Board. The names of *Associate Directors* during or since the end of the year are:

Name	Qualifications	Experience
Harold Bear	BA(Hons)/LLB, LLM, MPS	2 Years

The details of the meetings attended by Directors of the Board are as follows:

Director	Board		Board Audit Committee		Board Risk Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Noel J.T. Hancock	12	12	6	6	9	9
Vincent E. Taranto	12	10				
Meredyth-Ann Williams	12	12	6	6	9	9
Anthony J. Dann	12	11	6	6	9	9
Jacqui McDonald	12	8				
Clement Siu	12	8				
Philip Mortimer	12	11				

DIRECTORS' BENEFITS

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 27 of the financial report.

INDEMNIFYING OFFICER OR AUDITOR

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

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

FINANCIAL PERFORMANCE DISCLOSURES

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

The net profit of the Credit Union for the year after providing for income tax and extraordinary items was \$112,578 (2015 - \$201,865).

DIVIDENDS

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

REVIEW OF OPERATIONS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

EVENTS OCCURRING AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND RESULTS

No matter, circumstance or likely development in the operations has arisen since the end of the financial year which has significantly affected or may significantly affect:


- (i) The operations of the Credit Union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Credit Union

in the financial years subsequent to this financial year.

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



Noel J.T. Hancock
Chair



Meredyth-Ann Williams
Acting Board Audit Committee Chair

Signed and dated this 28th day of September 2016



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**Auditor's Independence Declaration
To the Directors of Transport Mutual Credit Union Ltd**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Transport Mutual Credit Union Ltd for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Claire Gilmartin

Claire Gilmartin
Partner - Audit & Assurance

Sydney, 28 September 2016

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Independent Auditor's Report To the Members of Transport Mutual Credit Union Limited

We have audited the accompanying financial report of Transport Mutual Credit Union Limited (the "Company"), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company .

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

the financial report of Transport Mutual Credit Union Limited is in accordance with the Corporations Act 2001, including:

- i giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- c the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Claire Gilmartin

Claire Gilmartin
Partner - Audit & Assurance

Sydney, 28 September 2016

DIRECTORS' DECLARATION

The Directors of Transport Mutual Credit Union Limited declare that:-

1. The financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in Member equity, and accompanying notes, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Noel J.T. Hancock
Chair

Dated this 28th day of September 2016

TRANSPORT MUTUAL CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2016 Annual Financial Report

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016	2015
		\$	\$
Interest revenue	2.a	2,860,279	3,003,799
Interest expense	2.c	947,745	1,000,049
Net interest income		<u>1,912,534</u>	<u>2,003,750</u>
Fee commission and other income	2.b	128,187	137,447
		<u>2,040,721</u>	<u>2,141,197</u>
Less			
Non interest expenses			
Impairment losses on loans receivable from Members	2.d	3,886	14,337
Fee and commission expenses		108,132	114,572
General administration			
- Employees compensation and benefits		754,420	690,671
- Depreciation and amortisation	2.e	44,220	58,274
- Information technology		381,028	382,413
- Office occupancy	2.e	118,344	118,680
- Other administration		135,453	131,454
Other operating expenses		352,243	343,421
Total non interest expenses		<u>1,897,726</u>	<u>1,853,822</u>
Profit before income tax		142,995	287,375
Income tax expense	3	30,417	85,510
Profit after income tax		<u>112,578</u>	<u>201,865</u>
Other comprehensive income		-	-
Total comprehensive income		<u>112,578</u>	<u>201,865</u>

**STATEMENT OF CHANGES IN MEMBER EQUITY
 FOR THE YEAR ENDED 30 JUNE 2016**

	Capital Reserve	Retained Earnings	Reserve for Credit Losses	Total
	\$	\$	\$	\$
Total at 1 July 2014	32,660	8,349,750	461,067	8,843,477
Net Profit for the Period	-	201,865	-	201,865
Transfers to Reserves	1,110	(1,110)	-	-
Total as at 30 June 2015	<u>33,770</u>	<u>8,550,505</u>	<u>461,067</u>	<u>9,045,342</u>
Net Profit for the Period	-	112,578	-	112,578
Transfers to Reserves	1,100	(1,100)	-	-
Total as at 30 June 2016	<u>34,870</u>	<u>8,661,983</u>	<u>461,067</u>	<u>9,157,920</u>

TRANSPORT MUTUAL CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2016 Annual Financial Report

**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$	2015 \$
ASSETS			
Cash and cash equivalents	4	2,286,940	618,100
Advances to other financial institutions	5	9,426,420	7,936,621
Receivables	6	159,144	167,602
Loans to Members	7a	53,825,326	48,992,245
Available for sale investments	9	166,277	166,277
Property, plant and equipment	10	1,378,040	74,588
Taxation assets	11	95,173	108,236
Intangible assets	12	-	-
TOTAL ASSETS		67,337,320	58,063,669
LIABILITIES			
Payables to other financial institutions		8,000,000	3,500,000
Deposits from Members	13	49,717,494	44,804,544
Creditor accruals and settlement accounts	14	435,264	600,051
Taxation liabilities	15	(34,821)	56,465
Provisions	16	61,463	57,267
TOTAL LIABILITIES		58,179,400	49,018,327
NET ASSETS		9,157,920	9,045,342
MEMBERS' EQUITY			
Capital reserve account	17	34,870	33,770
Reserves	18	461,067	461,067
Retained earnings		8,661,983	8,550,505
TOTAL MEMBERS' EQUITY		9,157,920	9,045,342

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**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$	2015 \$
OPERATING ACTIVITIES			
Revenue <u>Inflows</u>			
Interest Received		2,851,021	3,039,019
Fees and Commissions		103,163	108,529
Dividends Received		23,556	23,556
Other Income		1,471	5,362
Less: Revenue <u>Outflows</u>			
Interest Paid		(973,170)	(1,062,318)
Suppliers and Employees		(1,850,537)	(1,774,431)
Income Taxes		(108,639)	(59,560)
Net Cash From Revenue Activities	30.b	46,865	280,157
Inflows from Other Operating Activities			
Increase in Member Deposits (Net movement)		4,808,687	-
Net decrease in Member loans		-	-
Net decrease in receivables from other FIs		-	2,027,595
		4,808,687	2,027,595
Outflows from Other Operating Activities			
Decrease in Deposits (Net movement)		-	(641,834)
Increase in Member loans		(4,849,240)	(3,190,163)
Increase in Receivables from other FIs		(1,489,799)	-
		(6,339,039)	(3,831,997)
Net Cash from all Operating Activities		(1,483,487)	(1,524,245)
INVESTING ACTIVITIES			
<u>Inflows</u>			
Proceeds on sale of property, plant and equipment		-	-
Less: <u>Outflows</u>			
Purchases of fixed assets		(1,347,673)	(17,297)
Net Cash From Investing Activities		(1,347,673)	(17,297)
FINANCING ACTIVITIES			
Increase in Payables from other FIs		4,500,000	-
Net Cash From Financing Activities		4,500,000	
Total Net Cash Increase/(Decrease)		1,668,840	(1,541,542)
Cash at the beginning of the year		618,100	2,159,642
Cash at end of year	30.a	2,286,940	618,100

1. STATEMENT OF ACCOUNTING POLICIES

This financial report is prepared for Transport Mutual Credit Union Limited as a single Credit Union, for the year ended the 30th June 2016. The report was authorised for issue on 28th September 2016 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board Urgent Issues Group and the Corporations Act 2001. Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures the financial statements and notes comply with the International Financial Reporting Standards (IFRS). Transport Mutual Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of Measurement and Classification

The financial statements have been prepared on an accrual basis, and are based on historical costs, which do not take into account changing money values or current values of non-current assets with the exception of real property and available for sale investments which are stated at fair value. The accounting policies are consistent with the prior year unless otherwise stated.

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

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

Classification and subsequent measurement of financial assets

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

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

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

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

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

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Loans and receivables

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

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

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Available For Sale (AFS) financial assets

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

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

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

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

Classification and subsequent measurement of financial liabilities

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

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

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b. Loans to Members

Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the loans using the effective interest method.

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

Interest earned

Term loans - Interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a Member's account on the last day of each month.

Overdraft - Interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a Member's account on the last day of each month.

Non accrual loan interest - While still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the Member is deceased or where a loan is impaired.

Loan origination fees and discounts

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

Transaction costs

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

Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

c. Loan Impairment

Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by Management and the Board to recognise the probability of loan amounts not being collected in accordance with the terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8. Note 19 details the credit risk management approach for loans.

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

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

Reserve for credit losses

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

- The level of security taken as collateral
- The concentration of loans taken by employment type.

Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

d. Bad debts written off (direct reduction in loan balance)

Bad debts are written off from time to time as determined by Management and the Board when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the income statement.

e. Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation.

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

- Buildings – 40 years
- Leasehold improvements – over the life of each asset.
- Plant and equipment - 3 to 7 years.
- Assets less than \$300 are not capitalised.

f. Receivables from other financial institutions

Term deposits with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

g. Equity investments and other securities

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

Investments in shares 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.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account are comprised of gains and losses on disposal.

All investments are in Australian currency.

h. Member Deposits

Basis for measurement

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

Interest payable

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

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i. Borrowings

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

j. Provision for Employee Benefits

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using Federal Government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Credit Union, based on the present value of its estimated future cash flows.

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

Contributions are made by the Credit Union to an employee's preferred choice compliant superannuation fund and are charged to the income statement as incurred.

k. Leasehold on Premises

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

l. Income Tax

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

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

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

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m. Intangible Assets

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

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

n. Goods and Services Tax

As a financial institution the Credit Union is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to goods and services tax (GST) collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST. To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office (ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

o. Cash and cash equivalents

Cash comprises cash on hand and at call deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

p. Impairment of Assets

At each reporting date the Credit Union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

q. Accounting Estimates and Judgements

Management has made critical accounting estimates when applying the Credit Union's accounting policies with respect to the impairment provisions for loans - refer Note 8.

r. New standards applicable for the current year

There were no new Standards applicable for the current financial year.

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s. New or emerging standards not yet mandatory

Accounting standards and interpretations have been published that are not mandatory for the 30th June 2016 reporting period. The Credit Union's interpretation of these new standards is set out below:

AASB Ref	Nature of Change	Application Date	Impact on Initial Application
<p>AASB 9 Financial Instruments (December 2014)</p>	<p>Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 <i>Financial Instruments: Recognition and Measurement</i> into AASB 9: Classification and measurement of financial liabilities; and derecognition requirements for financial assets and liabilities.</p> <p>However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. Financial assets that are debt instruments will be classified according to the objectives of the business model for managing those assets and the characteristics of their cash flows.</p> <p>Recognition of credit losses are to no longer be dependent on the Credit Union first identifying a credit loss event. The Credit Union will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.</p> <p>The rules for hedge accounting have been overhauled to better reflect the organisation's underlying risk management activities in the financial statements.</p>	<p>Periods beginning on or after 1 January 2018.</p>	<p>Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2019 year end and the revised Standard cannot be adopted earlier than 30 June 2016, the entity has not yet made a detailed assessment of the impact of these amendments. However, based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted.</p>
<p>AASB 15 Revenue from Contracts with Customers</p>	<p>Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue.</p>	<p>Periods beginning on or after 1 January 2017.</p>	<p>The Credit Union is yet to make a detailed assessment of the impact of AASB 15. However, based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted.</p>
<p>AASB 16 Leases Replaces AASB 117</p>	<p>AASB 16: Replaces AASB 117 <i>Leases</i> and some lease-related interpretations</p> <ul style="list-style-type: none"> • requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases • provides new guidance on the application of the definition of lease and on sale and lease back accounting • requires new and different disclosures about leases. 	<p>Periods beginning on or after 1 January 2019</p>	<p>The Credit Union is yet to undertake a detailed assessment of the impact of AASB 16.</p> <p>However, based on the Credit Union's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020, since the Credit Union owns its premises and other operating leases are minimal.</p>

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	2016 \$	2015 \$
2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	14,280	27,223
Receivables from financial institutions	229,660	272,058
Loans to Members	2,616,339	2,704,518
TOTAL INTEREST REVENUE	<u>2,860,279</u>	<u>3,003,799</u>
b. Fee, commission and other income		
Fee and commission revenue		
Other fee income	47,804	53,043
Insurance commissions	27,468	27,489
Other commissions	27,891	27,997
TOTAL FEE AND COMMISSION REVENUE	<u>103,163</u>	<u>108,529</u>
Dividends received on available for sale assets	23,556	23,556
Bad debts recovered	1,342	5,342
Gain on disposal of assets		
- Property, plant and equipment	-	-
Miscellaneous revenue	126	20
TOTAL FEE COMMISSION AND OTHER INCOME	<u>128,187</u>	<u>137,447</u>
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Deposits from other financial institutions	125,447	62,272
Deposits from Members	822,298	937,777
TOTAL INTEREST EXPENSE	<u>947,745</u>	<u>1,000,049</u>
d. Impairment losses		
Available for sale assets		
Loans and advances		
(Decrease) / Increase in provision for impairment	(1,223)	14,337
Bad debts written off directly against profit	5,109	-
TOTAL IMPAIRMENT LOSSES	<u>3,886</u>	<u>14,337</u>

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e. Other prescribed disclosures	2016	2015
	\$	\$
General administration - depreciation expenses include:		
- Buildings	2,748	-
- Plant and equipment	40,831	45,423
- Leasehold improvements	641	12,851
- Amortisation of software	-	-
	<u>44,220</u>	<u>58,274</u>
General administration - office occupancy costs include:		
Property operating lease payments	<u>118,344</u>	<u>122,141</u>
Other operating expenses include:		
Auditor's remuneration (excluding GST)		
- Audit fees	45,080	43,760
- Other Services – taxation	4,800	4,700
- Other Services – compliance	1,000	2,000
- Other Services – other	6,200	6,000
	<u>57,080</u>	<u>56,460</u>
3. INCOME TAX EXPENSE		
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	<u>142,995</u>	<u>287,375</u>
Prima facie tax payable on profit before income tax at 30%	42,898	86,212
Add tax effect of:		
- Under provision from the prior year	653	-
- Franking credit uplift	3,029	3,029
Subtotal	<u>46,580</u>	<u>89,241</u>
Less		
- Franking rebate	10,095	10,095
- Adjustment to tax rate provision for medium Credit Union**	6,068	-
Income tax provision attributable to current year profit	<u>30,417</u>	<u>79,146</u>
Overprovision for previous year	-	-
Adjustment of deferred tax asset	-	6,364
Total income tax expense in income statement	<u>30,417</u>	<u>85,510</u>
Provision for income tax	16,700	90,182
Plus (Less)		
Movement in Deferred Tax Assets	13,064	(4,672)
Under /(Over) provision	653	-
Total income tax expense in income statement	<u>30,417</u>	<u>85,510</u>

*The tax rate for a "medium" Credit Union as defined in S6G of the tax legislation is 45% of the taxable income above \$50,000. This marginal tax rate reverts to 30% at the point the taxable income reaches \$150,000 when the tax legislation classifies the Credit Union as a "large" Credit Union.

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4. CASH AND CASH EQUIVALENTS	2016	2015
	\$	\$
Cash on hand	24,332	13,958
Deposits at call	2,262,608	604,142
	<u>2,286,940</u>	<u>618,100</u>
5. ADVANCES TO OTHER FINANCIAL INSTITUTIONS		
Held to Maturity		
Negotiable Certificates of Deposit	4,486,999	3,990,084
Receivables		
Term Deposit	4,939,421	3,946,537
Total Deposits	<u>9,426,420</u>	<u>7,936,621</u>
Dissection of Deposits		
Deposits with industry bodies – Cuscal	4,486,999	3,990,084
Deposits with other Credit Unions	1,000,000	-
Deposits with Banks	3,939,421	3,946,537
	<u>9,426,420</u>	<u>7,936,621</u>
6. RECEIVABLES		
Interest receivable on deposits with other financial institutions	39,345	31,913
Prepayments	60,050	63,090
Sundry debtors and settlement accounts	59,749	72,599
	<u>159,144</u>	<u>167,602</u>
7. LOANS TO MEMBERS		
a. Amount due comprises:		
Overdrafts and revolving credit	51,765	131,690
Term loans	53,803,523	48,894,280
Subtotal	<u>53,855,288</u>	<u>49,025,970</u>
Less:		
Unamortised loan origination fees	(10,049)	(11,874)
Subtotal	<u>53,845,239</u>	<u>49,014,096</u>
Less:		
Provision for impaired loans (Note 8)	(19,913)	(21,851)
	<u>53,825,326</u>	<u>48,992,245</u>

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b. Credit quality - Security held against loans	2016	2015
	\$	\$
Secured by mortgage over business assets	-	-
Secured by mortgage over real estate	47,780,712	42,694,393
Partly secured by goods mortgage	3,912,309	4,020,310
Wholly unsecured	2,162,267	2,311,267
	<u>53,855,288</u>	<u>49,025,970</u>

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

Security held as mortgage against real estate is on the basis of:

- loan to valuation ratio of less than 80%	42,718,652	36,733,903
- loan to valuation ratio of more than 80% and mortgage insured	3,710,340	3,956,616
- loan to valuation ratio of more than 80% and not mortgage insured	1,351,720	2,003,874
Total	<u>47,780,712</u>	<u>42,694,393</u>

c. Concentration of loans

(i) Loans to Individual or related groups of Members which exceed 10% of total Member's equity	2,966,134	-
Total	<u>2,966,134</u>	-
(ii) A significant proportion of Member loans at balance date were funded to individuals employed in the transport sector in NSW.		
(iii) Geographical concentrations:		
New South Wales	49,137,068	44,005,379
Victoria	1,924,392	2,002,322
Queensland	312,920	299,520
South Australia	51,398	96,676
Western Australia	1,028,043	1,093,137
ACT	728,674	812,093
Other	672,793	716,843
	<u>53,855,288</u>	<u>49,025,970</u>

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8. PROVISION ON IMPAIRED LOANS	2016	2015
	\$	\$
a. Total provision comprises		
Statutory provisions	21,375	21,851
Individual specific provisions	(1,462)	-
Total Provision	<u>19,913</u>	<u>21,851</u>
b. Movement in the provision for impairment		
Balance at the beginning of year	21,851	22,327
Add (deduct):		
Transfers from (to) Profit and Loss statement	3,170	14,337
Bad debts written off provision	(5,108)	(14,813)
Balance at end of year	<u>19,913</u>	<u>21,851</u>

Details of credit risk management are set out in Note 19.

c. Impaired loans written off		
Amounts written off against the provision for impaired loans	5,108	14,813
Amounts written off directly to expense	-	-
Total bad debts	<u>5,108</u>	<u>14,813</u>
Bad debts recovered in the period	1,342	5,342
Total bad debts recovered	<u>1,342</u>	<u>5,342</u>

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

In the Note below:

- Carrying value is the amount on the balance sheet
- Impaired loans value is the 'on balance sheet' loan balances which are past due by 90 days or more
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2016			2015		
	Carrying value	Value of Impaired Loans	Provision for impairment	Carrying value	Value of Impaired Loans	Provision for impairment
	\$	\$	\$	\$	\$	\$
Loans to Members:						
- Mortgages	47,780,712	-	-	42,694,393	-	-
- Personal	6,022,811	20,133	19,699	6,199,887	35,963	21,838
- Overdrafts	51,765	537	214	131,690	345	13
Total to natural persons	53,855,288	20,670	19,913	49,025,970	36,308	21,851
Corporate Borrowers	-	-	-	-	-	-
Total	53,855,288	20,670	19,913	49,025,970	36,308	21,851

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

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

	2016		2015	
	Carrying Value \$	Provision \$	Carrying Value \$	Provision \$
Non impaired up to 30 days	53,713,121	-	48,899,922	-
31 to 90 days in arrears	121,497	330	89,740	-
90 to 181 days in arrears	-	-	17,331	6,932
182 to 272 days in arrears	-	-	-	-
273 to 364 days in arrears	3,825	3,060	18,632	14,906
365 or more days in arrears	16,308	16,308	-	-
Over limit facilities over 14 days	537	215	345	13
Total	53,855,288	19,913	49,025,970	21,851

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

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

Loans with repayments past due but not impaired are in arrears as follows:

	1- 3 Months	3-6 Months	6-12 Months	> 1 Year	Total
2016	\$	\$	\$	\$	\$
Mortgage secured	-	-	-	-	-
Personal loans	121,497	-	-	-	121,497
Overdrafts	-	-	-	-	-
Total	121,497	-	-	-	121,497

	1- 3 Months	3-6 Months	6-12 Months	> 1 Year	Total
2015	\$	\$	\$	\$	\$
Mortgage secured	311,396	-	-	-	311,396
Personal loans	89,740	-	-	-	89,740
Overdrafts	-	-	-	-	-
Total	401,136	-	-	-	401,136

g. Key assumptions in determining the provision for impairment

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

Period of impairment	% of balance
Less than 90 days	0
90 days and less than 182 days	40
182 days and less than 273 days	60
273 days and less than 365 days	80
Over 365 days	100

	2016	2015
	\$	\$
9. AVAILABLE FOR SALE INVESTMENTS		
Shares in unlisted companies – at cost		
- Cuscal Limited	166,277	166,277
	<u>166,277</u>	<u>166,277</u>

Cuscal Limited

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. The shares are able to be traded however the market for trading these shares is limited. This company supplies wholesale and aggregated transactional services to mutual financial institutions and other banking organisations – refer to Note 28.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the limited trading market, a market value is not able to be determined readily.

The Credit Union is not intending to dispose of these shares.

	2016 \$	2015 \$
10. PROPERTY, PLANT AND EQUIPMENT		
a. Property – at cost	1,318,828	-
Less: provision for depreciation	(2,748)	-
	1,316,080	-
Plant and equipment – at cost	679,240	650,396
Less: provision for depreciation	(617,280)	(576,449)
	61,960	73,947
Capitalised leasehold improvements at cost	351,287	351,287
Less: provision for amortisation	(351,287)	(350,646)
	-	641
Total Plant and Equipment	1,378,040	74,588

b. Movement in the assets balances during the year were:

	2016				2015		
	<i>Property</i>	<i>Plant & equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>	<i>Plant & equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$	\$
Opening balance	-	73,947	641	74,588	102,073	13,492	115,565
Purchases	1,318,828	28,844	-	1,347,672	17,297	-	17,297
<u>Less:</u>							
Assets disposed				-			
Depreciation charge	2,748	40,831	641	44,220	45,423	12,851	58,274
Balance at the end of the year	1,316,080	61,960	-	1,378,040	73,947	641	74,588

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	2016	2015
	\$	\$
11. TAXATION ASSETS		
Tax Refund Due (Note 15)	-	-
Deferred Tax Assets	95,173	108,236
	<u>95,173</u>	<u>108,236</u>
Deferred Tax Assets comprise:		
Accrued expenses not deductible until incurred	14,375	15,782
Provisions for impairment on loans	5,974	6,555
Provisions for employee benefits	34,579	37,100
Depreciation on fixed assets	37,230	45,238
Effective Interest Rate	3,015	3,561
	<u>95,173</u>	<u>108,236</u>
	<u><u>95,173</u></u>	<u><u>108,236</u></u>
12. INTANGIBLE ASSETS		
Computer software	-	261,926
Less provision for amortisation	-	(261,926)
	<u>-</u>	<u>-</u>
Total Intangible Assets	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>
Movement in the assets balances during the year were :		
Opening balance	-	-
<u>Less:</u>		
Depreciation charge	-	-
	<u>-</u>	<u>-</u>
Balance at the end of the year	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

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	2016	2015
	\$	\$
13. DEPOSITS FROM MEMBERS		
Member Deposits		
- At call	22,262,492	19,544,662
- Term	27,413,962	25,219,472
Member withdrawable shares	41,040	40,410
	<u>49,717,494</u>	<u>44,804,544</u>

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Concentration of Member deposits

(i) Significant individual Member deposits which in aggregate represent more than 10 % of the total liabilities:	-	-
(ii) A significant proportion of Member deposits at balance date were received from individuals employed in the transport sector in NSW.		
(iii) Geographical concentrations		
New South Wales	48,622,800	43,908,568
Victoria	250,027	219,444
Queensland	275,796	310,620
South Australia	182	129
Western Australia	277,639	98,703
ACT	149,777	137,866
Other	141,273	129,214
Total per Statement of Financial Position	<u>49,717,494</u>	<u>44,804,544</u>

14. CREDITORS ACCRUALS AND SETTLEMENT ACCOUNTS

Annual leave	53,801	66,398
Creditors and accruals	65,934	75,588
Interest payable on deposits	195,436	220,861
Sundry Creditors	120,093	237,204
	<u>435,264</u>	<u>600,051</u>

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	2016 \$	2015 \$
15. TAXATION LIABILITIES		
Current income tax liability comprises:		
Balance – previous year	56,465	28,020
Less paid / (received)	57,118	28,020
Under / (over) statement in prior year	653	-
Amount written off to tax expense	-	-
Liability for income tax in current year	16,700	88,182
Less: Instalments paid in current year	51,521	31,717
Balance (Receivable)/ Payable – current year	<u>(34,821)</u>	<u>56,465</u>
16. PROVISIONS		
Long service leave	61,463	57,267
	<u>61,463</u>	<u>57,267</u>
17. CAPITAL RESERVE ACCOUNT		
Balance at the beginning of the year	33,770	32,660
Transfer from retained earnings on share redemptions	1,100	1,110
Balance at the end of year	<u>34,870</u>	<u>33,770</u>

Share Redemption

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

	2016 \$	2015 \$
18. GENERAL RESERVE FOR CREDIT LOSSES		
General reserve for credit losses	461,067	461,067
	<u>461,067</u>	<u>461,067</u>

General reserve for credit losses

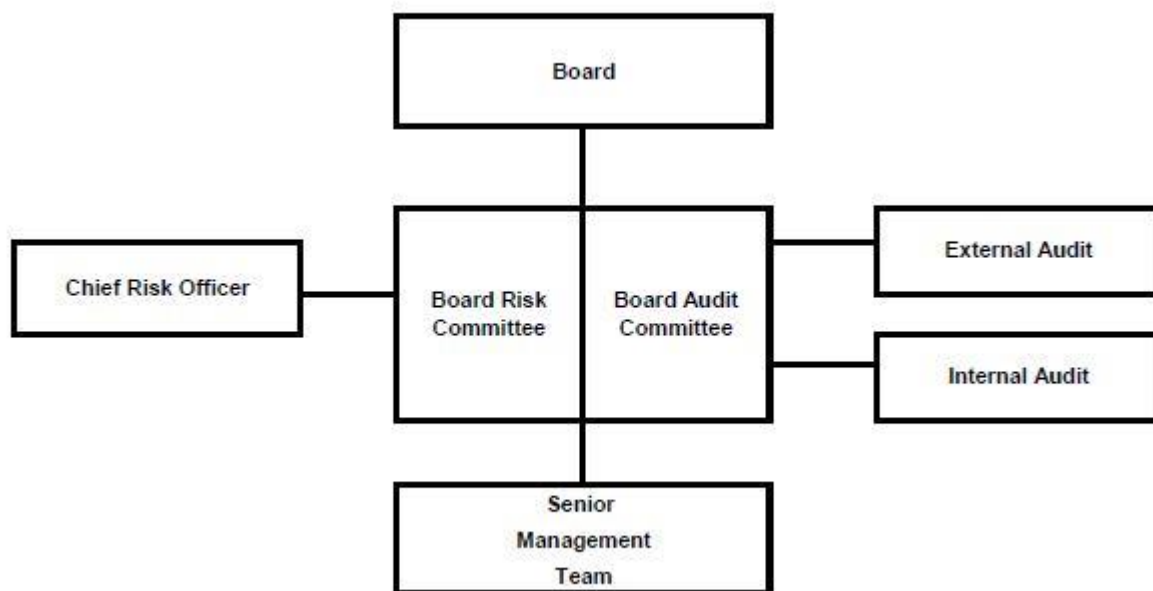
This reserve records the amount previously set aside as a General provision and is maintained to comply with the Prudential Standards set by APRA

Balance at beginning of year	461,067	461,067
Add: increase (decrease) transferred from retained earnings	-	-
Balance at end of year	<u>461,067</u>	<u>461,067</u>

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union and to comply with APRA’s Risk Management standards. The Credit Union’s Risk Management Framework focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Board Audit Committee (BAC) and Board Risk Committee (BRC) which is integral to the management of risk. The following diagram gives an overview of the organisation’s risk management structure:



The main elements of risk governance are as follows:

Board: This is the primary governing body. It approves the level of risk to which the Credit Union is exposed and the framework for reporting and mitigating those risks. The Board carries out monitoring through monthly review of operational reports, to ensure risk levels are within the parameters set by the Board. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruption to business operations. The Board is held accountable for risk governance by APRA.

Senior Management: Senior Management is responsible for management of the Credit Union's compliance frameworks in accordance with Board approved criteria and policy, and is responsible for implementation of the Board approved risk management strategy, as well as developing policies, controls, processes and procedures for identifying and managing risks in all of the Credit Union's activities.

Board Audit Committee (BAC): The BAC is charged with providing the Board with reports designed to give an independent and objective view of the organisation's compliance with its controls that are in place to effectively manage risk. The BAC recommends the appointment of internal and external auditors and assesses auditor performance against annual plans.

Chief Risk Officer (CRO): The CRO is responsible for conducting targeted and random testing of compliance with the Board approved risk management strategy to ensure the Credit Union complies with all policy, legislative and prudential requirements. The CRO tests the risk framework and actively supports the Board's risk based culture.

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

External Audit: External audit is charged with giving an independent opinion to the Board and APRA, on the reliability of the Credit Union's financial performance and position. The external auditor communicates to the Board through the BAC.

Board Risk Committee (BRC): The BRC is charged with assisting the Board to formulate a risk strategy and to nurture an organisation-wide culture of appropriate risk management. In addition the BRC reviews the effectiveness of the risk management framework and monitors adherence to risk-related policy and procedures. The BRC approves the appointment of the Chief Risk Officer.

Key risk management policies within TMCU's risk management framework include:

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

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments.

a. MARKET RISK

The Credit Union aims to manage and control market risk exposures in order to optimise risk and return. Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is not exposed to currency risk, and other significant price risk. The Credit Union does not trade in the financial instruments it holds on its books. The Credit Union is exposed only to interest rate risk arising from changes in market interest rates. Day to day management of market risk is the responsibility of Senior Management, with monthly and quarterly reporting going to the Board via the BAC.

(i) INTEREST RATE RISK

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

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

Interest rate risk in the banking book

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

The interest rate risk on the banking book is measured daily, reported to senior Management weekly, and to the Board via the BRC monthly.

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

The level of interest rate matching on the banking book is set out in Note 22. The table sets out the period that each asset and liability will reprice as at the balance date.

Method of managing risk

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

Interest rate sensitivity

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

The policy of the Credit Union to manage this risk is to maintain a balanced strategy by ensuring the net interest rate *gap* between assets and liabilities is not excessive. The measured gap resulting from a 1% and a 2% change in interest rates is reported to the Board monthly and is subject to approved limits. The gap identifies any large repricing exposure to interest rate movement, which the Credit Union can then reduce to acceptable levels through targeted fixed rate interest investment and loan products.

Based on the calculations as at 30 June 2016 the increase in net income for a 1% increase in interest rates would be \$9,189 (2015 - \$50,218). This means the Credit Union is less exposed to interest rate risk than it was in 2015.

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

- the interest rate change would be applied equally to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable;
- savings deposits would reprice in less than 30 days;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- variable loans would reprice between 31 and 90 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);

- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

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

b. LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union may encounter difficulty raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or Member withdrawal demands. It is the policy of the Board, that Management maintains adequate cash reserves and committed credit facilities so as to meet Member withdrawal demands.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

The Credit Union has a long-standing arrangement with the industry liquidity support organisation, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should that be necessary at short notice.

The Credit Union is required to maintain at least 9% of total liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union policy is to maintain a minimum 12% of total liabilities as liquid assets to maintain adequate funds for meeting Member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below 14%, Management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific Note 21. The ratio of liquid funds over the past year is set out below:

	2016	2015
Liquid funds to total adjusted liabilities		
As at 30 June	17.26%	16.37%
Average for the year	16.49%	21.47%
Minimum during the year	14.12%	14.03%
Liquid funds to total Member deposits		
As at 30 June	21.50%	19.09%

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c. CREDIT RISK

Credit risk is the risk that Members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial loss. Credit risk arises principally from the Credit Union's loan book and investment assets.

(i) CREDIT RISK – LOANS

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

	2016			2015		
	Carrying value	Commitments	Maximum exposure	Carrying value	Commitments	Maximum exposure
	\$	\$	\$	\$	\$	\$
Mortgage	47,780,712	8,549,933	56,330,645	42,694,393	8,524,489	51,218,882
Personal	6,022,811	2,614,578	8,637,389	6,199,887	1,359,043	7,558,930
Overdrafts	51,765	226,472	278,237	131,690	561,150	692,840
Total to natural persons	53,855,288	11,390,983	65,246,271	49,025,970	10,444,682	59,470,652
Corporate borrowers	-	-	-	-	-	-
Total	53,855,288	11,390,983	65,246,271	49,025,970	10,444,682	59,470,652

Carrying value is equal to the gross value (before impairment) on the balance sheet. Maximum exposure is equal to the value on the balance sheet plus undrawn facilities (including loans approved not yet advanced; redraw facilities; line of credit facilities and overdraft facilities). The details are shown in Note 23 and 24.

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

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

The Credit Union has established policies over the:

- Assessment and approval of loans and facilities, covering acceptable risk, assessment procedures and appropriate security and insurance;
- Limits of acceptable exposures to individual borrowers, personal loans and commercial lending;
- Review of credit exposures on loans and facilities;
- Appropriate level of provisions to recognise the impairment of loans and facilities; and
- Recovery of bad debts.

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

Past due and impaired

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

Weekly reports monitor loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants can be engaged to conduct recovery action. Exposures to losses arise predominantly in personal loans and facilities not secured by registered mortgages over real estate.

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

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

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including changes in a counterparty's industry, regional economic factors, as well as identified structural weaknesses or deterioration in cash flows.

The provisions for impaired and past due exposures relate to the loans to Members.

Details are set out in Note 8.

Bad debts

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

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

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

Collateral securing loans

A majority of the loan book is secured by residential property in Australia, primarily in New South Wales. Therefore, the Credit Union is exposed to risks in the increase of the Loan to Valuation Ratio (LVR) should the property market be subject to a significant decline in N.S.W.

The risk of loss from the loans issued by the Credit Union is primarily reduced by the nature and quality of the security taken.

The Board policy is to maintain a range of 70% - 85% of the loan portfolio in well secured residential mortgages which carry an 80% LVR or less. Note 7b describes the nature and extent of the security held against the loans as at the balance date.

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Concentration risk – individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The aggregate value of large exposure loans is set out in Note 7c. Of the aggregate value, the Credit Union holds no significant concentrations of exposures to individual Members.

Concentration risk – industry

The Credit Union has a concentration in retail lending to Members, who are employed in the transport sector in NSW. This concentration is considered acceptable on the basis that the Credit Union was formed to service these Members, and the employment concentration is not exclusive. Should Members leave the industry the loans continue and other employment opportunities are available to the Members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 7c.

(ii) CREDIT RISK – LIQUID INVESTMENTS

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to institutions that are credit worthy. The risk of loss from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body. All investments are reported to the Board on a monthly basis.

Under the liquidity support scheme at least 3.1% of the Credit Union's total assets must be invested in Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed.

External Credit Assessment for Institution Investments

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

The exposure values associated with each investment are as follows:

	2016	2015
Investments with	Carrying value	Carrying value
	\$	\$
Cuscal – rated A+	4,486,999	3,990,084
Banks – rated A or above	4,939,421	3,946,537
Unrated		
Total	9,426,420	7,936,621

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d. FRAUD

Fraud can arise from Member card PIN's and internet passwords being compromised where not adequately protected. It can also arise from other system failures. The Credit Union has systems in place which are considered to be robust enough to prevent material fraud. However, in common with all retail banking institution, the potential for fraud cannot be totally mitigated and the cost of fraud can be significant. Fraud losses have arisen from card skimming, internet password theft and false loan applications.

e. 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 on the Credit Union by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM & Visa cards, and BPAY etc. An appropriate disaster recovery plan is in place to cover medium to long-term outages, which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

f. CAPITAL MANAGEMENT

APRA prescribes minimum capital requirements to cover three components of risk:

- Credit risk
- Market risk (trading book)
- Operational risk.

Market risk is not deemed to be a significant risk to the Credit Union as the Credit Union does not engage in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The majority of Tier 1 capital comprises

- Capital Reserve (Member shares)
- Retained profits
- Realised reserves.

Tier 2 Capital

Tier 2 capital comprises

- A General Reserve for Credit Losses

Capital in the Credit Union is made up as follows:

	2016	2015
Tier 1	\$	\$
Capital reserve	34,870	33,770
Retained earnings	8,661,983	8,550,505
	<hr/>	<hr/>
	8,696,853	8,584,275
Less prescribed deductions	261,450	274,513
Net tier 1 capital	<hr/>	<hr/>
	8,435,403	8,309,762

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Tier 2

Reserve for credit losses	461,067	321,718
Less prescribed deductions		-
Net tier 2 capital	461,067	321,718
 Total Capital	 8,896,470	 8,631,480

The APRA prudential standards state that ADI's must hold a minimum capital ratio, as a percentage of risk weighted assets. The statutory minimum as determined by APRA is 8%. Although this is a minimum, the regulator requires ADIs to maintain a level of prescribed capital beyond the minimum at all times. Transport Mutual maintains such a buffer.

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

		Carrying Value	Risk Weighted Value
		\$	\$
<u>Credit Risk</u>			
<i>On Balance Sheet Assets:</i>			
Cash	0%	24,332	-
Deposits in highly rated ADIs	20%	6,788,314	1,357,663
Deposits in less highly rated ADIs	50%	3,939,421	1,969,711
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	42,305,780	14,807,023
Standard Loans secured against eligible residential mortgages over 80% LVR	35% - 75%	5,062,060	2,187,136
Non-standard mortgage loans	50%-75%	412,872	290,455
Investments in equity instruments	150%	-	-
Other assets	100%	8,545,410	8,545,410
Total		67,078,189	29,157,398
<i>Off Balance Sheet Assets</i>			792,500
Total Credit Weighted Risk			29,949,898
Operational Risk			3,573,382
Total Risk Weighted Value			33,523,280

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

2016	2015	2014	2013	2012
26.28%	29.53%	28.82%	27.69%	28.62%

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

To manage the level of capital, the Credit Union reviews the ratio monthly and monitors major movements in the asset and income levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 18%. Further, an annual capital budget projection is approved by the Board to address how strategic decisions or trends may impact on the capital level.

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Pillar 2 Capital on Operational Risk

The Credit Union uses APRA's *standardised* approach, which is considered to be most suitable for the Credit Union because of the small number of transaction streams. The operational risk capital requirement is calculated by mapping the Credit Union's three year average net interest income and net non-interest income to the Credit Union's various business lines.

Based on the standardised model, the Credit Union's operational risk capital requirement is as follows:

Operational risk capital requirement \$285,871 (30th June 2015 \$279,592).

In relation to operational risk, additional capital is held to account for:

- Fraud risk - The capital held to cover fraud risks is to be equal to the higher of the Credit Union's largest loss in the last ten years. This amounts to \$4,870 (2015: \$4,870).
- Asset impairment – the impact of economic and employment factors on the loan losses, and/or recovery of investments.
- Property value decline – the impact on property values declining and the related exposure to higher capital required to recognise potential losses or risk weight on assets. The Credit Union's approach is to take a 5 per cent capital charge in instances where the LVR exceeds 80 per cent only in instances where the exposure is on an impaired loan in excess of 90 days. This is considered appropriate as it is only in these relatively poor quality exposures where there is a significant risk that the Credit Union may need to draw on the security held.
- Interest rate risk – measures the impact on capital from changes in interest rates impacting the net interest margin and net surplus.
- Events impacting the additional costs of retention of liquid funds and exercising available liquidity drawdown facilities.

The optional additional capital charge recognised by the Board (which equates to the excess over the 8% minimum to the Board ratio of 18%) is \$3,352,327 (2015: \$2,923,237).

g. CAPITAL ADEQUACY MANAGEMENT

The Credit Union manages its capital level for both current and future activities through the Board Risk Committee. The reports of the Committee are approved by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board, and factored into the annual budget.

20. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

	Note	2016 \$	2015 \$
Financial assets - carried at amortised cost			
Cash	4	2,286,940	618,100
Receivables from financial institutions	5	9,426,420	7,936,621
Receivables	6	99,095	104,512
Loans to Members	7a	53,825,326	48,992,245
Total loans and receivables		65,637,781	57,651,478
Available for sale investments - carried at cost	9	166,277	166,277
TOTAL FINANCIAL ASSETS		65,804,058	57,817,755
Financial liabilities			
Deposits from other Financial Institutions		8,000,000	3,500,000
Deposits from Members	13	49,717,494	44,804,544
Creditors	14	381,463	533,653
Total carried at amortised cost		58,098,957	48,838,197
TOTAL FINANCIAL LIABILITIES		58,098,957	48,838,197

Financial Assets at Fair Value

Fair value measurement at end of the reporting period using:

	Balance \$	Level 1 \$	Level 2 \$	Level 3 \$
Equity investments	166,277	-	-	166,277
Total	166,277	-	-	166,277

The fair value hierarchy has the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
 - (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
 - (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).
- The standard permits the measurement at cost in absence of an ability to reliably measure the assets at fair value.

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21 (a). MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly, these values will differ to the balance sheet.

2016	Within 1 month \$,000	1-3 months \$,000	3-12 months \$,000	1-5 years \$,000	After 5 years \$,000	No Maturity \$,000	Total \$,000
ASSETS							
Cash	2,287	-	-	-	-	-	2,287
Advances to financial institutions	3,488	3,478	2,460	-	-	-	9,426
Receivables	99	-	-	-	-	-	99
Available for sale investments	-	-	-	-	-	166	166
Loans & Advances	623	1,041	4,545	19,766	58,112	-	84,087
Total Financial Assets	6,497	4,519	7,005	19,766	58,112	166	96,065
LIABILITIES							
Creditors	381	-	-	-	-	-	381
Deposits from other financial institutions	8,000	-	-	-	-	-	8,000
Deposits from Members:							
- At call	22,262	-	-	-	-	-	22,262
- Term	3,838	8,545	13,560	1,795	-	-	27,738
On Balance sheet	34,481	8,545	13,560	1,795	-	-	58,381
Undrawn commitments	10,667						10,667
Total Financial Liabilities	45,148	8,545	13,560	1,795	-	-	69,048
2015							
2015	Within 1 month \$,000	1-3 months \$,000	3-12 months \$,000	1-5 years \$,000	After 5 years \$,000	No Maturity \$,000	Total \$,000
ASSETS							
Cash	618	-	-	-	-	-	618
Advances to financial institutions	2,000	3,524	2,508	-	-	-	8,032
Receivables	105	-	-	-	-	-	105
Available for sale investments	-	-	-	-	-	166	166
Loans & Advances	595	1,004	4,458	19,658	46,960	-	72,675
Total Financial Assets	3,318	4,528	6,966	19,658	46,960	166	81,596
LIABILITIES							
Creditors	600	-	-	-	-	-	600
Deposits from other financial institutions	3,508	-	-	-	-	-	3,508
Deposits from Members:							
- At call	19,585	-	-	-	-	-	19,585
- Term	11,003	9,282	8,473	255	-	-	29,013
On Balance sheet	34,696	9,282	8,473	255	-	-	52,706
Undrawn commitments	10,445						10,445
Total Financial Liabilities	45,141	9,282	8,473	255	-	-	63,151

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21 (b). MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represent the estimated minimum amount of repayment on the loans, liquid investments and on the Member deposits. While the liquid investments and Member deposits are presented in the table below on a contractual basis, as part of normal banking operations it is expected that a large proportion of these balances would be reinvested. Loan repayments are generally accelerated by Members choosing to repay loans early. These advance repayments are at the discretion of the Members and not able to be reliably estimated.

	2016			2015		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
FINANCIAL ASSETS						
Cash	2,287	-	2,287	618	-	618
Liquid Investments	9,426	-	9,426	7,937	-	7,937
Loans & Advances	3,748	50,107	53,855	3,561	45,465	49,026
Receivables	99	-	99	105	-	105
Total Financial Assets	15,560	50,107	65,667	12,221	45,465	57,686
FINANCIAL LIABILITIES						
Deposits from financial institutions	8,000	-	8,000	3,500	-	3,500
Deposits from Members	48,007	1,710	49,717	44,561	244	44,805
Creditors	381	-	381	534	-	534
Total Financial Liabilities	56,388	1,710	58,098	48,595	244	48,839

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22. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2016							
<u>ASSETS</u>							
Cash	2,287	-	-	-	-	-	2,287
Receivables	-	-	-	-	-	99	99
Advances to other financial Institutions	3,488	3,478	2,460	-	-	-	9,426
Loans and Advances	49,110	-	1,214	3,531	-	-	53,855
Other Investments	-	-	-	-	-	166	166
Total Financial Assets	54,885	3,478	3,674	3,531	-	265	65,833
<u>LIABILITIES</u>							
Creditors	-	-	-	-	-	381	381
Deposits from other Financial institutions	8,000	-	-	-	-	-	8,000
Deposits from Members	26,096	8,506	13,364	1,710	-	41	49,717
On Balance sheet	34,096	8,506	13,364	1,710	-	422	58,098
Undrawn commitments Note 24	10,667	-	-	-	-	-	10,667
Total Financial Liabilities	44,763	8,506	13,364	1,710	-	422	68,765
2015							
<u>ASSETS</u>							
Cash	604	-	-	-	-	14	618
Receivables	-	-	-	-	-	105	105
Advances to other financial Institutions	499	3,491	3,947	-	-	-	7,937
Loans and Advances	44,176	-	615	4,235	-	-	49,026
Other Investments	-	-	-	-	-	166	166
Total Financial Assets	45,279	3,491	4,562	4,235	-	285	57,852
<u>LIABILITIES</u>							
Creditors	-	-	-	-	-	600	600
Deposits from other Financial institutions	3,500	-	-	-	-	-	3,500
Deposits from Members	24,158	8,924	10,267	1,416	-	40	44,805
On Balance sheet	27,658	8,924	10,267	1,416	-	640	48,905
Undrawn commitments Note 24	10,445	-	-	-	-	-	10,445
Total Financial Liabilities	38,103	8,924	10,267	1,416	-	640	59,350

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23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities. The calculation reflects the interest rate applicable for the remaining term to maturity, not the rate applicable to the original term.

	Fair Value	2016 Carrying Value	Variance	Fair Value	2015 Carrying Value	Variance
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
FINANCIAL ASSETS						
Cash	2,287	2,287	-	618	618	-
Receivables (1)	99	99	-	105	105	-
Advances to other financial institutions	9,426	9,426	-	7,937	7,937	-
Loans and Advances	53,825	53,825	-	48,992	48,992	-
Other Investments	166	166	-	166	166	-
Total Financial Assets	65,803	65,803	-	57,818	57,818	-
FINANCIAL LIABILITIES						
Deposits from other financial institutions	8,000	8,000	-	3,500	3,500	-
Creditors (1)	381	381	-	600	600	-
Deposits from Members:						
- At Call	22,303	22,303	-	19,586	19,586	-
- Term	27,414	27,414	-	25,219	25,219	-
Total Financial Liabilities	58,098	58,098	-	48,905	48,905	-

(1) For these assets and liabilities the carrying value approximates fair value.

Assets where the fair value is lower than the book value have not been written down in the accounts of the Credit Union on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

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

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

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Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

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

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

Deposits from Members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the balance sheet. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period to maturity.

Short term borrowings

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

	2016 \$	2015 \$
24. FINANCIAL COMMITMENTS		
a. Outstanding loan commitments		
Loans approved but not funded	1,560,000	1,257,000
b. Loan redraw facilities		
Loan redraw facilities available	8,549,933	8,626,532
c. Undrawn loan facilities		
Loan facilities available to Members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	640,525	709,525
Less: Amount advanced	83,021	148,375
Net undrawn value	557,504	561,150
These commitments are contingent on Members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	<u>10,667,437</u>	<u>10,444,682</u>

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Expenditure commitments	2016	2015
	\$	\$
d. Computer expenditure commitments		
The committed costs for computer expenditure by the Credit Union is:		
Not later than 1 year	133,602	133,435
Later than 1 year but not later than 2 years	128,664	128,664
Later than 2 years but not later than 5 years	343,104	385,992
Later than 5 years	-	85,776
	<u>605,370</u>	<u>733,867</u>

e. Future Lease and Rental Commitments

Operating lease payments under existing lease arrangements for building accommodation, payable over the following periods.

Not later than 1 year	122,141	122,141
Later than 1 year but not later than 5 years	-	30,903
Later than 5 years	-	-
	<u>122,141</u>	<u>153,044</u>

An operating lease is in respect of property used for providing branch services to Members and general Credit Union administration. The terms of the lease is 1 year with an automatic renewal clause if notice to vacate is not given by the Credit Union. The Credit Union intends to provide such notice during the 2016-2017 financial year.

There are no restrictions imposed on the Credit Union so as to limit the ability to undertake further leases, borrow funds or issue dividends (although these are subject to restrictions in the Constitution).

f. Computer Bureau Charges

Not later than 1 year	57,984	57,984
Later than 1 year but not later than 2 years	57,984	57,984
Later than 2 years but not later than 5 years	86,976	144,960
Later than 5 years	-	-
	<u>202,944</u>	<u>260,928</u>

25. STANDBY BORROWING FACILITIES

The Credit Union has a borrowing facility with Cuscal limited of:

2016

	Gross	Current Borrowing	Net Available
	\$	\$	\$
Loan facility	100,000	-	100,000
Overdraft facility	500,000	-	500,000
TOTAL STANDBY BORROWING FACILITIES	<u>600,000</u>	<u>-</u>	<u>600,000</u>

2015

	Gross	Current Borrowing	Net Available
	\$	\$	\$
Loan Facility	100,000	-	100,000
Overdraft Facility	500,000	-	500,000
TOTAL STANDBY BORROWING FACILITIES	<u>600,000</u>	<u>-</u>	<u>600,000</u>

Drawing of the loan facility is subject to the availability of funds at Cuscal.

Cuscal holds an equitable mortgage charge over all of the assets of the Credit Union as security against loan and overdraft amounts drawn under the facility arrangements.

26. CONTINGENT LIABILITIES

Liquidity support scheme

The Credit Union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member Credit Unions in the event of a liquidity or capital problem. As a member, the Credit Union is committed to maintaining 3.1% of the total assets as deposits with Cuscal Limited.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Credit Union would be 3.1% of the Credit Union's total assets (3% under loans and facilities and 0.1% under the cap on contributions to permanent loans). This amount represents the participating Credit Union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

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27. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

a. Remuneration of Key Management Persons (KMP)

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

KMP include the Directors and the 2 members (2015 - 2 members) of the executive Management responsible for the day to day financial and operational management of the Credit Union.

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

	2016			2015		
	Directors	Other KMP	Total	Directors	Other KMP	Total
	\$	\$	\$	\$	\$	\$
(a) short-term employee benefits	-	315,516	315,516	-	287,886	287,886
(b) post-employment benefits (superannuation contributions)	-	30,069	30,069	-	27,370	27,370
(c) other long-term benefits – net increases in long service leave provision	-	-	-	-	-	-
(d) termination benefits	-	-	-	-	-	-
Total	-	345,585	345,585	-	315,256	315,256

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

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	2016 \$	2015 \$
b. Loans to Directors, related parties and other Key Management Persons		
(i) The aggregate value of loans to Directors and other Key Management Persons as at balance date amounted to:	<u>268,436</u>	<u>416,087</u>
(ii) The total value of revolving credit facilities to Directors and other Key Management Persons, as at balance date amounted to:	-	-
Less amounts drawn down and included in (i)	-	-
Net balance available	<u>-</u>	<u>-</u>
(iii) During the year the aggregate value of loans disbursed to Directors and other Key Management Persons amounted to:		
Revolving credit facilities	-	-
Personal loans	-	-
Term Loans	<u>350,000</u>	<u>-</u>
	<u>350,000</u>	<u>-</u>
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to Directors and other Key Management Persons amounted to:	-	-
	<u>-</u>	<u>-</u>
(v) Interest and other revenue earned on Loans and revolving credit facilities to KMP	<u>15,089</u>	<u>26,269</u>

The Credit Union's policy for lending to Directors is that all loans are approved and deposits accepted on the same terms and conditions which are available to Members for each class of loan or deposit. Employees of the Credit Union are entitled to apply for personal loans at a discounted staff interest rate. The aggregate value of such loans as at balance date amounted to \$9,971 (2015: \$8,314). There are no loans which are impaired in relation to the loan balances with Directors or other KMP.

Other transactions between related parties include deposits from Directors, and other KMP are -

Total value Term and Savings Deposits from KMP	<u>102,352</u>	<u>68,840</u>
Total Interest paid on deposits to KMP	<u>995</u>	<u>5,476</u>

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

c. Transactions with other related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors, and other KMP. The Credit Union's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions with apply to Members for each type of deposit. There are no benefits paid or payable to the close family members of KMP. There are no service contracts to which KMP or their close family members are an interested party.

28. OUTSOURCING ARRANGEMENTS

The Credit Union has outsourcing arrangements with the following providers of services:

a. Cuscal Limited

Cuscal Limited is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. Cuscal Limited;

- (i) provides the license rights to Visa Card in Australia and settlement with banks for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by member Credit Unions;
- (ii) provides treasury and money market facilities to the Credit Union. The Credit Union ensures minimum CUSCAL and CUFSS investment holdings are maintained.
- (iii) The Credit Union operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM suppliers to the Credit Union's I.T. systems.

b. Ultradata Australia Pty Limited

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

c. The System Works Group (TSWG)

TSWG operates computer bureau facilities on behalf of the Credit Union and other mutual financial institutions. The Credit Union has a management contract with TSWG for the supply of I.T. support staff and services to meet the day to day needs of the Credit Union and to ensure compliance with Prudential Standards.

d. DBP Consulting Pty Ltd

DBP provides Internal Audit services to the Credit Union under an agreement overseen by Board Audit Committee.

e. Vermilian / Shared Services

Vermilian maintains and hosts the Credit Union's corporate website and provides e-business marketing services to the Credit Union.

f. InterAction

InterAction is the mailing house contracted by the Credit Union to provide statement mailing services to Members.

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g. Laminar Group

Laminar is the Credit Union's proxy to participate in the Austraclear debt securities transfer system.

h. G.A.P. Tech Pty Ltd

G.A.P. Tech provides Chief Risk Officer services to the Credit Union under an agreement overseen by the Board Risk Committee.

29. SUPERANNUATION LIABILITIES

The Credit Union contributes to the employee's preferred choice compliant superannuation fund for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The Credit Union has no interest in the superannuation funds (other than as a contributor) and is not liable for the performance of the funds, or the obligations of the funds.

	2016 \$	2015 \$
30. NOTES TO CASH FLOW STATEMENT		
a. <u>Reconciliation of Cash</u>		
Cash on Hand	24,332	13,958
Deposits at Call	2,262,608	604,142
	<u>2,286,940</u>	<u>618,100</u>
b. <u>Reconciliation of Cash from Operating Activities to Operating Profit</u>		
Profit after Income Tax	112,578	201,865
Add:		
(Decreases)/ Increases in Amortised fees on loans	(1,825)	2,392
Increase in Provisions for Loans	12,875	14,337
Bad debts written off	3,767	-
Depreciation	44,220	58,274
Gain on sale of fixed assets	-	-
Amortisation of Intangible assets	-	-
Increases in Liabilities		
Creditors and Accruals	(9,654)	(5,260)
Interest Payable	(24,072)	(62,269)
Staff Entitlements	(8,401)	17,334
Income Tax	(91,286)	28,445
Increases in Assets		
Interest Receivable - Deposits FI's	(7,441)	32,828
Prepayments	3,040	(5,294)
Deferred Tax Asset	13,064	(2,495)
Net Cash From Operating Activities	<u>46,865</u>	<u>280,157</u>

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31. CORPORATE INFORMATION

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

The address of the registered office is

Level 2 KMS Building
8-24 Kippax Street
SURRY HILLS NSW 2010

The address of the principal place of business is

Level 2 KMS Building
8-24 Kippax Street
SURRY HILLS NSW 2010

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

32. EVENTS OCCURRING AFTER THE BALANCE DATE

The Credit Union plans to move its registered office to the new building purchased during the 2016-2017 financial year. The new address of the registered office will be: Ground Floor, 410 Elizabeth Street Surry Hills NSW 2010.

Except for the above, there were no events that have occurred since 30 June 2016 that will have a significant impact on the Credit Union.