transport mutual credit union®

2019 Annual Financial Report

Registered Office:
Ground Floor
410 Elizabeth Street Surry Hills NSW 2010
ABN 78 087 650 600
AFSL / Australian Credit License 240718

Transport Mutual Credit Union Limited

Financial Report for the year ended 30 June 2019

ABN 78 087 650 600

Notice of 55th Annual General Meeting

The 55th Annual General Meeting of Transport Mutual Credit Union Limited (ABN 78 087 650 600 – AFSL / Australian Credit Licence 240718) will be held at TMCU Head Office, Ground Floor, 410 Elizabeth Street Surry Hills NSW on Friday 22nd November 2019, commencing at 6.00 pm:

Members of the Board of Directors

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

Administration

John Kavalieros	Chief Executive Officer & Company Secretary
Kathy Loutas	Finance Manager
John Watt	Operations Supervisor
Greg Arvanitakis	Senior Operations Officer
Harry Maragos	Loans and I.T. Officer
Jack Lehane	Accounts Officer
Omar Bahbah	Trainee Member Services Officer

External Auditor

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

Internal Auditor

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

Solicitors

Daniels Bengtsson Lawyers
Level 8, 46 Market Street, Sydney NSW

Hall & Wilcox Lawyers
Level 9, 60 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 2019

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. TMCU contributes to APRA's costs via an annual supervisory levy.
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	**CUFSS Limited** An industry based liquidity support provider 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 2001, and is subject to direct supervision by APRA. Refer Notes 6 & 29 for further information.

Note: Any further reference to the "company" is reference to Transport Mutual Credit Union Limited (TMCU, 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.

Table of Contents

	Page
Key Statistics of the Credit Union	1
Chair's Report	2
Chief Executive's Report	4
Directors' Report	6
Directors' Declaration	9
Auditor's Independence Declaration	10
Independent Auditor's Report	11
Statement of Profit or Loss and Other Comprehensive Income	13
Consolidated Statement of Financial Position	14
Statement of Changes in Member Equity	15
Statement of Cash Flows	16
Notes to the Financial Statements	17

Key Statistics of the Credit Union

	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
Members (No.)	4,041	4,104	4,172	4,276	4,348
Deposits $	44,804,544	49,717,494	55,328,809	60,898,524	66,942,993
Average Member Deposits $	11,087	12,114	13,262	14,242	15,396
Loans $	48,992,245	53,825,326	57,956,872	67,706,398	78,336,630
Average Loan balances $	12,124	13,115	13,892	15,834	18,017
Loans funded in the year $M	16.4	15.5	16.5	20.3	19.8
Bad debts written off against profit $	-	5,109	16,820	4,954	-
Capital Adequacy ratio %	29.53	26.28	25.04	22.83	20.86
Total Reserves $	9,045,342	9,157,920	9,188,320	9,246,774	9,432,915
Total Assets $	58,063,669	67,372,141	71,939,150	82,685,974	94,993,435
Reserves to Assets %	15.58	13.59	12.77	11.18	9.93
Return/Average Assets %	0.35	0.18	0.04	0.07	0.08
Staff / Member ratio	1:577	1:513	1:596	1:713	1:621
Staff / Assets ratio	1:$8.29m	1:$8.42m	1:$10.27M	1:$13.78M	1:$13.57M

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
GreenRoad EV / Hybrid / Solar Loans		Visa Debit Cards
Personal Loans		Payroll Deposits and Direct Credits
FreeWheel Bicycle Loan		Direct Debits
Personal Overdrafts		Financial Planning Services
My Viewpoint – Internet Banking		Multi-Currency Cash Passport
Telephone Banking		Traveller's Cheques
Mobile Banking Apps		ATM and EFTPOS access

Chair's Report

Dear Members,

Before I move into matters of business, I would like to take this opportunity to recognise a very special person to our Credit Union, our former Chair, **Noel Hancock.**

As a young finance graduate working in the RTA, I would hear whispers around the accounting tables of the importance of this Noel character. The role of Director Finance (CFO) is critical in any organisation, but I quickly learnt that Noel was exceptional. With decades of service across the State in both the DMR and RTA, he implicitly understood the business, understood the regions, and most importantly understood how to build strong relationships and inspire people.

As a Director over the past 13 years, I have had the honour to also work with Noel, on the Board of your Credit Union. In a selfless act of service to community, Noel dedicated 23 years of his professional career to help guide and grow your Credit Union. Noel has shaped and directed your Credit Union through significant periods of change in Government, regulatory reform, and ongoing consolidation in the market. As a strong leader, Noel built a supportive and committed Board, nurtured and empowered a strong Executive, and remained true to you as Members. On behalf of the Board and all TMCU Members, I would like to sincerely thank Noel for his dedication and leadership and wish him every well wish of support as he fights to recover from ill health. Our thoughts are with you Noel.

As your Chair, I will continue Noel's work with the Board and Executive to **advance your Credit Union.** The recent findings of the Royal Commission into banking highlight the ever-present risk of complacency in the market and in the mantra that bigger is better. What we have all witnessed is a distinct lack of respect for customers. More than ever, our sector needs diversity to support consumers, and our Credit Union is critical to that story. TMCU provides a sound alternative to big four banking, with strong customer service, and simple yet effective products. **This is your Credit Union, be proud!**

In its 55th year of operation, your Credit Union has continued to expand its product range into areas of sustainable transport and energy, **grown its portfolio** of loans by 16% which is a leading result across the sector, with another year of funding touching on $20 million. The Credit Union also achieved continued growth in its Member base despite ongoing reforms across Government, remained compliant within APRAs regulatory framework and continued to return a **growing surplus.**

Recently Wayne Byrnes Chairman of APRA, outlined the effect that the current and continuing low interest environment was having on the profitability of the banks, and reiterated that because of the different cost of borrowing, the impact on smaller ADIs was disproportionately more. This means that TMCU had to take difficult decisions to balance the effect of central interest rate decisions on both depositors and borrowers. These decisions weigh significantly on the Board, who have an intention to do what's in the **best interest of all Members.**

I would also like to reflect on the significant achievements of your dedicated staff and Executive team at TMCU. John Kavalieros, Kathy Loutas and the team, have worked tirelessly to provide you effective products and services for many years. During the year, the team delivered a number of initiatives including the major enhancement to **our IT systems** and services with an upgrade to our core banking platform, a new website, and in the coming year, new mobile applications.

Furthermore, we are starting to see the difference our new products make across the community. The Credit Card Crusher continues to support people to effectively take control of their financial future, our bike loan and now our GreenRoad products support our community to transition to a cleaner and greener sustainable transport future. John our Chief Executive has coined the phrase **Products with Purpose!**

The team has also closed out the delivery of the Boards three-year Strategic Plan, with the launch of our **GreenRoad** product. This product offers very competitive finance for Members to invest in sustainable transport and energy initiatives, which is critical for our future. These initiatives are a significant way by which our Members can reduce their cost of living and deliver on sustainability initiatives at the same time. We will keep you appraised as this product grows!

With that, the Board has started its next strategic planning cycle, to chart out our future. The Board is dedicated, and committed, and as part of this process, wants to hear from you, our Members. The Board wants to hear about what about what we do well, and what we could do better for you in the future. So, keep an eye out for communications from John and the team, including posts on **our Facebook page.** I also encourage you to drop into our office and meet the team for a coffee, and please take the opportunity to attend our Annual General

Meeting on the 22nd November 2019. It's a wonderful evening and a great way to meet the team and other Members. We genuinely want to hear from you!

Although we are small, we are strong, because you our Members make us strong.

On behalf of the Board of Directors of Transport Mutual Credit Union, I am honoured to present to you our 55th Annual Report for the financial year ended 30th June 2019.

Anthony J Dann
Chair
25th September 2019

Chief Executive’s Report

I am pleased to report on another successful year of Credit Union operations. The year included a number of major challenges that emerged unexpectedly, and the way that your organisation handled them is worthy of special note.

Following on from 2018’s record year of lending, 2019 delivered another set of very impressive results. The second highest year of loan funding on record, the highest annual growth in assets on record, strong growth in new Members and improved profitability, all in a year of record low interest rates has set the Credit Union up well, for the years ahead. Lending growth came primarily from mortgage loans to owner occupiers, and the growth rate compared very favourably to our cohort Credit Unions and Mutuals, some of which had very low rates of growth this year. Profitability improved over 2018’s figures and while we are a not-for-profit organisation with service to Members as our primary driver, a reasonable annual profit is necessary to ensure growth in capital and the ability to withstand a rainy day if that was ever necessary. Membership of the Credit Union continues to grow as the organisation broadens its appeal to new Members with innovative new products and services.

As you would no doubt be aware the Credit Union invested heavily in new technology this year. We recently put the finishing touches on a new website and a new mobile banking site at transportmutual.com.au, and apart from some typical ‘day 1’ issues have been running well since launch. We believe that the new sites are a big improvement and the feedback from Members has been overwhelmingly in favour of the changes. We have stepped up our engagement on social media and building additional ways for you to communicate with the Credit Union and many Members seem to enjoy the immediacy of these channels. I would ask that if you haven’t yet followed transport mutual on social media, please do so now, as this is by far the quickest way to keep you informed of developments at your Credit Union.

The websites are underpinned by a complex arrangement of stakeholders from the banking software and service provider industries. How these relationships interact determines how well we can deliver the services you expect in the way that you deserve. Banking is a technology dependent industry after all. In recent months we migrated our banking software to a new provider and at the same time, upgraded that software to a new version which will lead to efficiency in Member processing for the Transport Mutual staff. I can tell you that the effort undertaken to complete this project was enormous. The testing team worked very long hours to ensure that downtime were kept to a minimum and that your card and account access would be restored as soon as possible overnight. That was a very big night and my thanks go to the entire team of staff, contractors, Directors and our service partners for delivering on a big challenge, which was brought forward in our planning due to one service provider wishing to exit the banking industry. We are pleased that we were able to adapt to that challenge and to successfully roll out our new system on a new service provider with minimal disruption to Members.

Another unexpected development this year was the resignation of our much respected and long serving Chair of the Board, Noel Hancock. Noel’s leadership of the Credit Union over decades and his service to Members cannot be overstated and we will always be grateful for his effort to ensure that the interests of Members were always put first. I wish to express my deep gratitude to Noel for his support and encouragement, and for the example he has set to all of us.

I believe that the Board has positioned the Credit Union well over a period of years to adapt to a succession in Board or Management leadership, and I can report that the change to our new Chair Anthony Dann was seamless and a confirmation that our Board has those arrangements well in hand.

We have delivered on the key elements of the current Board strategy including the digital services improvements and rollout of support for electric vehicle and associated infrastructure, and I’m pleased to say, ahead of time. With that squared away we can now commence the planning process for the next Strategic Plan which will guide your Credit Union over the period of 2020 to 2021. We look forward to your input into that process via our strategic survey, as well as the feedback we seek from new and established Members on a regular basis. Every piece of your feedback is considered at Management and Board level and some valuable knowledge has been gained through that process leading to innovative ideas and new product development.

The year ahead will require the Credit Union to deal with a number of challenges not the least of which will be the ongoing low interest rate environment. The burden of Government regulation never seems to ease off and we will continue to meet our regulatory requirements and to maintain a solid working relationship with the prudential regulator. Competition in the financial services sector has never been fiercer and we will continue to offer products and services that are competitively priced and fairly structured. It’s going to be a busy year but we approach 2020 with a great deal of energy and excitement.

I would like to express my thanks to the staff and Directors who have delivered a successful year of service to the Members of the Credit Union. I can assure you that your interests are at the heart of what we do here at Transport Mutual. Please consider attending the AGM in November. It is a great opportunity to network with the Board and staff and to have your say as a co-owner of the organisation.

Thank you for your continued support of Transport Mutual Credit Union.

Yours faithfully

John Kavalieros
Chief Executive
25th September 2019

Directors' Report

The Directors of Transport Mutual Credit Union Limited (Credit Union) present their report together with the Financial Statements for the financial year ended 30 June 2019. The Credit Union is a company registered under the *Corporations Act 2001*.

Information on Directors

The following persons were Directors of Transport Mutual Credit Union during or since the end of the financial year:

Name	Position	Qualifications	Experience	Responsibilities
Anthony J. Dann*	Chair*	BEc, CPA, MAcc, MAMI, AFIAA	13 Years	Chair*, Board Risk Committee Member
Noel J.T. Hancock **	Chair**	BBus, CPA, FAMI	23 Years	Chair**, Board Audit Committee Member**, Board Risk Committee Member**
Vincent E. Taranto	Deputy Chair	BSc, DipTCP, MAMI	21 Years	Deputy Chair, Product Innovation Committee Chair
Meredyth-Ann Williams	Director	DipTeach, BA (Hons) Psych, Dip.Clin.Hyp, MAMI	14 Years	Board Audit Committee Deputy Chair, Board Risk Committee Deputy Chair
Jacqui McDonald	Director	MAMI	11 Years	Whistleblower Complaints Officer, Board Risk Committee Chair, Board Audit Committee Member
Clement Siu	Director	B.Com, CPA, MAMI	9 Years	Board Audit Committee Chair, Product Innovation Committee Member
Philip Mortimer	Director	M.I.A.M.E, JP, MAMI	6 Years	
Robert Picone***	Director***	CertCivEng, FAITPM	<1 Year	

* Anthony J. Dann was appointed Chair of the Board on 29th May 2019

** Noel J.T. Hancock resigned from the Board, Board Audit Committee and Board Risk Committee on 24th April 2019.

*** Robert Picone was appointed as a Director on 29th May 2019.

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

Name	Qualifications	Experience
John Kavalieros	DipFS, AIM, FAMI	23 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
Sharlyn Ho	MFinAcc, CPA, BCom – ProfAccg&Law, DipFinPlan	<1 Year
Robert Picone***	CertCivEng, FAITPM	1 Year

Directors' meeting attendance

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

Director	Board		Board Audit Committee		Board Risk Committee	
	Meetings Eligible	Meetings Attended	Meetings Eligible	Meetings Attended	Meetings Eligible	Meetings Attended
Anthony J. Dann	12	11	6	6	6	6
Noel J.T. Hancock	9	7	4	3	5	4
Vincent E. Taranto	12	11	-	-	-	-
Meredyth-Ann Williams	12	9	6	3	6	4
Jacqui McDonald	12	11	1	1	-	-
Clement Siu	12	11	1	1	-	-
Philip Mortimer	12	9	-	-	-	-
Robert Picone	2	2	-	-	-	-

Directors' benefits

No Director has received or become entitled to receive during, or since the end of the financial year, a benefit because of a contract made by the Credit Union, or a controlled entity, or a related body corporate with a Director, a firm of which a Director is a Member or a Credit Union in which a Director has a substantial financial interest, other than that disclosed in Note 31 of the financial report.

Indemnifying officer or auditor

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

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

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 providing financial services as governed by the Constitution. No significant changes in the nature of these activities occurred during the year.

Operating results

The net profit of the Credit Union for the year after providing for income tax was $73,627 (2018 $58,454).

Dividends

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

Review of operations

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

Significant changes in state of affairs

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

Events occurring after the end of the reporting date

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

Likely developments, business strategies and prospects

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

1 The operations of the Credit Union;
2 The results of those operations; or
3 The state of affairs of the Credit Union

in the financial years subsequent to this financial year.

There are no likely developments in the entity's operations in the future financial years.

Environmental legislation

Transport Mutual Credit Union's operations are not subject to any particular or significant environmental regulations under a law of the Commonwealth or of a State or Territory in Australia.

Auditors independence

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001 as set out on page 10.

Rounding

The Credit Union is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest dollar.

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:

Anthony J Dann	Clement Siu
Chair	Board Audit Committee Chair

Signed and dated this 25th day of September 2019

Directors' Declaration

In the opinion of the Directors of Transport Mutual Credit Union Limited:

a. 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*, including:

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

   ii Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

b. There are reasonable grounds to believe that Transport Mutual Credit Union Limited will be able to pay its debts as and when they become due and payable.

c. The financial statements comply with International Financial Reporting Standards as stated in Note 1.

Signed in accordance with a resolution of the Directors:

Anthony J Dann
Chair

Dated this 25th day of September 2019

Grant Thornton

Level 17, 383 Kent Street
Sydney NSW 2000

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

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

Auditor's Independence Declaration

To the Directors of Transport Mutual Credit Union Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Transport Mutual Credit Union Limited for the year ended 30 June 2019, 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 Scott

Claire Scott née Gilmartin
Partner – Audit & Assurance

Sydney, 25 September 2019

Grant Thornton

Level 17, 383 Kent Street
Sydney NSW 2000

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

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

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Transport Mutual Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

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

b complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Claire Scott

Claire Scott née Gilmartin
Partner – Audit & Assurance

Sydney, 25 September 2019

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

	Note	2019 $	2018 $
Interest income	2.a	3,320,444	2,925,842
Interest expense	2.c	(1,322,259)	(1,033,975)
Net interest income		1,998,185	1,891,867
Fees and commissions and other income	2.b	60,541	86,836
		2,058,726	1,978,703
Less:			
Non-interest expenses			
Impairment losses on loans receivable from Members	2.d	12,287	52,682
Fee and commission expenses		103,418	119,919
General administration			
- Employees compensation and benefits		737,197	712,976
- Depreciation and amortisation	2.e	96,062	106,317
- Information technology		465,664	434,966
- Other administration		180,026	163,239
Other operating expenses		379,330	307,186
Total non-interest expenses		1,973,984	1,897,285
Profit before income tax		84,742	81,418
Income tax expense	3	(11,115)	(22,964)
Profit after income tax		73,627	58,454
Other comprehensive income		-	-
Total comprehensive income for the period		73,627	58,454

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As of 30 June 2019

	Note	2019 $	2018 $
ASSETS			
Cash and cash equivalents	4	6,283,883	3,830,272
Receivables	5	160,417	116,666
Loans to Members	7	78,336,630	67,706,398
Available for sale investments	6	-	166,277
Investment securities			
- at amortised cost	6	7,442,042	8,438,190
- at fair value through OCI	6	321,468	-
Property, plant and equipment	9	2,342,932	2,338,254
Taxation assets	11	-	4,216
Deferred taxation assets	10	106,063	85,701
TOTAL ASSETS		94,993,435	82,685,974
LIABILITIES			
Payables to other financial institutions	12	9,250,000	12,000,000
Borrowings	13	8,500,000	-
Deposits from Members	14	66,942,993	60,898,524
Creditor accruals and settlement accounts	15	744,646	471,726
Provisions	18	74,782	68,950
Taxation liabilities	16	5,421	-
Deferred taxation liabilities	17	42,678	-
TOTAL LIABILITIES		85,560,520	73,439,200
NET ASSETS		9,432,915	9,246,774
MEMBERS' EQUITY			
Capital reserve account	19	38,070	36,930
FVOCI reserve	21	112,514	-
General reserve for credit losses	20	461,067	461,067
Retained earnings		8,821,264	8,748,777
TOTAL MEMBERS' EQUITY		9,432,915	9,246,774

This statement should be read in conjunction with the notes to the financial statements.

Statement of Changes in Member Equity

For the year ended 30 June 2019

	Capital Reserve	Retained Earnings	Reserve For Credit Losses	FVOCI Reserve	Total Equity
	$	$	$	$	$
Balance at 1 July 2017	35,930	8,691,323	461,067	-	9,188,320
Total net profit for the year	-	58,454	-	-	58,454
Other comprehensive income for the year	-	-	-	-	-
Sub – total	35,930	8,749,777	461,067	-	9,246,774
Transfers to (from) reserves					
Transfer to reserve for credit losses in year	1,000	(1,000)	-	-	-
Total at 30 June 2018	36,930	8,748,777	461,067	-	9,246,774
Balance as at 1 July 2018	36,930	8,748,777	461,067	-	9,246,774
Changes on initial adoption of AASB 9 (Note 1)	-	-	-	112,514	112,514
Restated balance at 1 July 2018	36,930	8,748,777	461,067	112,514	9,359,288
Total net profit for the year	-	73,627	-	-	73,627
Other comprehensive income for the year	-	-	-	-	-
Sub – total	36,930	8,822,404	461,067	112,514	9,432,915
Transfers to (from) reserves					
Transfer to reserve for credit losses in year	1,140	(1,140)	-	-	-
Total at 30 June 2019	38,070	8,821,264	461,067	112,514	9,432,915

This statement should be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019 $	2018 $
OPERATING ACTIVITIES			
Revenue inflows			
Interest received		3,320,958	2,935,140
Fees and commissions		53,280	72,818
Dividends received		6,928	13,856
Other income		332	160
Less: Revenue outflows			
Interest paid		(1,249,986)	(978,739)
Suppliers and employees		(1,800,050)	(1,738,803)
Income taxes paid		(47,623)	43,793
Net cash from revenue activities	34.b	**283,839**	**348,225**
Inflows / (outflows) from other operating activities			
Net increase in Member deposits		6,176,487	5,683,834
Net (increase) in Member loans		(10,652,123)	(9,813,607)
Net decrease in receivables from other FIs		996,148	995,674
Net cash from operating activities		**(3,195,649)**	**(2,785,874)**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of investments in shares		-	-
Proceeds on sale of property, plant and equipment		-	15,206
Less: Outflows			
Purchase of investments in shares		-	-
Purchase of fixed assets		(100,740)	(48,115)
Net cash from investing activities		**(100,740)**	**(32,909)**
FINANCING ACTIVITIES			
Inflows / (outflows)			
Increase/(Decrease) in payables to other FIs		5,750,000	5,000,000
Net cash from financing activities		**5,750,000**	**5,000,000**
Total net cash increase/(decrease)		**2,453,611**	**2,181,217**
Cash at beginning of year		3,830,272	1,649,055
Cash at end of year	34.a	6,283,883	3,830,272

This statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2019

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 2019. The report was authorised for issue on 25th September 2019 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report 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 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

The financial statements have been prepared on an accruals basis, and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied. The accounting policies are consistent with the prior year unless otherwise stated.

b Changes in significant accounting policies

New standards applicable for the current year

AASB 15 Revenue from contracts with customers

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

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

AASB 9 Financial Instruments

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

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

The adoption of AASB 9 has impacted the following areas:

Classification and measurement of the Credit Union's financial assets

AASB 9 allows for three classification categories for financial assets:

- Amortised cost
- FVOCI (Fair Value through Other Comprehensive Income); and
- FVPL (Fair Value through Profit and Loss)

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

Impairment of the Credit Union's financial assets

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

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

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

On the date of initial application, 1 July 2018, the financial instruments of the Credit Union were reclassified as follows:

	Measurement Category		Carrying Amount		
Financial Instrument	**Original AASB 139 category**	**New AASB 9 category**	**Closing balance 30 Jun 2018 (AASB 139)**	**Adoption of AASB 9**	**Opening balance 1 Jul 2019 (AASB 9)**
Assets					
Loans to Members	Loans and receivables	Amortised cost	67,706,398	-	67,706,398
Receivables	Loans and receivables	Amortised cost	116,666	-	116,666
Investment securities – Cuscal Shares	Available for sale	FVOCI	166,277	155,191	321,468
Cash and cash equivalents	Loans and receivables	Amortised cost	3,830,272	-	3,830,272
Negotiable Certificates of Deposits (NCDs)	Held to maturity	Amortised cost	4,484,478	-	4,484,478
Term Deposits	Held to maturity	Amortised cost	3,953,712	-	3,953,712
Total financial assets			**80,257,803**	**155,191**	**80,412,994**
Liabilities					
Creditors	Amortised cost	Amortised cost	471,726	-	471,726
Deposits from Members and other financial institutions	Amortised cost	Amortised cost	60,898,524	-	60,898,524
Corporate Deposits	Amortised cost	Amortised cost	12,000,000	-	12,000,000
Total financial liabilities			**73,370,250**	**-**	**73,370,250**

c Classification and measurement of financial assets

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 cost adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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

Policy applicable from 1 July 2018

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

For the purpose of subsequent measurement, financial assets are classified into the following three categories:

1. ***Financial assets at amortised costs***

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

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

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

Loans to Members

Loans to Members in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. 'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Credit Union did not intend to sell immediately or in the near term.

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 and the redemption amount is recognised in profit or loss 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 the reporting 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 Members account on the last day of each month.

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

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.

Net gains and losses

Net gains and losses on loans to Members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

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

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

3. Fair Value through Other Comprehensive Income (FVOCI)

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

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

Classifications are determined by both:

- the entity's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial assets.

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

Policy applicable before 1 July 2018

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 (FVPL)
- 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 FVPL 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 Credit Union of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

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

Loans and receivables

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment, 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 FVPL

Financial assets at FVPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVPL upon initial recognition. 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.

HTM investments
HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Credit Union has the intention and ability to hold them until maturity. The Credit Union currently holds Term deposits, Negotiable Certificates of Deposit (NCD), and Floating Rate Notes. If more than an insignificant portion of these assets are sold or redeemed early, then the asset class will be reclassified as available-for-sale financial assets.

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

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.

d Impairment of financial assets

Policy applicable after 1 July 2018
AASB 9's impairment requirements use more forward looking information to recognise expected credit losses - the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Transport Mutual Credit Union considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.
In applying this forward-looking approach, a distinction is made between:

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

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

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

Note 22 details the credit risk management approach for loans.

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. In this situation the ECL are measured as follows;

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision; and
- *where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment component separately from those on the drawn component:* The Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

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

Policy applicable before 1 July 2018

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

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 terms of the loan agreement.

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

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

- the level of security taken as collateral; and
- the 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.

e Classification and measurement of financial liabilities

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

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

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

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

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

f Property, plant and equipment

Land are recognised at fair value and revalued every 3 years. 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 reporting 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
- Land is not depreciated.

g 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 of compliant superannuation fund and are charged to the income statement as incurred.

h Income tax

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

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

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

i Goods and services tax (GST)

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 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 goods and services tax (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 statement of financial position. 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.

j Cash and cash equivalents

Cash comprises 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.

k Accounting estimates and judgements

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

The Credit Union uses various models and assumptions in measuring fair value of financial assets.(e.g. Cuscal Shares). Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of price risk and factors such as sales evidence, dividend history, price earning multiple and overall market conditions.

Management have made critical accounting estimates when applying the Credit Union's accounting policies with respect to the measurement of expected credit loss (ECL) allowance – refer Note 8. In the current year, the approach to estimation of impairment losses has been revised following adoption of AASB 9 effective 1 July 2018. Key areas of judgement to be considered under the new standard include:

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

l New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Credit Union have not been reported.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 16 *Leases Replaces AASB 117*	AASB 16: replaces AASB 117 *Leases* and some lease-related Interpretations; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and ; requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019.	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.

2. Statement of profit or loss and other comprehensive income

	2019	2018
	$	$
a. Analysis of interest income		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	21,255	15,251
Receivables from financial institutions	212,140	178,082
Loans to Members	3,087,049	2,732,509
Total interest revenue	3,320,444	2,925,842
b. Fee, commission and other income		
Fee and commission revenue		
Other fee income for service provided at point in time	11,763	18,215
Insurance commissions *	10,441	22,558
Other commissions	31,077	32,047
Total fee and commission revenue	53,281	72,820

* Insurance commissions relate to performance obligations that are transferred at a point in time

	2019	2018
Other income		
Dividends received on held at fair value equity assets	6,928	13,856
Miscellaneous income	332	160
Total other income	7,260	14,016
Total fee, commission and other income	60,541	86,836
c. Interest expenses		
Deposits from other financial institutions	270,145	224,547
Deposits from Members	924,859	809,428
Short term borrowings	127,255	-
Total interest expense	1,322,259	1,033,975
d. Impairment losses		
Loans and advances		
Increase in provision for impairment	12,287	47,728
Bad debts written off directly against profit	-	4,954
Total impairment losses	12,287	52,682

	2019	2018
	$	$
2. Statement of profit or loss and other comprehensive income continued		
e. Other prescribed disclosures		
General administration – Depreciation expense		
Buildings	62,592	61,894
Plant and equipment	33,470	44,423
Leasehold improvements	-	-
	96,062	106,317
General administration - Auditor's remuneration (excl. GST)		
- Audit fees	49,250	47,820
- Other services – taxation	-	
- Other services – compliance	1,090	1,060
- Other services – other	6,300	6,200
	56,640	55,080
3. Income tax expense		
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	84,742	81,418
Prima facie tax payable on profit before income tax at 27.5% (2018: 27.5%)	23,304	22,390
Add tax effect of expenses not deductible		
- Franking credit uplift	816	1,633
Subtotal	24,120	24,023
Less		
- Franking rebate	(2,969)	(5,938)
- Adjustment for transitional tax rate provision	(10,036)	4,879
Total income tax expense in income statement	11,115	22,964
Current tax expense	26,056	3,550
Deferred Tax expense	(20,362)	10,950
Under / (Over) provision	5,421	8,464
Total income tax expense in income statement	11,115	22,964
4. Cash		
Deposits at call	6,283,883	3,830,272
	6,283,883	3,830,272

5. Receivables

Interest receivable on deposits with other financial institutions	51,752	42,538
Prepayments	41,672	50,335
Sundry debtors and settlement accounts	66,993	23,793
	160,417	116,666

6. Investment securities

Investment securities at amortised cost		
Negotiable Certificates of Deposits	997,560	-
Term deposits with Banks	6,444,482	-
Equity investment securities designated as FVOCI		
Cuscal Limited	321,468	-
Available for sale investment securities *		
Cuscal Limited	-	166,277
Assets held to maturity		
Negotiable certificates of deposit	-	4,484,478
Receivables		
Term deposits	-	3,953,712
Total investment securities including AFS and equity investments	7,763,510	8,604,467

*** Cuscal Limited**

This company supplies services to the member organisations which are all Credit Unions and Mutual Banks. At 1 July 2018, the Credit Union designated its investment in Cuscal equity securities as at FVOCI. In FY 2018, these investments were classified as available-for-sale and measured at cost. The shares are able to be traded but within a market limited to other mutual ADI's.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value. Management has determined that the value of $1.16 per share is a reasonable approximation of fair value based on the likely value available on a sale, taking into consideration factors such as sales evidence, dividend history and overall market conditions.

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

7. Loans to Members

	2019 $	2018 $
a. Amount due comprises:		
Overdrafts and revolving credit	158,728	67,379
Term loans	78,300,330	67,739,556
Subtotal	78,459,058	67,806,935
Less:		
Unamortised loan origination fees	(26,386)	(21,447)
Unearned income	-	-
Subtotal	78,432,672	67,785,488
Less : Provision for impaired loans	(96,042)	(79,090)
	78,336,630	67,706,398

b. Credit quality - Security held against loans

	2019 $	2018 $
Secured by mortgage over real estate	73,235,759	62,587,284
Partly secured by goods mortgage	3,198,946	2,972,152
Wholly unsecured	2,024,353	2,247,499
	78,459,058	67,806,935

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

	2019 $	2018 $
Security held as mortgage against real estate is on the basis of:		
– Loan to valuation ratio of less than 80%	65,583,711	53,929,069
– Loan to valuation ratio of more than 80% but mortgage insured	4,119,298	3,764,344
– Loan to valuation ratio of more than 80% and not mortgage insured	3,532,750	4,893,871
Total	73,235,759	62,587,284

c. Concentration of loans

The values detailed below include ‘statement of financial position’ values, and undrawn facilities as described in Note 28.

	2019 $	2018 $
(i) Loans to Individual or related groups of Members which exceed 10% of total Members’ equity	6,221,247	5,788,662
Total	6,221,247	5,788,662

Loans to Members are concentrated to individuals employed in the transport sector in NSW.

	2019 $	2018 $
(ii) Geographical concentrations		
NSW	69,309,601	60,957,405
Victoria	5,800,251	4,824,618
Queensland	574,388	462,917
South Australia	32,272	6,227
Western Australia	1,036,139	973,319
ACT	1,697,060	579,117
Other	9,347	3,332
	78,459,058	67,806,935
(iii) Loans by purpose		
Residential loans and facilities	73,235,759	62,570,074
Personal loans and facilities	5,223,299	5,236,861
	78,459,058	67,806,935

8. Provision on impaired loans

(a) Amounts arising from ECL

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

	Gross Carrying value	ECL Allowance	Carrying value	Gross Carrying value	Provision for impairment	Carrying value
	2019 $	2019 $	2019 $	2018 $	2018 $	2018 $
Loans to Members:						
- Mortgages	73,235,759	-	73,235,759	62,587,284	-	62,587,284
- Personal	5,064,571	96,042	4,968,529	5,162,344	79,090	5,083,254
- Overdrafts	158,728	-	158,728	57,307	-	57,307
Total to natural persons	78,459,058	96,042	78,363,016	67,806,935	79,090	67,727,845
Total	78,459,058	96,042	78,363,016	67,806,935	79,090	67,727,845

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

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	2019 $	2019 $	2019 $	2019 $
Loans to Members:				
- Mortgages	-	-	-	-
- Personal	5,591	4,068	86,383	96,042
- Credit cards	-	-	-	-
- Overdrafts	-	-	-	-
Carrying amount	5,591	4,068	86,383	96,042

8. Provision on impaired loans continued

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

	Stage 1 12 month ECL 2019 $	Stage 2 Lifetime ECL 2019 $	Stage 3 Lifetime ECL 2019 $	Purchased credit impaired 2019 $	Total 2019 $
Loans to Members					
Balance at 1 July 2018 per AASB 139	-	-	79,090	-	79,090
Adjustment on initial application of AASB 9	-	-	-	-	-
Balance at 1 July 2018 per AASB 9	-	-	79,090	-	79,090
Changes in the loss allowance					
- Transfer to stage 1	5,591	-	-	-	5,591
- Transfer to stage 2	-	4,068	-	-	4,068
- Transfer to stage 3	-	-	7,293	-	7,293
- Net movement due to change in credit risk	-	-	-	-	-
- Write-offs	-	-	-	-	-
Balance at 30 June	5,591	4,068	86,383	-	96,042

Key assumptions in determining the ECL

Measurement of ECL

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

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

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

Stage 1 of the impairment model is calculated using the inputs as follows:

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

LGD is the magnitude of the likely loss if there is a default. The Credit Union estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by residential property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

8. Provision on impaired loans continued

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

The Credit Union has elected to calculate the impairment model by reviewing all loans 30+ days in arrears to determine the expected credit loss. Where no repayments have been received, a provision has been included.

(a) Significant increase in credit risk

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

- Loans more than 30 days past due
- Loans with more than 2 instances of arrears experience in the previous 12 months
- Loans with approved hardship or modified terms

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

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

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

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

Stage 3 of the impairment model will be assessed on an individual basis based on the provisioning requirement in APS 220.

8. Provision on impaired loans continued

Impaired financial assets – Comparative information under AASB 139

The following table shows an analysis of loans that are impaired or potentially impaired by class. In the note below;

- Carrying Value is the amount of the statement of financial position
- Impaired loans value is the 'on statement of financial position' 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

	Carrying value 2018 $	Value of Impaired Loans 2018 $	Statutory Provision for impairment 2018 $
Loans to Members:			
- Mortgages	62,587,284	-	-
- Personal	5,162,344	93,605	79,090
- Credit cards	-	-	-
- Overdrafts	57,307	-	-
Total to natural persons	67,806,935	93,605	79,090
Corporate borrowers	-	-	-
Total	67,806,935	93,605	79,090

The following table show 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
2018					
Mortgage secured	-	513,311	-	-	513,311
Personal loans	62,192	-	-	-	62,192
Overdrafts	98	-	-	-	98
Total	62,290	513,311	-	-	575,601

Key assumptions in determining the provision for impairment

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

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

	2019 $	2018 $
9. Property, plant and equipment		
a. Property – at cost	2,049,959	2,049,959
Less: Provision for depreciation	(159,376)	(96,783)
Total land & buildings	1,890,583	1,953,176
Plant and equipment - at cost	506,733	444,224
Less: Provision for depreciation	(399,190)	(403,952)
Total plant and equipment	107,543	40,272
Land	344,806	344,806
Total property, plant and equipment	2,342,932	2,338,254

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

	2019				2018			
	Property	Plant & equipment	Land	Total	Property	Plant & equipment	Land	Total
	$	$	$	$	$	$	$	$
Opening balance	1,953,176	40,272	344,806	**2,338,254**	2,012,318	54,538	344,806	**2,411,662**
Purchases	960	99,780	-	**100,740**	2,752	45,365	-	**48,117**
Less								
Assets disposed	-	-	-	**-**	-	(15,208)	-	**(15,208)**
Depreciation charge	(63,553)	(32,509)	-	**(96,062)**	(61,894)	(44,423)	-	**(106,317)**
Balance at the end of the year	**1,890,583**	**107,543**	**344,806**	**2,342,932**	**1,953,176**	**40,272**	**344,806**	**2,338,254**

	2019 $	2018 $
10. Deferred taxation assets		
Deferred tax assets	106,063	85,701
Deferred tax assets comprise:		
- Accrued expenses not deductible until incurred	17,966	14,786
- Provisions for impairment on loans	26,412	21,750
- Provisions for employee benefits	35,259	35,570
- Depreciation on fixed assets	3,053	407
- Effective interest rate	7,256	5,898
- Other accruals	16,117	7,290
	106,063	85,701
11. Taxation assets / liabilities		
Income tax receivable	-	4,216
12. Payables to other financial institutions		
Corporate Deposits	9,250,000	12,000,000
13. Borrowings		
Borrowings	8,500,000	-

(reclassified from liability Corporate Deposits as regulatory reporting requirement from 1st July 2019)

	2019 $	2018 $
14. Deposits from Members		
Member deposits		
- At call	29,385,632	25,754,854
- Term	37,513,881	35,100,910
Member withdrawable shares	43,480	42,760
	66,942,993	60,898,524

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

Concentration of Member deposits

	2019 $	2018 $
(i) Significant individual Member deposits which in aggregate represent more than 10% of the total liabilities:	-	-
(ii) Geographical concentrations		
NSW	58,533,629	58,391,586
Victoria	987,252	1,331,959
Queensland	7,115,275	949,613
South Australia	11,043	12,685
Western Australia	40,184	19,823
ACT	166,427	126,156
Other	89,183	66,702
Total per statement of financial position	66,942,993	60,898,524

	2019 $	2018 $
15. Creditor accruals and settlement accounts		
Annual leave	53,451	50,404
Creditors and accruals	114,258	91,875
Interest payable on deposits	327,500	255,227
Sundry creditors & settlement accounts	249,437	74,220
	744,646	471,726
16. Taxation liabilities		
Current income tax payable	5,421	-
17. Deferred taxation liabilities		
Deferred tax liabilities	42,678	-
Deferred income tax liability comprises:		
- Tax due on assets held at fair value investments held in equity	42,678	-
18. Provisions		
Long service leave	74,782	68,950

	2019 $	2018 $
19. Capital reserve account		
Balance at the beginning of the year	36,930	35,930
Transfer from retained earnings on share redemptions	1,140	1,000
Balance at the end of year	38,070	36,930

Share redemption

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

20. General reserve for credit losses

	2019 $	2018 $
Balance at beginning of year	461,067	461,067
Add: increase (decrease) transferred from retained earnings	-	-
Balance at end of year	461,067	461,067

This reserve records amount maintained to comply with the Prudential Standards set down by APRA

21. FVOCI reserve

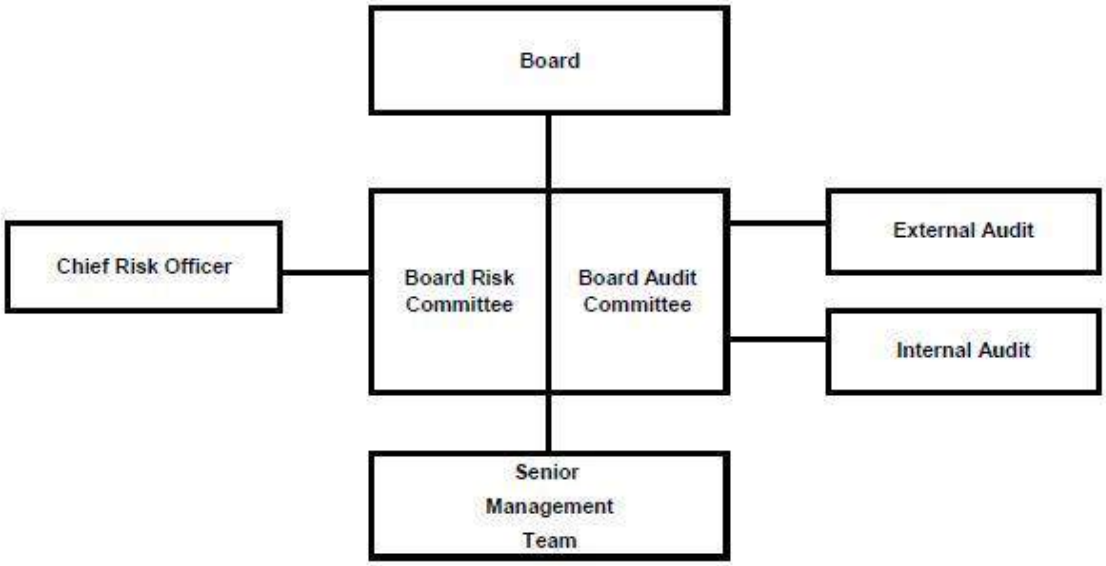
	2019 $	2018 $
Balance at the beginning of the year	-	-
Add: Increase on revaluation of investment	155,192	
Less: deferred tax thereon	(42,678)	-
Balance at the end of the year	112,514	-

The Credit Union has elected to recognise changes in fair value of certain investments in equity securities in Other Comprehensive Income. These changes are accumulated within the FVOCI reserve within equity. The Credit Union transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

22. Financial risk management objectives and policies Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union and to comply with APRA's risk management standards. The Credit Union's risk management framework focuses on the major areas of market risk, strategic risk, capital risk, liquidity 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 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.

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.

Chief Risk Officer (CRO): The CRO is responsible for conducting targeted and random testing of the Board approved risk management framework to ensure the Credit Union meets its risk related policy, legislative and prudential requirements in active support of the Board's risk based culture.

Internal Audit: Internal audit is responsible for implementing controls testing and assessment as required by the BAC to ensure the Credit Union complies with all policy, legislative and prudential requirements.

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.

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

- Strategic risk including strategic planning
- Interest rate risk
- Liquidity management
- Credit risk management
- Operations risk management including cyber risk management
- Capital management including ICAAP
- Business continuity.

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.

Interest rate risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates. Most Credit Unions are exposed to interest rate risk within its treasury operations. This Credit Union does not have a treasury operation and does not trade in financial instruments.

Interest rate risk in the banking book

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

The interest rate risk on the Banking book is measured daily, reported to senior management weekly, and to the Board.

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

The level of mismatch on the banking book is set out in Note 25 which displays the period that each asset and liability will reprice as at the reporting 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. 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 2019 the increase in net income for a 1% increase in interest rates would be ($797) (2018: $59,656). This means the Credit Union is less exposed to interest rate risk than it was in 2018.

- 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, CUFSS Limited 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% and the ratio is checked daily. Should the liquidity ratio fall below 14%, Management and Board are to address the matter and ensure that funds are obtained from new deposits, or borrowing facilities.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in the specific Note 24. The ratio of liquid funds over the past year is set out below:

Liquid funds to total adjusted liabilities	**2019**	**2018**
As at 30 June	15.81%	15.68%
Average for the year	15.44%	15.16%
Minimum during the year	14.01%	13.35%
Liquid funds to Member Deposits		
As at 30 June	20.50%	20.16%

c. Credit risk

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

Credit risk – loans

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

	2019		
Loans	**Carrying value**	**Commitments**	**Max exposure**
	$	**$**	**$**
Mortgage	73,235,759	7,714,981	80,950,740
Personal	5,064,571	1,080,090	6,144,660
Overdrafts	158,728	96,901	255,629
Total to natural persons	**78,459,058**	**8,891,972**	**87,351,030**
Corporate borrowers	-	-	-
Total	**78,459,058**	**8,891,972**	**87,351,030**

	2018		
Loans	**Carrying value**	**Commitments**	**Max exposure**
	$	**$**	**$**
Mortgage	62,587,284	9,142,103	71,729,387
Personal	5,162,343	1,146,335	6,308,678
Overdrafts	57,308	84,329	141,637
Total to natural persons	**67,806,935**	**10,372,767**	**78,179,702**
Corporate borrowers	-	-	-
Total	**67,806,935**	**10,372,767**	**78,179,702**

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

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

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

The Credit Union has established policies over the:

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

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

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

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

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

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

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. 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 and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

Past due value is the 'on statement of financial position' loan balances which are past due by 90 days or more. The ECL allowance relates to the loans to Members.

Details are as set out in Note 8.

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

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

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

Collateral securing loans
The majority of the portfolio of the loan book is secured on residential property in Australia, primarily in New South Wales. Therefore, the Credit Union is exposed to risks in the increase of the Loan to Value (LVR) ratio should the property market be subject to a decline in NSW.

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

The board policy is to maintain at least 70%-85% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 7 describes the nature and extent of the security held against the loans held as at the reporting date.

Concentration risk – individuals
Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or Group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10 per cent) a large exposure is considered to exist. No additional capital is required to be held against these but APRA must be consulted. 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 7. Concentration exposures to counterparties are closely monitored on a monthly basis and reviews being prepared for all exposures over 5% of the capital base.

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 7.

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 APRA approved ADI's.

Under the liquidity support scheme at least 3.0% of the total assets must be invested in Cuscal Limited, to allow the scheme to have adequate resources to meet its obligations if needed. All other investment must be with financial institutions with a rating of a minimum of BB minus.

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

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

	2019	**2018**
Investments	**Carrying value**	**Carrying value**
Cuscal Deposits – rated A+	7,281,443	8,314,751
Banks and Credit Unions – rated A above	6,444,482	3,953,711
Banks and Credit Unions – rated below A	-	-
Unrated institutions	-	-
Total	**13,725,925**	**12,268,462**

d. Fraud
Fraud can arise from Member card PIN's and internet passwords being compromised where not protected adequately by the Member. It can also arise from other systems failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banking institutions, fraud is potentially a real cost. Fraud losses have arisen from card skimming, internet password theft and false loan applications.

e. IT systems
A serious risk would be the failure of the Credit Union's core banking and IT network suppliers, to meet contractual obligations and service requirements. The Credit Union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of Credit Unions. 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.

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

f. Capital management
The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:
- Credit risk
- Market risk (trading book)
- Operations risk.

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

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises

- Capital Reserve (Member shares)
- Retained profits
- FVOCI Reserve.

Tier 2 Capital

Tier 2 Capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity.

There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA. Tier 2 capital generally comprises of the General Reserve for Credit Losses.

Capital in the Credit Union is made up as follows:

	2019	2018
Tier 1 Common Equity		
Capital reserve	38,070	36,930
FVOCI reserve	112,514	-
Retained earnings	8,821,264	8,748,777
	8,971,848	8,785,707
Less prescribed deductions	(427,531)	(251,978)
Net Tier 1 Common Equity	8,544,317	8,533,729
Tier 2 Capital		
Tier 2 Capital instruments		
Reserve for credit losses	461,067	441,741
Less prescribed deductions / adjustments	-	-
Net Tier 2 Capital	461,067	441,741
Total Capital	**9,005,384**	**8,975,470**

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

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

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

2019	2018	2017	2016	2015
Basel III	**Basel III**	**Basel III**	**Basel II**	**Basel II**
20.86%	**22.83%**	**25.04%**	**26.28%**	**29.53%**

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

To manage the Credit Unions capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the board and the regulator if the capital ratio falls below 18%.

Capital on Operational Risk

This capital component was introduced from 1 January 2012 and coincided with changes in the asset risk weightings for specified loans and liquid investments.

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

Based on this approach, the Credit Union's operational risk requirement is as follows:

- Operational risk capital requirements of $350,429 (2018: $318,378)

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

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 is assessed by the Board, and factored into the annual budget. Additionally the Board prepares a capital budget to underpin the Credit Union's strategic and business plans.

In relation to the operational risks, the major measurements for additional capital are recognised by the monitoring and stress testing for :

- Fraud risk - The capital held to cover fraud risks is equal to the higher of our largest loss in the last ten years is at $4,870. (2018: $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 equates to $4,317,410 (2018: $3,931,903).

23. Categories of financial instruments

The following information classifies the financial instruments into measurement classes

	Note	2019 $	2018 $
Financial assets - carried at amortised cost			
Cash	4	6,283,883	3,830,272
Investment securities	22	7,442,042	8,438,190
Loans to Members	7&8	78,336,630	67,706,398
Receivables	5	160,417	116,666
Total carried at amortised cost		92,222,972	80,091,526
Equity investment in Cuscal	6	321,468	-
Total carried at FVOCI			-

Equity investment in Cuscal		-	166,277
Total available for sale		-	166,277
Total financial assets		92,544,440	80,257,803
Financial liabilities – carried at amortised cost			
Creditors	15	691,195	412,321
Deposits from other institutions	12	9,250,000	12,000,000
Borrowings	13	8,500,000	-
Deposits from Members	14	66,942,993	60,898,524
Total carried at amortised cost		85,384,188	73,319,845
Total financial liabilities		85,384,188	73,319,845

24. Maturity profile of financial assets and liabilities (undiscounted)

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

2019	Within 1 month $,000	1-3 months $,000	3-12 months $,000	1-5 years $,000	After 5 years $,000	No Maturity $,000	Total cash flows $,000	Total carrying value $,000
Assets								
Cash	6,284	-	-	-	-	-	6,284	6,284
Investment securities	998	-	6,444	-	-	-	7,442	7,442
Receivable	75	-	-	-	-	42	117	117
Loans	589	1,229	5,323	23,514	85,763	-	116,418	78,459
FVOCI equity investment	-	-	-	-	-	321	321	321
Total financial assets	**7,946**	**1,229**	**11,767**	**23,514**	**85,763**	**363**	**130,582**	**92,623**
Liabilities								
Creditors	516	-	-	-	-	-	516	516
Deposits from financial institutions	9,250	-	-	-	-	-	9,250	9,250
Borrowings	8,500	-	-	-	-	-	8,500	8,500
Deposits from Members – at call	29,386	-	-	-	-	-	29,386	29,386
Deposits from Members – term	2,965	8,318	23,404	2,913	-	-	37,600	37,600
On balance sheet	**50,617**	**8,318**	**23,404**	**2,913**	-	-	**85,252**	**85,252**
Undrawn loan commitments	8,754	-	-	-	-	-	8,754	8,754
Total financial liabilities	**59,371**	**8,318**	**23,404**	**2,913**	-	-	**94,006**	**94,006**

2018	Within 1 month $,000	1-3 months $,000	3-12 months $,000	1-5 years $,000	After 5 years $,000	No Maturity $,000	Total cash flows $,000	Total carrying value $,000
Assets								
Cash	3,830	-	-	-	-	-	3,830	3,830
Advances to financial Institutions	3,479	2,983	1,976	-	-	-	8,438	8,438
Receivables	117	-	-	-	-	-	117	117
Available for sale investments	-	-	-	-	-	166	166	166
Loans & advances	542	1,137	4,933	21,293	71,219	-	99,124	67,807
Interest rate swaps	-	-	-	-	-	-	-	-
Total financial assets	**7,968**	**4,120**	**6,909**	**21,293**	**71,219**	**166**	**111,675**	**80,358**
Liabilities								
Creditors	421	-	-	-	-	-	421	421
Deposits from other financial institutions	11,000	1,000	-	-	-	-	12,000	12,000
Deposits from Members – at call	25,755	-	-	-	-	-	25,755	25,755
Deposits from Members – term	3,788	5,106	23,626	2,623	-	-	35,143	35,143
On balance sheet	**40,964**	**6,106**	**23,626**	**2,623**	**-**	**-**	**73,319**	**73,319**
Undrawn loan commitments	10,373	-	-	-	-	-	10,373	10,373
Total financial Liabilities	**51,337**	**6,106**	**23,626**	**2,636**	**-**	**-**	**83,692**	**83,692**

25. Interest rate change profile of financial assets and liabilities

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

2019	**Within 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**After 5 years**	**Non-interest bearing**	**Total**
Assets	**$,000**	**$,000**	**$,000**	**$,000**	**$,000**	**$,000**	**$,000**
Cash	6,284						6,284
Receivables						117	117
Advance to financial Institutions	998	-	6,444	-	-	-	7,442
Loans	68,991	968	2,522	5,697	281	-	78,459
Equity Investments	-	-	-	-	-	321	321
Total financial assets	**76,273**	**968**	**8,966**	**5,697**	**281**	**438**	**92,623**
Liabilities							
Creditors	-	-	-	-	-	516	516
Deposit from financial institution	750	3,500	5,000				9,250
Borrowings	8,500	-	-	-	-	-	8,500
Deposits from Members	26,378	8,318	29,334	2,913	-	43	66,986
Sub total	**35,628**	**11,818**	**34,334**	**2,913**	**-**	**559**	**85,252**
Undrawn loan commitments	8,754	-	-	-	-	-	8,754
Total financial liabilities	**44,382**	**11,818**	**34,334**	**2,913**	**-**	**559**	**94,006**

2018	**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**
Assets							
Cash	3,830	-	-	-	-	-	3,830
Receivables	-	-	-	-	-	117	117
Advance to financial Institution	3,479	2,983	1,976	-	-	-	8,438
Loans & advances	58,311	-	2,215	7,019	262	-	67,807
Equity investments	-	-	-	-	-	166	166
Total financial assets	**65,620**	**2,983**	**4,191**	**7,019**	**262**	**283**	**80,358**
Liabilities							
Borrowings	-	-	-	-	-	-	-
Creditors	-	-	-	-	-	421	421
Deposit from financial institution	11,000	1,000	-	-	-	-	12,000
Deposits from Members	29,500	5,106	23,626	2,623	-	43	60,898
On balance sheet	**40,500**	**6,106**	**23,626**	**2,623**	**-**	**464**	**73,319**
Undrawn loan commitments	10,373	-	-	-	-	-	**10,373**
Total financial liabilities	**50,873**	**6,106**	**23,626**	**2,623**	**-**	**464**	**83,692**

26. Fair value of financial assets and liabilities

The fair value is required to be disclosed where the financial instruments are not measured at fair value in the Statement of Financial Position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

For the financial and non financial assets where the fair values are reported below, all are measured using Level 3 unobservable inputs. The description of the valuation technique(s) and the inputs used in the fair value measurement are in the notes that follow.

Fair value has been determined on the basis of the present value **of expected future cash flows** under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term

The information is only relevant to circumstances at the reporting date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets.

	2019			2018		
	Fair Value $,000	**Carrying Value $,000**	**Variance $,000**	**Fair Value $,000**	**Carrying Value $,000**	**Variance $,000**
Financial assets						
Cash	6,284	6,284	-	3,830	3,830	-
Advances to other financial institutions	7,442	7,442	-	8,438	8,438	-
Receivables (1)	117	117	-	117	117	-
Loans and advances	78,337	78,337	-	67,706	67,706	-
Available for sale Investments	-	-	-	166	166	-
FVOCI equity investment	321	166	155	-	-	-
Total financial assets	92,501	92,346	155	80,257	80,257	-
Financial liabilities						
Deposits from other financial institutions	9,250	9,250	-	12,000	12,000	-
Borrowings	8,500	8,500	-	-	-	-
Deposits from Members – Call	29,386	29,386	-	25,755	25,755	-
Deposits from Members – Term	37,600	37,600	-	35,143	35,143	-
Creditors (1)	516	516	-	421	421	-
Total financial liabilities	85,252	85,252	-	73,319	73,319	-

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

Loans and advances

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

27. Fair value of financials assets and liabilities continued

For variable rate loans, (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of fair value subject to the assessment of the credit spread on personal loans considered to be less marketable. 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 statement of financial position. 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 maturity.

Assets measured at fair value on the Statement of Financial Position

	Fair value measurement at end of the reporting period using:			
	Balance	Level 1	Level 2	Level 3
Land	344,806	-	344,806	-
Financial assets at FVOCI	321,468	-	-	321,468
Total	666,274	-	344,806	321,468

The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities

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

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

Assets measured at fair value based on Level 3 in the Statement of Financial Position.

Fair value measurement at the end of the reporting period	At FVOCI Cuscal Shares	Total
Opening balance	321,468	321,468
Total gains or losses in other comprehensive income	-	-
Purchases	-	-
Transfers out of Level 3	-	-
Closing balance	321,468	321,468

	2019 $	2018 $
28. Financial commitments		
a. Outstanding loan commitments		
– The loans approved but not funded	1,140,000	2,090,000
b. Loan redraw facilities		
– The loan redraws facilities available	7,092,048	7,585,270
c. Undrawn loan facilities		
– Loan facilities available to Members for overdrafts and line of credit loans are as follows:		
– Total value of facilities approved	756,825	781,825
– Less: Amount advanced	(96,901)	(84,328)
– Net undrawn value	659,924	697,497
– These commitments are contingent on Members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	**8,891,972**	**10,372,767**
d. Computer capital commitments		
– Not later than one year	154,960	145,390
– Later than 1 year but not 2 years	150,240	140,280
– Later than 2 years but not 5 years	450,720	93,520
– Later than 5 years	250,400	-
	1,006,320	379,190
e. Computer Bureau Charges		
– Not later than one year	90,278	58,848
– Later than 1 year but not 2 years	95,568	32,328
– Later than 2 years but not 5 years	286,704	-
– Later than 5 years	15,928	-
	488,478	93,176

29. Standby borrowing facilities

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

	2019			2018		
	Gross	**Current Borrowing**	**Net Available**	**Gross**	**Current Borrowing**	**Net Available**
	$	$	$	$	$	$
Overdraft facility	500,000	-	500,000	500,000	-	500,000
Total standby borrowing facilities	500,000	-	500,000	500,000	-	500,000

Withdrawal 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.

30. 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 and Credit Unions in the event of a liquidity or capital difficulty. As a member, the Credit Union is committed to maintaining 3.0% 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 3.0% of the Credit Union's total assets. This amount represents the participating Credit Union's irrevocable commitment under the ISC. At the reporting date there were no loans issued under this arrangement.

31. Disclosures on Directors and other key management personnel

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 have been taken to comprise the Directors and the 2 members (2018: 2 members) of the executive management responsible for the day to day financial and operational management of the Credit Union.

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

	2019			2018		
	Directors $	**Other KMP** $	**Total** $	**Directors** $	**Other KMP** $	**Total** $
(a) Short-term employee benefits	-	330,161	330,161	-	310,977	310,977
(b) Post-employment benefits - superannuation contributions	-	30,493	30,493	-	29,729	29,729
(c) Other long-term benefits – net increases in long service leave provision	-	-	-	-	-	-
(d) Termination benefits	-	-	-	-	-	-
Total	**-**	**360,654**	**360,654**	**-**	**340,706**	**340,706**

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.

Loans to Director, related parties and other Key Management Persons

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 $25,779 (2018: $16,471). There are no loans which are impaired in relation to the loan balances with Directors or other KMP.

The details of transactions during the year are as follows:

b. Loans to Directors, related parties and other key management persons	2019 $	2018 $
(i) The aggregate value of loans to Directors and other key management persons as at balance date amounted to:	1,236,434	1,287,136
(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	-	-
(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		707,310
		707,310
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to Directors and other key management persons amounted to:		-
		-
(v) Interest and other revenue earned on loans and revolving credit facilities to Directors /KMP	30,779	37,232

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

	2019 $	2018 $
Total value term and savings deposits from Directors and KMP	1,248,401	817,206
Total interest paid on deposits to Directors and KMP	2,840	450

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.

Transactions with Other Related Parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors, and other Key Management Persons.

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

There are no benefits paid or payable to the close family members of key management persons.

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

32. Outsourcing arrangements

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

a. Cuscal Limited

(i) Provides the license rights to Visa Card in Australia and settlement other institutions for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa cards for use by Members;

(ii) This company operates the computer network used to link Visa cards operated through approved ATM providers to the Credit Union's EDP Systems

(iii) Provides treasury and money market facilities to the Credit Union. The Credit Union invests a significant part of its liquid assets with Cuscal to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

b. Ultradata Australia Pty Ltd

Provides and maintains the Core Banking application software utilised by the Credit Union, and hosts the Credit Union’s corporate website and e-business marketing services.

c. TransAction Solutions Limited (TAS)

TAS operates computer bureau facilities on behalf of the Credit Union and other mutual financial institutions. The Credit Union has a management contract with TAS 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. InterAction

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

f. Laminar Group

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

g. 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.

33. Events occurring after the reporting period

There are no events occurring after the reporting period that materially impact the financial statements measurement of assets and liabilities.

34. Notes to cash flow statement

	2019 $	2018 $
(a) Reconciliation of cash		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
– Cash on hand	-	-
– Deposits at call	6,283,883	3,830,272
Total cash	6,283,883	3,830,272
(b) Reconciliation of cash from operating activities to operating profit		
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax		
Profit after income tax	73,627	58,454
Add (Deduct):		
– Increases/(Decreases) in amortised fees on loans	4,939	11,399
– Increase in provision for loans	16,952	47,728
– Bad debts written off	-	4,954
– Depreciation expense	96,062	106,317
Increase/(Decrease) in liabilities		
Creditors and accruals	22,385	11,597
Interest payable	40,437	55,236
Staff entitlements	8,879	(7,863)
Income tax	(1,205)	58,196
Taxation liabilities	42,678	-
(Increase)/Decrease in assets		
Interest receivable – deposits FI's	(9,214)	(2,102)
Prepayments	8,661	(4,252)
Deferred tax asset	(20,362)	8,561
Net cash from revenue activities	283,839	348,225
Net cash from operating activities	283,839	348,225

35. 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:	Ground Floor 410 Elizabeth Street Surry Hills NSW 2010
The address the principal place of business is:	Ground Floor 410 Elizabeth 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.