ORANGE CREDIT UNION LIMITED

ABN 34 087 650 477

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2018

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

Registered Office:
288-292 Summer Street
Orange NSW 2800

Postal Address:
PO Box 992
Orange NSW 2800

Email: ocu@orangecu.com.au
Website: www.orangecu.com.au

Company Secretary:
Mr P. J. McNamara

Management:
Mr P. J. McNamara – General Manager
Mr C. M. Fearnley – Corporate Services Manager
Mr M. J. Kilkeary – Finance & Administration Manager

Auditor:
Intentus Chartered Accountants

Internal Auditor:
KPMG

Solicitors:
Baldock, Stacy & Niven, Orange

Bankers:
CUSCAL Limited

Australian Financial Services Licence Number: 240768

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

TABLE OF CONTENTS

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

DIRECTORS' REPORT

Your Directors submit the financial report of the Credit Union for the year ended 30 June 2018.

DIRECTORS

The names of the Directors in office at the date of this report, or who held office during the course of the financial year, are:

Mr Gary Bargwanna
Ms Michelle Catlin
Mrs Maureen Horth (resigned 15 November 2017)
Mr Andrew Kent
Mrs Amanda Mooney
Mr David Provost (resigned 15 November 2017)
Mrs Sarah Ryan
Mr Michael Kemp

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

COMPANY SECRETARY

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

Mr Paul McNamara – Bachelor of Commerce (University of New South Wales), Certified Practicing Accountant (Associate). Mr McNamara has worked for Orange Credit Union Limited for the past 29 years, performing management and accounting roles. Mr McNamara was appointed Company Secretary on 31 December 2004.

PRINCIPAL BUSINESS ACTIVITIES

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

OPERATING RESULTS

The amount of profit of the Credit Union for the financial year after providing for income tax was $654,323 (2017: $701,847).

REVIEW OF OPERATIONS

Profit for the year totalled $654,323 compared to $701,847 in 2016-17. Interest revenue increased by $137,467 to $8,000,317. Interest on members' loans in 2017-18 decreased by $55,530 to $6,118,223. This was offset by increased investment income which totalled $1,882,094.

Operating expenses increased by $488,337 to $6,190,925. Employee compensation and benefits increased by $232,103 to $2,650,081. Other increased areas of expenditure are administration expenses of $2,229,445 and information technology expenses of $760,079.

Gross loans to members increased by $7,426,391 to $127,442,218. The principal area of increase was for residential loans which increased by $5,836,634 to $114,160,732. During 2017-18, the Board decided to invest in peer to peer lending, where the Credit Union provides finance to another financial service provider who lends these funds to borrowers. At 30 June 2018, the balances of these loans totalled $1,231,242.

Members' savings and deposits increased by $8,852,853 to $172,881,340.

In February 2018, Australia's new payments platform, which allows real-time clearing and settlement of electronic payments, was launched. Orange Credit Union was one of the original participants.

REGULATORY DISCLOSURES

The Credit Union is required by APRA to publicly disclose certain information on its risk profile, risk management, capital adequacy, capital instruments and remuneration practices to contribute to the transparency of financial markets and to enhance market discipline. These disclosures can be found on the Credit Union's website under the *About Us* tab; *Financial Statements* or via the following link: http://www.orangecu.com.au/annual-reports.

EVENTS OCCURRING AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND RESULTS

There are currently no significant developments expected in the Credit Union's operations in 2017-18.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICE HOLDERS

During the year, a premium was paid in respect of a contract insuring directors and officers of the company against liability. The officers of the Credit Union covered by the insurance contract include the Directors, Executive Officers, Secretary and Employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract and the nature of liabilities covered 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.

ENVIRONMENTAL ISSUES

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

PROCEEDINGS ON BEHALF OF CREDIT UNION

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

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

AUDITOR'S INDEPENDENCE

The auditors have provided a declaration of independence to the Board of Directors (the Board) prescribed by the *Corporations Act 2001* (Cwlth) as set out on page 9.

INFORMATION ON DIRECTORS

The Directors in office at the date of this report, or who held office during the course of the financial year, are:

INFORMATION ON DIRECTORS (continued)

Gary Bargwanna

Current Occupation	Franchise Owner
Credit Union Experience	Director of Orange Credit Union for 18 years Former Member Representative of the Electrolux Superannuation Board Former Trustee of the Email Superannuation Board Member of Institute for Strategy, Innovation and Leadership
Current Board Positions	Member of Audit Committee Member of Risk Committee
Interest in Shares	1 Member Share

Michelle Catlin

Current Occupation	Business Partner Risk Management TAFE NSW
Credit Union Experience	Director of Orange Credit Union for 2 years Associate Director from 28.1.15 to 29.11.16 Member of Institute for Strategy, Innovation and Leadership Member of the Australian Institute of Company Directors
Current Board Position	Member of Corporate Governance Committee
Interest in Shares	1 Member Share

Maureen Anne Horth

Current Occupation	Retired
Credit Union Experience	Director of Orange Credit Union for 22 years Chairperson of Board of Directors: 2000-2005 Member of Institute for Strategy, Innovation and Leadership
Current Board Position	Member of Corporate Governance Committee
Interest in Shares	1 Member Share

INFORMATION ON DIRECTORS (continued)

Michael Kemp

Current Occupation	Farmer / Business Owner
Credit Union Experience	Director of Orange Credit Union for 4 years Associate Director from 01.07.13 to 26.11.14 Member for Institute for Strategy, Innovation and Leadership
Current Board Positions	Chair of Audit Committee Member of Risk Committee
Interest in Shares	1 Member Share

Andrew Martin Kent

Current Occupation	Business Manager, Brindabella Christian College
Credit Union Experience	Director of Orange Credit Union for 7 years Associate Director from 01.07.10 to 22.03.11 Member of Institute for Strategy, Innovation and Leadership Member of the Australian Institute of Company Directors
Current Board Positions	Chair of the Board of Directors Member of Executive Committee Member of Corporate Governance Committee
Interest in Shares	1 Member Share

Amanda Mooney

Current Occupation	Business Manager, James Sheahan Catholic High School
Credit Union Experience	Director of Orange Credit Union for 5 years Associate Director from 10.11.11 to 31.07.13 Member of Institute for Strategy, Innovation and Leadership
Current Board Positions	Vice Chair of the Board Member of Executive Committee Member of Audit Committee Chair of Risk Committee
Interest in Shares	1 Member Share

INFORMATION ON DIRECTORS (continued)

David John Provost

Current Occupation	Retired
Credit Union Experience	Director of Orange Credit Union for 16 years Before becoming Director with Orange Credit Union he was Wool & Administration Manager of Canobolas Wool Topmaking Pty Ltd for 28 years Member of Institute for Strategy, Innovation and Leadership
Current Board Positions	Member of Audit Committee Member of Risk Committee
Interest in Shares	1 Member Share

Sarah Ryan

Current Occupation	Paralegal
Credit Union Experience	Director of Orange Credit Union for 5 years Associate Director from 10.11.11 to 31.07.13 Member of Institute for Strategy, Innovation and Leadership Member of the Australian Institute of Company Directors
Current Board Positions	Member of Executive Committee Chair of Corporate Governance Committee
Interest in Shares	1 Member Share

DIRECTORS' REPORT
(continued)

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of Committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

	Board	Special Board	Audit Committee	Risk Committee	Corporate Governance	Director Only Meeting
No. of meetings held	6	2	9	9	8	5
No. of meetings attended:						
G Bargwanna	6	2	8	8	-	5
M Catlin	6	1	-	-	8	5
M. A. Horth	2	2	-	-	4	1
M Kemp	6	2	9	9	-	5
A Kent	6	2	-	-	8	5
A Mooney	6	2	9	9	-	5
D. J. Provost	2	2	2	2	-	2
S Ryan	6	2	-	-	7	5

All Directors were eligible to attend all meetings for the Committees which they were a member of. The Board positions are not elected at the commencement of each financial year. Consequently Directors may not be eligible to attend all of the Committee meetings held during the financial year, despite being Committee members at year end.

Attendance details marked (-) denotes non-membership of the Committee.

DIRECTORS' BENEFITS

All Directors of the Credit Union have received or become entitled to receive a benefit for their duties and responsibilities as Directors. These benefits are detailed in the notes attached to these financial reports.

Signed in accordance with a resolution of the Board of Directors and is signed at Orange on the 26th day of September 2018.

Andrew Martin Kent	Michael Kemp
Director	Director
Chair of Board of Directors	Chair of Audit Committee

intentus
CHARTERED ACCOUNTANTS

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* (CWLTH)
TO THE DIRECTORS OF ORANGE CREDIT UNION LIMITED

I declare that to the best of my knowledge and belief, during the year ended 30 June 2018, there have been:

(i) No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* (Cwlth) in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

intentus

intentus

14 Sale Street
Orange
Dated: 26th September 2018

J O'Malley

John O'Malley
Director

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $	2017 $
Interest revenue	2.1	8,000,317	7,862,850
Interest expense	2.2	(2,267,460)	(2,283,622)
Net interest income		5,732,857	5,579,228
Fees, commissions and other income	3	1,349,416	1,107,915
Total interest and fee income		7,082,273	6,687,143
Non-interest expenses:			
Impairment losses on loans receivable from members	4.1	(185,431)	(136,161)
General administration:			
- Employees compensation and benefit	4.2	(2,650,081)	(2,417,978)
- Depreciation and amortisation	4.2	(243,198)	(226,495)
- Information technology	4.2	(760,079)	(694,385)
- Occupancy expenses	4.2	(122,691)	(120,450)
- Other administration	4.2	(2,229,445)	(2,107,119)
Total non-interest expenses		(6,190,925)	(5,702,588)
Profit for the year before income tax		891,348	984,555
Income tax expense	6	(237,025)	(282,708)
Profit for the year after income tax		**654,323**	**701,847**

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Retained Earnings $	Reserve for Credit Losses $	Total $
As at 30 June 2016	22,254,729	2,361,682	24,616,411
Profit for the year after income tax	701,847	-	701,847
Transfer from retained earnings to reserve for credit losses	134,731	(134,731)	-
As at 30 June 2017	23,091,307	2,226,951	25,318,258
Profit for the year after income tax	654,323	-	654,323
Transfer from reserve for credit losses to retained earnings	(2,368)	2,368	-
As at 30 June 2018	23,743,262	2,229,319	25,972,581

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	2018 $	2017 $
Assets:			
Cash and liquid assets	7	19,993,587	20,412,879
Financial assets held to maturity	8	50,635,400	48,149,993
Receivables	9	968,501	957,860
Loans and advances to members	10	127,122,691	119,842,461
Available for sale investments	11	363,449	363,449
Property, plant and equipment	12	513,513	558,124
Deferred tax assets	16.2	402,394	343,645
Intangibles	13	254,178	166,110
Total Assets		200,253,713	190,794,521
Liabilities:			
Deposits from members	14	172,881,340	164,028,487
Payables and other liabilities	15	930,202	1,006,030
Provisions	17	426,942	378,631
Taxation liabilities	16.1	42,648	63,115
Total Liabilities		174,281,132	165,476,263
Net Assets		**25,972,581**	**25,318,258**
Members' Equity:			
Reserve for credit losses		2,229,319	2,226,951
Retained earnings		23,743,262	23,091,307
Total Members' Equity		**25,972,581**	**25,318,258**

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $	2017 $
Cash flows from operating activities:			
Revenue inflows:			
Interest received on loans		6,118,223	6,173,753
Interest received on investments		1,823,734	1,544,973
Dividends received		35,763	56,888
Fees and commissions received		1,204,707	995,926
Other income		108,947	55,101
Revenue outflows:			
Interest paid on members' savings		(2,274,330)	(2,317,601)
Interest paid on borrowings		(2,954)	(3,552)
Payments to suppliers and employees		(5,689,558)	(5,418,899)
Income taxes paid		(316,241)	(306,294)
Net cash flows from revenue activities	30.3	1,008,291	780,295
Members' loan repayments		20,894,604	24,361,106
Members' loan fundings		(28,360,266)	(22,104,171)
Net increase in member deposits and shares		8,910,975	6,046,055
Net increase / (decrease) in members' clearing accounts		(150,498)	(276,372)
Net decrease / (increase) in deposits to other financial institutions		(2,485,407)	(6,281,533)
Net cash provided by operating activities		(182,301)	2,525,380
Cash flows from investing activities:			
Payment for property, plant and equipment		(80,845)	(33,472)
Payment for intangibles		(156,146)	(162,815)
Net cash used in investing activities		(236,991)	(196,287)
Net increase / decrease in cash held		(419,292)	2,329,093
Cash held at the beginning of the year		20,412,879	18,083,786
Cash held at the end of the year	30.2	**19,993,587**	**20,412,879**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared for Orange Credit Union Limited (the Credit Union) as a single credit union, for the year ended 30 June 2018. The Credit Union is a company, limited by shares, incorporated and domiciled in Australia. The statements were authorised for issue on 26th September 2018 in accordance with a resolution of the Board.

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cwlth). The entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Basis of preparation
The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial statements are presented in Australian dollars.

1.1 Loans to members

(i) Basis of recognition

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.1 Loans to members (continued)

(i) Basis of recognition (continued)

APRA has mandated that interest is not recognised as revenue after contractually obligated payments have not been made for more than 90 days for a loan facility.

(ii) Interest earned

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

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

Non-Accrual Loan Interest – while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member is deceased, or where a loan is impaired.

(iii) Loan origination fees and discounts

Where material, loan establishment fees and discounts are brought to account as income upon funding of the loan. The amounts brought to account are included as part of fee revenue.

(iv) Transaction costs

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

(v) 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.2 Loans impairment

(i) 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 critical assumptions used in the calculation are as set out in Note 10. Note 18 details the credit risk management approach for loans.

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

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

(ii) Reserve for credit losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. This reserve represents approximately 2% of the gross value of loans, less the provision for impaired loans.

(iii) Renegotiated Loans

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 Bad debts written off

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

1.4 Property, plant and equipment

(i) Determination of carrying values

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

(ii) Determination of carrying values (continued)

The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

(iii) Depreciation

The depreciable amount of all fixed assets including building assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Credit Union commencing from the time the asset is held ready for use.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Property, plant and equipment (continued)

(iii) Depreciation (continued)

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

Property	5-10%
Office furniture and equipment	20%
EDP equipment	33.3%
Motor Vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the Statement of Comprehensive Income.

Assets with a cost less than $5,000 are not capitalised.

1.5 Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets. Software is carried at cost less, where applicable, any accumulated amortisation and impairment losses.

The carrying amount of software is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

Computer software is amortised over the expected useful life of the software being 3 years (33.33%).

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.6 Financial instruments

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Credit Union commits itself to either purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted by transactions costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

(ii) Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

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

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability.

Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in the Statement of Comprehensive Income.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.6 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

a. Loans and receivables

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

b. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Credit Union has the intention and ability to hold them until maturity.

Held-to-maturity 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 the Statement of Comprehensive Income and when the financial asset is derecognised.

The Credit Union currently holds Negotiable Certificates of Deposit (NCDs) and Floating Rate Notes (FRNs) in this category of financial instruments.

c. Available-for-sale investments

Available-for-sale investments 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 equity investments in CUSCAL Limited and TransAction Solutions Limited are measured at cost less any impairment charges, as their fair value cannot currently be estimated reliably. Any impairment charges deemed required are recognised in the Statement of Comprehensive Income.

All other available-for-sale financial assets are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into comprehensive income.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.6 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

d. Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

(iii) Impairment

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in the Statement of Comprehensive Income immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Credit Union recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.6 Financial instruments (continued)

(iv) Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in the Statement of Comprehensive Income.

1.7 Members' deposits

(i) Basis for measurement

Member savings and term investments are recognised on the date at which they originated and are initially measured at fair value plus incremental direct transaction costs. Member deposits are stated at the aggregate amount of moneys owing to depositors as at balance date. Member's deposits are subsequently measured at their amortised cost using the effective interest method.

(ii) Interest payable

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.8 Provisions for employee benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the Group does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period. Annual leave liability is still presented as current liability for presentation purposes under AASB 101 Presentation of Financial Statements.

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to the reporting 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 corporate 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 the reporting date. Contributions are made by the Credit Union to an employee's superannuation fund and are charged to profit or loss as incurred.

1.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three (3) months or less, and bank overdrafts.

1.10 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease payments for operating leases, are charged as expenses in the periods in which they are incurred.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.11 Income tax

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

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 a future income tax benefit to be obtained.

1.12 Goods and services tax

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

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included.

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 Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.13 Accounting estimates and judgements

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

Management have made critical accounting estimates when applying the Credit Union's accounting policies with respect to the impairment provisions for loans as outlined in Note 10.

1.14 New standards applicable for the current year

There were no new or revised accounting standards applicable for financial years commencing from 1 July 20176 that had any significant impact on the financial statements of the Credit Union.

1.15 New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.15 New or emerging standards not yet mandatory (continued)

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 Financial Instruments (December 2015)	Amends the requirements for classification and measurement of financial assets. Recognition of credit losses are to no longer be dependent on the Credit Union first identifying a credit loss event. The Credit Union will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.	Periods beginning on or after 1 January 2018.	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2019 year end, the Credit Union has not yet made a detailed assessment of the impact of these amendments. However, based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted.
AASB 15 Revenue from Contracts with Customers	Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue.	Periods beginning on or after 1 January 2018.	Based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted.
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 - requires new and different disclosures about leases	Periods beginning on or after 1 January 2019	This Standard is not expected to have any 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 does not have any operating leases.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018
(continued)**

2. INTEREST REVENUE AND INTEREST EXPENSE

2.1 Interest revenue

	2017 $	2016 $
Interest revenue on assets carried at amortised cost:		
Receivables from financial institutions	1,882,094	1,689,097
Loans to members	6,118,223	6,173,753
Total interest revenue	8,000,317	7,862,850

2.2 Interest expense

Interest expense on liabilities carried at amortised cost:		
Members savings deposits	1,128,506	1,135,631
Term deposits	1,136,000	1,144,439
External borrowings	2,954	3,552
Total interest expense	2,267,460	2,283,622

3. FEES, COMMISSIONS AND OTHER INCOME

Fees and commissions revenue

Fee income on loans	93,450	96,009
Fee income from member deposits	1,645	1,491
Other fee income	907,685	686,880
Insurance commissions	152,754	164,524
Other commissions	49,172	47,022
Total fee and commission revenue	1,204,706	995,926

Other income

Dividends received on available for sale assets	35,763	56,888
Bad debts recovered	21,983	13,010
Miscellaneous revenue	86,964	42,091
Total other income	144,710	111,989
Total fees, commissions and other income	1,349,416	1,107,915

4. NON-INTEREST EXPENSES

4.1 Impairment losses

Loans and advances

	2018 $	2017 $
Increase / (decrease) in provision for impairment	146,161	88,663
Bad debts written off	39,270	47,498
Total impairment expense	185,431	136,161

4.2 Individually significant items of expenditure

The following items of expense are shown as part of *General Administration* expenses in the Statement of Comprehensive Income and are considered to be significant to the understanding of the financial performance:

	2018	2017
Depreciation and amortisation		
Depreciation	125,456	139,556
Amortisation of intangible assets	117,742	86,939
Total depreciation and amortisation	243,198	226,495
Information technology	760,079	694,385
Property expenses	122,691	120,450
Employee benefits expenses		
Salaries	1,887,690	1,763,157
Superannuation contributions	274,865	233,247
Annual leave	169,563	118,513
Long service leave	33,716	8,249
Fringe benefits expense	31,112	30,768
Other	253,135	264,044
Total employee benefits expenses	2,650,081	2,417,978

4. NON-INTEREST EXPENSES (continued)

4.2 Individually significant items of expenditure (continued)

	2018 $	2017 $
Other administrative expenses		
Card and payment costs	958,479	852,280
Board costs	196,883	228,047
Consultancy	136,639	83,603
Loans administration	48,465	25,097
Marketing and promotion	190,711	229,812
Member chequing	9,790	12,096
Member protection	364,233	350,095
Office administration	324,245	326,089
Total other administrative expenses	2,229,445	2,107,119

5. AUDITOR'S REMUNERATION

Amounts received or due and receivable by the auditors of the Credit Union for:

Audit of the financial statements	53,823	53,506
Other services	9,977	9,918
	63,800	63,424

6. INCOME TAX

6.1 Current tax expense

The components of tax expense comprise:		
Current income tax payable	295,774	288,135
Decrease / (Increase) in deferred tax asset	(58,749)	(5,262)
(Decrease) / Increase in deferred tax liability	-	(165)
Total tax expense	237,025	282,708

6. INCOME TAX (continued)

6.2 Reconciliation of current year tax payable to income tax expense

	2018 $	2017 $
Prima facie tax on profit before income tax at 27.5%	245,121	270,753
Plus / (Less) tax effect of:		
- Non-deductible entertainment expenses	1,739	1,599
- Dividend rebate	(9,835)	(17,676)
- Movement due to change in tax rates	-	28,032
	237,025	282,708

6.3 Franking Credits

Franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	7,151,442	6,821,636
	7,151,442	6,821,636

7. CASH AND LIQUID ASSETS

Cash on hand	735,019	1,049,301
Imprest and bank accounts	784,019	660,783
Short term deposits and deposits at call	18,474,549	18,702,795
	19,993,587	20,412,879

8. FINANCIAL ASSETS HELD TO MATURITY

Negotiable Certificates of Deposit	988,613	-
Term Deposits	43,146,787	42,149,993
Floating Rate Notes	6,500,000	6,000,000
	50,635,400	48,149,993

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018
(continued)

9. RECEIVABLES

	2018 $	2017 $
Sundry debtors and clearing accounts	400,920	390,517
Interest receivable on receivables from other financial institutions	509,735	451,375
Outstanding member cheques	57,846	115,968
	968,501	957,860

10. LOANS AND ADVANCES TO MEMBERS

	2018 $	2017 $
Overdrafts and revolving credit	49,940	58,015
Term loans	127,392,278	119,957,812
	127,442,218	120,015,827
Less: Provision for impaired loans	(319,527)	(173,366)
	127,122,691	119,842,461

10.1 Credit quality – security held against loans

	2018 $	2017 $
Secured by mortgage over real estate	115,508,253	109,169,744
Partly secured by goods mortgage	8,205,283	8,693,742
Wholly unsecured	3,728,682	2,152,341
	127,442,218	120,015,827

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

	2018 $	2017 $
Security held as mortgages against real estate:		
- Loan to valuation ratio of less than 80%	94,066,390	84,990,017
- Loan to valuation ratio of more than 80% but mortgage insured	18,926,682	23,578,858
- Loan to valuation ratio of more than 80% but not mortgage insured	2,515,181	600,869
	115,508,253	109,169,744

10. LOANS AND ADVANCES TO MEMBERS (continued)

10.2 Concentration of loans

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

	2018 $	2017 $
(i) Loans to individuals or related groups of members which exceed 5% of capital – aggregate value	-	-

(ii) Loans to members are mainly concentrated in Central Western New South Wales. All loans are within Australia.

	2018 $	2017 $
(iii) Loans by type were:		
- Residential loans and facilities	114,160,732	108,324,098
- Personal loans and facilities	11,964,565	10,876,512
- Business loans and facilities	1,316,921	815,217
	127,442,218	120,015,827

10.3 Movement in the provision for impairment

	2018	2017
Opening balance	173,366	84,723
Bad debts written off against provision	(39,270)	(47,478)
Loans provided for during the year	185,431	136,121
	319,527	173,366

10.4 Impaired loans written off

	2018	2017
Amounts written off against the provisions	39,270	47,478
Amounts written off directly to expense	-	20
Bad debts expense	185,431	136,161
Bad debts recovered in the period	21,983	13,010

10. LOANS AND ADVANCES TO MEMBERS (continued)

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

	2018 Carrying Value $	2018 Provisions $	2017 Carrying Value $	2017 Provisions $
0 to 90 days in arrears	1,770,038	17,514	1,822,639	64,560
90 to 180 days in arrears	449,816	123,584	87,626	35,707
180 to 270 days in arrears	82,121	52,972	76,110	45,666
270 to 365 days in arrears	65,035	53,147	1,380	1,104
Over 365 days in arrears	58,134	58,134	18,761	18,761
Over limit facilities	14,176	14,176	7,568	7,568
Total	2,439,320	319,527	2,014,084	173,366

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

10.6 Loans with repayments past due but not regarded as impaired

There are loans with a value of $1,770,038 past due which are not considered to be impaired, due to the very short number of days past due. Of these, 6 loans totalling $1,082,652 are secured by residential property valued in excess of the loan due. It is not practicable to identify the security over all loans past due.

10.7 Assets acquired via enforcement of security

	2018 $	2017 $
Motor vehicles	-	-
Real estate	-	-

It is the policy of the Credit Union is to sell the assets at the earliest opportunity after all other measures to assist the members to repay the debts have been exhausted.

10. LOANS AND ADVANCES TO MEMBERS (continued)

10.8 Key assumptions in determining impairment

In the course of the preparation of the financial statements the Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates 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 365 days	80
Over 365 days	100

11. AVAILABLE FOR SALE INVESTMENTS

	2018	**2017**
	$	**$**
Unlisted shares held with special service providers (at cost)	363,449	363,449

The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 28. The shares are not able to be traded and are not redeemable.

The financial statements of CUSCAL record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of CUSCAL, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily. The Credit Union is not intending, nor able to, dispose of these shares.

12. PROPERTY, PLANT AND EQUIPMENT

	2018 $	2017 $
Land	200,400	200,400
Buildings – at cost	785,272	746,416
Less: provision for depreciation	(672,058)	(655,963)
	113,214	90,453
Plant and equipment – at cost	1,687,097	1,745,644
Less: provision for depreciation	(1,568,364)	(1,538,128)
	118,733	207,516
Motor vehicles – at cost	120,391	78,401
Less: provision for depreciation	(39,225)	(18,646)
	81,166	59,755
Total property, plant and equipment	513,513	558,124

The movements in the carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year is shown below:

	Beginning balance $	Additions $	Disposals WDV $	Depreciation expense $	Carrying amount at year end $
Land and buildings	290,853	38,855	-	(16,094)	313,614
Plant and equipment	207,516	-	-	(88,783)	118,733
Motor vehicles	59,755	41,990	-	(20,579)	81,166
Totals	558,124	80,845	-	(125,456)	513,513

13. INTANGIBLES

	2018 $	2017 $
Computer software	939,242	733,432
Less: accumulated amortisation	(685,064)	(567,322)
Total intangible assets	254,178	166,110

The movement in the carrying amounts for the member transaction system software between the beginning and end of the current financial year is shown below:

	Beginning balance $	Additions $	Disposals WDV $	Amortisation expense $	Carrying amount at year end $
Computer software	166,110	205,810	-	(117,742)	254,178

14. DEPOSITS FROM MEMBERS

	2018 $	2017 $
Member deposits:		
- At call	122,010,682	115,151,251
- At term	50,743,810	48,749,626
Member withdrawable shares	126,848	127,610
	172,881,340	164,028,487

14.1 Concentration of member deposits

There are no members who individually have deposits which represent 10% or more of total liabilities (2017: Nil).

15. PAYABLES AND OTHER LIABILITIES

Payables and accrued expenses	313,349	288,922
Accrued interest payable	257,384	267,207
Members' clearing accounts	354,469	444,901
Sick leave	5,000	5,000
	930,202	1,006,030

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018
(continued)

	2018 $	2017 $
16. TAXATION ASSETS AND LIABILITIES		
16.1 Taxation liabilities		
Income tax	40,824	61,291
Deferred tax	1,824	1,824
	42,648	63,115
16.2 Deferred tax assets		
Loans	87,870	47,676
Plant and equipment	154,636	154,422
Creditors	41,104	36,049
Provisions	118,784	105,498
	402,394	343,645
16.3 Current Tax Assets		
Income Tax	-	-

16.4 Reconciliation of deferred taxation balances

(i) Gross movements

The overall movement in the deferred tax account is as follows:

	2018 $	2017 $
Opening balance	341,821	336,392
Charge to Statement of Comprehensive Income	58,749	5,429
Closing balance	400,570	341,821

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018
(continued)**

16. TAXATION ASSETS AND LIABILITIES (continued)

16.4 Reconciliation of deferred taxation balances (continued)

(ii) Deferred tax assets

The movement in deferred tax assets for each temporary difference during the year is as follows:

	2018 $	2017 $
Property, plant and equipment		
Opening balance	154,422	168,223
Charge to Statement of Comprehensive Income	214	(13,801)
Closing balance	154,636	154,422
Provision for Impaired loans		
Opening balance	47,676	25,417
Charge to Statement of Comprehensive Income	40,194	22,259
Closing balance	87,870	47,676
Employee leave entitlements		
Opening balance	105,498	112,672
Charge to Statement of Comprehensive Income	13,286	(7,174)
Closing balance	118,784	105,498
Other		
Opening balance	36,049	32,070
Charge to Statement of Comprehensive Income	5,055	3,979
Closing balance	41,104	36,049

(iii) Deferred tax liabilities

	2018 $	2017 $
Available for sale financial assets		
Opening balance	1,824	1,990
Charge to Statement of Comprehensive Income	-	(166)
Closing balance	1,824	1,824

17. PROVISIONS

	2018 $	2017 $
Annual leave	186,239	164,779
Long service leave	240,703	213,852
	426,942	378,631

17.1 Reconciliation of provision balances

The movement in each provision category during the year is as follows:

	2018	2017
Annual leave		
Opening balance	164,779	159,970
Additional provision raised during the year	169,562	118,513
Amounts used	(148,102)	(113,704)
Closing balance	186,239	164,779
Long service leave		
Opening balance	213,852	210,602
Additional provision raised during the year	33,716	8,249
Amounts used	(6,865)	(4,999)
Closing balance	240,703	213,852

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

18.1.1 Introduction

The Credit Union views effective risk management as key to achieving and maintaining its operational and strategic objectives.

The Credit Union has systems for identifying, measuring, evaluating, monitoring, reporting, and controlling material risks that may affect its ability to meet its obligations to members and other stakeholders. These systems, together with the structures, policies, processes, and people supporting them comprise the Credit Union's Risk Management Framework.

The Risk Management Framework is consistent with the Credit Union's strategic objectives, business plan, risk appetite statement and tolerances.

The Board is responsible for setting and approving the Credit Union's Risk Management strategy and framework. The active identification of risks and implementation of mitigation measures is the responsibility of Management.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.1.1 Introduction (continued)

To assist the Board in discharging its responsibility in relation to risk management, the Board has delegated certain activities to the Risk and Audit Committees.

The Board has also delegated relevant authority to the General Manager and the Chief Risk Officer (CRO) to enable the setting and implementing certain risk management policies and procedures.

In accordance with CPS 220 the Board and General Manager ensures that the Credit Union meets its prudential and statutory requirements and has management practices to limit risks to prudential levels. The Board attests to the risk management functions in the annual declaration to APRA.

18.1.2 Risk Governance

The Credit Union is committed to a three lines-of-defence risk governance model:-

The first line of defence comprises the business management who assume ownership of the risks and who are responsible for the day-to-day risk management decision-making.

The second line of defence comprises the CRO and the Board Risk Committee and is functionally independent from the first line-of-defence. The second line-of-defence supports the Board by:

a) developing risk management policies, systems and processes to facilitate a consistent approach to the identification, assessment and management of risks;
b) providing specialist advice and training to Board and first line-of-defence on risk related matters;
c) providing objective review and challenge to the information provided; and
d) providing oversight of the risk profile and its reporting and escalation to the Board.

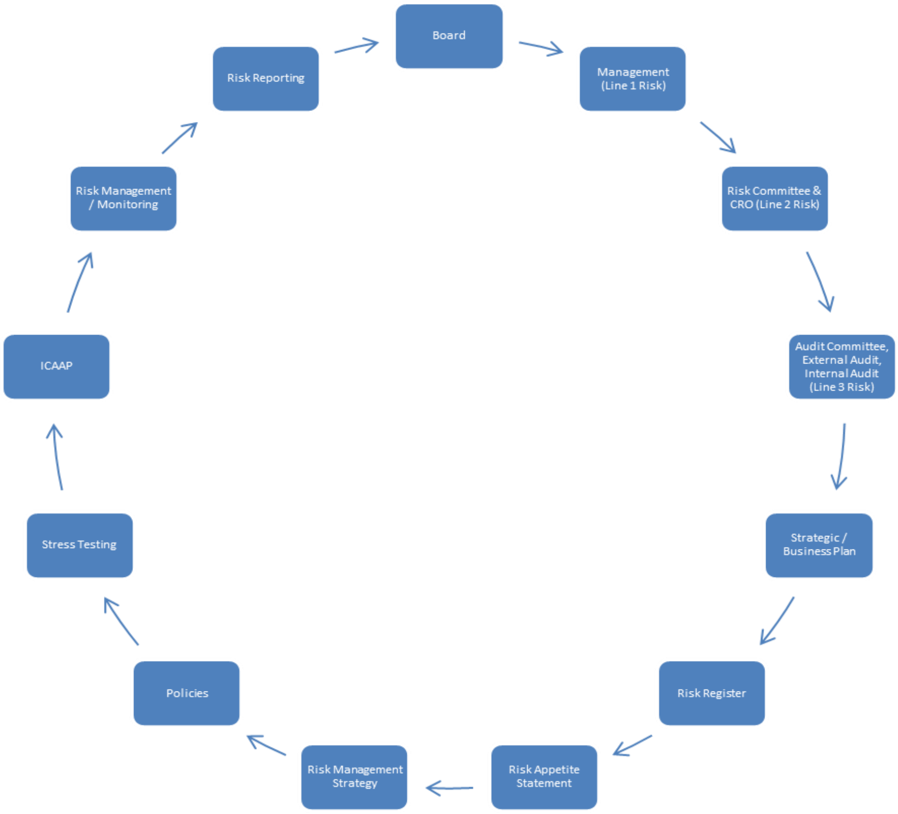
The third line-of-defence comprises the independent Audit functions and Board Audit Committee, each of whom provides independent assurance to the Board that:

a) the risk management framework is appropriate for an APRA regulated institution, consistently implemented and operating effectively; and
b) the policies, procedures and systems are appropriately designed and consistently implemented and operate effectively.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.1.2 Risk Governance (continued)

The components of Orange Credit Union's risk management framework are summarised in the following diagram:



18.1.3 Roles and Responsibilities

The Board is ultimately responsible for the Risk Management functions of the Credit Union.

The Board has delegated certain Risk Management authorities to the Audit and Risk Committees, and to the General Manager.

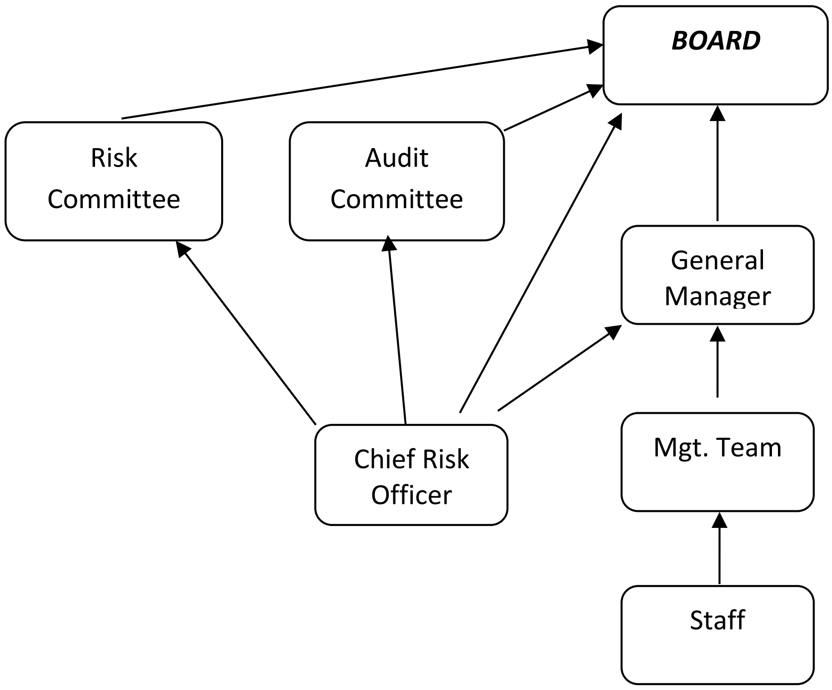
The General Manager is totally responsible for those Risk Management Functions delegated to Management by the Board. The General Manager delegates certain authorities to other members of the Management Team and staff to ensure the efficiency of the Risk Management Framework.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.1.3 Roles and Responsibilities (continued)

All delegated authorities are authorised and reviewed annually by the Board.

The following diagram shows an overview of this structure:



Risk Committee

The Board Risk Committee shall:-

- assist the Board by providing an objective oversight of the implementation and operation of the risk management framework;
- advise the Board on the current and future risk appetite and the risk management strategy;
- oversee the implementation of the risk management strategy;
- review and challenge Management's decisions relating to material risk items;
- set objectives and review performance of the CRO; and
- engage the Chief Risk Officer in relevant sections of Risk Committee meetings.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.1.3 Roles and Responsibilities (continued)

Audit Committee

The Board Audit Committee shall:-

- assist the Board by providing an objective review of the financial reporting and risk management;
- oversee financial accounting and reporting, and APRA statutory reporting.
- oversee internal and external Audit;
- review audit findings and ensure issues are addressed in a timely manner; and
- provide assurance to the Board that the risk management system is performing as intended.

General Manager

The General Manager is responsible for management of the Credit Union's operations in accordance with Board approved criteria, appetite and policy.

This includes management of the Credit Union compliance frameworks in accordance with Board approved criteria and policy and responsibility for implementing Board approved risk management strategy, developing policies, controls, processes and procedures for identifying and managing risks in all the Credit Union's activities.

Chief Risk Officer

The Chief Risk Officer is independent from business lines, other revenue-generating responsibilities, and the finance function. The Chief Risk Officer is responsible for the establishment, monitoring, and maintenance of the organisation's risk management framework. The Chief Risk Officer shall review and challenge Management's decisions relating to material risk items.

Internal Audit

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

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2 Key risk management policies

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

- Market risk;
- Credit risk management;
- Liquidity management; and
- Operational risk management including data risk management.

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

18.2.1 Market risk

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

Market risk is the risk that changes in interest rates, 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 risks. 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.

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates. The policy of the Credit Union to manage interest rate risk is to maintain a balanced 'on book' strategy by ensuring that the cumulative sensitivity between assets and liabilities is not excessive. The Credit Union's policy is not to undertake derivatives to match the interest rate risks.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2.1 Market Risk (continued)

The Credit Union's exposure to market risk is measured and monitored using various interest rate sensitivity models. In these models, the following assumptions are used:

- the interest rate change would be applied equally over 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 maturity, or be replaced by deposits with similar terms and rates applicable;
- savings deposits would reprice to the new interest rate, using the assumption that the sticky deposits are allocated to the twelve month bucket, and non-sticky deposits are allocated to the one month bucket.
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate within 28 days;
- personal loans would all reprice to the new interest rate within 28 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

The Credit Union uses Duration Sensitivity Analysis to limit the overall sensitivity of its financial instrument portfolio to 5% of its capital base for a 1% change in interest rates, using the assumption that members savings are allocated evenly across 12 months. This analysis is done monthly by management and reported to the Board. At 30 June 2018, the Credit Union had $451,548 (1.89%) of its capital at risk for a 1% change in interest rates.

Value at Risk (VaR) is used to measure the expected loss to the Credit Union's financial instrument portfolio, given a confidence level of 99%. This is calculated on a six monthly basis by an independent consultant, Visual Risk Pty Limited and is reported to the Board. The Credit Union aims to limit its value at risk to 5% of capital, given a 1 year holding period. At 30 June 2018, the risk was assessed at $676,733 (2.84%).

The Credit Union also engages Visual Risk Pty Limited to assess the Net Present Value (NPV) variance as a percentage of capital, and considers the impact for a 2% parallel shift in the yield curve. This is also calculated on a six monthly basis and is reported to the Board. The Credit Union aims to limit this to 5% of capital. At 30 June 2018, the worst case impact was assessed at $630,729 (2.65%).

18.2.2 Credit risk

The Credit Union's exposure to interest rate risk is set out in Note 22 which details the contractual interest change profile.

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

(i) Credit risk – loans

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

Loan class	2018 Carrying value $	2018 Undrawn facilities $	2018 Maximum exposure $	2017 Carrying value $	2017 Undrawn facilities $	2017 Maximum exposure $
Housing	114,160,732	8,752,981	122,913,713	108,324,098	10,121,133	118,445,231
Personal	11,964,565	877,686	12,842,251	10,876,512	980,242	11,856,754
Commercial	1,316,921	178,089	1,495,010	815,217	508,771	1,323,988
Total	127,442,218	9,808,756	137,250,974	120,015,827	11,610,146	131,625,973

Carrying value is the value in the Statement of Financial Position. Maximum exposure is the value in the Statement of Financial Position plus the undrawn facilities (loans approved not advanced, redraw facilities and undrawn overdrafts).

All loans and facilities are within Australia and are mainly concentrated in Central Western New South Wales.

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

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2.2 Credit risk (continued)

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; and
- review of compliance with the above policies.

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

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principal to be 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 loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Loan repayments are reviewed each day to detect delays in repayments. Recovery action is undertaken after 5 days. For loans where repayments are doubtful, external consultants may be engaged to conduct recovery action once the loans are over 60 days in arrears. The exposures to losses arise predominantly in personal loans and facilities not secured by registered mortgages over real estate.

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

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2.2 Credit risk (continued)

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

Provisions in the Statement of Financial Position 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.

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

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

Details of past due and impaired loans are as set out in Note 10.

Bad debts

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

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

A reconciliation of the movement of both past due and impaired exposure provisions is provided in Note 10.

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed to risks in the reduction of the loan to value (LVR) cover should the property market be subject to a decline.

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

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2.2 Credit risk (continued)

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%) a large exposure is considered to exist. No capital is required to be held against these exposures but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable.

The aggregate value of large exposure loans are set out in Note 10. The Credit Union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5% of the capital base.

Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of customers dispersed in various areas of employment.

The Credit Union has a concentration in the retail lending for members who reside in the Central-West of NSW. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members and the employment concentration in the area is not exclusive. Should members leave the area, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

The Board has established policies to manage liquidity risks with respect of investment receivables. These policies were regularly reviewed during the year. Under the Board's current policy, the Credit Union may:

- invest in unrated authorised deposit-taking institutions (ADIs), up to $2,000,000 provided the ADI is registered for the government guarantee; the Credit Union will only invest in those ADI's that have a capital adequacy ratio above 14%, of which 80% of capital is Tier 1.
- invest funds to $3,000,000 with ADI's that have a Standard & Poors (S&P) short term rating of B or better.
- invest funds to $6,000,000 with ADI's that have a S&P short term rating of A or better.
- invest funds to $8,000,000 with ADI's that have a S&P short term rating of AA or better.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2.2 Credit risk (continued)

(ii) Credit risk – liquid investments

The exceptions to the above maximum exposure limits to a single institution are:

a) up to 25% of the total Minimum Liquidity Holdings (MLH) and non-MLH investments portfolio can be invested with each of the Big Four banks – that includes their related parties (Australia & New Zealand Banking Group Ltd, Commonwealth Bank of Australia Ltd, National Australia Bank Ltd, and Westpac Banking Corporation Ltd), on the conditions (i) that they maintain at least a AA- rating (Standard & Poor's), (ii) and also that the prescribed counterparty exposure limit of 50% of Regulatory Capital for an unrelated ADI as per APS 221 is complied with ; and

b) for Cuscal the maximum exposure limit is 500% of Regulatory Capital.

In addition, under the Commonwealth Government's Financial Claims Scheme, deposit balances up to and including $250,000 per institution are guaranteed.

During the year, the Credit Union has spread its investment portfolio over a range of ADIs and considers the risk of loss of liquid investments to be minimal.

The Credit Union uses the ratings of S&P to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA Prudential Guidance Note AGN 112. The credit quality assessment scale within this standard has been complied with.

The Credit Union may invest up to 35% of the total HQLA portfolio in HQLA Bonds that are included on the RBA list of repo-eligible securities.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2.2 Credit risk (continued)

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

	2018 Carrying value $	2018 Past due value $	2018 Provision $	2017 Carrying value $	2017 Past due value $	2017 Provision $
CUSCAL (AA)	7,310,507	-	-	6,354,909	-	-
ADIs – A1	14,453,856	-	-	21,658,662	-	-
ADIs – A2	16,462,353	-	-	15,000,000	-	-
ADIs – A3	1,500,000	-	-	1,500,000	-	-
ADIs – BBB	5,500,000	-	-	5,500,000	-	-
Unrated	24,667,251	-	-	17,500,000	-	-
Total	69,893,967	-	-	67,513,571	-	-

(iii) Credit risk – guarantees

The Credit Union does not have any third party guarantees in place.

18.2.3 Liquidity risk

Liquidity risk is the risk that the Credit Union may encounter difficulties 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 the Credit Union maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- continuously monitoring actual daily cash flows;
- 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.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2.3 Liquidity risk (continued)

The Credit Union has a longstanding arrangement with the industry liquidity support provider Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should it be necessary at short notice.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union policy is to maintain at least 10% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. This ratio is checked daily. Should the liquidity ratio fall below this level, the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits or available borrowing facilities. Note 25 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms, are set out in the Note 22. The ratio of liquid funds over the past year is set out below:

	2018 $	2017 $	2018 (%)	2017 (%)
Total minimum liquidity holdings				
As at 30 June	22,434,948	23,532,883		
Total adjusted liabilities				
As at 30 June	184,089,889	177,090,237	12.19	13.29
Average for the year	184,513,258	174,707,582	14.14	13.93
Minimum during the year	182,680,771	172,503,967	11.18	12.97

18.2.4 Operational risk

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

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2.4 Operational risk (continued)

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

Systems of internal control are enhanced through:

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

Fraud

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

IT systems

The worst case scenario would be the failure of the Credit Union's core banking and IT network suppliers to meet customer obligations and service requirements.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2.4 Operational risk (continued)

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 of the Credit Union by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM, Visa, 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.

18.3.1 Capital management

Part of the risk management framework is the Internal Capital Adequacy Assessment Process. This process ensures that the Credit Union has adequate systems and procedures in place to identify, manage, measure, and monitor the risks of the Credit Union so as to ensure that the Credit Union maintains sufficient capital consistent with its risk profile. It also includes a capital management plan for managing the Credit Union's capital levels on an ongoing basis.

The ICAAP is reviewed annually or whenever there is a material change in the Credit Union's risk profile. The Board will assess the amount of capital required if there is a change in the Credit Union's forecasts for asset growth or unforeseen circumstances.

The capital levels are prescribed by APRA. Under the APRA prudential standards, capital is determined in three components:

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

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

Regulatory capital

Regulatory Tier 1 and Tier 2 Capital are defined under APS 111 *Capital Adequacy: Measurement of Capital.*

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.3.1 Capital Management (continued)

Tier 1 Capital

For the Credit Union, Tier 1 Capital comprises of:

- Retained earnings; and
- Regulatory adjustments (equity holding in CUSCAL Ltd, net DTA/DTL position and intangible assets).

Tier 2 Capital

For the Credit Union, Tier 2 Capital comprises of:

- Reserve for credit losses.

	2018 $	2017 $
Common Equity Tier 1 Capital		
Retained earnings	23,743,262	23,091,306
Less: regulatory adjustments	(1,008,543)	(861,726)
Net Tier 1 Capital	22,734,719	22,229,580
Tier 2 Capital		
Reserve for credit losses	1,101,799	1,063,974
	1,101,799	1,063,974
Total Capital	23,836,518	23,293,554

Risk weighted assets

The Credit Union has determined to maintain a minimum capital level of 14.25% as compared to the risk weighted assets at any given time. The risk weightings attached to each asset are based on the weights prescribed by APRA in its Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk. The risk weightings are applied according to the level of the underlying security.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.3.1 Capital Management (continued)

	Risk weighting	Carrying value $	Risk weighted value $
Cash	0%	735,019	-
Deposits in highly rated ADIs	20-50%	70,236,451	26,779,552
Standard loans secured against eligible residential mortgages up to 80% LVR	35-50%	82,143,679	29,051,089
Standard loans secured against eligible residential mortgages over 80% LVR	35-50%	20,941,916	8,284,469
Non –standard and Other loans	0-100%	24,356,624	19,986,038
Other assets	0-100%	1,139,530	1,139,530
Equity holding in Transaction Solutions Ltd	400%	9,654	38,616
Total		199,562,873	85,279,294

Capital adequacy ratio

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

2018	2017	2016	2015	2014
23.85%	24.15%	24.06%	24.44%	25.15%

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

To manage the Credit Union's 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 APRA if the capital ratio falls below 16%.

Pillar 2 capital on operational risk

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

The Credit Union uses the standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The operational risk capital requirement is calculated by mapping the Credit Union's 3 year average net interest income and net non-interest income from these streams.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.3.1 Capital Management (continued)

Based on this approach, the Credit Union's operational risk requirements are $11,791,895 (2017: $11,341,436).

19. CATEGORIES OF FINANCIAL INSTRUMENTS

	Note	2018 $	2017 $
Financial assets – carried at amortised cost			
Cash and liquid assets	7	19,993,587	20,412,879
Receivables from other financial institutions	8	50,635,400	48,149,993
Accrued receivables	9	968,501	957,860
Loans to members	10	127,122,691	119,842,461
Total cash, loans and receivables		198,720,179	189,363,193
Available-for-sale investments	11	363,449	363,449
TOTAL FINANCIAL ASSETS		199,083,628	189,726,642
Financial liabilities – carried at amortised cost			
Deposits from members	14	172,881,340	164,028,487
Payables and other liabilities	15	925,202	1,001,030
TOTAL FINANCIAL LIABILITIES		173,806,542	165,029,517

20. FAIR VALUE MEASUREMENT

With the exception of Land and Buildings, the Credit Union does not currently measure any assets or liabilities at fair value on a recurring or non-recurring basis after initial recognition.

20.1 Disclosed fair value measurement

The Credit Union has obtained a valuation for its owned properties – 288-292 Summer St, Orange and 294 Summer St, Orange – as at 27 September 2013.

20. FAIR VALUE MEASUREMENT (continued)

20.2 Disclosed fair value measurement (continued)

The fair values obtained for each property are as follows:

288-292 Summer St	$3,500,000
294 Summer St	$450,000

The buildings are valued at Level 3 of the Fair Value Hierarchy of AASB 13 (measurements based on unobservable inputs for the asset) using the income approach taking into account estimated gross annual rental income less expected outgoings and capitalisation of the net returns.

Whilst the available sales data and outgoings (rates, insurance, etc.) are generally observable, the capitalisation rate of 7.5% is considered an unobservable input.

21. MATURITY PROFILE OF FINANCIAL INSTRUMENTS

Monetary assets and liabilities have differing maturity profiles depending on the contractual term. 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 and interest will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be paid or received). Accordingly these values will not agree to the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (continued)

21. MATURITY PROFILE OF FINANCIAL INSTRUMENTS (continued)

2018	Carrying Amount $	0 to 3 months $	3 to 12 months $	1 to 5 years $	5+ years $	No maturity $	Total $
Financial assets							
Cash on hand	735,019	-	-	-	-	735,019	735,019
Cash at bank and investments	69,893,968	24,806,615	25,032,137	6,959,279	3,603,768	11,261,369	71,663,169
Loans to members	127,442,219	3,710,032	10,551,743	46,191,368	138,282,523	-	198,735,666
Other assets (non-interest bearing)	822,215	458,766	-	-	-	363,449	822,215
Total financial assets	198,893,421	28,975,413	35,583,880	53,150,647	141,886,291	12,359,837	271,956,069
Financial Liabilities							
Trade payables and other liabilities	667,818	667,818	-	-	-	-	667,818
Deposits from members	172,881,340	27,415,308	21,501,632	2,299,161	-	122,137,530	173,353,631
Total financial liabilities	173,549,158	28,083,126	21,501,632	2,299,161	-	122,137,530	174,021,449

2017	Carrying Amount $	0 to 3 months $	3 to 12 months $	1 to 5 years $	5+ years $	No maturity $	Total $
Financial assets							
Cash on hand	1,049,301	-	-	-	-	1,049,301	1,049,301
Cash at bank and investments	67,513,571	24,861,169	16,298,763	11,176,367	3,675,372	13,363,604	69,375,275
Loans to members	120,015,827	3,539,831	10,095,489	44,476,805	126,630,926	-	184,743,051
Other assets (non-interest bearing)	869,934	506,485	-	-	-	363,449	869,934
Total financial assets	189,448,633	28,907,485	26,394,252	55,653,172	130,306,298	14,776,354	256,037,561
Financial Liabilities							
Trade payables and other liabilities	733,823	733,823	-	-	-	-	733,823
Deposits from members	164,028,487	26,565,877	19,611,276	3,063,869	-	115,278,861	164,519,883
Total financial liabilities	164,762,310	27,299,700	19,611,276	3,063,869	-	115,278,861	165,253,706

22. INTEREST RATE CHANGE PROFILE OF FINANCIAL INSTRUMENTS

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.

2018	Within 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Non-interest rate sensitive $	Total $
Financial assets						
Cash and liquid assets	13,758,568	5,500,000	-	-	735,019	19,993,587
Receivables due from other financial institutions	5,500,000	12,015,404	23,499,996	9,620,000	-	50,635,400
Accrued receivables	-	-	-	-	968,501	968,501
Loans to members	74,849,475	4,220,698	21,874,367	26,497,678	-	127,442,218
Available for sale investments	-	-	-	-	363,449	363,449
Total financial assets	94,108,043	21,736,102	45,374,363	36,117,678	2,066,969	199,403,155
Financial Liabilities						
Trade payables and other liabilities	-	-	-	-	925,202	925,202
Deposits from members	133,287,459	16,048,814	21,209,318	2,208,901	126,848	172,881,340
Total financial liabilities	133,287,459	16,048,814	21,209,318	2,208,901	1,052,050	173,806,542

2017	Within 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Non-interest rate sensitive $	Total $
Financial assets						
Cash and liquid assets	14,863,579	4,499,999	-	-	1,049,301	20,412,879
Receivables due from other financial institutions	11,620,000	16,030,003	15,000,000	5,499,990	-	48,149,993
Accrued receivables	-	-	-	-	957,860	957,860
Loans to members	71,464,453	7,029,606	19,614,203	21,907,565	-	120,015,827
Available for sale investments	-	-	-	-	363,449	363,449
Total financial assets	97,948,032	27,559,608	34,614,203	27,407,555	2,370,610	189,900,008
Financial Liabilities						
Trade payables and other liabilities	-	-	-	-	1,001,030	1,001,030
Deposits from members	123,414,820	18,205,794	19,354,697	2,925,566	127,610	164,028,487
Total financial liabilities	123,414,820	18,205,794	19,354,697	2,925,566	1,128,640	165,029,517

23. FINANCIAL COMMITMENTS

	2018 $	2017 $
Loan commitments		
Loans approved, but not funded	1,149,071	2,835,065
Loan redraw facilities available	8,577,722	8,716,662
	9,726,793	11,551,727
Overdraft facility commitments		
Unused member overdraft facilities	81,963	58,419
	9,808,756	11,610,146

24. EXPENDITURE COMMITMENTS

24.1 Future capital commitments

At 30 June 2018, the Credit Union has future capital commitments totalling $96,591 (2017: $141,384).

24.2 Lease expenditure commitments

	2018 $	2017 $
Operating leases		
Within 1 year	1,203	24,153
1 to 5 years	-	2,407
Over 5 years	-	-
	1,203	26,560

This commitment relate to one (1) site lease for an ATM operated by the Credit Union.

24.3 Other expenditure commitments

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

25. STANDBY BORROWING FACILITIES

The Credit Union has the following credit facilities with CUSCAL:

	2018 $	2017 $
Overdraft facility		
Gross	1,000,000	1,000,000
Current borrowings	-	-
Net available	1,000,000	1,000,000

There are no restrictions as to withdrawal of these funds subject to the availability of funds to CUSCAL at the time of draw down.

The borrowing facilities are secured by a deposit held with CUSCAL.

26. CONTINGENT LIABILITIES

The Credit Union is a member of CUFSS Ltd, a company established to provide financial support to member Mutual ADIs in the event of a liquidity or capital problem arising. As a member, the Credit Union is committed to maintaining an amount equivalent to 3.0% of total assets as deposits with CUSCAL and / or a CUFFS approved Authorised Deposit-taking Institution (ADI). The maximum call for each member ADI would be 3.0% of the Credit Union's total assets. The Credit Union has the ability under certain circumstances to draw on this scheme.

27. KEY MANAGEMENT PERSONNEL DISCLOSURES

27.1 Remuneration of key management personnel

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

KMP have been taken to comprise of the Directors and the three members of the executive management team during the financial year, responsible for the day-to-day financial and operational management of the Credit Union.

27. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

27.1 Remuneration of key management personnel (continued)

	Year ended 30 June 2018			Year ended 30 June 2017		
	Directors	**Other KMP**	**Total**	**Directors**	**Other KMP**	**Total**
Short-term benefits	126,951	510,774	637,725	138,917	477,628	616,545
Post-employment benefits	29,417	61,078	90,495	40,559	69,042	109,601
Other long-term benefits	-	-	-	-	-	-
Termination benefits	-	-	-	-	-	-
Total	156,368	571,852	728,220	179,476	546,670	726,146

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

Compensation includes:

(i) short-term employee benefits, such as wages, salaries, paid annual leave, paid sick leave, and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as salary packaged) for current employees;
(ii) post-employment benefits such as pensions, and other retirement benefits;
(iii) other long-term employee benefits, including long-service leave or other long-service benefits, and, if they are not payable wholly within twelve months after the end of the period, bonuses; and
(iv) termination benefits.

27.2 Loans to key management personnel and their close members of family

	Year ended 30 June 2018			Year ended 30 June 2017		
	Directors	**Other KMP**	**Family**	**Directors**	**Other KMP**	**Family**
Opening balance	533,297	703,763	891,404	538,015	799,501	927,224
Loans Funded	-	-	-	-	-	-
Interest charged	2,303	20,226	38,733	20,946	25,382	40,765
Write-off	-	-	-	-	-	-
Closing Balance	-	623,349	858,227	533,297	703,763	891,404

27. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

27.2 Loans to key management personnel and their close members of family (continued)

Loans provided to Other KMP or staff / spouse jointly for any purpose are provided at 85% of the rate of interest on offer to members for a similar loan /overdraft facility. Other KMP are required to pay any Fringe Benefits Tax arising from these discounted interest rates. Loans to Directors are at the rate of interest on offer to members for a similar loan / overdraft facility. Loans provided to close members of family of KMP are on conditions no more favourable than those extended to members generally. Security has been obtained for these loans in accordance with the Credit Union's lending policy.

There is no provision for impairment in relation to any loan extended to KMP or their close members of family. No loan impairment expense in relation to these loans has been recognised during the period.

27.3 Other transactions

There were no other transactions during the financial year between the Credit Union and members of the Board.

27.4 KMP and their close members of family saving, term deposit and revolving credit facility accounts

	Year ended 30 June 2018			Year ended 30 June 2017		
	Directors	Other KMP	Family	Directors	Other KMP	Family
Opening balance	286,562	224,498	141,649	411,567	156,923	111,283
Interest paid	4,483	52	3,484	3,829	83	914
Closing balance	212,281	129,510	126,300	286,562	224,498	141,649
Numbers in group	8	3	6	8	3	6

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

28. ECONOMIC DEPENDENCY

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

(i) CUSCAL Limited – This entity provides central banking facilities as well as facilitating some member services such as members' cheques and Redicards. In addition, CUSCAL operates the switching computer used to link Redicards and Visa cards operated through Reditellers, and other approved ATM suppliers and merchants, to the Credit Union EDP systems.

(ii) TransAction Solutions Limited (TAS) – this company operates the computer facility on behalf of the Credit Union, in conjunction with other Credit Unions. The Credit Union has a management contract with TAS to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with relevant prudential standards.

(iii) Credit Union Financial Support System Limited (CUFSS) – this entity provides emergency liquidity support to the Credit Union.

(iv) Ultradata Australia Pty Ltd – this company supplies and maintains the application software utilised by the Credit Union.

29. SEGMENTAL REPORTING

The Credit Union operates exclusively in the retail financial services industry within Australia.

30. STATEMENT OF CASH FLOWS

30.1 Cash flows presented on a net basis

Cash arising from the following activities are presented on a net basis in the Statement of Cash Flows:

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

(ii) sales and purchases of maturing certificates of deposit;

(iii) provision of member loans and the repayment of such loans.

30. STATEMENT OF CASH FLOWS (continued)

30.2 Reconciliation of cash

Cash arising from the following activities are presented on a net basis in the Statement of Cash Flows.

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

	2018 $	2017 $
Cash balance comprises:		
- Cash on hand	735,019	1,049,301
- Imprest accounts	784,019	660,783
- Deposits at call less than 90 days	18,474,549	18,702,795
	19,993,587	20,412,879

30.3 Reconciliation of net cash flows from revenue activities to profit for the year after income tax

	2018	2017
Profit for the year after income tax	654,323	701,847
Non-cash items		
Loan impairment loss	185,431	136,161
Depreciation and amortisation	243,198	226,495
Movements in assets and liabilities		
Deferred income tax asset	(58,749)	(5,263)
Deferred income tax liability	-	(166)
Provision for income tax	(20,467)	(18,158)
Accrued interest receivable	(58,360)	(144,124)
Accrued interest payable	(9,823)	(37,531)
Provision for employee entitlements	48,311	8,059
Creditors and accruals	24,427	(87,025)
Net cash flows from revenue activities	1,008,291	780,295

31. CORPORATE INFORMATION

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

The address of the registered office is:	Orange Credit Union Limited 288-292 Summer Street Orange NSW 2800
The address the principal place of business is:	288-292 Summer Street Orange NSW 2800

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

32. CORPORATE GOVERNANCE DISCLOSURES

Board

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

Board members are independent of management and have been elected by members on a rotation of every 3 years.

Each Director must be eligible to act under the constitution as a member of the Credit Union and *Corporations Act 2001* (Cwlth) criteria. Directors need to also satisfy the fit and proper criteria set down by APRA.

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

32. CORPORATE GOVERNANCE DISCLOSURES (continued)

Board (continued)

The Board is responsible for:

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

Board remuneration

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

Audit Committee

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

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

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

32. CORPORATE GOVERNANCE DISCLOSURES (continued)

Risk Committee

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

Its role includes:

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

Management Remuneration

All management are remunerated by salary packages. Bonus benefits are available to management, provided certain criteria are met.

Chief Risk Officer

The Credit Union has a Chief Risk Officer, who is responsible for the establishment, monitoring, and maintenance of the Credit Union's risk management framework. He is independent from business lines, other revenue-generating responsibilities, and the finance function.

Compliance

The Credit Union has a Compliance Officer who is responsible for maintaining the awareness of staff for all changes in compliance legislation and responding to staff inquiries on compliance matters. The Officer also monitors the Financial Services Reform (FSR) licence obligations.

External audit

Audit is performed by the Intentus Chartered Accountants (formerly the audit practice of Morse Group). Through their prior history with Morse Group, Intentus has been auditing credit unions for 35 years and audits 4 credit unions in NSW. Intentus utilises sophisticated computer assisted audit software to supplement the compliance testing.

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

32. CORPORATE GOVERNANCE DISCLOSURES (continued)

Internal audit

An internal audit function has been established using the services of KPMG to deal with the areas of internal control compliance and regulatory compliance.

Regulation

The Credit Union is regulated by:

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of the Credit Union.
- Australian Securities and Investments Commission (ASIC) for adherence to *Corporations Act 2001* (Cwlth), Accounting Standards disclosures in the financial statements and FSR requirements and for compliance with the National Consumer Credit Protection Act.

The FSR legislation requires the Credit Union to disclose details of products and services, maintain training for all staff that deal with the members and provide an effective and independent complaints handling process. Under the FSR licensing arrangements all staff which deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

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

Work Health & Safety (WHS)

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

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

32. CORPORATE GOVERNANCE DISCLOSURES (continued)

Work Health & Safety (WHS) (continued)

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

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

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

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

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

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

DIRECTORS' DECLARATION

The Directors of Orange Credit Union Limited declare that:

(a) The financial statements and notes set out on pages 10 to 72:

   (i) comply with Accounting Standards and the *Corporations Act 2001* (Cwlth); and

   (ii) give a true and fair view of the financial position as at 30 June 2018 and performance for the year ended on that date of the Credit Union.

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

This declaration is made in accordance with a resolution of the Board of Directors and is signed at Orange on the 26th day of September 2018 for and on behalf of the Directors by:

Andrew Martin Kent	Michael Kemp
Director	Director
Chair of Board of Directors	Chair of Audit Committee

intentus
CHARTERED ACCOUNTANTS

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Orange Credit Union Ltd (the Credit Union), which comprises the statement of financial position as at 30 June 2018, the statement of 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 declaration by those charged with governance.
In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of the Credit Union as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards.

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 Credit Union in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) 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.

Other Information

Those charged with governance are responsible for the other information. The other information comprises the information included in the Credit Union's annual report for the year ended 30 June 2018, 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 Management and Those Charged with Governance for the Financial Report

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

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

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

intentus

intentus

14 Sale Street
Orange
Dated: 26th September 2018

J. O'Malley

John O'Malley
Director