ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2019

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 A. E. de Graaff

Management:
Mr A. E. de Graaff – Chief Executive Officer
Mr C. M. Fearnley – Corporate Services Manager
Mr M. J. Kilkeary – Finance & Administration Manager
Mr G. Tracey – Retail Services Manager

Auditor:
Intentus Chartered Accountants

Internal Auditor:
Step Ahead Business Solutions

Solicitors:
Baldock, Stacy & Niven, Orange

Bankers:
CUSCAL Limited

Australian Financial Services Licence Number: 240768

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ABN 34 087 650 477

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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 2019.

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
Mr Tim Edmonstone (appointed 31 July 2019)
Mr Michael Kemp
Mr Andrew Kent
Mrs Amanda Mooney
Mrs Sarah Ryan

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 30 years, performing management and accounting roles. Mr McNamara was appointed Company Secretary on 31 December 2004.

Subsequent to the end of the financial year, Paul McNamara retired from the Credit Union and his role as company secretary and Andrew de Graaff was appointed to the role.

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 $648,681 (2018: $654,323).

REVIEW OF OPERATIONS

Profit for the year totalled $648,681 compared to $654,323 in 2017-18. Interest revenue increased by $297,018 to $8,297,335. Interest on members' loans increased by $203,759 to $6,321,982.

Operating expenses increased by $57,361 to $6,248,286. Employee compensation and benefits increased by $160,445 to $2,810,526. Other significant areas of expenditure are administration expenses of $2,194,812 and information technology expenses of $832,479.

Gross loans to members increased by $5,699,561 to $131,910,537. The principal area of increase was for residential loans which increased by $5,486,363 to $119,647,095. During the previous financial year, 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 2019, the balances of these loans totalled $812,924.

Members' savings and deposits increased by $12,514,782 to $185,396,122.

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 2019-20.

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 8.

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 19 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 3 years 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
Tim Edmonstone	
Current Occupation	Manager, Industry Analysis, NSW Department of Primary Industries
Credit Union Experience	Director of Orange Credit Union since 31.07.19. Associate Director from 26.7.17 to 31.07.19 Member of Institute for Strategy, Innovation and Leadership
Current Board Position	Member of Corporate Governance Committee
Interest in Shares	1 Member Share
Michael Kemp	
Current Occupation	Farmer / Business Owner
Credit Union Experience	Director of Orange Credit Union for 5 years 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

INFORMATION ON DIRECTORS (continued)

Andrew Martin Kent

Current Occupation	Business Manager, Taree Christian School
Credit Union Experience	Director of Orange Credit Union for 8 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 6 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 of Directors Member of Executive Committee Member of Audit Committee Chair of Risk Committee
Interest in Shares	1 Member Share

Sarah Ryan

Current Occupation	Associate Solicitor
Credit Union Experience	Director of Orange Credit Union for 6 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

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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	1	8	8	9	6
No. of meetings attended:						
G Bargwanna	5	1	8	8	-	5
M Catlin	6	1	-	-	9	6
M Kemp	6	1	8	8	-	6
A Kent	6	1	-	-	9	6
A Mooney	5	1	8	8	-	5
S Ryan	6	0	-	-	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.

DIRECTORS' REPORT
(continued)

Signed in accordance with a resolution of the Board of Directors and is signed at Orange on the 25th day of September 2019.

Andrew Martin Kent
Director
Chair of Board of Directors

Michael Kemp
Director
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 2019, 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

14 Sale Street
Orange
Dated: 25 September 2019

John O'Malley
Director

ORANGE CREDIT UNION LIMITED
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STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $	2018 $
Interest revenue	4.1	8,297,335	8,000,317
Interest expense	4.2	(2,336,987)	(2,267,460)
Net interest income		5,960,348	5,732,857
Fees, commissions and other income	5	1,175,435	1,349,416
Total interest and fee income		7,135,783	7,082,273
Non-interest expenses:			
Impairment losses on loans receivable from members	6.1	4,258	(185,431)
General administration:			
- Employees compensation and benefit	6.2	(2,810,526)	(2,650,081)
- Depreciation and amortisation	6.2	(273,420)	(243,198)
- Information technology	6.2	(832,479)	(760,079)
- Occupancy expenses	6.2	(141,307)	(122,691)
- Other administration	6.2	(2,194,812)	(2,229,445)
Total non-interest expenses		(6,248,286)	(6,190,925)
Profit for the year before income tax		887,497	891,348
Income tax expense	8	(238,816)	(237,025)
Profit for the year after income tax		**648,681**	**654,323**
Other comprehensive income, net of income tax			
Movement in reserve for equity instruments at FVOCI	19	294,868	-
Total comprehensive income for the period		**294,868**	-

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Retained Earnings $	Reserve for Credit Losses $	FVOCI Reserve $	Total $
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 retained earnings to reserve for credit losses	(2,368)	2,368	-	-
As at 30 June 2018	23,743,262	2,229,319	-	25,972,581
Balance as at 1 July 2018	23,743,262	2,229,319	-	25,972,581
Changes on initial adoption of AASB 9	-	-	294,868	294,868
Adjusted balance at 1 July 2019	23,743,262	2,229,319	294,868	26,267,449
Profit for the year after income tax	648,681	-	-	648,681
Transfer from reserve for credit losses to retained earnings	(238,418)	238,418	-	-
As at 30 June 2019	24,153,525	2,467,737	294,868	26,916,130

ORANGE CREDIT UNION LIMITED
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STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	2019 $	2018 $
Assets:			
Cash and liquid assets	9	21,541,399	19,993,587
Receivables	10	1,078,356	968,501
Loans and advances to members	11	132,536,730	127,122,691
Investment securities	12	57,602,352	50,998,849
Property, plant and equipment	13	440,172	513,513
Current tax assets	17.3	49,189	-
Deferred tax assets	17.2	367,733	402,394
Intangibles	14	251,622	254,178
Total Assets		213,867,553	200,253,713
Liabilities:			
Deposits from members	15	185,396,122	172,881,340
Payables and other liabilities	16	992,426	930,202
Provisions	18	449,205	426,942
Taxation liabilities	17.1	113,670	42,648
Total Liabilities		186,951,423	174,281,132
Net Assets		**26,916,130**	**25,972,581**
Members' Equity:			
FVOCI Reserve	19	294,868	-
Reserve for credit losses		2,467,737	2,229,319
Retained earnings		24,153,525	23,743,262
Total Members' Equity		**26,916,130**	**25,972,581**

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $	2018 $
Cash flows from operating activities:			
Revenue inflows:			
Interest received on loans		6,321,982	6,118,223
Interest received on investments		1,847,043	1,823,734
Dividends received		21,206	35,763
Fees and commissions received		1,076,392	1,204,707
Other income		77,837	108,947
Revenue outflows:			
Interest paid on members' savings		(2,325,737)	(2,274,330)
Interest paid on borrowings		(3,550)	(2,954)
Payments to suppliers and employees		(5,980,577)	(5,689,558)
Income taxes paid		(294,168)	(316,241)
Net cash flows from revenue activities	32.3	740,428	1,008,291
Members' loan repayments		23,663,852	20,894,604
Members' loan fundings		(29,073,632)	(28,360,266)
Net increase in member deposits and shares		12,535,098	8,910,975
Net increase / (decrease) in members' clearing accounts		84,579	(150,498)
Net decrease / (increase) in deposits to other financial institutions		(6,196,789)	(2,485,407)
Net cash provided by operating activities		1,753,536	(182,301)
Cash flows from investing activities:			
Consideration received on sale of property, plant and equipment		11,818	-
Payment for property, plant and equipment		(41,095)	(80,845)
Payment for intangibles		(176,447)	(156,146)
Net cash used in investing activities		(205,724)	(236,991)
Net increase / decrease in cash held		1,547,812	(419,292)
Cash held at the beginning of the year		19,993,587	20,412,879
Cash held at the end of the year	32.2	**21,541,399**	**19,993,587**

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

Reporting Entity

These financial statements are prepared for Orange Credit Union Limited (the Credit Union) as a single credit union, for the year ended 30 June 2019. The Credit Union is a company, limited by shares, incorporated and domiciled in Australia. The statements were authorised for issue on 25 September 2019 in accordance with a resolution of the Board.

Statement of Compliance

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.

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments - Adoption of AASB 9

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

The Credit Union has adopted AASB 9 Financial Instruments for the first time in the current year with a date of initial adoption of 1 July 2018. When adopting AASB 9, the Credit Union has applied transitional relief and opted not to restate prior periods.

2. CHANGES IN ACCOUNTING POLICIES (continued)

Financial Instruments - Adoption of AASB 9 continued

As part of the adoption of AASB 9, the Company adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

- AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income. In the comparative year, this information was presented as part of other expenses.

The key changes to the Credit Union's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Classification of financial assets

The financial assets of the Company have been reclassified into one of the following categories on adoption of AASB 9 based on primarily the business model in which a financial asset is managed and its contractual cash flow characteristics:

- Measured at amortised cost
- Fair value through other comprehensive income - equity instruments (FVOCI - equity) and
- Fair value through Profit and Loss (FVPL)

AASB 9 eliminates the previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged. Refer table on next page for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

Measurement of equity instruments

Equity instruments are no longer subject to impairment testing and therefore all movements on equity instruments classified as fair value through other comprehensive income are taken to the relevant reserve.

Impairment of financial assets

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost, contract assets and fair value through other comprehensive income. This has resulted in the earlier recognition of credit loss (bad debt provisions).

2. CHANGES IN ACCOUNTING POLICIES (continued)

Financial Instruments - Adoption of AASB 9 (continued)

Transition adjustments

The impacts to reserves and retained earnings on adoption of AASB 9 at 1 July 2018 are shown below:

	Original AASB 139 category	New AASB 9 Category	Closing balance 30 June 2018 (AASB 139)	Adoption of AASB 9	Opening balance 1 July 2018 (AASB 9)
Assets					
Loans and advances to members	Loans and receivables	Amortised cost	127,122,691	-	127,122,691
Receivable	Receivables	Amortised cost	968,501	-	968,501
Investment securities – CUSCAL Share / TAS	Available for Sale	FVOCI	363,449	406,714	770,163
Cash	Amortised cost	Amortised cost	21,541,399	-	21,541,399
Negotiable Certificates of Deposits (NCDs)	Held to maturity	Amortised cost	988,613	-	988,613
Floating Rate Notes / Term Deposits	Held to maturity	Amortised cost	49,646,787	-	49,646,787
Total financial assets			200,631,440	406,714	201,038,154
Liabilities					
Payables and other liabilities	Payables	Amortised cost	930,202	-	930,202
Deposits from members and other financial institutions	Amortised cost	Amortised cost	172,881,340	-	172,881,340
Total financial liabilities			173,811,542	-	173,811,542

2. CHANGES IN ACCOUNTING POLICIES (continued)

On adoption of AASB9 the Credit Union revalued its shares in Cuscal Ltd. This revaluation is reflected in the creation of a Fair Value Through Other Comprehensive Income Reserve. The revaluation caused the Credit Union to create a Deferred Tax Liability to the amount of 27.5% of the revaluation.

There was no other impact on the Financial Statements for the current year.

AASB 9 contains exemptions from full retrospective application for the classification and measurement requirements of the new standard, including impairment. These include an exception from the requirement to restate comparative information. Because the Credit Union has elected not to restate comparatives, different accounting policies apply to financial assets and financial liabilities pre- and post-adoption of the standard. Therefore, both the pre- and post-adoption accounting policies for financial instruments are disclosed in the note below.

Revenue from Contracts with Customers - Adoption of AASB 15

The Credit Union has adopted AASB 15 Revenue from Contracts with Customers for the first time in the current year with a date of initial application of 1 July 2018.

Under AASB 15, the Credit Union must evaluate the separability of promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both of the following criteria are met:

- the customer benefits from the good or service either on its own or together with other readily available resources; and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the Credit Union does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance had no impact on the timing or amount of revenue recognised by the Credit Union during the year.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

3.1 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.

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.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Loans to members (continued)

(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.

3.2 Loans impairment

(i) Provision for impairment

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments.

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

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (underperforming loans) ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment (loans in default/non-performing) at the reporting date.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement of ECL

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

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

Note 20.2.2 details the credit risk management approach for loans.

(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.

3.3 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.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 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.)

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.

(ii) 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.

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.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Property, plant and equipment (continued)

(ii) Depreciation (continued)

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.

3.5 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%).

3.6 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).

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

(i) Initial recognition and measurement (continued)

Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions to the instrument. For financial assets, this is 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 plus 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. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments 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 profit or loss.

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

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Classification and subsequent measurement (continued)

Policy applicable before 1 July 2018

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.

Term deposits and negotiable certificates of deposit (NCDs) with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

c. Available-for-sale investments

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with change in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

d. Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Policy applicable from 1 July 2018

Financial assets are classified into the following categories upon initial recognition:

- Amortised cost;
- Fair value through profit or loss (FVPL); or
- Fair value through other comprehensive income (FVOCI).

Subsequent measurement of financial assets

Financial assets at amortised costs

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

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

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

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

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Fair Value through Other Comprehensive Income (FVOCI)

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

(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.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 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.

3.7 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.

3.8 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.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Provisions for employee benefits (continued)

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.

3.9 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.

3.10 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.

3.11 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%.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Income tax (continued)

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.

3.12 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.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 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.

3.14 New standards applicable for the current year

The Credit Union has adopted all standards which became effective for the first time at 30 June 2019, refer to Note 2 for details of the changes due to standards adopted .

3.15 New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Credit Union has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Credit Union where the standard is relevant:

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 16 *Leases*	AASB 16 will cause the majority of leases to be brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right to use asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges.	30 June 2020	The Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020, since the Credit Union owns its premises and other operating leases are minimal.

4. INTEREST REVENUE AND INTEREST EXPENSE

4.1 Interest revenue

	2019 $	2018 $
Interest revenue on assets carried at amortised cost:		
Receivables from financial institutions	1,975,353	1,882,094
Loans to members	6,321,982	6,118,223
Total interest revenue	8,297,335	8,000,317

4.2 Interest expense

	2019 $	2018 $
Interest expense on liabilities carried at amortised cost:		
Members savings deposits	1,188,170	1,128,506
Term deposits	1,145,268	1,136,000
External borrowings	3,549	2,954
Total interest expense	2,336,987	2,267,460

5 FEES, COMMISSIONS AND OTHER INCOME

Fees and commissions revenue

	2019 $	2018 $
Fee income on loans	88,472	93,450
Fee income from member deposits	1,554	1,645
Other fee income	792,206	907,685
Insurance commissions	141,688	152,754
Other commissions	52,472	49,172
Total fee and commission revenue	1,076,392	1,204,706

Other income

	2019 $	2018 $
Dividends received on available for sale assets	21,206	35,763
Bad debts recovered	30,901	21,983
Miscellaneous revenue	46,936	86,964
Total other income	99,043	144,710
Total fees, commissions and other income	1,175,435	1,349,416

6 NON-INTEREST EXPENSES

6.1 Impairment losses

Loans and advances

	2019 $	2018 $
Increase / (decrease) in provision for impairment	(132,346)	146,161
Bad debts written off	128,088	39,270
Total impairment expense	(4,258)	185,431

6.2 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:

	2019 $	2018 $
Depreciation and amortisation		
Depreciation	102,025	125,456
Amortisation of intangible assets	171,395	117,742
Total depreciation and amortisation	273,420	243,198
Information technology	832,479	760,079
Property expenses	141,307	122,691
Employee benefits expenses		
Salaries	2,008,581	1,887,690
Superannuation contributions	289,169	274,865
Annual leave	188,062	169,563
Long service leave	34,287	33,716
Fringe benefits expense	38,675	31,112
Other	251,752	253,135
Total employee benefits expenses	2,810,526	2,650,081

6. NON-INTEREST EXPENSES (continued)

6.2 Individually significant items of expenditure (continued)

	2019 $	2018 $
Other administrative expenses		
Card and payment costs	937,561	958,479
Board costs	197,265	196,883
Consultancy	152,184	136,639
Loans administration	31,666	48,465
Marketing and promotion	142,408	190,711
Member chequing	7,975	9,790
Member protection	352,965	364,233
Office administration	372,788	324,245
Total other administrative expenses	2,194,812	2,229,445

7. AUDITOR'S REMUNERATION

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

	2019	2018
Audit of the financial statements	55,220	53,823
Other services	10,340	9,977
	65,560	63,800

8. INCOME TAX

8.1 Current tax expense

	2019	2018
The components of tax expense comprise:		
Current income tax payable	204,155	295,774
Decrease / (Increase) in deferred tax asset	34,661	(58,749)
Total tax expense	238,816	237,025

8. INCOME TAX (continued)

8.2 Reconciliation of current year tax payable to income tax expense

	2019 $	2018 $
Prima facie tax on profit before income tax at 27.5%	244,061	245,121
Plus / (Less) tax effect of:		
- Non-deductible entertainment expenses	1,344	1,739
- Dividend rebate	(6,589)	(9,835)
	238,816	237,025

8.3 Franking Credits

	2019	2018
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:	7,483,323	7,151,442
	7,483,323	7,151,442

9. CASH AND LIQUID ASSETS

	2019	2018
Cash on hand	642,704	735,019
Imprest and bank accounts	207,375	784,019
Short term deposits and deposits at call	20,691,320	18,474,549
	21,541,399	19,993,587

10. RECEIVABLES

	2019 $	2018 $
Sundry debtors and clearing accounts	402,780	400,920
Interest receivable on receivables from other financial institutions	638,045	509,735
Outstanding member cheques	37,531	57,846
	1,078,356	968,501

11. LOANS AND ADVANCES TO MEMBERS

	2019 $	2018 $
Overdrafts and revolving credit	59,377	49,940
Term loans	132,664,084	127,392,278
	132,723,461	127,442,218
Less: Provision for impaired loans	(186,731)	(319,527)
	132,536,730	127,122,691

11.1 Credit quality – security held against loans

	2019 $	2018 $
Secured by mortgage over real estate	121,141,524	115,508,253
Partly secured by goods mortgage	7,997,713	8,205,283
Wholly unsecured	3,584,224	3,728,682
	132,723,461	127,442,218

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:

	2019 $	2018 $
Security held as mortgages against real estate:		
- Loan to valuation ratio of less than 80%	105,016,528	94,066,390
- Loan to valuation ratio of more than 80% but mortgage insured	15,039,866	18,926,682
- Loan to valuation ratio of more than 80% but not mortgage insured	1,085,130	2,515,181
	121,141,524	115,508,253

11. LOANS AND ADVANCES TO MEMBERS (continued)

11.2 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:

		2019	2018
		$	$
(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.

		2019	2018
		$	$
(iii)	Loans by type were:		
	- Residential loans and facilities	119,647,095	114,160,732
	- Personal loans and facilities	11,612,737	11,964,565
	- Business loans and facilities	1,463,629	1,316,921
		132,723,461	127,442,218

11.3 Movement in the provision for impairment

Opening balance	319,527	173,366
Bad debts written off against provision	(128,088)	(39,270)
Loans provided for during the year	(4,708)	185,431
	186,731	319,527

11.4 Impaired loans written off

Amounts written off against the provisions	128,088	39,270
Amounts written off directly to expense	-	-
Bad debts expense	(4,258)	185,431
Bad debts recovered in the period	30,901	21,983

11. LOANS AND ADVANCES TO MEMBERS (continued)

11.5 Amounts arising from ECL

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

	2019 Gross Carrying Value	2019 ECL Allowance	2019 Carrying Value	2018 Gross Carrying Value	2018 Provision for Impairment	2018 Carrying Value
	$	$	$	$	$	$
Loans to members						
Mortgage	119,647,095	(49,639)	119,597,456	114,160,732	(129,324)	114,031,408
Commercial	1,463,629	-	1,463,629	1,316,921	-	1,316,921
Personal	11,553,360	(127,665)	11,425,695	11,914,625	(176,027)	11,738,598
Overdrafts	59,377	(9,427)	49,950	49,940	(14,176)	35,764
Total	132,723,461	(186,731)	132,536,730	127,442,218	(319,527)	127,122,691

The Credit Union have performed an analysis of the ECL allowance and have determined, based on internal analysis, management judgements and other historical data, that the entire allowance for 2019 is classified as Stage 2.

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

	2019 Carrying Value	2019 Provisions	2018 Carrying Value	2018 Provisions
	$	$	$	$
0 to 90 days in arrears	2,742,654	8,164	1,770,038	17,514
90 to 180 days in arrears	465,158	13,425	449,816	123,584
180 to 270 days in arrears	31,044	19,018	82,121	52,972
270 to 365 days in arrears	41,270	34,593	65,035	53,147
Over 365 days in arrears	102,104	102,104	58,134	58,134
Over limit facilities	9,427	9,427	14,176	14,176
Total	3,391,657	186,731	2,439,320	319,527

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.

11.7 Loans with repayments past due but not regarded as impaired

There are loans with a value of $2,742,654 past due which are not considered to be impaired, due to the very short number of days past due. Of these, 14 loans totalling $2,321,233 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.

11.8 Assets acquired via enforcement of security

	2019 $	2018 $
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.

11.9 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

12. INVESTMENT SECURITIES

	2019 $	2018 $
Investment securities at amortised cost		
Negotiable Certificate of Deposits	2,925,564	-
Floating Rate Notes	10,750,000	-
Term Deposits	43,156,625	-
Equity investment securities designated as FVOCI		
Cuscal	760,509	-
TAS	9,654	-
Available for sale investment securities		
Cuscal	-	353,795
TAS	-	9,654
Assets held to maturity		
Negotiable Certificate of Deposits	-	988,613
Floating Rate Notes	-	6,500,000
Term Deposits	-	43,146,787
Total Value of Investment Securities	57,602,352	50,998,849

This company (Cuscal) supplies end-to-end payments services. At 1 July 2018, the Credit Union designated its investment in Cuscal equity securities as at FVOCI. In FY 2018, these investments were classified as available-for-sale and measured at cost. The shares are able to be traded but within a limited market and to other Mutual ADIs.

Policy applicable before 1 July 2018

In 2018 Orange Credit Union held the Cuscal Shares at historical cost. The value of the Cuscal Shares at historical cost was $0.60 per share and this item was classified as Available for Sale.

Policy applicable after 1 July 2018

Management have used observable inputs to assess the fair value of the shares. The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value.

Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value. Management has determined that a value of $1.29 per share (30 June 2018) is a reasonable approximation of the fair value based on the Net Assets backing per share calculation.

Orange Credit Union is not intending, nor able to, dispose of these shares.

13. PROPERTY, PLANT AND EQUIPMENT

	2019 $	2018 $
Land	200,400	200,400
Buildings – at cost	785,272	785,272
Less: provision for depreciation	(689,140)	(672,058)
	96,132	113,214
Plant and equipment – at cost	1,440,220	1,687,097
Less: provision for depreciation	(1,369,424)	(1,568,364)
	70,796	118,733
Motor vehicles – at cost	119,893	120,391
Less: provision for depreciation	(47,049)	(39,225)
	72,844	81,166
Total property, plant and equipment	440,172	513,513

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	313,614	-	-	(17,082)	296,532
Plant and equipment	118,733	12,953	-	(60,890)	70,796
Motor vehicles	81,166	28,141	(12,410)	(24,053)	72,844
Totals	513,513	41,094	(12,410)	(102,025)	440,172

14. INTANGIBLES

	2019 $	2018 $
Computer software	1,056,412	939,242
Less: accumulated amortisation	(804,790)	(685,064)
Total intangible assets	251,622	254,178

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	254,178	168,839	-	171,395	251,622

15. DEPOSITS FROM MEMBERS

	2019 $	2018 $
Member deposits:		
- At call	132,647,054	122,010,682
- At term	52,622,948	50,743,810
Member withdrawable shares	126,120	126,848
	185,396,122	172,881,340

15.1 Concentration of member deposits

There are no members who individually have deposits which represent 10% or more of total liabilities (2018: Nil).

16. PAYABLES AND OTHER LIABILITIES

Payables and accrued expenses	289,040	313,349
Accrued interest payable	265,085	257,384
Members' clearing accounts	433,301	354,469
Sick leave	5,000	5,000
	992,426	930,202

17. TAXATION ASSETS AND LIABILITIES

17.1 Taxation liabilities

	2019 $	2018 $
Income tax	-	40,824
Deferred tax	113,670	1,824
	113,670	42,648

17.2 Deferred tax assets

	2019 $	2018 $
Loans	51,351	87,870
Plant and equipment	154,851	154,636
Creditors	36,625	41,104
Provisions	124,906	118,784
	367,733	402,394

17.3 Current Tax Assets

	2019 $	2018 $
Income Tax	49,189	-

17.4 Reconciliation of deferred taxation balances

(i) Gross movements

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

	2019 $	2018 $
Opening balance	400,570	341,821
Charge to Statement of Comprehensive Income	(146,507)	58,749
Closing balance	254,063	400,570

TAXATION ASSETS AND LIABILITIES (continued)

17.4 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:

	2019 $	2018 $
Property, plant and equipment		
Opening balance	154,636	154,422
Charge to Statement of Comprehensive Income	215	214
Closing balance	154,851	154,636
Provision for Impaired loans		
Opening balance	87,870	47,676
Charge to Statement of Comprehensive Income	(36,519)	40,194
Closing balance	51,351	87,870
Employee leave entitlements		
Opening balance	118,784	105,498
Charge to Statement of Comprehensive Income	6,122	13,286
Closing balance	124,906	118,784
Other		
Opening balance	41,104	36,049
Charge to Statement of Comprehensive Income	(4,479)	5,055
Closing balance	36,625	41,104

(iii) Deferred tax liabilities

	2019 $	2018 $
Available for sale financial assets		
Opening balance	1,824	1,824
Tax due on assets held at fair value investments held in equity (due to initial adoption of AASB 9)	111,846	-
Closing balance	113,670	1,824

18. PROVISIONS

	2019 $	2018 $
Annual leave	183,505	186,239
Long service leave	265,700	240,703
	449,205	426,942

18.1 Reconciliation of provision balances

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

	2019	2018
Annual leave		
Opening balance	186,239	164,779
Additional provision raised during the year	188,062	169,562
Amounts used	(190,796)	(148,102)
Closing balance	183,505	186,239
Long service leave		
Opening balance	240,703	213,852
Additional provision raised during the year	34,287	33,716
Amounts used	(9,290)	(6,865)
Closing balance	265,700	240,703

19. FVOCI Reserve

	2019	2018
FVOCI Reserve		
Balance at the beginning of year	-	-
Add: increase in revaluation of investment	406,714	-
Less: deferred tax thereon	(111,846)	-
	294,868	-

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

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

20.1.1 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.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1.1 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.

20.1.2 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 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.

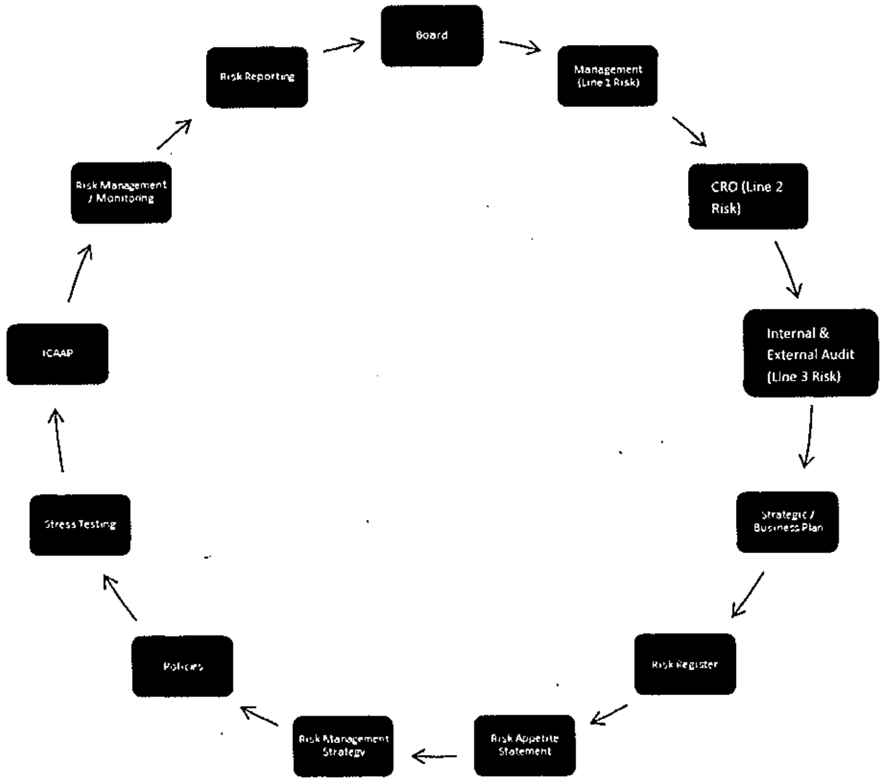
The third line-of-defence comprises the independent Audit functions who provides assurance to the Board and its Committees that:

a) the risk management framework has been complied with and is operating effectively; and
b) at least every three years, a comprehensive review of the appropriateness, effectiveness and adequacy of the risk management framework is performed.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1.2 Risk Governance (continued)

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



20.1.3 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.

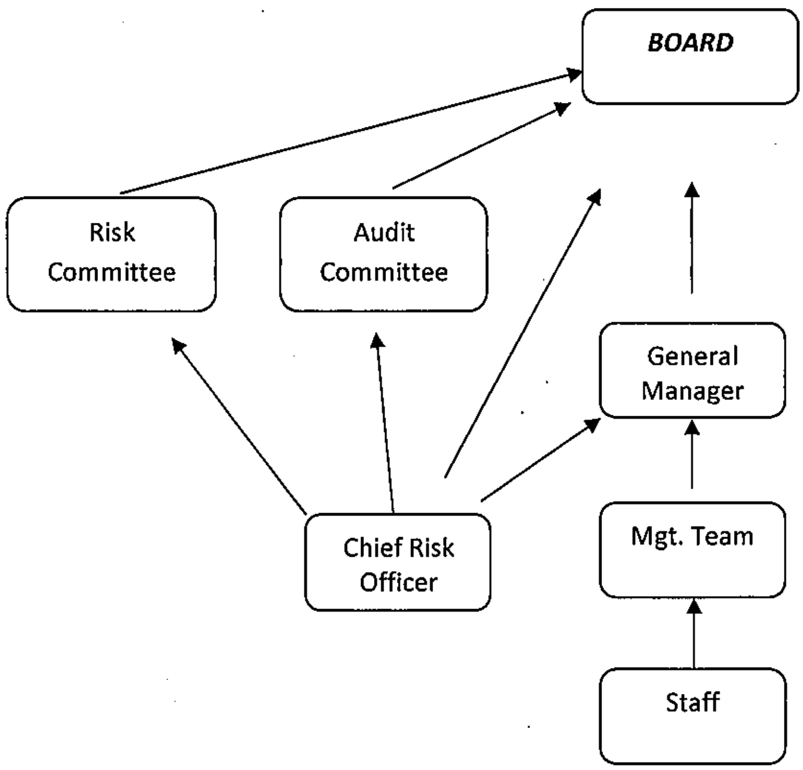
The General Manager is totally responsible for those Risk Management Functions delegated to Management by the Board. The General Manager delegates certain authorities to other members of the Management Team and staff to ensure the efficiency of the Risk Management Framework.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1.3 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.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1.3 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.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2 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.

20.2.1 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.

The Credit Union's exposure to interest rate risk is set out in Note 24 which details the contractual interest change profile.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.1 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 twelve-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 2019, the Credit Union had $635,888 (2.61%) 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 2019, the risk was assessed at $497,560 (2.04%).

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 2019, the worst-case impact was assessed at $558,030 (2.29%).

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 Credit risk

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

(i) Credit risk – loans

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

Loan class	2019 Carrying value $	2019 Undrawn facilities $	2019 Maximum exposure $	2018 Carrying value $	2018 Undrawn facilities $	2018 Maximum exposure $
Housing	119,647,095	9,094,527	128,741,622	114,160,732	8,752,981	122,913,713
Personal	11,612,737	825,530	12,438,267	11,964,565	877,686	12,842,251
Commercial	1,463,629	153,665	1,617,294	1,316,921	178,089	1,495,010
Total	132,723,461	10,073,722	142,797,183	127,442,218	9,808,756	137,250,974

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).

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 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 expected credit loss 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.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 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 expected credit losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for expected credit 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 statement of financial position' loan balances which are past due by 90 days or more.

Details of past due and impaired loans are as set out in Note 11.

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 11.

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.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 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 11. 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.

(ii) Credit risk – liquid investments

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), for an amount up to 10% of tier one capital, 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 with ADI's that have a Standard & Poors (S&P) short term rating of B or better for an amount up to 15% of tier one capital.
- With the exception of Cuscal, invest funds with ADI's that have a S&P short term rating of A or better for an amount up to 25% of tier one capital.
- for Cuscal the maximum exposure limit is 200% of tier one Capital.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 Credit risk (continued)

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 40% of the total HQLA portfolio in HQLA Bonds that are included on the RBA list of repo-eligible securities.

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

	2019 Carrying value $	2019 Past due value $	2019 Provision $	2018 Carrying value $	2018 Past due value $	2018 Provision $
CUSCAL (AA)	6,167,308	-	-	7,310,507	-	-
ADIs – A1	14,069,252	-	-	14,453,856	-	-
ADIs – A2	27,950,268	-	-	16,462,353	-	-
ADIs – A3	1,500,000	-	-	1,500,000	-	-
ADIs – BBB	5,000,000	-	-	5,500,000	-	-
Unrated	23,044,056	-	-	24,667,251	-	-
Total	77,730,884	-	-	69,893,967	-	-

(iii) Credit risk – guarantees

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

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.3 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.

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 27 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 23. The ratio of liquid funds over the past year is set out below:

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.3 Liquidity risk (continued)

	2019 $	2018 $	2019 (%)	2018 (%)
Total minimum liquidity holdings				
As at 30 June	25,292,910	22,434,948		
Total adjusted liabilities				
As at 30 June	196,913,299	184,089,889	12.84	12.19
Average for the year	195,075,466	184,513,258	13.64	14.14
Minimum during the year	193,105,623	182,680,771	12.23	11.18

20.2.4 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.

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.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.4 Operational risk (continued)

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.

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.

20.3.1 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.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3.1 Capital management (continued)

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 Tier 1 Capital*

For the Credit Union, Tier 1 Capital comprises of:

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

Tier 2 Capital

For the Credit Union, Tier 2 Capital comprises of:

- General Reserve for credit losses.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3.1 Capital Management (continued)

	2019 $	2018 $
Common Equity Tier 1 Capital		
Retained earnings	24,153,525	23,743,262
FVOCI Reserve	294,867	-
Less: regulatory adjustments	(1,266,194)	(1,008,543)
Net Tier 1 Capital	23,182,198	22,734,719
Tier 2 Capital		
Reserve for credit losses	1,185,914	1,101,799
	1,185,914	1,101,799
Total Capital	24,368,112	23,836,518

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.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3.1 Capital Management (continued)

	Risk weighting	Carrying value $	Risk weighted value $
Cash	0%	642,704	-
Deposits in highly rated ADIs	20-50%	78,324,874	31,324,968
Standard loans secured against eligible residential mortgages up to 80% LVR	35-50%	91,926,986	32,206,709
Standard loans secured against eligible residential mortgages over 80% LVR	35-50%	15,831,605	6,076,566
Non –standard and Other loans	0-100%	24,964,870	20,979,812
Other assets	0-100%	973,727	973,727
Equity holding in Transaction Solutions Ltd	400%	9,654	38,616
Total		212,674,420	91,600,398

Capital adequacy ratio

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

2019	2018	2017	2016	2015
22.75%	23.89%	24.15%	24.06%	24.44%

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 2009 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

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

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3.1 Capital Management (continued)

Based on this approach, the Credit Union's operational risk requirements are $12,223,048 (2018: $11,791,895).

21. CATEGORIES OF FINANCIAL INSTRUMENTS

	Note	2019 $	2018 $
Financial assets – carried at amortised cost			
Cash and liquid assets	9	21,541,399	19,993,587
Investment Securities	12	56,832,189	50,635,400
Accrued receivables	10	1,078,356	968,501
Loans to members	11	132,536,730	127,122,691
Total financial assets carried at amortised cost		211,988,674	198,720,179
FVOCI Investments	12	770,163	-
Available for sale investments	12	-	363,449
TOTAL FINANCIAL ASSETS		212,758,837	199,083,628
Financial liabilities – carried at amortised cost			
Deposits from members	15	185,396,122	172,881,340
Payables and other liabilities	16	987,426	925,202
TOTAL FINANCIAL LIABILITIES		186,383,548	173,806,542

22. 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.

22.1 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.

22. FAIR VALUE MEASUREMENT (continued)

22.1 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.

23. 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.

23. MATURITY PROFILE OF FINANCIAL INSTRUMENTS (continued)

2019	Carrying Amount $	0 to 3 months $	3 to 12 months $	1 to 5 years $	5+ years $	No maturity $	Total $
Financial assets							
Cash on hand	642,704	-	-	-	-	642,704	642,704
Cash at bank and investments	77,730,884	25,808,751	34,280,245	8,386,409	3,527,136	7,900,670	79,903,211
Loans to members	132,536,730	3,665,114	10,387,695	25,044,359	162,106,164	-	201,203,332
Other assets (non-interest bearing)	1,210,475	440,312	-	-	-	770,163	1,210,475
Total financial assets	212,120,793	29,914,177	44,667,940	33,430,768	165,633,300	9,313,537	282,959,722
Financial Liabilities							
Trade payables and other liabilities	722,341	722,341	-	-	-	-	722,341
Deposits from members	185,396,122	25,984,863	24,790,038	2,357,162	-	132,773,175	185,905,238
Total financial liabilities	186,118,463	26,707,204	24,790,038	2,357,162	-	132,773,175	186,627,579

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	71,663,168
Loans to members	127,442,218	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	198,893,420	28,975,413	35,583,880	53,150,647	141,886,291	12,359,837	271,956,068
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

24. 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.

2019	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	10,898,697	9,999,998	-	-	642,704	21,541,399
Receivables due from other financial institutions	4,500,000	7,950,268	33,511,920	10,870,000	-	56,832,188
Accrued receivables	-	-	-	-	1,078,356	1,078,356
Loans to members	77,411,337	3,199,471	20,360,434	31,752,219	-	132,723,461
FVOCI equity investments	-	-	-	-	770,163	770,163
Total financial assets	92,810,034	21,149,737	53,872,354	42,622,219	2,491,223	212,945,567
Financial Liabilities						
Trade payables and other liabilities	-	-	-	-	987,426	987,426
Deposits from members	143,287,873	15,262,825	24,460,132	2,259,170	126,120	185,396,120
Total financial liabilities	143,287,873	15,262,825	24,460,132	2,259,170	1,113,546	186,383,546

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

25. FINANCIAL COMMITMENTS

	2019	2018
	$	$
Loan commitments		
Loans approved, but not funded	1,595,466	1,149,071
Loan redraw facilities available	8,386,523	8,577,722
	9,981,989	9,726,793
Overdraft facility commitments		
Unused member overdraft facilities	91,733	81,963
	10,073,722	9,808,756

26. EXPENDITURE COMMITMENTS

26.1 Future capital commitments

At 30 June 2019, the Credit Union has future capital commitments totalling $129,307 (2018: $96,591).

26.2 Lease expenditure commitments

	2019	2018
	$	$
Operating leases		
Within 1 year	-	1,203
1 to 5 years	-	-
Over 5 years	-	-
	-	1,203

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

26.3 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.

27. STANDBY BORROWING FACILITIES

The Credit Union has the following credit facilities with CUSCAL:

	2019 $	2018 $
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.

28. 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.

29. KEY MANAGEMENT PERSONNEL DISCLOSURES

29.1 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.

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

29.1 Remuneration of key management personnel (continued)

	Year ended 30 June 2019			Year ended 30 June 2018		
	Directors	Other KMP	Total	Directors	Other KMP	Total
Short-term benefits	136,141	536,994	673,135	126,951	510,774	637,725
Post-employment benefits	23,837	57,831	81,668	29,417	61,078	90,495
Other long-term benefits	-	-	-	-	-	-
Termination benefits	-	-	-	-	-	-
Total	159,978	594,825	754,803	156,368	571,852	728,220

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.

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

	Year ended 30 June 2019			Year ended 30 June 2018		
	Directors	Other KMP	Family	Directors	Other KMP	Family
Opening balance	-	623,349	858,227	533,297	703,763	891,404
Loans Funded	-	-	-	-	-	-
Interest charged	903	7,714	36,432	2,303	20,226	38,733
Write-off	-	-	-	-	-	-
Closing Balance	10,480	379,396	821,182	-	623,349	858,227

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

29.2 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.

29.3 Other transactions

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

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

	Year ended 30 June 2019			Year ended 30 June 2018		
	Directors	Other KMP	Family	Directors	Other KMP	Family
Opening balance	212,281	129,510	126,300	286,562	224,498	141,649
Interest paid	44	120	3,194	4,483	52	3,484
Closing balance	22,068	198,092	221,551	212,281	129,510	126,300
Numbers in group	6	4	4	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.

30. 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.

31. SEGMENTAL REPORTING

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

32. STATEMENT OF CASH FLOWS

32.1 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.

ORANGE CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(continued)

32. STATEMENT OF CASH FLOWS (continued)

32.2 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:

	2019 $	2018 $
Cash balance comprises:		
- Cash on hand	642,704	735,019
- Imprest accounts	207,375	784,019
- Deposits at call less than 90 days	20,691,320	18,474,549
	21,541,399	19,993,587

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

	2019 $	2018 $
Profit for the year after income tax	648,681	654,323
Non-cash items		
Loan impairment loss	(4,258)	185,431
Depreciation and amortisation	273,420	243,198
Loss on sale of property, plant and equipment	592	-
Movements in assets and liabilities		
Deferred income tax asset	34,661	(58,749)
Provision for income tax	(90,013)	(20,467)
Accrued interest receivable	(128,310)	(58,360)
Accrued interest payable	7,701	(9,823)
Provision for employee entitlements	22,263	48,311
Creditors and accruals	(24,309)	24,427
Net cash flows from revenue activities	740,428	1,008,291

33. 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.

34. 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.

34. 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.

34. 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. Through their prior history with Morse Group, Intentus has been auditing credit unions for 36 years and audits 4 credit unions in NSW. Intentus utilises 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.

34. 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.

34. 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
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DIRECTORS' DECLARATION

The Directors of Orange Credit Union Limited declare that:

(a) The financial statements and notes set out on pages 9 to 77:

  (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 2019 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 25th day of September 2019 for and on behalf of the Directors by:

Andrew Martin Kent
Director
Chair of Board of Directors

Michael Kemp
Director
Chair of Audit Committee

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CHARTERED ACCOUNTANTS

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

Audit Opinion

We have audited the accompanying financial report of Orange Credit Union Limited, which comprises the Statement of Financial Position as at 30 June 2019, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the director's declaration.

In our opinion:

(a) the financial report of the Orange Credit Union Limited is in accordance with the *Corporations Act 2001* (Cwlth), including:

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

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* (Cwlth)

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

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CHARTERED ACCOUNTANTS

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

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

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

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

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

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* (Cwlth). This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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14 Sale Street
Orange
Dated: 25 September 2019

J O'Malley

John O'Malley
Director