ORANGE CREDIT UNION LIMITED

ABN 34 087 650 477

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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
Mrs S. L. Woodward – 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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ORANGE CREDIT UNION LIMITED
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DIRECTORS' REPORT

Your Directors submit the financial report of the Credit Union for the year ended 30 June 2020.

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 Andrew de Graaff - Master of Management (Monash University). Mr de Graaff has worked in the Banking industry across a range of management and executive leadership roles in Australia and overseas for over 27 years. Mr de Graaff was appointed Company Secretary on 8 July 2019.

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 $241,549 (2019: $648,681).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During February and March 2020 Australia began to experience the impacts of the COVID-19 virus which has been classified as a global pandemic by the World Health Organisation. The Credit Union responded to the pandemic by following the government's health advice and adhering to the government's restrictions, such as increasing cleaning and disinfecting, limiting the number of members visiting our branch and splitting our workforce into two separate teams.

This proved effective as all staff remained free of Covid-19 and all operations continued to operate relatively unaffected.

COVID-19 has created significant a significant contraction in economic activity as a result of Federal and State Government intervention to control the pandemic. As a result, the Credit Union's operations have been impacted. The Reserve Bank of Australia provided a level of certainty for the economy by injecting billions of dollars into the financial system and reducing official interest rates by 0.5% in March 2020 to an historical low of 0.25%. However, the rapid reduction in official interest rates has resulted in a contraction of the Credit Union's interest margin. The Credit Union increased liquidity buffers as a result of the increased uncertainty and advice from our regulator, the Australian Prudential Regulation Authority (APRA). This placed further pressure on the interest margin. There has also been a contraction in demand for credit and a reduction in the number of loan enquiries. Finally, the allowance for expected credit losses has increased to account for a potential increase in bad debts. These impacts have been reflected in our operating results.

Orange Credit Union will continue to support local businesses by promoting them wherever possible.

Apart from the impacts of COVID-19 there were no other significant changes in the state of the affairs of the Credit Union for the year.

REVIEW OF OPERATIONS

Profit for the year totalled $241,549 compared to $648,681 in 2018-19. Interest revenue decreased by $547,345 to $7,749,990. Interest on members' loans increased by $94,857 to $6,416,839.

Operating expenses increased by $792,031 to $7,040,317. Employee compensation and benefits increased by $217,517 to $3,028,043. Other significant areas of expenditure are administration expenses of $2,355,594 and information technology expenses of $995,311.

Gross loans to members increased by $13,328,546 to $146,052,007. The principal area of increase was for residential loans which increased by $12,684,700 to $132,331,795. During the 2018 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 2020, the balances of these loans totalled $415,439.

REVIEW OF OPERATIONS cont'd

Members' savings and deposits increased by $16,119,628 to $201,515,751.

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: https://www.orangecu.com.au/annual-reports.

EVENTS OCCURRING AFTER BALANCE DATE

Other than the aforementioned Covid-19 pandemic continuing, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Credit Union in subsequent financial years.

LIKELY DEVELOPMENTS AND RESULTS

The Credit Union will continue to pursue its strategic plan (business plan) of increasing the profitability and market share of its business during the next financial year.

Further information about likely developments in the operations of the Credit Union and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Credit Union.

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.

DIRECTORS' REPORT
(continued)

ENVIRONMENTAL ISSUES

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

PROCEEDINGS ON BEHALF OF CREDIT UNION

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

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

AUDITOR'S INDEPENDENCE

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

INFORMATION ON DIRECTORS

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

Gary Bargwanna

Current Occupation	Franchise Owner
Credit Union Experience	Director of Orange Credit Union for 20 years Former Member Representative of the Electrolux Superannuation Board Former Trustee of the Email Superannuation Board
Current Board Positions	Member of Audit Committee Member of Risk Committee Member of Executive Committee
Interest in Shares	1 Member Share

INFORMATION ON DIRECTORS cont'd

Michelle Catlin

Current Occupation	Business Partner Risk Management TAFE NSW
Credit Union Experience	Director of Orange Credit Union for 4 years Associate Director from 28.01.15 to 29.11.16 Member of the Australian Institute of Company Directors
Current Board Position	Chair of Corporate Governance Committee Member of Executive 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 30.07.19
Current Board Position	Chair of Audit Committee Member of Risk Committee Member of Executive Committee
Interest in Shares	1 Member Share

Michael Kemp

Current Occupation	Farmer
Credit Union Experience	Director of Orange Credit Union for 6 years Associate Director from 31.07.13 to 25.11.14
Current Board Positions	Chair of Audit Committee Member of Risk Committee Member of Executive Committee
Interest in Shares	1 Member Share

Andrew Kent

Current Occupation	Business Manager, Taree Christian School
Credit Union Experience	Director of Orange Credit Union for 9 years Associate Director from 01.07.10 to 22.03.11 Member of the Australian Institute of Company Directors
Current Board Positions	Member of Corporate Governance Committee Member of Executive Committee
Interest in Shares	1 Member Share

INFORMATION ON DIRECTORS (continued)

Amanda Mooney

Current Occupation	Business Manager, James Sheahan Catholic High School
Credit Union Experience	Director of Orange Credit Union for 7 years Associate Director from 10.11.11 to 31.07.13
Current Board Positions	Chair of the Board of Directors Member of Executive Committee Member of Audit Committee Member of Risk Committee
Interest in Shares	1 Member Share

Sarah Ryan

Current Occupation	Associate Solicitor
Credit Union Experience	Director of Orange Credit Union for 7 years Associate Director from 10.11.11 to 31.07.13 Member of the Australian Institute of Company Directors
Current Board Positions	Vice-Chair of the Board of Directors Member of Executive Committee Member of Corporate Governance Committee
Interest in Shares	1 Member Share

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	0	8	8	8	6
No. of meetings attended:						
G Bargwanna	6	0	8	8	-	6
M Catlin	6	0	-	-	8	6
M Kemp	6	0	8	8	-	6
A Kent	6	0	-	-	8	6
A Mooney	5	0	8	8	-	5
S Ryan	5	0	-	-	8	5
T Edmonstone	6	0	6	6	3	6

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' REPORT

(continued)

DIRECTORS' BENEFITS

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

Signed in accordance with a resolution of the Board of Directors and is signed at Orange on the 30th day of September 2020.

Amanda Maree Mooney	Timothy Francis Edmonstone
Director	Director
Chair of Board of Directors	Chair of Audit Committee

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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 2020, 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.

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Intentus

23 Sale Street
Orange
Dated: 30 September 2020

J O'Malley

John O'Malley
Director

CHARTERED ACCOUNTANTS
AUSTRALIA • NEW ZEALAND

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 $	2019 $
Interest revenue	4.1	7,749,990	8,297,335
Interest expense	4.2	(1,574,098)	(2,336,987)
Net interest income		6,175,892	5,960,348
Fees, commissions and other income	5	1,193,999	1,175,435
Total interest and fee income		7,369,891	7,135,783
Non-interest expenses:			
Impairment losses on loans receivable from members	6.1	(235,764)	(4,258)
General administration:			
- Employees compensation and benefit	6.2	(3,028,043)	(2,810,526)
- Depreciation and amortisation	6.2	(274,673)	(273,420)
- Information technology	6.2	(995,311)	(832,479)
- Occupancy expenses	6.2	(150,932)	(141,307)
- Other administration	6.2	(2,355,594)	(2,194,812)
Total non-interest expenses		(7,040,317)	(6,248,286)
Profit for the year before income tax		329,574	887,497
Income tax expense	8	(88,025)	(238,816)
Profit for the year after income tax		**241,549**	**648,681**
Other comprehensive income, net of income tax			
Movement in reserve for equity instruments at FVOCI	19	(115,259)	294,868
Total comprehensive income for the period		**(115,259)**	**294,868**

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

ORANGE CREDIT UNION LIMITED
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	Retained Earnings $	Reserve for Credit Losses $	FVOCI Reserve $	Total $
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 2018	23,743,262	2,229,319	294,868	26,267,449
Profit for the year after income tax	648,681	-	-	648,681
Transfer from retained earnings to reserve for credit losses	(238,418)	238,418	-	-
As at 30 June 2019	24,153,525	2,467,737	294,868	26,916,130
Profit for the year after income tax	241,549	-	-	241,549
Movement in FVOCI reserve on revaluation of investment	-	-	(115,259)	(115,259)
Transfer from retained earnings to reserve for credit losses	(310,103)	310,103	-	-
As at 30 June 2020	24,084,971	2,777,840	179,609	27,042,420

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Notes	2020 $	2019 $
Assets:			
Cash and liquid assets	9	31,698,191	21,541,399
Receivables	10	711,361	1,078,356
Loans and advances to members	11	145,709,083	132,536,730
Investment securities	12	50,729,112	57,602,352
Property, plant and equipment	13	359,551	440,172
Current tax assets	17.3	126,371	49,189
Deferred tax assets	17.2	337,364	367,733
Intangibles	14	352,827	251,622
Total Assets		230,023,860	213,867,553
Liabilities:			
Deposits from members	15	201,515,751	185,396,122
Payables and other liabilities	16	1,091,791	992,426
Provisions	18	309,147	449,205
Taxation liabilities	17.1	64,751	113,670
Total Liabilities		202,981,440	186,951,423
Net Assets		**27,042,420**	**26,916,130**
Members' Equity:			
FVOCI Reserve	19	179,609	294,868
Reserve for credit losses		2,777,840	2,467,737
Retained earnings		24,084,971	24,153,525
Total Members' Equity		**27,042,420**	**26,916,130**

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

ORANGE CREDIT UNION LIMITED
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 $	2019 $
Cash flows from operating activities:			
Revenue inflows:			
Interest received on loans		6,416,839	6,321,982
Interest received on investments		1,752,662	1,847,043
Dividends received		46,641	21,206
Fees and commissions received		994,914	1,076,392
Other income		152,444	77,837
Revenue outflows:			
Interest paid on members' savings		(1,645,012)	(2,325,737)
Interest paid on borrowings		(3,301)	(3,550)
Payments to suppliers and employees		(6,712,241)	(5,980,577)
Income taxes paid		(145,338)	(294,168)
Net cash flows from revenue activities	32.3	857,608	740,428
Members' loan repayments		29,999,952	23,663,852
Members' loan fundings		(43,408,069)	(29,073,632)
Net increase in member deposits and shares		16,119,628	12,535,098
Net increase / (decrease) in members' clearing accounts		146,549	84,579
Net decrease / (increase) in deposits to other financial institutions		6,719,563	(6,196,789)
Net cash provided by operating activities		10,435,231	1,753,536
Cash flows from investing activities:			
Consideration received on sale of property, plant and equipment		11,875	11,818
Payment for property, plant and equipment		(35,515)	(41,095)
Payment for intangibles		(254,799)	(176,447)
Net cash used in investing activities		(278,439)	(205,724)
Net increase / decrease in cash held		10,156,792	1,547,812
Cash held at the beginning of the year		21,541,399	19,993,587
Cash held at the end of the year	32.2	**31,698,191**	**21,541,399**

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

ORANGE CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

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 2020. The Credit Union is a company, limited by shares, incorporated and domiciled in Australia. The statements were authorised for issue on 30 September 2020 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.

Comparatives are consistent with prior years.

2. CHANGES IN ACCOUNTING POLICIES

Leases - Adoption of AASB 16

The Credit Union has elected not to recognise a lease liability for short term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

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. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.4 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%

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Property, plant and equipment (continued)

(ii) Depreciation (continued)

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

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

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

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. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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)

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.

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.

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.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

(ii) 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 Credit Union 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 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 11.

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 2020, refer to Note 2 for details of the changes due to standards adopted.

4. INTEREST REVENUE AND INTEREST EXPENSE

4.1 Interest revenue

	2020 $	2019 $
Interest revenue on assets carried at amortised cost:		
Receivables from financial institutions	1,333,151	1,975,353
Loans to members	6,416,839	6,321,982
Total interest revenue	7,749,990	8,297,335

4.2 Interest expense

	2020 $	2019 $
Interest expense on liabilities carried at amortised cost:		
Members savings deposits	595,507	1,188,170
Term deposits	975,290	1,145,268
External borrowings	3,301	3,549
Total interest expense	1,574,098	2,336,987

5 FEES, COMMISSIONS AND OTHER INCOME

	2020 $	2019 $
Fees and commissions revenue		
Fee income on loans	117,990	88,472
Fee income from member deposits	1,243	1,554
Other fee income	703,558	792,206
Insurance commissions	123,121	141,688
Other commissions	49,002	52,472
Total fee and commission revenue	994,914	1,076,392
Other income		
Dividends received on available for sale assets	46,641	21,206
Bad debts recovered	26,550	30,901
Miscellaneous revenue	125,894	46,936
Total other income	199,085	99,043
Total fees, commissions and other income	1,193,999	1,175,435

6 NON-INTEREST EXPENSES

6.1 Impairment losses

Loans and advances

	2020	2019
Increase / (decrease) in provision for impairment	156,193	(132,346)
Bad debts written off	79,571	128,088
Total impairment expense	235,764	(4,258)

6 NON-INTEREST EXPENSES (continued)

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:

	2020 $	2019 $
Depreciation and amortisation		
Depreciation	111,534	102,025
Amortisation of intangible assets	163,139	171,395
Total depreciation and amortisation	274,673	273,420
Information technology	995,311	832,479
Property expenses	150,932	141,307
Employee benefits expenses		
Salaries	2,144,335	2,008,581
Superannuation contributions	323,810	289,169
Annual leave	155,688	188,062
Long service leave	16,203	34,287
Fringe benefits expense	70,648	38,675
Other	317,359	251,752
Total employee benefits expenses	3,028,043	2,810,526
Other administrative expenses		
Card and payment costs	1,028,601	937,561
Board costs	215,983	197,265
Consultancy	117,456	152,184
Loans administration	38,328	31,666
Marketing and promotion	248,941	142,408
Member chequing	9,434	7,975
Member protection	368,403	352,965
Office administration	328,448	372,788
Total other administrative expenses	2,355,594	2,194,812

7. AUDITOR'S REMUNERATION

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

	2020 $	2019 $
Audit of the financial statements	55,772	55,220
Other services	10,446	10,340
	66,218	65,560

8. INCOME TAX

8.1 Current tax expense

	2020	2019
The components of tax expense comprise:		
Current income tax payable	68,156	204,155
Decrease / (Increase) in deferred tax liability	-	-
Decrease / (Increase) in deferred tax asset	30,369	34,661
Movement due to change in tax rates	(10,500)	-
Total tax expense	88,025	238,816

8.2 Reconciliation of current year tax payable to income tax expense

	2020 $	2019 $
Prima facie tax on profit before income tax at 27.5%	90,633	244,061
Plus / (Less) tax effect of:		
- Non-deductible entertainment expenses	2,398	1,344
- Dividend rebate	(14,492)	(6,589)
- Government COVID rebate (Non Assessable Non Exempt Income)	(13,750)	-
- Movement due to changes in tax rates	23,236	-
	88,025	238,816

8.3 Franking Credits

	2020	2019
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:	7,673,913	7,483,323
	7,673,913	7,483,323

9. CASH AND LIQUID ASSETS

	2020 $	2019 $
Cash on hand	871,205	642,704
Imprest and bank accounts	990,969	207,375
Short term deposits and deposits at call	29,836,017	20,691,320
	31,698,191	21,541,399

10. RECEIVABLES

Sundry debtors and clearing accounts	492,827	402,780
Interest receivable on receivables from other financial institutions	218,534	638,045
Outstanding member cheques	-	37,531
	711,361	1,078,356

11. LOANS AND ADVANCES TO MEMBERS

Overdrafts and revolving credit	28,798	59,377
Term loans	146,023,209	132,664,084
	146,052,007	132,723,461
Less: Provision for impaired loans	(342,924)	(186,731)
	145,709,083	132,536,730

11.1 Credit quality – security held against loans

Secured by mortgage over real estate	133,874,435	121,141,524
Partly secured by goods mortgage	8,979,017	7,997,713
Wholly unsecured	3,198,555	3,584,224
	146,052,007	132,723,461

11. LOANS AND ADVANCES TO MEMBERS (continued)

11.1 Credit quality – security held against loans (continued)

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:

	2020 $	2019 $
Security held as mortgages against real estate:		
- Loan to valuation ratio of less than 80%	121,737,917	105,016,528
- Loan to valuation ratio of more than 80% but mortgage insured	11,718,526	15,039,866
- Loan to valuation ratio of more than 80% but not mortgage insured	417,992	1,085,130
	133,874,435	121,141,524

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:

		2020	2019
(i)	Loans to individuals or related groups of members which exceed 5% of capital – aggregate value	6,541,100	-

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

		2020	2019
(iii)	Loans by type were:		
	- Residential loans and facilities	132,331,795	119,647,095
	- Personal loans and facilities	11,998,043	11,612,737
	- Business loans and facilities	1,722,169	1,463,629
		146,052,007	132,723,461

11.3 Movement in the provision for impairment

	2020	2019
Opening balance	186,731	319,527
Bad debts written off against provision	(79,571)	(128,088)
Loans provided for during the year	235,764	(4,708)
	342,924	186,731

11. LOANS AND ADVANCES TO MEMBERS (continued)

11.4 Impaired loans written off

	2020 $	2019 $
Amounts written off against the provisions	79,571	128,088
Amounts written off directly to expense		-
Bad debts expense	156,193	(4,258)
Bad debts recovered in the period	26,550	30,901

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:

	2020 Gross Carrying Value $	2020 ECL Allowance $	2020 Carrying Value $	2019 Gross Carrying Value $	2019 Provision for Impairment $	2019 Carrying Value $
Loans to members						
Mortgage	132,331,795	(22,172)	132,309,623	119,647,095	(49,639)	119,597,456
Commercial	1,722,169	-	1,722,169	1,463,629	-	1,463,629
Personal	11,969,245	(313,951)	11,657,294	11,553,360	(127,665)	11,425,695
Overdrafts	28,798	(8,801)	19,997	59,377	(9,427)	49,950
Total	146,052,007	(342,924)	145,709,083	132,723,461	(186,731)	132,536,730

Allowance for expected credit losses

During the year ended 30 June 2020 the Credit Union’s allowance for expected credit losses increased by $156,193. This increase was in response to the COVID-19 Health pandemic.

In responding to the pandemic, the credit union performed the following:

- A review of individual borrowers who had requested a deferral of loan repayments. In estimating the individual amounts to be provided for these exposures consideration was given to the borrower’s credit history, current financial situation and any security held.
- A sensitivity analysis of the mortgage secured portfolio to identify any exposures to downturn property valuations.
- A review of the personal loan portfolio and the impact of anticipated increases in unemployment. An additional collective provision was raised against this portfolio.

11. LOANS AND ADVANCES TO MEMBERS (continued)

The analysis of the Credit Union's credit risk exposure per class of financial asset and "stage" without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables.

Loans to members	**Stage 1 12 Month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit impaired**	**Carrying Value**
	$	**$**	**$**	**$**	**$**
Mortgage	22,119	53	-	-	22,172
Commercial	-	-	-	-	-
Personal	15,037	14,303	134,958		164,298
Society One	135,701	4,304	7,648	-	147,653
Overdrafts	-	31	8,770	-	8,801
Carrying Amount	172,857	18,691	151,376		342,924

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

	2020 Carrying Value	**2020 Provisions**	**2019 Carrying Value**	**2019 Provisions**
	$	**$**	**$**	**$**
0 to 90 days in arrears	1,862,167	191,550	2,742,654	8,164
90 to 180 days in arrears	364,710	80,443	465,158	13,425
180 to 270 days in arrears	14,370	22,160	31,044	19,018
270 to 365 days in arrears	33,367	26,998	41,270	34,593
Over 365 days in arrears	84,061	12,972	102,104	102,104
Over limit facilities	9,093	8,801	9,427	9,427
Total	2,367,768	342,924	3,391,657	186,731

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. LOANS AND ADVANCES TO MEMBERS (continued)

11.7 Loans with repayments past due but not regarded as impaired

There are loans with a value of $1,862,167 past due which are not considered to be impaired, due to the very short number of days past due. Of these, loans totalling $1,452,279 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

	2020 $	2019 $
Motor vehicles	20,500	-
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

	2020 $	2019 $
Investment securities at amortised cost		
Negotiable Certificate of Deposits	992,626	2,925,564
Floating Rate Notes	20,120,000	10,750,000
Term Deposits	29,000,000	43,156,625
Equity investment securities designated as FVOCI		
Cuscal	606,832	760,509
TAS	9,654	9,654
Total Value of Investment Securities	50,729,112	57,602,352

13. PROPERTY, PLANT AND EQUIPMENT

	2020 $	2019 $
Land	200,400	200,400
Buildings – at cost	798,087	785,272
Less: provision for depreciation	(706,222)	(689,140)
	91,865	96,132
Plant and equipment – at cost	1,467,338	1,440,220
Less: provision for depreciation	(1,441,453)	(1,369,424)
	25,885	70,796
Motor vehicles – at cost	70,131	119,893
Less: provision for depreciation	(28,730)	(47,049)
	41,401	72,844
Total property, plant and equipment	359,551	440,172

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	309,347	-	-	(17,082)	292,265
Plant and equipment	70,796	35,515	-	(80,426)	25,885
Motor vehicles	72,844	-	(17,417)	(14,026)	41,401
Totals	452,987	35,515	(17,417)	(111,534)	359,551

14. INTANGIBLES

	2020 $	2019 $
Work in progress – IT projects	72,830	-
Computer software	1,247,926	1,056,412
Less: accumulated amortisation	(967,929)	(804,790)
Total intangible assets	352,827	251,622

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	251,622	264,344	-	(163,139)	352,827

15. DEPOSITS FROM MEMBERS

	2020 $	2019 $
Member deposits:		
- At call	146,557,191	132,647,054
- At term	54,835,318	52,622,948
Member withdrawable shares	123,242	126,120
	201,515,751	185,396,122

15.1 Concentration of member deposits

There are no members who individually have deposits which represent 10% or more of total liabilities (2019: Nil).

16. PAYABLES AND OTHER LIABILITIES

Payables and accrued expenses	316,303	289,040
Accrued interest payable	190,870	265,085
Members' clearing accounts	579,618	433,301
Sick leave	5,000	5,000
	1,091,791	992,426

17. TAXATION ASSETS AND LIABILITIES

17.1 Taxation liabilities

	2020 $	2019 $
Income tax	-	-
Deferred tax	64,751	113,670
	64,751	113,670

17.2 Deferred tax assets

Loans	85,731	51,351
Plant and equipment	140,967	154,851
Creditors	29,718	36,625
Provisions	78,537	124,906
Intangibles	2,411	-
	337,364	367,733

17.3 Current Tax Assets

Income Tax	126,371	49,189

17.4 Reconciliation of deferred taxation balances

(i) Gross movements

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

Opening balance	254,063	400,570
Charge to Statement of Comprehensive Income	18,550	(146,507)
Closing balance	272,613	254,063

17. 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:

	2020 $	2019 $
Property, plant and equipment		
Opening balance	154,851	154,636
Charge to Statement of Comprehensive Income	(13,884)	215
Closing balance	140,967	154,851
Provision for Impaired loans		
Opening balance	51,351	87,870
Charge to Statement of Comprehensive Income	34,380	(36,519)
Closing balance	85,731	51,351
Employee leave entitlements		
Opening balance	124,906	118,784
Charge to Statement of Comprehensive Income	(46,369)	6,122
Closing balance	78,537	124,906
Other		
Opening balance	36,625	41,104
Charge to Statement of Comprehensive Income	(6,907)	(4,479)
Closing balance	29,718	36,625
Intangibles		
Opening balance	-	-
Charge to Statement of Comprehensive Income	2,411	-
Closing balance	2,411	-

17. TAXATION ASSETS AND LIABILITIES (continued)

17.4 Reconciliation of deferred taxation balances (continued)

(iii) Deferred tax liabilities

Available for sale financial assets		
Opening balance	113,670	1,824
Adjustment to tax rates (from 27.5% to 25%)	(10,500)	-
Tax due on assets held at fair value investments held in equity (due to initial adoption of AASB 9)	(38,419)	111,846
Closing balance	64,751	113,670

18. PROVISIONS

	2020 $	2019 $
Annual leave	162,796	183,505
Long service leave	146,351	265,700
	309,147	449,205

18.1 Reconciliation of provision balances

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

Annual leave		
Opening balance	183,505	186,239
Additional provision raised during the year	155,688	188,062
Amounts used	(176,397)	(190,796)
Closing balance	162,796	183,505
Long service leave		
Opening balance	265,700	240,703
Additional provision raised during the year	16,203	34,287
Amounts used	(135,552)	(9,290)
Closing balance	146,351	265,700

19. FVOCI Reserve

FVOCI Reserve		
Balance at the beginning of year	294,868	-
Add: increase(decrease) in revaluation of investment	(153,678)	406,714
Less: deferred tax thereon	38,419	(111,846)
Closing balance	179,609	294,868

The Credit Union 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 Chief Executive Officer 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 Chief Executive Officer 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.

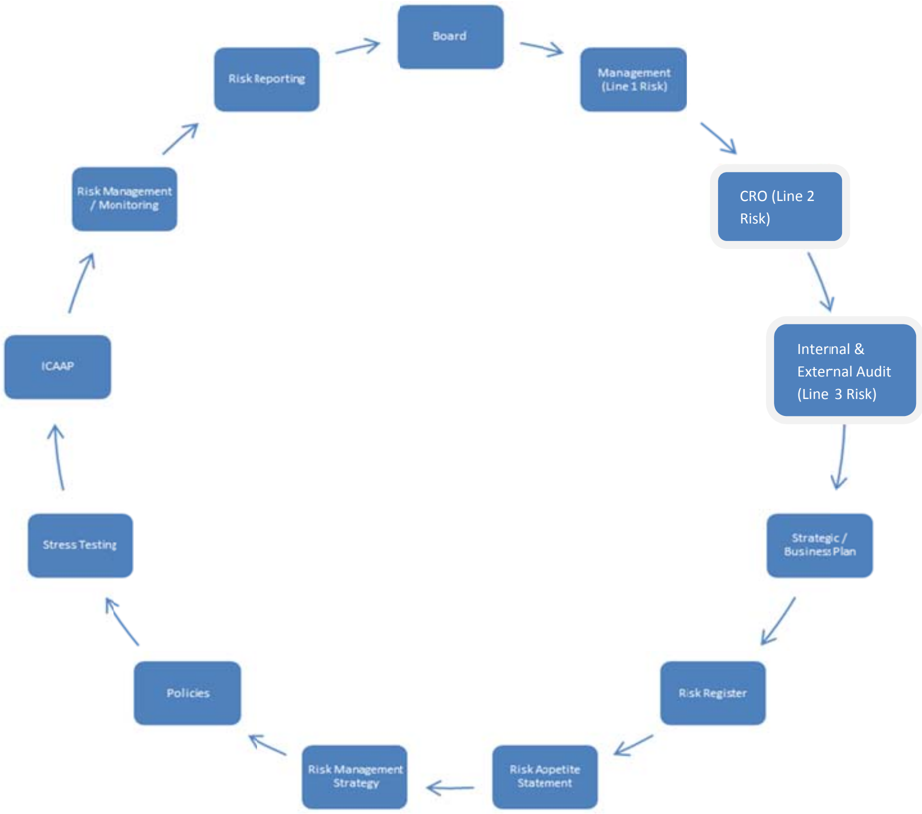
The third line-of-defence comprises the independent Audit functions who provides assurance to the Board and its Committees that:

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 Chief Executive Officer.

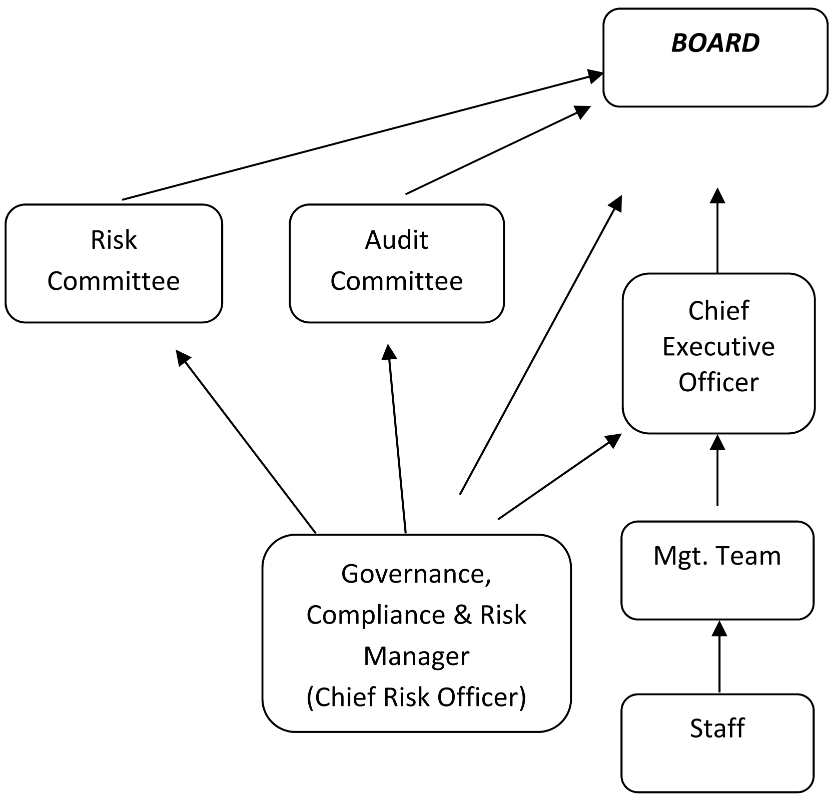
The Chief Executive Officer is totally responsible for those Risk Management Functions delegated to Management by the Board. The Chief Executive Officer delegates certain authorities to other members of the Management Team and staff to ensure the efficiency of the Risk Management Framework.

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.

Chief Executive Officer

The Chief Executive Officer 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.

Governance, Compliance & Risk Manager(CRO)

The Governance, Compliance & Risk Manager is independent from business lines, other revenue-generating responsibilities, and the finance function. The Governance, Compliance & Risk Manager is responsible for the establishment, monitoring, and maintenance of the organisation's risk management framework. The Governance, Compliance & Risk Manager 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 2020, the Credit Union had $671,773 (2.78%) 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 2020, the risk was assessed at $335,826 (1.39%).

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 2020, the worst-case impact was assessed at $410,723 (1.7%).

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	2020 Carrying value $	2020 Undrawn facilities $	2020 Maximum exposure $	2019 Carrying value $	2019 Undrawn facilities $	2019 Maximum exposure $
Housing	132,331,795	12,131,681	144,463,476	119,647,095	9,094,527	128,741,622
Personal	11,998,043	934,509	12,932,552	11,612,737	825,530	12,438,267
Commercial	1,722,169	287,348	2,009,517	1,463,629	153,665	1,617,294
Total	146,052,007	13,353,538	159,405,545	132,723,461	10,073,722	142,797,183

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 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 currently holds $6,541,100 in 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.

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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 or $3million cap, 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 or $4million cap.
- 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 or higher with APRA's approval.

- 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 is 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:

	2020 Carrying value $	2020 Past due value $	2020 Provision $	2019 Carrying value $	2019 Past due value $	2019 Provision $
CUSCAL (AA)	15,710,969	-	-	6,167,308	-	-
ADIs – A1	15,583,867	-	-	14,069,252	-	-
ADIs – A2	16,902,151	-	-	27,950,268	-	-
ADIs – A3	500,000	-	-	1,500,000	-	-
ADIs – BBB	9,742,626	-	-	5,000,000	-	-
Unrated	22,500,000	-	-	23,044,056	-	-
Total	80,939,613	-	-	77,730,884	-	-

(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 28 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profiles of the financial liabilities, based on the contractual repayment terms, are set out in the Note 24. The ratio of liquid funds over the past year is set out on the next page.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.3 Liquidity risk (continued)

	2020 $	2019 $	2020 (%)	2019 (%)
Total minimum liquidity holdings				
As at 30 June	46,775,338	25,292,910		
Total adjusted liabilities				
As at 30 June	213,902,373	196,913,299	21.87	12.84
Average for the year	204,854,724	195,075,466	16.04	13.64
Minimum during the year	200,404,697	193,105,623	13.24	12.23

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 are 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)

	2020 $	2019 $
Common Equity Tier 1 Capital		
Retained earnings	24,084,971	24,153,525
Add: FVOCI Reserve	179,609	294,867
Less: regulatory adjustments	(1,232,272)	(1,266,194)
Net Tier 1 Capital	23,032,308	23,182,198
Tier 2 Capital		
Reserve for credit losses	1,141,601	1,185,914
	1,141,601	1,185,914
Total Capital	24,173,909	24,368,112

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%	871,205	-
Deposits in highly rated ADIs	20-50%	81,122,667	21,831,497
Standard loans secured against eligible residential mortgages up to 80% LVR	35-50%	118,547,965	41,713,906
Standard loans secured against eligible residential mortgages over 80% LVR	35-50%	3,075,087	1,537,544
Non–standard and Other loans	0-100%	24,428,954	19,592,846
Other assets	0-100%	893,256	893,256
Equity holding in Transaction Solutions Ltd	400%	9,654	38,616
Total		228,948,788	85,607,665

Capital adequacy ratio

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

2020	2019	2018	2017	2016
23.18%	22.75%	23.89%	24.15%	24.06%

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 $12,802,632 (2019: $12,223,048).

21. CATEGORIES OF FINANCIAL INSTRUMENTS

	Note	2020 $	2019 $
Financial assets – carried at amortised cost			
Cash and liquid assets	9	31,698,191	21,541,399
Investment Securities	12	50,112,626	56,832,189
Accrued receivables	10	711,361	1,078,356
Loans to members	11	145,709,083	132,536,730
Total financial assets carried at amortised cost		228,231,261	211,988,674
FVOCI Investments	12	616,486	770,163
TOTAL FINANCIAL ASSETS		228,847,747	212,758,837
Financial liabilities – carried at amortised cost			
Deposits from members	15	201,515,751	185,396,122
Payables and other liabilities	16	1,086,791	987,426
TOTAL FINANCIAL LIABILITIES		202,602,542	186,383,548

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)

2020	Carrying Amount $	0 to 3 months $	3 to 12 months $	1 to 5 years $	5+ years $	No maturity $	Total $
Financial assets							
Cash on hand	871,205	-	-	-	-	871,205	871,205
Cash at bank and investments	80,939,612	18,120,962	21,269,356	16,772,095	-	25,826,992	81,989,405
Loans to members	145,709,083	3,591,490	13,958,360	61,278,324	212,739,345	-	291,567,519
Other assets (non-interest bearing)	1,099,659	492,827	-	-	-	606,832	1,099,659
Total financial assets	228,619,559	22,205,279	35,227,716	78,050,419	212,739,345	27,305,029	375,527,788
Financial Liabilities							
Trade payables and other liabilities	895,921	895,921	-	-	-	-	895,921
Lease liabilities	-	-	-	-	-	-	-
Deposits from members	201,837,138	31,146,076	21,669,789	2,340,840	-	146,680,433	201,837,138
Total financial liabilities	202,733,059	32,041,997	21,669,789	2,340,840	-	146,680,433	202,733,059

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

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.

2020	**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	25,826,986	5,000,000	-	-	871,205	31,698,191
Receivables due from other financial institutions	4,992,626	8,000,000	21,000,000	16,120,000	-	50,112,626
Accrued receivables	-	-	-	-	711,361	711,361
Loans to members	88,862,331	1,189,498	3,936,989	52,063,189	-	146,052,007
FVOCI equity investments	-	-	-	-	616,486	616,486
Total financial assets	119,681,943	14,189,498	22,936,989	68,183,189	2,199,052	229,190,671
Financial Liabilities						
Trade payables and other liabilities	-	-	-	-	1,086,791	1,086,791
Lease liabilities	-	-	-	-	-	-
Deposits from members	159,601,897	16,593,966	22,937,909	2,258,737	123,242	201,515,751
Total financial liabilities	159,601,897	16,593,966	22,937,909	2,258,737	1,210,033	202,602,542

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
Available for sale 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

25. FINANCIAL COMMITMENTS

	2020 $	2019 $
Loan commitments		
Loans approved, but not funded	4,376,726	1,595,466
Loan redraw facilities available	9,163,512	8,386,523
	13,540,238	9,981,989
Overdraft facility commitments		
Unused member overdraft facilities	75,775	91,733
	13,616,013	10,073,722

26. EXPENDITURE COMMITMENTS

26.1 Future capital commitments

At 30 June 2020, the Credit Union has future capital commitments totalling $607,000 (2019: $129,307).

26.2 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:

	2020 $	2019 $
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 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 2020			Year ended 30 June 2019		
	Directors	**Other KMP**	**Total**	**Directors**	**Other KMP**	**Total**
Short-term benefits	170,916	531,519	702,435	136,141	536,994	673,135
Post-employment benefits	26,987	75,270	102,257	23,837	57,831	81,668
Other long-term benefits	-	-	-	-	-	-
Termination benefits	-	121,671	121,671	-	-	-
Total	197,903	728,460	926,363	159,978	594,825	754,803

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 2020			Year ended 30 June 2019		
	Directors	**Other KMP**	**Family**	**Directors**	**Other KMP**	**Family**
Opening balance	10,480	379,396	821,182	-	623,349	858,227
Loans Funded	-	-	-	-	-	-
Interest charged	931	4,563	9,024	903	7,714	36,432
Write-off	-	-	-	-	-	-
Closing Balance	9,205	231,006	225,155	10,480	379,396	821,182

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 2020			Year ended 30 June 2019		
	Directors	Other KMP	Family	Directors	Other KMP	Family
Opening balance	22,068	198,092	221,551	212,281	129,510	126,300
Interest paid	6	39	3,101	44	120	3,194
Closing balance	47,690	141,837	377,045	22,068	198,092	221,551
Numbers in group	7	5	11	6	4	4

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.

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:

	2020 $	2019 $
Cash balance comprises:		
- Cash on hand	871,205	642,704
- Imprest accounts	990,969	207,375
- Deposits at call less than 90 days	29,836,017	20,691,320
	31,698,191	21,541,399

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

	2020 $	2019 $
Profit for the year after income tax	241,549	648,681
Non-cash items		
Loan impairment loss	235,764	(4,258)
Depreciation and amortisation	274,673	273,420
Loss on sale of property, plant and equipment	5,542	592
Tax rate adjustment	(10,500)	
Movements in assets and liabilities		
Deferred income tax asset	(30,369)	34,661
Provision for income tax	(77,182)	(90,013)
Accrued interest receivable	419,511	(128,310)
Accrued interest payable	(74,215)	7,701
Provision for employee entitlements	(140,058)	22,263
Creditors and accruals	27,263	(24,309)
Prepayments	(75,108)	-
Net cash flows from revenue activities	857,608	740,428

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;
- Chief Executive Officer 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.

Governance, Compliance & Risk Officer

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

In addition the Governance, Compliance & Risk Officer 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 Step Ahead Business Solutions 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
ABN 34 087 650 477

DIRECTORS' DECLARATION

The Directors of Orange Credit Union Limited declare that:

(a) The financial statements and notes set out on pages 9 to 74:

  (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 2020 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 30th day of September 2020 for and on behalf of the Directors by:

Amanda Mooney	Tim Edmonstone
Director	Director
Chair of Board of Directors	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 2020, 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 2020 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 2020, 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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23 Sale Street
Orange
Dated: 30 September 2020

John O'Malley
Director