2018

annual report

SCU More Generous Banking

Chair and CEO's Report

We are proud to share with you our achievements from 2017/2018.

About SCU

SCU is a community based banking organisation that provides retail, business and institutional banking. We join with trusted partners to provide excellence in banking. 45,000 members trust SCU with their banking.

Our Vision

SCU will change the way people think about banking.

Our Mission

We balance the efficiency of new technology with the personal touch from trained and motivated professional staff.

Our values

We are guided by our values in every interaction with our members, our people and the broader community.

- Co-operation
- Moral Integrity
- Trust
- Culture
    - Our sense of family means we care and show we care
    - Teamwork is a crucial element that should be present
    - Strive to be professional
    - Success, achievements and efforts to do things better
    - Respectful of fellow staff members
    - Make people feel empowered and enabled to do their job well
    - An aspirational place to work
- Financial Prudence
- Caring for Members, and
- Social Responsibility.

Our strategy

Member focus is the overarching priority to our Strategy. To support our members we invest in the following capabilities:

- Member Engagement / Experience
- Community
- System Reform
- Growing and Developing our People
- Financial Strength to create long-term member value
- Technology and Innovation
- Enhance member product and service options
- Enhance member pricing.

Highlights in 2017/ 2018

There are many areas that stand out:

- the Board's approval and our peoples delivery of SCU's Strategy
- delivering upgraded web-based banking technology
- our financial performance
- roll out of branch 2020 vision – refurbishment of Marrickville and Fairfield branches
- a day one participant in the New Payments Platform, allowing real time payments
- partnerships with Pepper Money, LeasePlus and Society One.

SCU has again delivered strong financial performance, guided by our strategy to enhance the financial wellbeing of members, our people, and our communities.

I'm pleased to report that SCU continues to be in a strong position financially with assets of $867m, loans to members of $674m and deposits of $771m.

We hold over $81m in net assets and our capital adequacy ratio sits at 17%.

Throughout the year, we endeavoured to invest in technology to maintain SCU's relevance whilst ensuring we remain financially strong. To this extent we continued our focus on member experience and innovation whilst achieving a Net Profit after Tax (NPAT) of $3.876m.

What are the key actions for 2018/2019?

We believe SCU is rich in potential. We have strategy based on member engagement and experience. We are evolving our capabilities to meet member preferences, competition and the external environment. Coupled with these ambitions, we are creating new growth opportunities through partnerships, technology and innovation.

In broad terms are focus is on delivering on our Strategy by continuing to grow, reforming our systems, developing our people, strengthening our engagement with our members and achieving our financial targets.

We are in a unique position of being a member owned organisation, where the customer also owns the organisation. Our loyalties and decisions aren't compromised or conflicted, mutuality dictates our behaviour hence honesty and trust are non-negotiable.

Our 2018 / 2019 investment includes:

- digital capabilities
- rolling out loan automation
- upgrading the retail banking system and member interfacing applications
- robotic process improvement
- staff cultural engagement
- branding and image
- member journey mapping
- segmentation strategies
- financial growth
- continuing to rollout the branch 2020 vision and integrating digital capabilities
- continuing to invest in Fintech strategies.

Many of these initiatives are well underway with an aggressive retail banking upgrade that has commenced and will continue to 2nd quarter 2019.

Implementation of a new loan origination system is underway and due for completion in November 2018.

We term automation as an evolution requiring considerable investment. Success creates a valuable platform to enable innovation and growth.

Member interfacing applications such as web-sites are due in 3rd quarter 2018.

In February 2018, SCU signed a memorandum of understanding to merge with Endeavour Mutual Bank. Both organisations have enjoyed a long and rewarding history of co-operation. SCU is very excited with the prospect of joining with Endeavour Mutual Bank, as it grants the merged entity capacity to invest and grow.

The merger will create a mutual bank, with approximately 79,000 members, $1,6b assets, $163m in equity, 180 employees and 26 branches throughout Sydney, Central Coast, Newcastle and Central West of NSW.

Note the merger is subject to regulatory and member approval, the merger is proposed to occur in the 3rd quarter 2019.

The Royal Commission into banking misconduct

The banking and financial services Royal Commission into banking misconduct has been quite extraordinary.

The commission recently released its interim report, covering consumer lending, financial planning, business lending, farm finance and Indigenous finance.

In the executive summary of the report, Commissioner Kenneth Hayne noted that the commission had exposed conduct by financial services organisations that had attracted public outrage.

Commissioner Hayne said the key questions the commission had to answer were why such poor conduct had occurred and how to stop it happening again, with particular reference to banks, loan intermediaries and financial advice.

He added that, in many cases, the answer to the first question was obvious.

"Too often, the answer seems to be greed — the pursuit of short-term profit at the expense of basic standards of honesty," he wrote.

It is obvious upon reading the interim report Organisations treated fundamentals such as honesty and trust as optional.

As the Commission's work went on entities sought to anticipate what will come out or respond to what was found, these included refunds and remediation programs. It was certainly interesting to observe the reaction from some organisations.

SCU is a member of the Mutual ADI sector and we have consistently shown superior performance in trust and customer satisfaction ratings.

The ownership structure places members at the forefront of its processes and practices. It is rarely in conflict with its operating model. Our remuneration model does not encourage inappropriate behaviour as has been evidenced in the Commissions interim report.

We look forward to the final report and how the recommendations are applied.

Our People

We thank all our people for their continued achievements, they undoubtedly are our most prized asset.

It is ultimately our people that create the difference in a competitive banking market. Whilst strategy and business plans are fundamentally important, it's the people and the empathy they provided to members that constitutes a banking relationship. SCU has fabulous people working to help SCU members.

Your Board is committed to evolving SCU to ensure it delivers value to members / owners, our people and the community. We thank them for their guidance and direction.

To our members, we thank you for your ongoing support.

Hans Kludass
Chair

Ashley Jennings
Chief Executive Officer

Directors' Report

Your Directors present their report together with the Consolidated Financial Statements of Sydney Credit Union Ltd (SCU) and its subsidiary (together: "The Group") for the financial year ended 30 June 2018. SCU is a company registered under the Corporations Act 2001.

Information on Directors

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

Mr H R Kludass (Chair)
Mr M E Sawyer (Deputy Chair)
Mr R W Thorn
Mr G M Varcoe
Ms V M Bourke
Ms K Daynes
Mr J M Parsons
Mr A W Usher

Mr H R Kludass	–	Director
Qualifications	–	Bachelor of Commerce (Accounting) Associate Diploma in Business (Accounting) Member of Instil
Experience	–	Chair, Nov 2014–Current Director, June 2009–Current Remunerations Committee, 2010–Current Executive Committee, 2010–Current Corporate Governance Committee, 2010–Current Board Risk Committee, Aug 2016–Nov 2017 Deputy Chair, 2010–Nov 2014 Board Audit Committee, Nov 2009–Nov 2014 Manager, Sutherland Shire Council Executive Officer, Sutherland Shire Council Employees Credit Union (SSCECU) 2000–2009 Chairman, SSCECU, 1999–2000 Director, SSCECU, 1997–2000 Business Consultant, 1997–2008
Interest in Shares	–	1 Member Share in SCU
Mr M E Sawyer	–	Director
Qualifications	–	Diploma of Financial Services Fellow of the Australasian Mutuals Institute Member of the Australian Institute of Management Member of Instil Supervision Certificate Train the Trainer Certificate Electrical Trades Certificate
Experience	–	Deputy Chair, Nov 2014–Current Director, Oct 2005–Current

		Chair, Corporate Governance Committee, Dec 2011–Current Executive Committee, Dec 2011–Current Remuneration Committee, Dec 2011–Current Board Audit Committee, Dec 2005–Nov 2008 Board Risk Committee, Nov 2008–Nov 2011 and Aug 2016 Director, Karpaty Foundation Pty Ltd, 2011–Current Director, Pinnacle Credit Union, 2003–2005 Director of Licensed/Registered Club, 1993–1994 Managing Director of a Travel Company, 2008–Current Total Quality Management (Energy Australia 1992–1994)
Interest in Shares	–	1 Member Share in SCU
Ms V M Bourke	–	Director
Qualifications	–	Master of Human Resource Management Bachelor of Business (HR) Graduate Certificate in Human Resource Management Graduate Certificate in Local Government Management Member of Instil
Experience	–	Director, Nov 2014–Current Board Audit Committee, Nov 2014–Current 18 years' experience in senior HR roles in Local Government
Interest in Shares	–	1 Member Share in SCU
Ms K A Daynes	–	Director
Qualifications	–	Graduate Certificate of Business Graduate Certificate in Management Member of Instil
Experience	–	Director, Dec 2014–Current Board Audit Committee, Nov 2017–Current Board Risk Committee, Dec 2014–Oct 2017 16 years' experience in senior roles at Department of Human Services Director, AMCU, 2004–Nov 2014 Vice Chairman, AMCU, 2012–Nov 2014 Interest Rate Committee, AMCU, 2012–Nov 2014
Interest in Shares	–	1 Member Share in SCU
Mr J M Parsons	–	Director
Qualifications	–	Certificate in Accounting Member of Instil
Experience	–	Director, Dec 2014–Current Chair, Board Risk Committee, July 2016–Current Board Risk Committee, Dec 2014–Current Executive Committee, July 2016–Current Remuneration Committee, July 2016–Current 37 years in senior roles at the Australian Tax Office Director, AMCU, 1988–Nov 2014 Chairman, AMCU, 1994–Nov 2014
Interest in Shares	–	1 Member Share in SCU
Mr R W Thorn	–	Director
Qualifications	–	Bachelor of Business Certificate in Electrical Engineering Member of Instil

Experience	–	Director, Dec 2005–Current Executive Committee, 2008–Current Remuneration Committee, 2010–Current Corporate Governance Committee, 2010–Current Chair, Board Audit Committee, Nov 2008–Current Board Audit Committee, Dec 2005–Current Director, Prospect Credit Union, 2001–2006
Interest in Shares	–	1 Member Share in SCU
Mr A Usher	–	Director
Qualifications	–	Bachelor of Laws (Hons 1) Bachelor of Arts (Economics) Company Directors' Course Graduate Diploma of Applied Corporate Governance Certificate, Human Resource Practice Solicitor, Member, Law Society of NSW Fellow, Governance Institute of Australia Member, Institute of Chartered Secretaries & Administrators Associate Fellow, Risk Management Institution of Australasia Graduate of Australian Institute of Company Directors Member of Instil
Experience	–	Director, May 2017–Current Member, Board Risk Committee, May 2017–Current Manager, Sutherland Shire Council
Interest in Shares	–	1 Member Share in SCU
Mr G M Varcoe	–	Director
Qualifications	–	Bachelor of Engineering (Civil) Master of Business Administration (Technology Management) Graduate Diploma of Management (Technology Management) Builders' Licence Member of Instil
Experience	–	Director, Apr 2008–Current Board Risk Committee, Dec 2015–Current Board Audit Committee, May 2008–Nov 2015 Director, Blue Mountains & Riverlands Community Credit Union (BM&RCCU), 1997–Mar 2008 Chair, Corporate Governance Committee, BM&RCCU, 2006–Mar 2008 Licensed Builder and Consultant Engineer
Interest in Shares	–	3 Member Shares in SCU
Mr A J Jennings	-	Chief Executive Officer and Company Secretary
Qualifications	-	Advanced Diploma in Accounting Certificate III in Investment and Personal Financial Planning Diploma of Management Justice of the Peace
Experience	-	37 years in the Financial Services Industry Sydney Credit Union CEO & Company Secretary since 1998
Other Directorships	-	TransAction Solutions Pty Ltd Director of Karpaty Foundation Pty Ltd Shared Services Partners Pty Ltd
Interest	-	1 Member Share in SCU

Director	Board		Executive & Remuneration		Audit & Compliance		Risk Management		Corporate Governance		Period of Appointment
	H	A	H	A	H	A	H	A	H	A	
Hans Kludass	11	10	3	3	–	–	–	–	3	3	1/7/2017 to 30/6/2018
Mark Sawyer	11	9	3	3	–	–	–	–	3	3	1/7/2017 to 30/6/2018
Ray Thorn	11	11	3	3	4	4	2	2	3	3	1/7/2017 to 30/6/2018
Gary Varcoe	11	11	–	–	–	–	4	3	–	–	1/7/2017 to 30/6/2018
Vanessa Bourke	11	8	–	–	4	2	–	–	–	–	1/7/2017 to 30/6/2018
Kerrie Daynes	11	4	–	–	3	3	2	2	–	–	1/7/2017 to 30/6/2018
John Parsons	11	10	3	3	2	2	4	4	3	3	1/7/2017 to 30/6/2018
Anton Usher	11	10	–	–	–	–	4	4	–	–	1/7/2017 to 30/6/2018

H = Meetings Held A = Meetings Attended

Directors' Benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Group, controlled entity, or a related body corporate with a Director, a firm of which a Director is a Member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 29 of the financial report.

Indemnifying Officer Or Auditor

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

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

Financial Performance Disclosures

Principal Activities

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

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

Operating Results

The net profit of the Group for the year after providing for income tax was $3,876,217 (2017 $2,158,154).

There were no significant events during the year that impacted upon the current year's result.

Dividends

Since the end of the financial year, no dividends have been paid or declared by the Directors of the Group from the profits earned during the year ended 30 June 2018 or prior.

Review Of Operations

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

Significant Changes In State Of Affairs

There were no significant changes in the state of the affairs of the Group during the year other than:

> On 30 August 2017 the Group sold its property at 27-29 Church Street Lidcombe for a gross sale price of $3,000,000. The profit from the sale of this property after taxation is $1,419,536. The Group has entered into an agreement with the purchaser to lease back the property and will continue to operate its Lidcombe Branch operations from the premises.

Events Occurring After Balance Date

No 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 Group in subsequent financial years.

Likely Developments And Results

The Group has signed a memorandum of understanding to merge with a Sydney based mutually owned Bank. Subject to regulatory and member approval, the merger is likely to occur during the 2019 calendar year.

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

(i) The operations of the Group;
(ii) The results of those operations; or
(iii) The state of affairs of the Group

in the financial years subsequent to this financial year.

Auditors' Independence

The auditors have provided the declaration of independence to the Board as prescribed by the Corporations Act 2001 as set on page 8 of this report.

Rounding

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 the Group is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures which are shown in whole dollars.

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

H Kludass **Chair**	**R Thorn** **Chair, Board Audit Committee**

Signed and dated this 27 September 2018

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Sydney Credit Union Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Peter Zabaks
Partner
Sydney
27 September 2018

KPMG

Independent Auditor's Report

To the members of Sydney Credit Union Limited

Opinion

We have audited the ***Financial Report*** of Sydney Credit Union Limited (the Credit Union) and the ***Financial Report*** of the Group.

In our opinion, the accompanying Financial Report of the Credit Union and the Group is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Credit Union and Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated and Credit Union's statement of financial position as at 30 June 2018;
- Consolidated and Credit Union's statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The Group consists of the Credit Union and the entity it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Group and the Credit Union in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Sydney Credit Union Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Directors' Report. The Directors are responsible for the Other Information.

KPMG

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

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/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Peter Zabaks
Partner
Sydney
27 September 2018

Directors' Declaration

1. In the opinion of the Directors of the Sydney Credit Union Limited:
    (a) the consolidated financial statements and notes that are set out on pages 14 to 62 are in accordance with the Corporations Act 2001, including;
        (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance, for the financial year ended on that date; and
        (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
    (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
2. The directors draw attention to Note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of directors:

H Kludass
Chair

Dated this 27 September 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Interest revenue	2.a	32,272	31,821
Less: Interest expense	2.c	10,675	11,888
Net Interest income		**21,597**	**19,933**
Add: Fees, Commission and Other Income	2.b	5,510	3,987
Sub Total		**27,107**	**23,920**
Less:			
Non-Interest Expenses			
Impairment Losses on loans receivable from Members	2.d	401	348
Fee and Commission expenses		4,647	4,435
		5,048	4,783
General Administration			
— Employees compensation and benefits		11,451	11,036
— Depreciation and Amortisation	2.e	607	651
— Information Technology		104	182
— Office Occupancy		2,293	1,954
— Other Administration		1,245	1,418
Total General Administration		15,700	15,241
Other Operating Expenses	2.f	974	984
Total Non-Interest Expenses		**21,722**	**21,008**
Profit before Income Tax		**5,385**	**2,912**
Income Tax Expense	3	1,509	754
Profit after Income Tax		**3,876**	**2,158**
Total comprehensive income		**3,876**	**2,158**

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Member Equity

for the year ended 30 June 2018

	Opening Balance 1/7/2017	Profit for the Year	Redemption of Share Capital	Transfers to/(from) Reserves	Dividends Paid	Closing Balance 30/6/2018
	$'000	$'000	$'000	$'000	$'000	$'000
Preference Share Capital	-	-	-	-	-	**-**
Capital Reserve Account	719	-	-	8	-	**727**
Asset Revaluation Reserve	2,458	-	-	-	-	**2,458**
General Reserve	12,829	-	-	-	-	**12,829**
General Reserve for Credit Losses	2,300	-	-	-	-	**2,300**
Retained Earnings	58,477	3,876	-	(8)	-	**62,345**
TOTAL	**76,783**	**3,876**	**-**	**-**	**-**	**80,659**

Consolidated Statement of Changes in Member Equity

for the year ended 30 June 2017

	Opening Balance 1/7/2016	Profit for the Year	Redemption of Share Capital	Transfers to/(from) Reserves	Dividends Paid	Closing Balance 30/6/2017
	$'000	$'000	$'000	$'000	$'000	$'000
Preference Share Capital	1,753	-	(1,753)	-	-	**-**
Capital Reserve Account	683	-	-	36	-	**719**
Asset Revaluation Reserve	2,458	-	-	-	-	**2,458**
General Reserve	12,829	-	-	-	-	**12,829**
General Reserve for Credit Losses	2,040	-	-	260	-	**2,300**
Retained Earnings	56,636	2,158	-	(296)	(21)	**58,477**
TOTAL	**76,399**	**2,158**	**(1,753)**	**-**	**(21)**	**76,783**

The above Consolidated Statement of Changes in Member Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

as at 30 June 2018

	Note	2018 $'000	2017 $'000
ASSETS			
Cash and Cash Equivalents	4	9,219	13,359
Liquid Investments at Amortised Cost	5	158,529	216,007
Due from other financial institutions		5,240	-
Receivables	6	1,781	2,209
Prepayments		576	
Loans to Members	7 & 8	674,605	622,186
Society One Loans	7 & 8	2,802	1,698
LeasePlus Leases	7 & 8	2,917	-
Available for Sale Equity Investments	9	1,899	1,899
Property, Plant and Equipment	10	7,016	7,296
Taxation Assets	11	2,527	2,169
Intangible Assets	12	418	220
TOTAL ASSETS		**867,529**	**867,043**
LIABILITIES			
Borrowings		4,000	-
Deposits from Members	13	771,619	777,372
Creditor Accruals and Settlement Accounts	14	6,347	6,994
Borrowings – Subordinated Deposit	17	-	1,997
Taxation Liabilities	15	822	134
Provisions	16	4,082	3,763
TOTAL LIABILITIES		**786,870**	**790,260**
NET ASSETS		**80,659**	**76,783**
MEMBERS EQUITY			
Preference Share Capital	18	-	-
Capital Reserve Account	19	727	719
Asset Revaluation Reserve	20 (i)	2,458	2,458
General Reserves	20 (ii)	12,829	12,829
General Reserve for Credit Losses	21	2,300	2,300
Retained Earnings		62,345	58,477
TOTAL MEMBERS EQUITY		**80,659**	**76,783**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
REVENUE ACTIVITIES			
Revenue Inflows			
Interest received		31,767	31,752
Fees and commissions		2,600	3,174
Dividends		324	538
Other income		393	182
		35,084	35,646
Revenue Outflows			
Interest paid		(10,646)	(12,310)
Suppliers and employees		(20,602)	(19,948)
Income taxes paid		(1,118)	(772)
Dividends paid		-	(21)
		(32,366)	(33,051)
Net Cash from Revenue Activities	**34(c)**	**2,718**	**2,595**
INFLOWS FROM OTHER OPERATING ACTIVITIES			
Decrease in Member loans (net movement)		(52,797)	(30,973)
Decrease in non-Member loans (net movement)		(4,133)	(1,751)
Increase in Member deposits and shares (net movement)		(5,819)	22,753
Decrease in receivables from other financial institutions (net movement)		52,238	(5,103)
Net Cash from Operating Activities		**(10,511)**	**(15,074)**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of property, plant and equipment		2,962	49
Less: Outflows			
Purchase of intangible assets		(297)	(102)
Purchase of property plant and equipment		(1,012)	(104)
Net Cash from Investing Activities		**1,653**	**(157)**
FINANCING ACTIVITIES			
Inflows/(Outflows)			
Decrease in preference shares		-	(1,753)
Decrease in borrowings		(2,000)	-
Increase in borrowings		4,000	-
Net Cash from Financing Activities		**2,000**	**(1,753)**
Total Net Cash increase/(decrease)		(4,140)	(14,389)
Cash at Beginning of Year		13,359	27,748
Cash at End of Year	**34(a)**	**9,219**	**13,359**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. Statement of Significant Accounting Policies

This financial report is prepared for Sydney Credit Union Limited (the Group) as a consolidated entity, for the year ended the 30 June 2018. These consolidated financial statements as at and for the year ended 30 June 2018 comprises the Company and the SCU Trust No 1 (the Trust), a special purpose vehicle deemed under accounting standards to be controlled by SCU (together referred to as "the Group"). The report was authorised for issue on 27 September 2018 in accordance with a resolution of the Board of Directors. The consolidated financial report is presented in Australian dollars.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Sydney Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of Measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non-current assets. The accounting policies are consistent with the prior year unless otherwise stated.

b. Classification and subsequent measurement of financial assets and financial liabilities

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

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

(i) Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

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

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

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below. As at 30 June 2018, the Group did not hold any financial assets at FVTPL.

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Group's Liquid Investments (Term Deposits), loans to members, trade and other receivables fall into this category of financial instruments.

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

(iii) HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity. The Group currently holds Negotiable Certificates of Deposit (NCD), Bonds, and Bank accepted Bills Of Exchange in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available For Sale financial assets.

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

(iv) Available For Sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets, include the equity investment in Cuscal Limited, Shared Service Partners Pty Ltd (SSP) and TransAction Solutions Pty Limited (TAS).

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

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

(v) Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

c. 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 difference between the proceeds and the redemption amount is recognised in the income statement over the period of the loans using the effective interest method.

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

(ii) Interest earned

Term loans - The loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a Members 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 Members account on the last day of each month.

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a Members account on the 28th day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

Non-accrual loan interest – while still legally recoverable, interest is not brought to account as income where the Group is informed that the Member has deceased, or, where a loan is impaired.

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

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

d. Loan Impairment

(i) Specific and Collective Provision for Impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8. Note 22 details the credit risk management approach for loans.

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

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

(ii) General Reserve for Credit Losses

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

- the level of security taken as collateral; and
- the concentration of loans taken by employment type.

(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 6 months.

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

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

f. Property, Plant and Equipment

(i) Land and buildings

Land and buildings are measured at acquisition cost less accumulated depreciation. Valuations are obtained where the Directors believe there has potentially been a diminution in the value of land and Buildings owned by the Group and used to determine the need to recognise in the accounts any impairment to the acquisition cost. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the profit or loss. Revaluation decreases are debited to the profit or loss unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

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

- Buildings – 40 years.
- Leasehold Improvements – lesser of the lease term or 10 years.
- Plant and Equipment – 3 to 7 years.
- Assets less than $300 are not capitalised.

(ii) Investment Property

Investment properties are measured at acquisition cost less accumulated depreciation.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount in the revaluation reserve is transferred to retained earnings.

(iii) Sale and leaseback transactions

For a sale and leaseback transaction that results in a finance lease, any excess of proceeds over the carrying amount is deferred and amortised over the lease term.

For a transaction that results in an operating lease, if the transaction is carried out at fair value the profit and loss is recognised immediately.

g. Receivables from Other Financial Institutions

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

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

h. Member Deposits

(i) Basis for Measurement

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

(ii) Interest Payable

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

i. Borrowings

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

j. Provision for Employee Benefits

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

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

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

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

Contributions are made by the Group to an employee's superannuation fund and are charged to the income statement as incurred.

k. Leasehold on Premises

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

A provision is recognised for the estimated make good costs on the operating leases, based on the Net Present Value of the future expenditure at the conclusion of the lease term discounted at 5%.

Increases in the provision in future years due to the unwinding of the interest charge, are recognised as part of the interest expense.

l. Income Tax

The income tax expense shown in the Profit & Loss 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 statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

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

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Group 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.

m. Cash and cash Equivalents

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

n. Intangible Assets

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

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

o. Goods and Services Tax (GST)

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

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

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

p. Consolidation

(i) Business Combinations

The Group applies the acquisition method in accounting for business combinations.
Under the Financial Sector (Transfers of Business) Act 1999 all the assets and liabilities of the

transferring body, wherever those assets and liabilities are located, become (respectively) assets and liabilities of the receiving body without any transfer, conveyance or assignment.

The consideration transferred by the Group to obtain control of the net assets is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquired entity's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill (if applicable) is stated after separate recognition of any identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquired entity and (c) acquisition-date fair value of any existing equity interest in the acquired entity, over the acquisition-date fair values of identifiable net assets.

Where the fair values of identifiable net assets exceed the sum calculated above, the excess amount is recognised directly in equity for a mutual organisation [as prescribed by AASB 3 Guidance B47]. Acquisition costs are expensed as incurred.

(ii) Variable interest entities

The consolidated statements include those of SCU and SCU Trust No.1, which was created on 4 August 2017. The Trust holds rights to a portfolio of mortgage secured loans to enable SCU to secure funds from the Reserve Bank of Australia, if required to meet emergency liquidity requirements.

The trust is consolidated as SCU has the power to govern the financial and operating policies so as to gain benefits from its activities. Since SCU has not transferred all the risks and rewards to the Trust, the assigned loans are retained in the books of SCU and are not de-recognised. The Trust’s underlying assets, liabilities, revenues, expenses and cash flows are reported in the Consolidated Statement of Profit or loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows. All inter-company transactions and balances have been eliminated on consolidation including any unrealized profit.

The Group has elected to present one set of financial statements to represent both SCU and the Trust as a consolidated entity on the basis the impact of consolidation is not material to the entity. This applies to all other information unless otherwise stated.

q. Impairment of Assets

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

r. Accounting Estimates and Judgements

Management have made judgements when applying the Group's accounting policies with respect to de-recognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 33.

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

s. Rounding

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Group is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures which are shown in whole dollars.

t. Prior Period Adjustments

Certain comparative figures have been reclassified to conform to the financial statements presentation adopted for the current period.

u. New standards applicable for the current year

There were no new or revised accounting standards applicable for financial years commencing from 1 July 2017 that had any significant impact on the financial statements of the Group.

v. New or emerging standards not yet mandatory

A number of new standards are effective for annual reporting periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB Reference	Nature of Change	Application Date	Impact on Initial Application
AASB 9 Financial Instruments (Issued December 2015)	The new standard replaces AASB 139 and supersedes AASB 9 versions previously issued in December 2009 and December 2010. It amends the requirements for classification and measurement of financial assets. *(i) Classification – Financial Assets* AASB 9 contains three principal classification categories for financial assets; measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale. *(ii) Impairment – Financial Assets and contract assets* AASB 9 replaces the "incurred loss" model in AASB 139 with a forward looking 'expected credit loss' ECL model. This will require considerable judgement about how changes in economic factors affect ECL's, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments and to contract assets. Under AASB 9, loss allowances will be measured on either of the following bases:	Periods beginning on or after 1 January 2018	The adoption is mandatory for the 30 June 2019 year end. The full impact of these changes for the Group is being assessed but not yet finalised.

AASB Reference	Nature of Change	Application Date	Impact on Initial Application
AASB 9 (cont'd)	– 12 month ECL's: these are ECL's that result from all possible default events within the 12 months after reporting date. – lifetime ECL's: these are ECL's that result from all possible default events over the expected life of a financial instrument. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12 month ECL measurement applies if it has not. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financial component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component. *(iii) Classification – Financial Liabilities* AASB 9 largely retains the existing requirements of AASB 139 for the classification of financial liabilities. However, under AASB 139 all fair value changes of liabilities designated as FVTPL are recognised in profit or loss, whereas under AASB 9 these fair value changes are generally presented as follows: – the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and – the remaining amount of change in the fair value is presented in profit or loss. The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. *(iv) Hedge Accounting* When initially applying AASB 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of AASB 139 instead of the requirements of AASB 9. The Group does not currently apply hedge accounting, however, if this were to apply in the future, the new requirements of AASB 9 will be applied. *(v) Disclosures* AASB 9 will require extensive new disclosures, in particular about credit risk and ECL's. The Group's assessment includes an analysis to identify data gaps against current processes and the Group will implement system and control changes that it believes will be necessary to capture the required data. *(vi) Transition* Changes in accounting policies resulting from the adoption of AASB 9 will generally be applied retrospectively, except as described below. – The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts	Periods beginning on or after 1 January 2018	The adoption is mandatory for the 30 June 2019 year end. The full impact of these changes for the Group is being assessed but not yet finalised.

AASB Reference	Nature of Change	Application Date	Impact on Initial Application
AASB 9 (cont'd)	of financial assets and financial liabilities resulting from the adoption of AASB 9 will generally recognised in retained earnings and reserves as at 1 July 2018. – The following assessments have to be made on the basis of facts and circumstances that exist at the date of initial application: • The determination of the business model within which a financial asset is held • The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL • The designation of certain investments in equity investments not held for trading as at FVOCI.	Periods beginning on or after 1 January 2018	The adoption is mandatory for the 30 June 2019 year end. The full impact of these changes for the Group is being assessed but not yet finalised.
AASB 15 Revenue from Contracts with Customers	Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard replaces AASB 118 Revenue, AASB 111 Construction Contracts and related revenue interpretations.	Periods beginning on or after 1 January 2018.	Based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted, as most of the Group's revenue arises from the provision of financial services which are governed by AASB 9 Financial Instruments. Limited revenue transactions of the Group are impacted by the new standard.
AASB 16 Leases Replaces AASB 117	AASB 16: replaces AASB 117 Leases and some lease-related Interpretations – requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases – provides new guidance on the application of the definition of lease and on sale and lease back accounting – requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019	The Group is yet to undertake a detailed assessment of the impact of AASB 16. Whilst the Group owns a number of the buildings used for its business, it also leases a number of its branch offices. The Group will therefore be impacted by this change and will recognise new assets and liabilities for these leases. The nature of expenses related to those leases will now change as AASB 16 replaces the straight line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.
Transfers of Investment Property (Amendments to IAS 40).	The amendments clarify that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in IAS 40,57 (a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. In addition, the IASB has clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.	1 January 2018	When these amendments are first adopted for the year ending 30 June 2019 there will be no material impact on the financial statements.

2. Statement of Profit or Loss and Other Comprehensive Income

		2018 $'000	2017 $'000
a.	**Analysis of interest revenue**		
	Interest revenue on assets carried at amortised cost		
	Cash – deposits at call	107	392
	Receivables from financial institutions	4,900	5,591
	Loans to Members	27,265	25,838
	TOTAL INTEREST REVENUE	**32,272**	**31,821**
b.	**Fee, commission and other income**		
	Fee and commission revenue		
	Fee income on loans – other than loan origination fees	339	395
	Fee Income from Member deposits	756	875
	Other fee income	281	496
	Insurance commissions	512	595
	Other commissions	870	874
	TOTAL FEE AND COMMISSION REVENUE	**2,758**	**3,235**
	Other income		
	Dividends received on available for sale assets	324	538
	Bad debts recovered	85	88
	Income from property (rental income)	95	97
	Gain on disposal of assets		
	– Property, plant and equipment	2,248	29
	TOTAL FEE COMMISSION AND OTHER INCOME	**5,510**	**3,987**
c.	**Interest expenses**		
	Interest expense on liabilities carried at amortised cost		
	Deposits from Members	10,548	11,653
	Overdraft	16	21
	Borrowings	32	-
	Interest – Subordinated Debt	79	214
	TOTAL INTEREST EXPENSE	**10,675**	**11,888**
d.	**Impairment losses**		
	Available for Sale Assets	-	-
	Loans and advances		
	Increase in provision for impairment	401	348
	TOTAL IMPAIRMENT LOSSES	**401**	**348**

		2018 $'000	2017 $'000
e.	**Other prescribed disclosures**		
	General administration – employees costs include:		
	– net movement in provisions for employee annual leave	30	44
	– net movement in provisions for employee long service leave	194	118
	General Administration – Depreciation & Amortisation expense comprises		
	Buildings	206	212
	Plant and equipment	177	168
	Leasehold improvements (includes lease make-good prov.)	125	174
	Intangibles	99	97
		607	**651**
	General Administration – Office Occupancy costs include –		
	Property operating lease payments		
	– minimum lease payments	1,653	1,350
f.	**Other Operating expenses include**		
	Audit and review of financial statements (GST Exclusive)		
	– Audit fees – 2018: KPMG (2017: Grant Thornton)	157,568	105,859
	Other Services (GST Exclusive)		
	– Taxation Services – 2018: KPMG (2017: Grant Thornton)	8,500	5,800
	– Compliance Services – 2018: KPMG (2017: Grant Thornton)	1,925	7,400
		167,993	**119,059**
	Defined contribution superannuation expenses	15	16
	Loss on disposal of assets		
	– Property, plant, equipment	2	-

3. Income Tax Expense

		2018 $'000	2017 $'000
a.	The income tax expense comprises amounts set aside as:-		
	Current tax expense	1,807	851
	Adjustments for previous years	(1)	(10)
	Deferred tax expense	(297)	(87)
	Total current income tax expense	**1,509**	**754**
b.	The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
	Profit	**5,385**	**2,912**
	Prima facie tax payable on profit before income tax at 30%	1,615	874
	Add tax effect of expenses not deductible		
	– Other non-deductible expenses	5	162
	– Dividend Imputation adjustment	42	69
	Subtotal	1,662	1,105
	Less		
	– Deductions Allowed not in Accounting Expenses	(12)	(22)
	– Franking rebate	(139)	(232)
	– Deferred tax asset not previously brought to account	-	(87)
	– Adjustments for previous years	(2)	(10)
	Income tax expense attributable to current year profit	**1,509**	**754**
c.	**Franking Credits**		
	Franking credits held by the Group after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	**16,646**	**14,700**

4. Cash and Cash Equivalents

	2018 $'000	2017 $'000
Cash on hand	909	1,195
Deposits at call	8,310	12,164
	9,219	**13,359**

5. Liquid Investments at Amortised Cost

		2018 $'000	2017 $'000
a.	**Hold to Maturity**		
	Negotiable Certificates of Deposits	68,276	131,965
	Bonds	41,272	32,040
	Loans and Receivables		
	Term Deposits	48,981	52,002
		158,529	**216,007**
b.	**Composition of Liquid Investments at Amortised Cost**		
	Deposits with Industry Bodies – Cuscal	11,720	34,557
	Deposits with Mutual ADIs	22,000	41,390
	Deposits with banks	124,809	140,060
		158,529	**216,007**

	2018 $'000	2017 $'000

6. Receivables

	2018 $'000	2017 $'000
Interest receivable on deposits with other financial institutions	1,560	1,043
Sundry debtors and settlement accounts	221	1,166
	1,781	**2,209**

7. Loans To Members

a. Amount due comprises:

	2018 $'000	2017 $'000
Overdrafts and revolving credit	16,812	16,646
Term loans	658,463	605,831
Society One Loans	2,877	1,751
LeasePlus Leases	3,007	-
Subtotal	**681,159**	**624,228**
Less:		
Unamortised loan origination fees	(11)	(15)
Unearned Income	(135)	(123)
Subtotal	**681,013**	**624,090**
Less:		
Provision for impaired loans Note 8	(689)	(584)
	680,324	**623,506**

b. Credit Quality – Security held against loans

	2018 $'000	2017 $'000
Secured by mortgage over business assets	4,594	5,375
Secured by mortgage over real estate	636,062	581,749
Partly secured by goods mortgage	9,286	9,850
Wholly unsecured	31,217	27,254
Total	**681,159**	**624,228**

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 residential mortgage security on a portfolio basis is as follows::

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

	2018 $'000	2017 $'000
– loan to valuation ratio of less than 80%	569,890	518,956
– loan to valuation ratio of more than 80% but mortgage insured	50,612	55,423
– loan to valuation ratio of more than 80% and not mortgage insured	15,560	7,370
Total	**636,062**	**581,749**

The Board decided not to require disclosure of the fair value of collateral held, but to require disclosure of only a description of collateral held as security and other credit enhancements. The Board noted that such disclosure does not require an entity to establish fair values for all its collateral (in particular when the entity has determined that the fair value of some collateral exceeds the carrying amount of the loan) and, thus, would be less onerous for entities to provide than fair values.

		2018 $'000	2017 $'000
c.	**Concentration of Loans**		
	The values discussed below include on statement of financial position values.		
(i)	Loans to individual or related groups of Members which exceed 10% of Member's equity in aggregate	-	-
(ii)	There are no loans to Members concentrated to individuals employed in any individual industry		
(iii)	Loans to Members are concentrated in the following Geographical locations:		
	New South Wales	634,890	587,104
	ACT	8,002	6,932
	Victoria	10,173	7,643
	Queensland	21,393	16,840
	South Australia	1,287	1,200
	Western Australia	3,514	2,824
	Northern Territory	1,051	767
	Tasmania	849	918
	TOTAL	**681,159**	**624,228**
(iv)	Loans by Customer type were:		
	Loans to Natural persons		
	– Residential loans and facilities	629,914	574,007
	– Personal loans and facilities	35,170	36,644
	– Society One loans	2,877	1,751
	– LeasePlus Leases	3,007	-
	– Business loans and facilities	10,191	11,826
		681,159	**624,228**
	Loans to corporations	-	-
	TOTAL	**681,159**	**624,228**

8. Provision on Impaired Loans

a. Total provision comprises

	2018 $'000	2017 $'000
Individual Specific provisions	524	531
Society One provision	75	53
LeasePlus provision	90	-
Total Provision	**689**	**584**

b. Movement in the provision for impairment

	2018 $'000	2017 $'000
Balance at the beginning of year	584	411
Add (deduct):		
– Transfers from (to) Income Statement	419	348
– Bad debts written off provision	(314)	(175)
Specific Provision Balance at end of year	**689**	**584**

Details of credit risk management is set out in Note 22.

		2018 $'000	2017 $'000
c.	**Impaired loans written off**		
	Amounts written off against the provision for impaired loans	314	175
	Total bad debts	**314**	**175**
	Bad debts recovered in the period	85	88
		85	**88**

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

In the Note below

- Carrying Value is the amount recorded on the statement of financial position
- Impaired loans value is the 'on statement of financial position' loan balances which are past due by
  - for mortgage loans 91 days or more
  - for personal loans 31 days or more
  - for revolving credit facilities 14 days or more
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2018 Carrying value $'000	2018 Value of Impaired Loans $'000	2018 Provision for impairment $'000	2017 Carrying value $'000	2017 Value of Impaired Loans $'000	2017 Provision for impairment $'000
Loans to Members						
Mortgages	629,914	2,058	-	574,007	2,536	-
Personal & Commercial	34,433	779	421	33,575	819	390
Revolving Credit Facilities & Credit cards	16,812	145	103	16,646	217	141
Total	**681,159**	**2,982**	**524**	**624,228**	**3,572**	**531**

Past due value is the statement of financial position's loan balances which are past due by 91 days or more.

This table related to individual specific provisions only. Provisions for Society One and LeasePlus are calculated on a portfolio level.

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.

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

	2018 Carrying Value $'000	2018 Provision $'000	2017 Carrying Value $'000	2017 Provision $'000
31 to 90 days in arrears	426	56	321	64
91 to 182 days in arrears	454	55	762	68
183 to 272 days in arrears	705	67	1,622	84
273 to 365 days in arrears	695	100	35	28
Over 365 days in arrears	557	143	615	146
Over-limit facilities over 14 days	145	103	217	141
Total	**2,982**	**524**	**3,572**	**531**

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

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

There are loans with a value of $1,875,118 past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and their condition.

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

Loans Members	1-3 Mths $'000	3-6 Mths $'000	6-12 Mths $'000	> 1 Year $'000	Total $'000
2018					
Mortgage secured	183	313	1,155	407	2,058
Personal loans	-	-	-	-	-
Revolving Credit and Credit Card Facilities	-	-	-	-	-
Total	**183**	**313**	**1,155**	**407**	**2,058**
2017					
Mortgage secured	1,169	589	1,480	466	3,704
Personal loans	-	-	-	-	-
Revolving Credit and Credit Card Facilities	-	-	-	-	-
Total	**1,169**	**589**	**1,480**	**466**	**3,704**

Key assumptions in determining the provision for impairment

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

Period of impairment	% of
Up to 30 days	0
31 days to 90 days	20
91 days to 182 days	40
183 days to 272 days	60
273 days to 365 days	80
Over 365 days	100

9. Available for Sale Investments

	2018 $'000	2017 $'000
Shares in Unlisted companies – at cost		
– Cuscal Limited (a)	1,875	1,875
– Shared Service Partners Pty Ltd	20	20
– TransAction Solutions Pty Limited (b)	258	258
Total Value of investments	2,153	2,153
Less Provisions for impairment		
– TransAction Solutions Pty Limited (b)	(254)	(254)
TOTAL INVESTMENTS net of provision	**1,899**	**1,899**

Disclosures on Shares held at cost

a. Cuscal Limited

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. These shares are held to enable the Group to receive essential banking services – refer to Note 30. The shares are able to be traded.

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

The Group is not intending to dispose of these shares.

b. TransAction Solutions Pty Limited (TAS)

The shareholding in TAS is measured at cost as its fair value could not be measured reliably.

These shares are held to enable the Group to receive essential computer support staff and services to meet the day to day needs of the Group, and compliance with the relevant Prudential Standards. The shares are not able to be traded and are not redeemable.

The financial reports of TAS record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of TAS, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

The Group is not intending to dispose of these shares.

10. Property, Plant and Equipment

		2018 $'000	2017 $'000
a.	**Fixed Assets**		
	Non Current Assets Held For Sale		
	Land – Lidcombe	-	691
		-	**691**
	Buildings – at deemed cost	-	231
	Less: Provision for depreciation	-	(42)
		-	**189**
	Total Non-Current Assets Held For Sale	**-**	**880**
	Other Non-Current Asset Held		
	Land – at deemed cost	480	480
		480	**480**
	Buildings – at deemed cost	6,361	6,357
	Less: Provision for depreciation	(2,250)	(2,080)
		4,111	**4,277**
	Total Land & Buildings	**4,591**	**6,973**
	Plant and equipment – at deemed cost	1,937	2,135
	Less: Provision for depreciation	(1,480)	(1,879)
	Total Plant and equipment	**457**	**256**
	Capitalised Leasehold Improvements at deemed cost	2,480	2,482
	Less: Provision for amortisation	(1,944)	(2,415)
		536	**67**
	Lease Make-good Asset	425	295
	Less: Provision for amortisation	(293)	(295)
		132	**-**
	Total Leasehold Improvements and Make-good	**668**	**67**
	TOTAL PROPERTY, PLANT AND EQUIPMENT	**5,716**	**7,296**
b.	**Investment Properties**		
	Investment Properties		
	Buildings – at deemed cost	1,427	1,427
	Less: Provision for depreciation	(127)	(91)
	Total Investment Properties	**1,300**	**1,336**
	TOTAL PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY	**7,016**	**7,296**

Investment Properties contain a number of commercial properties that are either leased, or available to be leased, to third parties. Each of the leases have an initial fixed term and derive annual rents indexed to the consumer price index. At the completion of the initial term, the lease will either have an option to re-lease or a new term will be negotiated. The following properties have been valued on the basis of Fair Market Value.

The properties continue to be recognised in the Financial Statements at their amortised cost, with any increase in the value not being brought to account.

Location	Date	Cost	Amortised Cost	Value Amount	Valuer
Building: Unit 602, 155 Castlereagh St, Sydney	30/6/18	$500,000	$455,208	$1,080,000	Alexandra McCann AAPI/Certified Practising Valuer AAPI No.83237
Buildings: Lot 53/5 Aird St, Parramatta, NSW	30/6/18	$530,635	$483,483	$730,000	Haden Nolan AAPI/Certified Practising Valuer AAPI No.69851
Buildings: Lot 54/5 Aird St, Parramatta, NSW	30/6/18	$396,432	$361,302	$750,000	Haden Nolan AAPI/Certified Practising Valuer AAPI No.69851
Totals		**$1,427,067**	**$1,299,993**	**$2,560,000**	

c. Movement in the carrying amount of property, plant and equipment during the year were:

	2018				2017			
	Property $'000	Plant & equipment $'000	Leasehold $'000	Available for Sale $'000	Property $'000	Plant & equipment $'000	Leasehold $'000	Available for Sale $'000
Opening balance	6,093	256	67	880	7,184	343	240	-
Purchases in the year	4	429	579	-	-	206	-	-
Transfer	-	-	132	-	(880)	-	-	880
	6,097	685	778	880	6,304	549	240	880
Less								
Assets Disposed	-	(51)	(10)	(880)	-	(22)	-	-
Depreciation charge	(206)	(177)	(100)	-	(211)	(271)	(173)	-
Balance at the end of the year	**5,891**	**457**	**668**	**-**	**6,093**	**256**	**67**	**880**

	2018 $'000	2017 $'000

11. Taxation Assets

	2018 $'000	2017 $'000
Deferred Tax Asset	2,355	2,058
GST Recoverable	172	111
	2,527	**2,169**
Deferred tax asset comprise:		
Accrued expenses not deductible until incurred	367	149
Provisions for impairment on loans	207	159
Provisions for employee benefits	1,404	1,397
Depreciation on fixed assets	378	331
Black Hole Expenses for otherwise Capital Costs	-	23
Unearned Income	(1)	(1)
	2,355	**2,058**

12. Intangible Assets

	2018 $'000	2017 $'000
Computer software	1,239	1,547
Less provision for amortisation	(821)	(1,327)
	418	**220**
Movement in the carrying amount of intangible assets during the year were:		
Opening balance	220	215
Purchases	297	102
Less		
Amortisation charge	(99)	(97)
Impairment loss	-	-
Balance at the end of the year	**418**	**220**

13. Deposits From Members

	2018 $'000	2017 $'000
Member Deposits		
– at call	456,149	456,614
– term	315,224	320,505
Member Withdrawable Shares	246	253
TOTAL DEPOSITS & SHARES	**771,619**	**777,372**

	2018 $'000	2017 $'000
Concentration of Member Deposits		
There were no significant individual Member deposits which in aggregate represent more than 10% of the total liabilities:		
(i) Geographical concentrations		
New South Wales	744,690	749,919
ACT	4,224	3,819
Victoria	4,337	4,478
Queensland	13,117	14,822
South Australia	536	486
Western Australia	2,070	1,535
Northern Territory	369	239
Tasmania	2.276	2,074
Total per Balance Sheet	**771,619**	**777,372**

14. Creditor Accruals and Settlement Accounts

Annual Leave	1,198	1,168
Creditors and accruals	2,026	3,084
Interest payable on deposits	1,963	1,937
Accrual for GST payable	45	60
Sundry creditors	1,115	745
TOTAL AMOUNTS PAYABLE	**6,347**	**6,994**

15. Taxation Liabilities

Current income tax liability	822	134
TOTAL TAXATION LIABILITIES	**822**	**134**
Current income tax liability comprises:		
Balance – previous year	134	64
Less: Payments in current year	(133)	(54)
Over / under statement in prior year	**1**	**10**
Liability for income tax in current year	1,807	851
Less: Instalments paid in current year	(985)	(717)
Balance/(refund due) – current year	**822**	**134**

16. Provisions

Long service leave	2,753	2,559
Lease make good of premises	425	295
Provisions – other	904	909
TOTAL PROVISIONS	**4,082**	**3,763**

	2018 $'000	2017 $'000

17. Long Term Borrowings – Subordinated Debt

SUBORDINATED DEBT ACCOUNT		
Balance at the beginning of the year	1,997	2,000
Less: Debt Raising Discount	3	(3)
Add: Debt repaid	(2,000)	-
Balance at the end of year	**-**	**1,997**

18. Preference Shares

Balance at the beginning of the year	-	1,753
Decrease due to shares redeemed	-	(1,753)
Balance at the end of year	**-**	**-**

19. Capital Reserve Account

Balance at the beginning of the year	719	683
Transfer from retained earnings on share redemptions	8	36
Balance at the end of year	**727**	**719**

a. Share Redemption

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

20. Other Reserves

Asset revaluation reserve – land & buildings	2,458	2,458
General Reserve	12,829	12,829
TOTAL OTHER RESERVES	**15,287**	**15,287**

Movements in Reserves

(i) Asset Revaluation Reserve – Land & Buildings

The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value

Balance at the beginning of the year	2,458	2,458
Less: Asset Revaluations Realised	-	-
Balance at the end of year	**2,458**	**2,458**

(ii) General Reserve

Balance at the beginning of the year	12,829	12,829
Balance at the end of year	**12,829**	**12,829**

21. General Reserve For Credit Losses

General reserve for credit losses	2,300	2,040
Transfer from Retained Earnings	-	260
TOTAL CREDIT LOSS GENERAL RESERVES	**2,300**	**2,300**

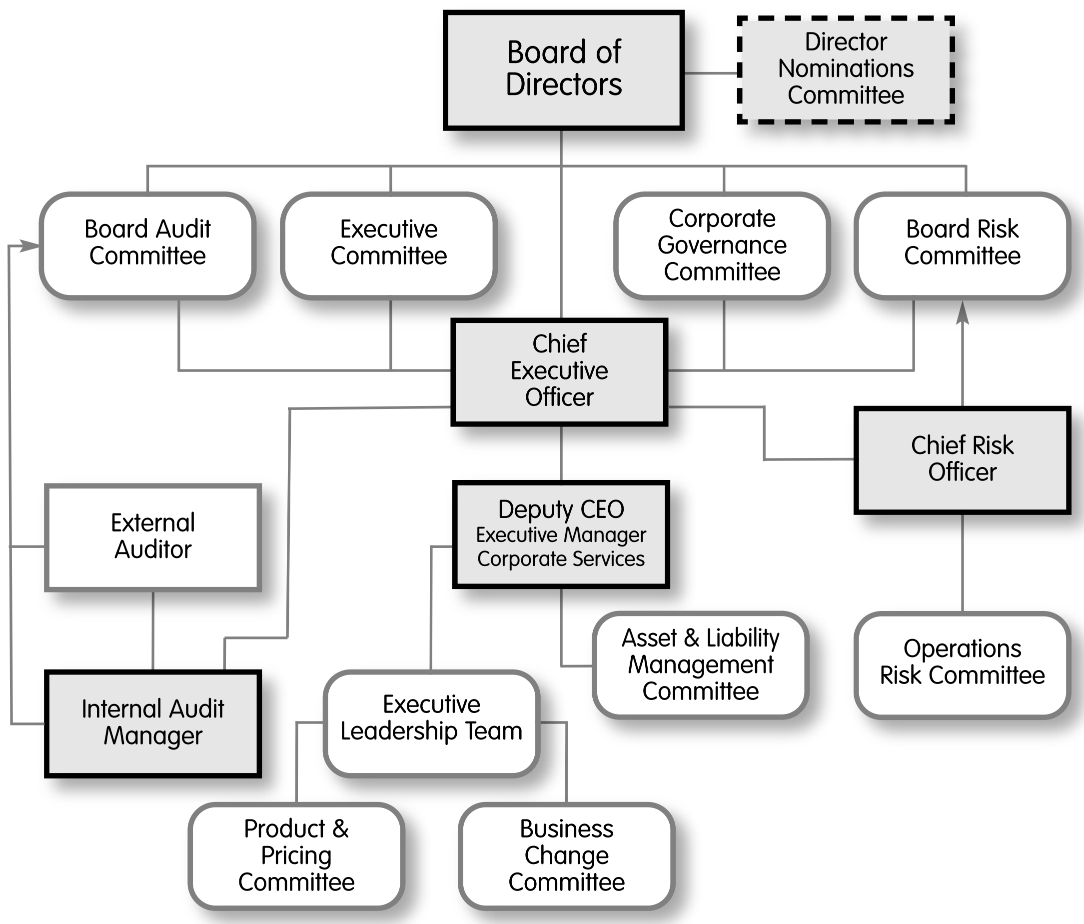
22. Financial Risk Management Objectives And Policies

Introduction

The Board of Directors has endorsed a policy of Compliance and Risk Management to suit the risk profile of the Group.

The Group's risk management focuses on the major areas of market risk, credit risk, capital management, liquidity risk and operational risk. Authority flows from the Board of Directors to the Board Risk Committee and the Board Audit Committee which are integral to the management of risk. The following diagram of Board and Committee Governance Structure gives an overview of the structure.

Board & Committee Governance Structure



The diagram shows the Risk Management structure. The main elements of risk governance are as follows:

Board of Directors: This is the primary governing body. It approves the level of risk which the Group is exposed to and the framework for reporting and mitigating those risks.

The Board will create a Governance Committee, Board Risk Committee, Board Audit Committee and other Committees as appropriate, to oversee critical functions; the Board retains responsibility for decision making at all times and for ensuring the performance of the duties delegated to the Committees, including Audit & Compliance and Risk Management.

The Board should ensure that its decisions and actions do not pose an unacceptable prudential risk to the institution by way of monitoring the compliance with prudential and statutory requirements to which the Group is obliged to comply.

Board Risk Committee (BRC): This is a key body in the control of risk. It comprises a minimum of 3 Directors. Senior Management and the Risk Manager attend by invitation.

The BRC's purpose shall be to assist the Board by providing objective non-executive oversight of the implementation and operation of the Group's risk management framework and that it remains appropriate given the Group's size, business mix and complexity. The Committee will use prevailing best practice and adopt the methodologies of Australian Standards in relation to risk management e.g. AS/NZS ISO 31000:2009.

The Board Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations. Regular monitoring is carried out by the Risk Committee of operational reports and control assignments are reviewed by the Risk Committee to confirm whether risks are within the parameters outlined by the Board.

The Risk Committee monitors compliance with the framework laid out in the policy and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

Board Audit Committee (BAC): Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Board Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Board Audit Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the risk committee for their consideration.

Asset & Liability Committee (ALCo): This committee of senior management meets monthly and has responsibility for managing and reporting risk exposure in the areas of:

- Credit Risk,
- Liquidity Risk,
- Capital Risk,
- Market Risk (including Interest Rate Risk), and
- Financial and Accounting Risk.

It scrutinises operational reports and monitors exposures against limits determined by the Board. The ALCo Committee has responsibility for implementing policies to ensure that all risk exposures are properly measured and controlled.

This committee also has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP.

Executive Leadership Team: This Committee meets twice monthly, is chaired by the Chief Executive Officer, and reports to the Board of Directors. It is responsible for implementing the Board's strategic plan, operational planning and financial performance. The ELT is responsible for oversight of the Group's risks in the following areas;

- Strategic Risks
- Governance Risks, and
- Financial Risks

The Committee has established a Business Change Committee to assist the Executive Leadership Team in overseeing all key strategic and operational projects. The Committee aims to ensure that;

- The Group's annual business change program aligns to its strategic and business plans;
- required project resources are available and appropriately prioritised;
- project sponsors articulate and deliver project benefits,
- project managers define and mitigate execution risks; and
- any resultant business change is coordinated to maximise benefits and minimise business disruption.

In addition the Committee has established the Product & Pricing Committee to assist the Executive Leadership Team (ELT) in overseeing retail product performance including margins, new business volumes and retentions. PPC aims to support achievement of the Board's asset growth target and forecast net interest margin whilst operating within ALCo mandated balance sheet structure and financial risk limits.

Operations Risk Committee: This committee of senior management meets quarterly, is chaired by the Chief Risk Officer and reports to the Board Risk Committee. It has responsibility for oversight of all Operational Risk matters, including in the areas of:

- Fraud Risks
- Regulatory Risks
- Business Disruption Risks
- Business Process Risks

Its responsibilities include ensuring that the Group operates within its Board mandated risk appetite and that operational risks are managed in accordance with its approved risk management strategy and supporting policies.

It reviews all proposed operational risk policy amendments prior to consideration by the Board Risk Committee. It also maintains oversight of all mediation plans associated with operational risks to ensure risks are maintained with Board approved limits.

Chief Risk Officer: The Chief Risk Officer provides advice to the relevant Directors on risk management matters. The Chief Risk Officer is accountable through the Board Risk Committee for the implementation of Risk Management strategies, plans, policies, operating controls and processes to facilitate the identification, analysis and understanding of key material risks affecting the Group. The Chief Risk Officer also establishes an integrated risk management framework to manage those risks.

Internal Audit: Internal Audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee. The Internal Audit Manager is responsible for compliance and internal audit functions to ensure that systems and set procedures meet prudential standards and consumer legislation and to test the operation of such systems for improvement in codes, policies and rules as required.

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

- Market Risk (primarily Interest Rate Risk)
- Liquidity Management
- Capital Management
- Credit Risk Management
- Operations Risk Management including data and fraud risk management.

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

A. Market Risk and Hedging Policy

The objective of the Group'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 and volatilities will have an adverse effect on the Group's financial condition or results. The Group is not exposed to currency risk, and other significant price risk. The Group does not trade in the financial instruments and has not undertaken any hedging at this time. The Group is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of the ALCo Committee, which reports directly to the Board Risk Committee.

Interest rate risk

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

Interest rate risk in the banking book

The Group is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the banking book is measured and reported to the ALCo, the Risk Committee and the Board, on a monthly basis. In the banking book the most common risk The Group faces arises from fixed rate assets and liabilities. This exposes the Group to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 24 below. The table set out at Note 24 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The policy of the Group to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive.

The Group's exposure to market risk is measured and monitored using the Value-at-Risk (VaR) methodology of estimating potential losses. VaR is a technique which estimates the potential change in the value of the financial assets and liabilities that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out in the table below, has been calculated using historical simulations, using movements in market rates and prices, a 99.5 per cent confidence level and taking into account historical correlations between different markets and rates.

Any potential exposures in excess of the exposure limits stated above are rectified through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Group permits the undertaking of derivatives to reduce interest rate risks, but no such derivatives have been undertaken to date. The Group's exposure to interest rate risk is set out in Note 24 which details the contractual interest change profile.

Based on the calculations as at 30 June, the impact on the net economic value as a percentage of the Capital Base, for a 2% movement in interest rates would be as follows:

	2018	2017
Value-at-Risk Methodology	0.32%	0.25%

The Group is therefore confident within a 99.5 per cent confidence level that, given the risks as at 30 June 2018, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the VaR model used.

Although the use of VaR models calculates the interest rate sensitivity on the banking book, this is not reflected in the Pillar 1 capital requirement.

The Group's exposure to banking book interest rate risk is not expected to change materially in the next year so existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

B. Liquidity Risk

Liquidity risk is the risk that the Group 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 of Directors that the Group maintains adequate cash reserves and committed credit facilities so as to meet the Member withdrawal demands when requested.

The Group manages liquidity risk by:

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

The Group has a longstanding arrangement with the industry liquidity support organisation, Credit Union Financial Support Services (CUFSS), which can access industry funds to provide support to the Group should it be necessary at short notice. The Group has not had any need to access funds from this source.

Under the APRA Prudential Standards, the Group is required to maintain a minimum of 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours (Minimum Liquidity Holding Ratio –MLH). The Group policy is to maintain 15% of funds as liquid assets, to ensure that the Group maintains at all times adequate funds for meeting Member withdrawal requests. The 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, borrowing facilities or other liquidity support facilities available. Note 27 details the borrowing facilities as at balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in Note 23. The ratio of liquid funds over the past year is set out below:

Total adjusted liabilities	2018	2017
Minimum Liquidity Holdings	**$131,551,662**	**$175,354,573**
As at 30 June	15.58%	20.92%
Average for the year	16.02%	22.59%
Minimum during the year	14.15%	20.25%
Maximum during the year	20.65%	24.15%
Total Liquid investments	**$169,307,309**	**$230,409,095**
As at 30 June	20.05%	27.49%
Average for the year	23.69%	29.52%
Minimum during the year	19.38%	26.60%
Maximum during the year	27.69%	31.29%

C. Credit Risk

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

(i) Credit Risk – Loans

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

Loans to	2018 Carrying value $'000	2018 Commitments $'000	2018 Max. exposure $'000	2017 Carrying value $'000	2017 Commitments $'000	2017 Max. exposure $'000
Mortgage	629,914	55,218	685,132	574,007	45,160	619,167
Personal	25,189	1,295	26,484	23,399	1,694	25,093
Revolving Credit	15,865	30,715	46,580	16,646	30,539	47,185
Commercial	10,191	1,105	11,296	10,176	1,094	11,270
Total to natural persons	**681,159**	**88,333**	**769,492**	**624,228**	**78,487**	**702,715**
Corporate borrowers	-	-	-	-	-	-
Total	**681,159**	**88,333**	**769,492**	**624,228**	**78,487**	**702,715**

Carrying value is the value on the Consolidated Statement of Financial Position. Maximum exposure is the value on the Statement of Financial Position plus the undrawn facilities (loans approved not advanced, available redraw facilities, and undrawn approved revolving credit line facilities). The details are shown in Note 26.

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

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 on a weekly basis of defaults in the repayment of loans thereafter. The credit policy has been endorsed by the Board of Directors, to ensure that loans are only made to Members that are creditworthy (capable of meeting loan repayments).

The Group has established policies over the:

– Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
– Limits of acceptable exposure over the value to individual borrowers, non-mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
– Reassessing and review of the credit exposures on loans and facilities;
– Establishing appropriate provisions to recognise the impairment of loans and facilities;
– Management and recovery procedures for loans in repayment default; and
– Review of compliance with the above policies;

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

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. 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 is sufficient to warrant a provision for potential loss to be raised, the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Loan repayments are monitored daily to detect delays in repayments, and recovery action is undertaken. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action. The exposures to losses arise predominantly in the personal loans and revolving credit facilities not secured by registered mortgages over real estate.

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

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

The Consolidated Statement of Financial Position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the Group's loan portfolio from homogenous portfolios of assets and individually identified loans.

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

The provisions for impaired and past due exposures relate to the loans to Members. Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are as set out in Note 8.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off. On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

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

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Group is exposed to risks in the reduction of the Loan to Value Ratio (LVR) cover, should the property market be subject to a decline in market values.

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

The Board policy is to maintain at least 50% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 7(b) describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – Industry

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

(ii) Credit Risk – Liquid Investments

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 50% of the Group's capital base can be invested with any one financial institution at a time. With respect to Cuscal, this limit is increased to 150%.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on any one Credit Union. Also the relative size of the Group as compared to the industry is relatively low such that the risk of loss is reduced.

Under the Group Industry's liquidity support scheme, at least 3.2% of the total assets must be invested in Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed. The board policy is to maintain a significant proportion of the investments in Cuscal Limited, a company set up to support its Member Credit Unions. Cuscal has a long-term credit rating of A+, and a short-term credit rating of A-1.

The Board has approved that the majority of its investments will generally be with financial institutions with a rating not lower than BBB-. The Board permits investments with counterparties with ratings below this rating, or otherwise unrated to a limit of 10% of the Group's capital base for any single counterparty, or 30% of the capital base in total for all such counterparty investments.

External Credit Assessment for Institution Investments

Where available, the Group uses the long-term ratings of Standard & Poors ratings agency to assess the credit quality of investment exposures, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

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

Investments on on ADI's and Overseas Banks with –	30 June 2018				
	A term up to 3 months	A term over 3 months	Total carrying value	Past due value	Provision
	$'000	$'000	$'000	$'000	$'000
Grade 1 – rated AA- and above	3,220	20,330	23,550	-	-
Grade 2 – rated below AA- to A-	5,109	61,740	66,849	-	-
Grade 3 – rated below A- to BBB-	-	62,048	62,048	-	-
Grade 4 – rated below BBB- to BB-	-	-	-	-	-
Grade 5 – rated below BB- to B-	-	-	-	-	-
Grade 6 – rated below B- to D					
Unrated Approved Deposit-taking institutions	2,510	18,659	21,169	-	-
Total	**10,839**	**162,777**	**173,616**	**-**	**-**

Investments on on ADI's and Overseas Banks with –			30 June 2017		
	A term up to 3 months	A term over 3 months	Total carrying value	Past due value	Provision
	$'000	$'000	$'000	$'000	$'000
Grade 1 – rated AA- and above	14,178	14,590	28,768	-	-
Grade 2 – rated below AA- to A-	50,464	67,690	118,154	-	-
Grade 3 – rated below A- to BBB-	-	64,170	64,170	-	-
Grade 4 – rated below BBB- to BB-	-	-	-	-	-
Grade 5 – rated below BB- to B-	-	-	-	-	-
Grade 6 – rated below B- to D	-	-	-	-	-
Unrated Approved Deposit-taking institutions	12,024	6,059	18,083	-	-
Total	**76,666**	**152,509**	**229,175**	**-**	**-**

(iii) Credit Risk – Guarantees

The Group provides financial guarantees on behalf of Members. All guarantees provided are fully secured against either an existing registered mortgage facility already held by the Group, or by funds lodged as a term deposit with the Group. The total value of guarantees issued at 30 June 2018 amounted to $1,105,152 (30 June 2017 $1,094,180).

D. Operational Risk

Operational risk is the risk of loss to the Group resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Group 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 Group'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 the whistle blowing 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 Group 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 or premises or staff.

(i) Fraud

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

(ii) IT systems

The worst case scenario would be the failure of the Group's core banking and IT network suppliers to meet customer obligations and service requirements. The Group 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 Group by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM & Visa cards, and BPay etc.

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.

E. Capital Management

The minimum capital levels required to be maintained by all Financial Institutions are prescribed by the Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk
- Market risk (trading Book)
- Operations risk.

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

Capital resources

Tier 1 Capital

The vast majority of Tier 1 Capital comprises:

- Preference share capital
- Retained profits
- Realised reserves
- Asset Revaluation Reserve on Properties.

Additional Tier 1 capital

This is a new classification of capital and includes Preference share capital approved by APRA and qualifies as Tier 1 capital.

Tier 2 Capital

Tier 2 Capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 Capital resources as set down by APRA.

Tier 2 Capital generally comprises:

- Tier 2 capital instruments - subordinated loan
- General Reserve for Credit Losses.

Capital in the Group is made up as follows:

	2018 $'000	2017 $'000
Tier 1 Common Equity		
Capital reserve account	727	683
Asset revaluation reserves on property	2,458	2,458
General reserves	12,829	12,829
Retained earnings	62,345	56,463
	78,359	74,433
Less prescribed deductions	(4,487)	(4,070)
Net tier 1 Common Equity	**73,872**	**70,363**
Tier 2		
Subordinated debt	-	1,997
Reserve for credit losses	2,300	2,300
	2,300	4,297
Less prescribed deductions	-	(1,600)
Net tier 2 Capital	**2,300**	**2,697**
TOTAL CAPITAL	**76,172**	**73,060**

The Group is required to maintain a minimum capital level as compared to the risk weighted assets at any given time. The above capital is in excess of the minimum required.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

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

2018	2017	2016	2015	2014
16.90%	17.14%	17.47%	17.56%	18.45%

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 between different risk weighting categories.

To manage the Group's capital the Group reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 15%. Further, a 3 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

23. Maturity Profile Of Financial Liabilities

Monetary liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table on the next page shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the Consolidated Statement of Financial Position.

2018	Book Value $'000	Within 1 month $'000	1–3 months $'000	3–12 months $'000	1–5 years $'000	After 5 years $'000	No Maturity $'000	Total $'000
LIABILITIES								
Borrowings	**4,000**	1,002	3,009	-	-	-	-	**4,011**
Creditors	**5,149**	5,149	-	-	-	-	-	**5,149**
Deposits from other financial institutions	-	-	-	-	-	-	-	-
Deposits from Members – at call	**456,395**	456,149	-	-	-	-	246	**456,395**
Deposits from Members – term	**315,224**	53,539	79,830	177,902	6,689	-	-	**317,960**
Subordinated debt	**-**	-	-	-	-	-	-	**-**
On statement of financial position	**780,768**	**515,839**	**82,839**	**177,902**	**6,689**	**-**	**246**	**783,515**
Undrawn commitments	-	-	-	-	-	-	87,228	**87,228**
Total Financial Liabilities	**780,768**	**515,839**	**82,839**	**177,902**	**6,689**	**-**	**87,474**	**870,743**

2017	Book Value $'000	Within 1 month $'000	1–3 months $'000	3–12 months $'000	1–5 years $'000	After 5 years $'000	No Maturity $'000	Total $'000
LIABILITIES								
Borrowings	-	-	-	-	-	-	-	-
Creditors	**5,826**	5,826	-	-	-	-	-	**5,826**
Deposits from other financial institutions	-	-	-	-	-	-	-	-
Deposits from Members – at call	**456,867**	456,614	-	-	-	-	254	**456,868**
Deposits from Members – term	**320,505**	54,485	85,433	177,075	6,324	-	-	**323,317**
Subordinated debt	**1,997**	-	-	1,997	-	-	-	**1,997**
On statement of financial position	**785,195**	**516,925**	**85,433**	**179,072**	**6,324**	**-**	**254**	**788,008**
Undrawn commitments	-	-	-	-	-	-	78,487	**78,487**
Total Financial Liabilities	**785,195**	**516,925**	**85,433**	**179,072**	**6,324**	**-**	**78,741**	**866,495**

24. Interest Rate Change Profile of Financial Assets and Liabilities

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

2018	Within 1 month $'000	1–3 months $'000	3–12 months $'000	1–5 years $'000	Non-Interest Bearing $'000	Total $'000
ASSETS						
Cash and Cash Equivalents	8,310	-	-	-	909	**9,219**
Liquid Investments at amortised cost	18,466	47,824	47,769	44,470	-	**158,529**
Receivables	-	-	-	-	-	-
Loans to Members – mortgage*	393,536	4,846	46,242	185,290	-	**629,914**
Loans to Members – personal*	31,777	-	102	3,291	-	**35,170**
Society One Loans	2,877	-	-	-	-	**2,877**
LeasePlus Leases*	-	-	-	3,007	-	**3,007**
Loans to Members – other*	8,293	-	251	1,647	-	**10,191**
Available for Sale Equity Investments	-	-	-	-	1,899	**1,899**
Total financial assets	**463,259**	**52,670**	**94,364**	**237,705**	**2,808**	**850,806**

*These balances do not include the impact of provisions for credit losses.

2018	Within 1 month $'000	1–3 months $'000	3–12 months $'000	1–5 years $'000	Non-Interest Bearing $'000	Total $'000
LIABILITIES						
Deposits from Members	509,647	79,515	175,799	6,412	246	**771,619**
Deposits from other financial institutions	-	-	-	-	-	**-**
Borrowings	1,000	3,000	-	-	-	**4,000**
Creditors	-	-	-	-	5,149	**5,149**
Subordinated Debt	-	-	-	-	-	**-**
On statement of financial position	**510,647**	**82,515**	**175,799**	**6,412**	**5,395**	**780,768**
Undrawn loan commitments Note 26	-	-	-	-	87,228	**87,288**
Total liabilities	**510,647**	**82,515**	**175,799**	**6,412**	**92,623**	**867,996**

2017	Within 1 month $'000	1–3 months $'000	3–12 months $'000	1–5 years $'000	Non-Interest Bearing $'000	Total $'000
ASSETS						
Cash and Cash Equivalents	12,164	-	-	-	1,195	**13,359**
Liquid Investments at amortised cost	65,879	80,891	69,237	-	-	**216,007**
Receivables	2,209	-	-	-	-	**2,209**
Loans to Members – mortgage	390,478	2,052	15,834	164,921	-	**573,285**
Loans to Members – personal	34,748	-	12	4,773	-	**39,533**
Loans to Members – other	8,616	-	558	1,514	-	**10,688**
Available for Sale Equity Investments	-	-	-	-	1,899	**1,899**
On statement of financial position	**514,094**	**82,943**	**85,641**	**171,208**	**3,094**	**856,980**
Undrawn loan commitments Note 28	-	-	-	-	-	-
Total Financial Assets	**514,094**	**82,943**	**85,641**	**171,208**	**3,094**	**856,980**

2017	Within 1 month $'000	1–3 months $'000	3–12 months $'000	1–5 years $'000	Non-Interest Bearing $'000	Total $'000
LIABILITIES						
Deposits from Members	460,450	80,108	230,413	6,147	254	**777,372**
Deposits from other financial institutions	-	-	-	-	-	**-**
Borrowings	-	-	-	-	-	**-**
Creditors	-	-	-	-	5,826	**5,826**
Subordinated Debt	-	1,997	-	-	-	**1,997**
On statement of financial position	**460,450**	**82,105**	**230,413**	**6,147**	**6,080**	**785,195**
Undrawn loan commitments Note 28	-	-	-	-	78,487	**78,487**
Total Liabilities	**460,450**	**82,105**	**230,413**	**6,147**	**84,567**	**863,682**

25. Net Fair Value of Financial Assets and Liabilities

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

Significant assumptions used in the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are held regularly traded by the Group, and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets. The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to the original term.

	2018			2017		
	Fair Value $'000	Book Value $'000	Variance $'000	Fair Value $'000	Book Value $'000	Variance $'000
FINANCIAL ASSETS						
Cash and Cash Equivalents	9,219	9,219	-	13,359	13,359	-
Liquid Investments at Amortised Cost	159,127	158,529	**598**	217,023	216,007	**1,016**
Receivables (1)	1,781	1,781	-	2,209	2,209	-
Loans to Members – Mortgage	630,351	629,914	**437**	574,082	573,286	**796**
Loans to Members – Personal	34,527	34,500	**27**	37,537	37,834	**(297)**
Society One Loans	2,802	2,802	-	1,698	1,698	-
LeasePlus Loans	2,915	2,917	**(2)**	-	-	-
Loans to Members – Other	10,143	10,191	**(48)**	10,280	10,688	**(408)**
Available For Sale Equity Investments	1,899	1,899	-	1,899	1,899	-
Total Financial Assets	**852,764**	**851,752**	**1,012**	**858,087**	**858,980**	**1,107**
FINANCIAL LIABILITIES						
Borrowings	4,000	4,000	-	-	-	-
Deposits from Members – Call	456,149	456,395	**(246)**	456,614	456,867	**(253)**
Deposits from Members – Term	317,934	315,224	**2,710**	323,197	320,505	**2,692**
Deposits from other institutions	-	-	-	-	-	-
Creditors (1)	5,149	5,149	-	5,826	5,826	-
Subordinated debt	-	-	-	1,997	1,997	-
Total Financial Liabilities	**783,232**	**780,768**	**2,464**	**787,634**	**785,195**	**2,439**

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

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

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

(i) Liquid Assets and Receivables from other Financial Institutions

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

(ii) Loans and Advances

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

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

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

(iii) Deposits From Members

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

(iv) Short Term Borrowings

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

26. Financial Commitments

	2018 $'000	2017 $'000
a. Outstanding Loan Commitments		
The loans approved but not funded	**14,261**	**6,089**
b. Loan Redraw Facilities		
The loan redraw facilities available	**43,357**	**41,859**
c. Undrawn Loan Facilities		
Loan facilities available to Members for overdrafts and line of credit loans are as follows:		
– Total value of facilities approved	47,527	47,185
– Less: Amount advanced	(16,812)	(16,646)
Net Undrawn Value	**30,715**	**30,539**
Total Financial Commitments	**88,333**	**78,487**

These commitments are contingent on Members maintaining credit standards and ongoing repayment terms on amounts drawn.

	2018 $'000	2017 $'000
d. Lease expense commitments for operating leases on property occupied by the Group		
Not later than one year	1,804	1,275
Later than one year but not later than five years	3,949	2,954
Over five years	303	40
	6,056	**4,269**

The operating leases are in respect of property used for providing branch services to Members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 1 to 5 years and options for renewal are usually obtained for a further period up to 5 years.

There are no restrictions imposed on the Group so as to limit the ability to undertake further leases, borrow funds or issue dividends.

e. Computer Bureau Expense Commitments

As referred to in Note 30, the Group has a management contract with TransAction Solutions Pty Limited (TAS) to supply computer support staff and services to meet the day to day needs of the Group and compliance with the relevant Prudential Standards.

The costs committed under contracts with TAS are as follows:	2018 $'000	2017 $'000
Not later than one year	551	534
Later than 1 year but not 2 years	551	534
Later than 2 years but not 5 years	322	845
Later than 5 years	-	-
	1,424	**1,913**

f. Other expense commitments

Not later than one year	645	601
Later than 1 year but not 2 years	645	601
Later than 2 years but not 5 years	1,075	1,604
Later than 5 years	-	-
	2,365	**2,806**

27. Standby Borrowing Facilities

The Group has a borrowing facility with Cuscal of:

2018	Gross $'000	Current Borrowing $'000	Net Available $'000
Overdraft Facility	2,000	-	2,000
TOTAL STANDBY BORROWING FACILITIES	**2,000**	**-**	**2,000**

2017	Gross $'000	Current Borrowing $'000	Net Available $'000
Overdraft Facility	2,000	-	2,000
TOTAL STANDBY BORROWING FACILITIES	**2,000**	**-**	**2,000**

Withdrawal of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds a Security Term Deposit against overdraft amounts drawn under the facility arrangement.

28. Contingent Liabilities

Liquidity Support Scheme

The Group is a Member of CU Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to Member Credit Unions in the event of a liquidity or capital problem. As a Member, the Group is committed to maintaining 3.2% of the total assets as deposits with Cuscal Limited.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating CU would be 3.2% of the Group's Total Assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

Guarantees

The Group has issued guarantees on behalf of Members for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total $1,105,152 (30 June 2017: $1,094,180). The guarantee is payable only on the Member defaulting on the contractual repayments to the Lessor / supplier. The guarantees are generally fully secured against registered first mortgages or Term Deposit funds lodged.

29. Disclosures on Directors and other Key Management Personnel

a. Remuneration of Key Management Personnel [KMP]

Key Management Persons (KMP) has been taken to comprise the Directors and the Members of the executive management responsible for the day to day financial and operational management of the Group.

The aggregate Compensation of **Key Management Persons** during the year comprising amounts paid or payable or provided for was as follows:

		2018	2017
		Directors & Other KMP	Directors & Other KMP
		$	$
(a)	short-term employee benefits;	712,375	677,275
(b)	post-employment benefits - Superannuation contributions	135,203	150,090
(c)	other long-term benefits – net increases in Long Service leave and Personal leave provision	54,870	43,265
(d)	termination benefits;	-	-
(e)	share-based payment.	-	-
Total		**902,448**	**870,630**

In the above table, remuneration shown as Short Term benefits means (where applicable) **wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of Fringe Benefits received**, but excludes out-of-pocket expense reimbursements.

All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Group.

b. Loans to Directors and other Key Management Persons

		2018 $'000	2017 $'000
(i)	The aggregate value of loans to Directors and other Key Management Personnel as at Balance date amounted to	867	127
(ii)	The total value of revolving credit facilities approved to Directors and other Key Management Personnel, as at Balance date amounted to	64	64
	Less amounts drawn down and included in (i)	(10)	(12)
	Net balance available	**54**	**52**
(iii)	During the year the aggregate value of loans disbursed to Directors and other Key Management Personnel amounted to:		
	Revolving credit facilities	139	139
	Term Loans	977	30
		1,116	**169**
(iv)	During the year the aggregate value of Revolving Credit Facility limits granted or increased to Directors and other Key Management Personnel amounted to:	-	-
(v)	Interest and other revenue earned on Loans and revolving credit facilities to KMP	34	2

The Group's policy for lending to Directors and Management is that all loans are approved and deposits accepted on the same terms and conditions which applied to Members for each class of loan or deposit with the exception of loans to KMP who are not Directors. There are no loans which are impaired in relation to the loan balances with Director's or other KMP's.

KMP who are not Directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to Fringe Benefits tax, are included in the remuneration in Note 29(a) above.

There are no benefits or concessional terms and conditions applicable to the close family Members of the Key Management Persons. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and KMP.

c. Transactions with Other Related Parties

Other transactions between related parties include deposits from Director related entities or close family Members of Directors, and other KMP.

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

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

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

	2018 $'000	2017 $'000
Total value Term and Savings Deposits from KMP	1,244	1,099
Total Interest paid on deposits to KMP	13	19

30. Economic Dependency

The Group has an economic dependency on the following suppliers of services.

a. Cuscal

Cuscal is an Approved Deposit Taking Institution registered under *the Corporations Act 2001* and the Banking Act. This entity:

(i) provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by Members;

(ii) provides treasury and money market facilities to the Group. The Group has invested the majority of its liquid assets with the entity to maximise return on funds, and to comply with the Liquidity Support Scheme requirements;

(iii) operates the computer network used to link Redicards and Visa cards operated through rediATMs and other approved ATM suppliers to the Group's EDP Systems.

b. Ultradata Australia Pty Limited

Provides and maintains the core banking system application software utilised by the Group.

c. TransAction Solutions Pty Limited

This entity operates the computer facility on behalf of the Group in conjunction with other Credit Unions. The Group has a management contract with the company to supply computer support staff and services to meet the day to day needs of the Group and compliance with the relevant Prudential Standards.

31. Superannuation Liabilities

The Group contributes to the CUE Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The Plan is administered by an independent corporate trustee.

The Group has no interest in the Superannuation Plan (other than as a contributor) and is not liable for the performance of the Plan, or the obligations of the Plan.

The Group contributes to the State Authorities Superannuation Scheme (SASS) and to the State Authorities Non-Contributory Superannuation Scheme (SANCS) for the purpose of defined benefits superannuation schemes for 2 employees and no new employees are eligible to join these schemes. The Plan is administered by an independent corporate trustee.

The Group has no interest in the Superannuation Plan (other than as a contributor) and is liable for any shortfall in reserves to meet the employees' entitlements. Currently the Plan is in surplus and it is anticipated the Group is unlikely to be required to have any further liability to these funds.

32. Securitisation

The Group had an arrangement with Integris Securitisation Services Pty Limited whereby it acted as an agent to promote and complete loans on their behalf, for on sale to an investment trust. While this arrangement has terminated, the Group continues to manage the loans portfolio previously securitised on behalf of the trust. The Group bears no risk exposure in respect of these loans. The Group receives a management fee to recover the costs of on-going administration of the processing of loan repayments and the issuing of statements to Members.

The amount of securitised loans under management as at 30 June 2018 $4,455,552 (30 June 2017 $5,944,303).

33. Transfers of Financial Assets

The Group has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with the SCU Trust No. 1 (the Trust), a trust established in August 2017 for securing the ability to obtain liquid funds from the Reserve Bank should a need arise. The Trust is consolidated, however the loans are not de-recognised as the Group retains the benefits of the trust until such time as a drawdown is required. The consolidation of the Trust is therefore not material to the Group financial statements.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred.

Securitised loans retained on the balance sheet

The values of securitised loans which are not qualifying for de-recognition as the conditions do not meet the criteria in the accounting standards, are set out below. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

	2018 $'000	2017 $'000
Balance Sheet values – Loans and receivables		
SCU Trust No.1 – Series 1	**92,577**	-

34. Notes To Statement Of Cash Flows

a. Reconciliation of Cash

Cash includes cash on hand, and deposits at call with other financial institutions and comprises:

	2018 $'000	2017 $'000
Cash on hand	909	1,195
Deposits at call	8,310	12,164
Bank overdraft	-	-
Total Cash	**9,219**	**13,359**

b. Cash unavailable for use

	2018 $'000	2017 $'000
Cash which is excluded from the above amount of cash since it is not readily available for use by reason of it securing overnight settlement obligations.	-	-

c. Reconciliation of Cash from Operations to Accounting Profit

The net cash increase/(decrease) from operating activities is reconciled to the operating profit after tax:

Profit after income tax	3,876	2,158
Add (Deduct):		
– Increase in Provision for Impairment	401	348
– Increase in Unearned Income	(505)	(3)
– Increase in Unamortised Fees	(4)	(38)
– Depreciation expense	483	555
– Amortisation of Intangible Assets	97	97
– Amortisation of Debt Raising Costs	3	8
– Profit on sale of assets	(2,035)	(28)
– Loss on sale of assets	13	-
– Increase in provisions for staff leave	256	98
– Increase in tax liabilities	688	69
– Increase in other provisions	(37)	(39)
– Increase in accrued expenses	401	54
– Increase in interest payable	26	(430)
– Increases in Other Liabilities	(14)	-
– Decreases in prepayments & sundry receivables	(198)	(48)
– Decrease in Receivables	(139)	(92)
– Decrease in Taxation Assets	(297)	(93)
– Bad debts written off	(297)	-
– Dividends Paid	-	(21)
Net Cash From Operating Activities	**2,718**	**2,595**

35. Corporate Information

The Group is a company limited by shares registered under the Corporations Act 2001

The address of the registered office is: 19 Second Avenue, Blacktown NSW 2148

The address of the principal place of business: 19 Second Avenue, Blacktown NSW 2148

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

36. Subsequent events

No matters or circumstances have arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

NOTES

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Branches

Campbelltown	Shop U012, Macarthur Square Shopping Centre, Gilchrist Drive, Ambarvale NSW 2560
Fairfield	Shop G50, Neeta City Shopping Centre, Smart Street, Fairfield NSW 2165
Greenacre	138 Waterloo Rd, Greenacre NSW 2190
Katoomba	63 Pioneer Place, Katoomba NSW 2780
Lidcombe	27–29 Church Street, Lidcombe NSW 2141
Marrickville	Shop 7–8, 34 Victoria Road Marrickville NSW 2204
Mascot	1197 Botany Road, Mascot NSW 2020
Parkes	189 Clarinda Street, Parkes NSW 2870
Parramatta	207 Church Street, Parramatta NSW 2150
Penrith	16–20 Riley Street, Penrith NSW 2750
Rockdale	Shop 5, Rockdale Plaza, Rockdale NSW 2216
Rouse Hill	Shop GR092A, Civic Way, Rouse Hill Town Centre, Rouse Hill NSW 2155
Springwood	268 Macquarie Road, Springwood NSW 2777
Sutherland	20 Eton Street, Sutherland NSW 2232
Sydney City	210 Clarence Street, Sydney NSW 2000
Windsor	Shop 7–8, 251 George Street, Windsor NSW 2756

Registered Office: 19 Second Ave, Blacktown NSW 2148

scu.net.au
Call 13 61 91

Sydney Credit Union Ltd
ABN 93 087 650 726 AFSL 236476 Australian Credit Licence No 236476.
Please address all mail to PO Box 444 Blacktown NSW 2148
enquiries@scu.net.au