

# Annual Report 2017



*your money, your way*

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## SECTION # 2:

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...banking with us is truly a smart alternative to big banks.

- Bob Kotic, CEO

### Our Purpose:

**To help our members achieve financial success, by providing banking with a conscience.**

We're dedicated to providing exceptional service to our members through our three community brands:



### Our tradition...

Our Credit Union was formed by people who believe in the spirit of cooperation.

In 1972, Collieries Employees CU and Southern Mutual CU amalgamated to establish Illawarra Credit Union. Some 45 years later, the tradition of serving our members through good times and bad has remained at the heart of everything we do.

We have also welcomed other mutuals into our family through mergers with Norwarra Credit Union, Unicom Credit Union (now Catalyst Money), Shoalhaven Paper Mill Employees' Credit Union and Western City Credit Union.

### ...enables your future...

We offer banking with a conscience - one that puts our members first. Personal service, fair fees and a community respect makes us different.

We're committed to providing our members with great service, quality products, competitive interest rates for borrowing and saving, and a range of financial services that support your changing needs.

In essence, we help you to make the most of...

*your money, your way*

### ...through the principles of mutuality.

When you become a member of our Credit Union, you benefit from the principles of mutuality. These principles give our members a voice, which inspires our Credit Union values and purpose.

We're owned by our members and exist for their benefit. As a mutual, we continuously reinvest our profits into providing better products and services for our members.



# Message from the Chairman

I present to you the Community Alliance Credit Union 2017 Annual Report.

In my report last year I commented on the impact of difficult economic circumstances, a competitive landscape and dramatic technology challenges. I reported that, despite these pressures, there was an air of confidence for the future at both Board and management levels. This year I am pleased to say that the confidence in the future has been vindicated.

## Year under review

Your Board has supported a strategy of very significant investment in technology, new systems and processes and extensive training, at a time when many in mutual banking have turned inward in their reaction to the dramatically changing finance industry and rising customer demands.

At your credit union, the Board, management and staff have worked diligently towards the implementation of a new core banking platform that will ensure our ability to



- Roger Downs

be a cost effective, efficient and nimble provider of all of the banking services you require. By the time you are reading this report, that core banking platform will be fully operational.

In a sign of the increasing transformation of staff capabilities, the implementation of the new core banking platform has been the subject of a highly refined project management process. This included an early detailed due diligence, establishment of a dedicated project management team in its own workspace, engagement of external consulting support to develop a project reporting protocol and the oversight of a steering committee comprising members from management, the implementation team and a Board member, reporting regularly to the Board.

While a technology upgrade as extensive as this is unlikely to be completely free of unanticipated issues, the approach taken has minimised all risks and maximised the likely outcomes from the new platform.

Most importantly, the new core banking platform is recognised purely as an enabler for an extensive and far reaching transformation of your credit union.

The very significant investment in transformational change has come at significant financial cost. Despite this, your credit union has ended the year profitably and in a sound position to capitalise on the benefits that will flow from the investments that have been made.

## The future

The benefits for you, the owners of the credit union, will include a simpler, more accessible and reliable view of each individual member's information, enabling the credit union staff to more efficiently and personally assist you in all banking needs.

You can assist the credit union staff by responding to their requests for information and contact details to ensure that the new system can deliver all of the benefits that are available.

Your credit union is fortunate to have a very loyal member base and that loyalty is certainly not taken for granted by your Board and management.

Over the next year or so you will see many improvements in products and services as well as the capability and focus

of staff in ensuring that you, the owners of the credit union, continue to receive the depth and quality of products, service and assistance that you deserve.

## Your Board

Central to the strategic direction of your credit union is the focus and diligence of your Board. During the year under review, the Board undertook a two yearly external review of its performance and effectiveness.

The most recent review has clearly demonstrated the current Board as diverse, well skilled, motivated and very harmonious in its operations. Senior management also participated in the Board review and the results indicated a strong mutual respect and alignment between senior management and the Board.

As Chairman I thank my fellow directors for their support and particularly the work of directors on committees and the Chairs of those committees.

## Acknowledgments

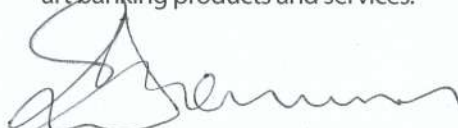
Special thanks go to the senior management team and all staff who have gone 'above and beyond' in the identification, development and implementation of the transformational changes, both in technology and business systems and processes.

This has involved very substantial additional workloads whilst still maintaining all of the governance and compliance work necessary to ensure business as usual, in compliance with all of the highly regulated standards applicable to the banking industry.

Finally, thank you to you, the owners of the credit union, for your loyalty to and support of your credit union.

## Looking forward

The successes of the 2016-2017 year now leave your credit union in an excellent position to reward your loyalty with the continued high level of personal service you expect and deserve, as well as the continued roll out of state of the art banking products and services.



Roger Downs, Chairman



## Message from the CEO

I am delighted to report to members and stakeholders an excellent year in terms of business transformation progress, capability improvement, productivity, service quality and financial results. I would like to thank our members for their continuing support and welcome our new members to a new and positive banking experience.

It was a busy year as we continued with our transformation program, with emphasis on our core banking system, which went live in August 2017. The successful implementation of the new banking system will enhance our ability to bring new products and services to our members in a modern, efficient and effective way. We are excited by the prospect of creating greater value for our members through our new products and much-improved services.

When we adjust for one off events our pre-tax operating surplus (\$788k) has improved on prior year (\$151k) as a result of our transformation progress. We are seeing the benefits emerging in our financial performance, particularly in the last quarter of 2016/2017 where we averaged a surplus of \$135k per month. This level



- Bob Kotic

of monthly performance will see us achieve a full-year surplus next year of \$1.6 million and improving.

Looking forward, our members are top of mind in terms of our strategic initiatives and plans. Our strategy for the next three years has a four perspective approach where our objectives are prioritised as follows;

- Focus on members;
- Investment in people;
- Excellence in operations; and
- Financial performance.

## Focus on members

A member only needs to walk into one of our branches, use our mobile applications or interact via our online channels to see that we truly “focus on members”. These are just the visual and practical impacts of our investments aimed at better serving our members’ needs. Combine that with market leading home loan and personal loan rates, outstanding service quality and response times and you start to see that banking with us is truly a smart alternative to big banks.

Our new core banking system will enable a range of new and exciting products and services designed to service the needs of our members and support our objective to grow and retain our membership base while enhancing the member experience through our proactive solutions approach to member needs.

## Investment in people

We believe that our future will depend on attracting and retaining great people to give our members the quality services and products they desire and deserve. We have exciting strategies and initiatives to engage our employees and meet our expectation of high performance and innovation.

Over the last five years, we have invested over \$1 million in education, training and development of our people. We believe that this level of investment will ensure a high service standard for our members, which will be the source of our competitive advantage.

## Excellence in operations

Our strategy to achieve excellence in operations has been derived from the desire to enhance our member experience through investment in technology and digital transformation. These are the tools that will complement our investment in our people so that we can combine engaged people, superbly educated and trained, with the latest tools and techniques, all focused on supporting and serving our members.

Complementing our excellence in operations strategy will be selecting supplier partnerships that share our mutuality principles, and like us, aspire to excellence through embracing a best practice approach and quality principles and practices.

## Financial performance

We believe that the effective combination of focus on members, investment in people and achieving excellence in operations will translate into financial performance and long-term sustainability that will ensure our future and support the future of our members.

Within the financial performance strategy and objectives is our aspiration to have people that can deliver strategic insights, ensure regulatory excellence and have a thorough and sound appreciation for risk management. These skills combined will provide the balance and discipline required to protect and preserve the value of our members’ hard-earned savings and life aspirations and plans.

Please take the time to review the key performance indicators in the remainder of this report.

Most of all, I would like to express my gratitude to my staff, management team, and our directors, without whose support and contribution we could not have achieved the results of 2016/17.



Bob Kotic, CEO



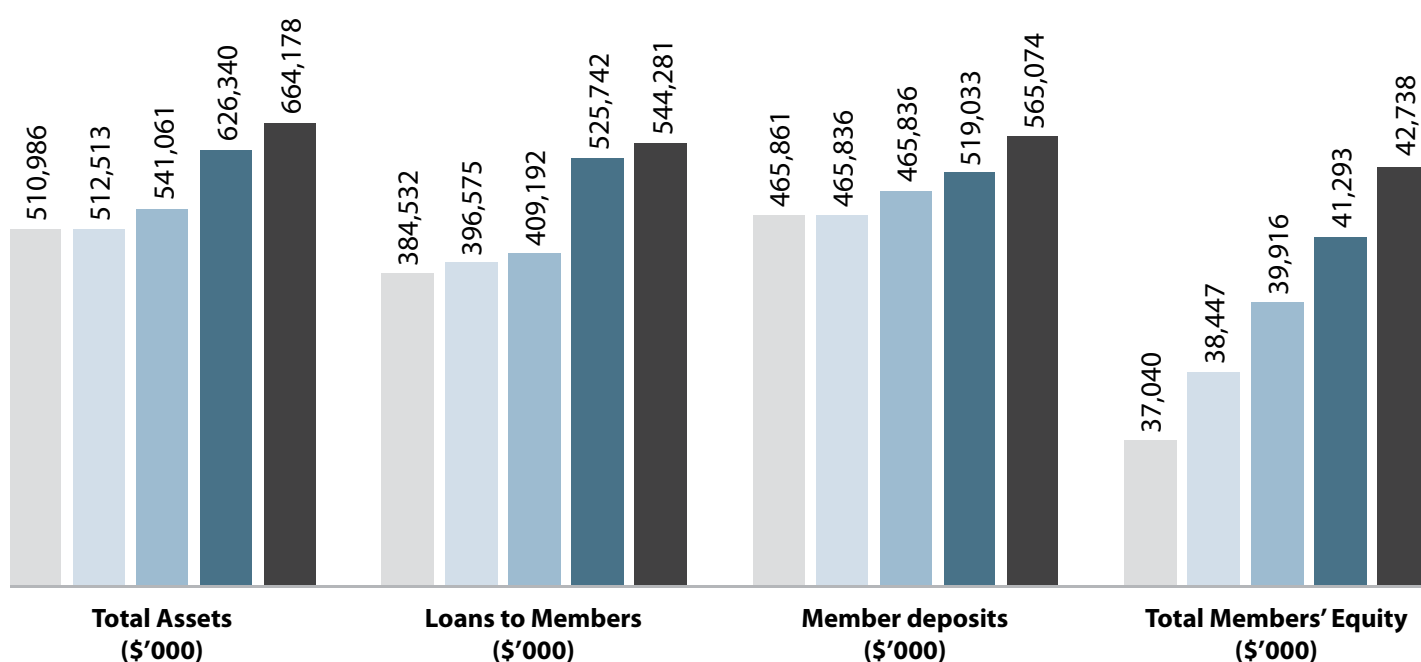
# Financial Summary

Our five year financial summary

**2012/13 - 2016/17**

# Five year financial summary

|  | 2016-17 | 2015-16 | 2014-15 | 2013-14 | 2012-13 |
|--|---------|---------|---------|---------|---------|
| INCOME STATEMENT                               | \$'000  | \$'000  | \$'000  | \$'000  | \$'000  |
| Total income                                   | 26,395  | 28,189  | 28,672  | 29,685  | 33,458  |
| Interest income                                | 24,096  | 23,142  | 24,441  | 25,259  | 28,810  |
| Net interest income                            | 12,618  | 12,876  | 12,670  | 12,528  | 12,712  |
| Impairment losses on loans and advances        | 87      | 79      | 86      | 132     | 216     |
| Operating expenses                             | 14,042  | 16,000  | 15,850  | 14,926  | 15,703  |
| Operating profit after tax                     | 491     | 1,377   | 1,209   | 1,407   | 1,508   |
| STATEMENT OF FINANCIAL POSITION                | \$'000  | \$'000  | \$'000  | \$'000  | \$'000  |
| Total assets                                   | 664,178 | 626,340 | 541,061 | 512,513 | 510,986 |
| Gross loans and advances to Members            | 544,281 | 525,742 | 409,192 | 396,575 | 384,532 |
| Provision for loan impairment                  | 176     | 157     | 192     | 272     | 261     |
| Member deposits                                | 565,074 | 519,033 | 495,842 | 465,836 | 465,861 |
| Total Members' equity                          | 42,738  | 41,293  | 39,916  | 38,447  | 37,040  |
| RATIO ANALYSIS                                 | %       | %       | %       | %       | %       |
| Total revenue to average assets                | 4.09    | 4.83    | 5.44    | 5.80    | 6.67    |
| Operating expenses to average assets           | 2.18    | 2.74    | 3.01    | 2.92    | 3.13    |
| Net profit after tax to average assets         | 0.08    | 0.24    | 0.23    | 0.27    | 0.30    |
| Net profit after tax to average equity         | 1.17    | 3.39    | 3.09    | 3.73    | 4.09    |
| Net interest margin to average assets          | 1.97    | 2.28    | 2.45    | 2.53    | 2.67    |
| Provision for loan impairment to average loans | 0.03    | 0.03    | 0.05    | 0.07    | 0.07    |





# A year in review.

Our Achievements.

Our People.

Our Community.

Our Results.

**2016/17**

# Our Achievements

As a mutual we always strive to do the best by our members. That's why we continuously reinvest our profits into better products and services. Over the past 12 months we've invested in a range of new products, services and technologies to improve the way our members bank with us. Below is a quick snapshot, highlighting some key achievements throughout 2016/17.

July 2016

## Launched Android Pay.

Illawarra Credit Union and Catalyst Money were two of only 25 institutions in Australia to launch this new Pays solution for our members on day one. To learn more, visit:

[illawarracu.com.au/android-pay](http://illawarracu.com.au/android-pay) or

[catalystmoney.com.au/android-pay](http://catalystmoney.com.au/android-pay)



July 2016

## New everyday business banking products.

Illawarra Credit Union launched a suite of everyday business banking products, including:

- Everyday Business transaction account;
- Cash management account; and
- A business Term Deposit account.

September 2016

## 3 x responsive websites launched!

Following the launch of the Illawarra Credit Union website, a new website was launched for **Catalyst Money**, **Western City Credit Union** and a corporate website for **Community Alliance Credit Union**.



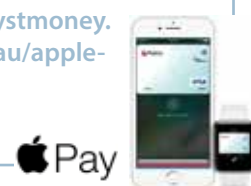
November 2016

## Launched Apple Pay.

Following the launch of Android Pay, the Apple Pay solution was launched for our Illawarra Credit Union and Catalyst Money members. To learn more, visit:

[illawarracu.com.au/apple-pay](http://illawarracu.com.au/apple-pay) or

[catalystmoney.com.au/apple-pay](http://catalystmoney.com.au/apple-pay)



December 2016

## Launched DocuSign.

We introduced DocuSign, an electronic eSignature experience which allows members to:

- Access and review documents anywhere, anytime, on desktop, mobile or tablet; and
- Digitally sign a contract or agreement.

It's secure, it's fast and it's available for all of our members.



December 2016

## Award winning home loans!

Illawarra Credit Union and Catalyst Money were awarded:



CANSTAR Customer-Owned Institution of the Year – Fixed Rate Home Loan (2016)



Outstanding Value Mortgage – Fixed Rate Home Loan



Outstanding Value Mortgage – Variable Rate Home Loan

February 2017

## Mozo's No Strings Savings Award!

Our Illawarra Credit Union and Catalyst Money Saver account was awarded the Mozo's No Strings Savings Award in the 2017 Mozo Experts Choice Awards.

Our Saver account was recognised for offering the best value to its members, competing against 78 financial institutions.



June 2017

## Launched Samsung Pay.

Illawarra Credit Union and Catalyst Money members were again two of the first to receive access to the third Pays solution, Samsung Pay. To learn more, visit:

[illawarracu.com.au/samsung-pay](http://illawarracu.com.au/samsung-pay) or

[catalystmoney.com.au/samsung-pay](http://catalystmoney.com.au/samsung-pay)



# Our Community

## Partner Benefits Program

Our unique Partner Benefits Program is a profit-sharing partnership that benefits the community groups we partner with, through their involvement with our organisation. Since it was established in 2015, the Credit Union has supported a number of sporting and community groups.

To find out more, visit:

[illawarracu.com.au/partner-benefits-program](http://illawarracu.com.au/partner-benefits-program) or  
[catalystmoney.com.au/partner-benefits-program](http://catalystmoney.com.au/partner-benefits-program)



# \$17k

Throughout 2016-2017 our Partner Benefits Program supported eight sporting clubs and community groups. This program is just another way we support our local community and our members.

**Below is a list of sporting clubs and community groups we've supported throughout 2016-2017:**

- Albion Park Football Club;
- Avondale Hockey Club;
- Coastal Club;
- Dapto Junior Rugby League;
- Port Kembla Cricket Association;
- Shellharbour City Cricket Club;
- Shoalhaven Malayalee Community Inc.; and
- Viking Club.

## The Salvation Army

The Credit Union is an avid supporter of the Salvation Army, regularly donating and creating awareness of its Red Shield Appeal. Along with monetary donations, we're actively involved in collecting gifts and volunteering our time to their Christmas Appeal, which helps brighten the lives of many people in need over the holiday period.



**Pictured:** Helensburgh staff supporting the Salvation Army Red Shield Appeal.

## QBE Premiums4Good

Together with QBE, Illawarra Credit Union and Catalyst Money launched a new initiative – Premiums4Good. The initiative aims to use everyday premiums to do something good within the community.

Since the launch in March 2017, the premiums from Illawarra Credit Union and Catalyst Money members have contributed to 18 separate investments. These include:

- Benevolent Society SBB Australia - Social services and child welfare: *Social impact bond*.
- Treasury Corporation of Victoria Green Bond Australia - Environment: *Green bond*.
- Plus more!

To learn more about this initiative, visit:

[illawarracu.com.au/premiums4good](http://illawarracu.com.au/premiums4good) or  
[catalystmoney.com.au/premiums4good](http://catalystmoney.com.au/premiums4good).



### Legacy Illawarra

Illawarra Credit Union is a proud supporter of Legacy Illawarra. Legacy is a fantastic charity which supports retired and injured service members as well as the families of our fallen veterans; including around 90,000 widows and 1,900 children. This is the ninth year Illawarra Credit Union has supported the cause and the Legatee program.



# \$80k

Over nine years, Illawarra Credit Union has donated more than \$80,000 in support of Legacy Illawarra and its Legatee program.

### University of Wollongong

We're committed to supporting future leaders, both within our organisation and within our community. Illawarra Credit Union is a proud supporter of the University of Wollongong and its students. The Credit Union sponsors academic awards throughout the year, and provides students with real world experience through the University's internship program.



**Pictured:** Bob Kotic, CEO, with Tegan McFadden, the recipient of the Illawarra Credit Union award for Services Marketing, Tegan's father and sister.



### Symbio Wildlife Park

Over the past ten years, Illawarra Credit Union and Symbio Wildlife Park have partnered to create awareness of endangered species through the Wildlife Saver Program. We are proud that this long-standing initiative not only helps teach kids good saving habits, but continues to create awareness of the conservation programs run by Symbio Wildlife Park, supported by our Credit Union. Without these initiatives, future generations will be unable to experience endangered animals such as the Red Panda. To find out more about the Wildlife Saver Program visit: [illawarracu.com.au/wildlife-saver](http://illawarracu.com.au/wildlife-saver)

# Wildlife Saver

# \$133k

We've donated \$133,000 to the Wildlife Saver Program. A BIG thank you to our Wildlife Savers for making a difference!

### Our community groups

Over the last 12 months, the Credit Union has also supported a number of organisations and causes, some of which are below:

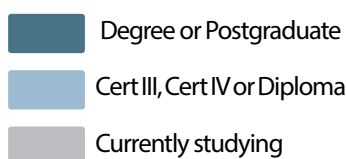
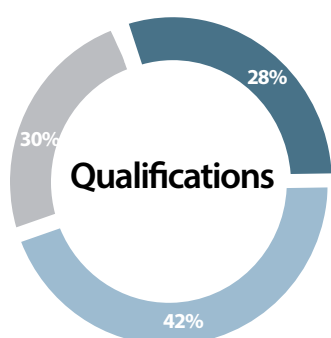
- **MS 24 hour Mega Swim** - In support of people living with multiple sclerosis.
- **KidsFest Shellharbour** - Promoting children's health and wellbeing.
- **Habitat for humanity** - Helping make a house a home for families in need.
- **Movember** - In support of men's health.
- **Mission Australia** - Donating clothing in support of community service programs.

# Our People



\$1m

Over the past 5 years we've invested \$1 million in training and development for our people.



**Total staff**  
25% males



75% females



**Senior management:**

67% males



33% females



**Middle management:**

27% males



73% females



As an organisation, we strive for a culture of excellence, where the member is always front of mind. Our member-centric philosophy not only impacts every aspect of our business but also our people. While the members are always front of mind, our people are the enablers for our Credit Union. Across various departments, our people strive to achieve our purpose: to help our members achieve financial success, by providing banking with a conscience. This is all while also enabling business transformation through innovation.

## Commitment to training and development

Over the past five years, we've invested \$1 million in training and development for our people. Our commitment to capability development is driven by the desire to continuously provide our members with competitive products and services. We believe that investing in our people will enhance our service quality and improve our product offering for the benefit of our members.

Of our existing staff, 28% have completed a degree or a postgraduate degree. A further 42% have completed a Cert III, Cert IV or Diploma. The remaining 30%, plus 17% of qualified staff, are enrolled in formal training, including an undergraduate degree, Masters, CP, CPA, Diploma, Cert IV, or Cert III.

## Our future leaders

In addition to formal training programs, we've implemented a number of key initiatives to identify and build the future leaders of our Credit Union. This includes a leadership development program, which aims to develop future leaders across various departments. The 12-month program includes cross-department experience, formal training opportunities, exposure across key initiatives and a mentor to provide guidance and support.

The Credit Union also has a strong connection with the University of Wollongong (UOW), with 16 UOW alumni currently employed throughout various departments. We've partnered with the UOW to provide internships to students who are looking for 'real-world' experience. We've also developed a unique cadet program, which provides exposure across various departments for cadets currently studying at university.

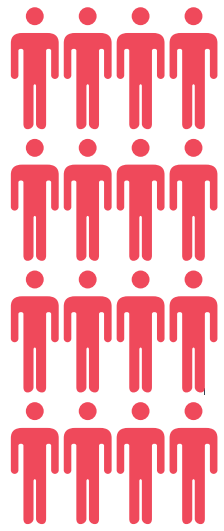
## Staff well-being

The health and well-being of our people is of great importance to us. In addition to health checks and flu vaccines, a confidential employee assistance program is also available to ensure the mental well-being of our people.

## Diversity

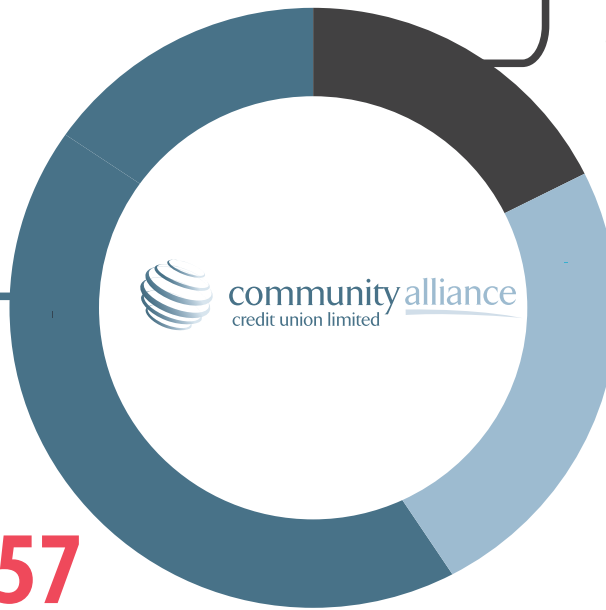
We believe that diversity in the workplace is important. This includes diversity across gender, cultural background, language, age, carer responsibilities and disability. A compliance report is completed annually to the Workplace Gender Equality Agency and we're pleased to advise that our Credit Union is compliant with the Workplace Gender Equality Act 2012.

We're signing off the year with...



20,857

Illawarra Credit Union members



1,967

Western City Credit Union members



4,073

Catalyst Money members

3,057  
home loans

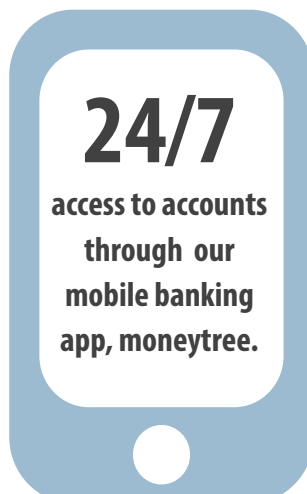
residential and investment



FIVE  
refurbished  
Member  
Centres



Three new Pays solutions for our members.



20% members signed up to e-statements



Award  
winning  
Credit  
Union!



# Financial Report

2017 financials - 30 June 2017

**ABN 14 087 650 771**



# DIRECTORS' REPORT

## For the Year ended 30 June 2017

Your Directors present their report on Community Alliance Credit Union Limited ("the Credit Union") for the financial year ended 30 June 2017.

The Credit Union is a public company registered under the *Corporations Act 2001*.

### Information on Directors

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

#### **Mr Roger Downs** B Comm, LLB, Dip Mgmt, MAMI

Mr Downs joined the Board in 2010 and became the Chairman of the Board in 2014. He was a member of the Governance Committee until 2015. Roger is currently Chairman of the Remuneration Committee and a member of the Board Risk Committee and Board Audit Committee.

**Chairman**

#### **Ms Mary Youssif** B Comm, MStudAccy, FCPA, AGIA, ACIS, MAMI

Ms Youssif joined the Board in 1990 and was Chairman of the Audit and Risk Management Committee from 1994 to 1997. She was Chairman of the Board between 2008 and 2014. From 2014 Mary was Chairman of the Board Risk Committee and a member of the Board Audit Committee. She resigned from the Board in February 2017.

**Director**

#### **Mr Anthony Abela** FIPA, FAMI, GAICD

Mr Abela joined the Board in 2008. He has been a member of the Audit and Risk Committee since 2008, and during 2010 assumed Chairman of the Audit and Risk Management Committee. As of 2014 he became Chairman of the Board Audit Committee and a member of the Board Risk Committee.

**Director**

#### **Ms Nieves Murray** BA (Psych), MSc (Commty Hlth), MBA, MAMI, FAIM

Ms Murray joined the Board in 2013 and was a member of the Board Audit Committee and Board Risk Committee until 2015. She is currently a member of the Governance Committee and the Remuneration Committee.

**Director**

#### **Mr Peter Kell** AM, Dip Law, MAMI

Mr Kell joined the Board in 2013 and is Chairman of the Governance Committee and a member of the Remuneration Committee.

**Director**

#### **Ms Deborah De Santis** BA (Mgmt/Psych), MA (Journ), GAICD, MAMI

Ms De Santis joined the Board in 2014 and is a member of the Governance Committee and Remuneration Committee.

**Director**

#### **Mr Michael Halloran** M Bus (Mgmt), GAICD, FAMI

Mr Halloran joined the Board in 2014. He is a member of the Board Audit Committee and has been Chairman of the Board Risk Committee since February 2017.

**Director**

#### **Mr Colin Bloomfield** B Eng (Hons), GradCert Mgmt

Mr Bloomfield joined the Board in February 2017. He is a member of the Board Audit Committee and the Board Risk Committee.

**Director**

# DIRECTORS' REPORT

## For the Year ended 30 June 2017



### Information on Company Secretary

Ms Belinda Hogan, Chief Financial Officer (B Comm, BA, CPA, MAMI) was appointed to the position of Company Secretary in May 2017. Until this date this position was previously held by Emma Anderson, Chief Risk Officer.

### Information on Board Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Credit Union during the financial year were:

| Director     | Board |    | Board Risk Committee |   | Board Audit Committee |     | Governance Committee |   | Fit & Proper Committee * |   | Remuneration Committee |   |
|--------------|-------|----|----------------------|---|-----------------------|-----|----------------------|---|--------------------------|---|------------------------|---|
|              | E     | A  | E                    | A | E                     | A   | E                    | A | E                        | A | E                      | A |
| R Downs      | 10    | 10 | 4                    | 3 | 4                     | 4   | 2**                  |   |                          |   | 4                      | 4 |
| M Youssif    | 7     | 7  | 2                    | 1 | 3                     | 2   |                      |   |                          |   |                        |   |
| A Abela      | 10    | 10 | 4                    | 4 | 4                     | 4   |                      |   |                          |   |                        |   |
| N Murray     | 10    | 9  |                      |   |                       | 1** | 5                    | 4 |                          |   | 4                      | 3 |
| P Kell       | 10    | 9  |                      |   |                       | 1** | 5                    | 5 | 1                        | 1 | 4                      | 4 |
| D De Santis  | 10    | 10 |                      |   |                       | 1** | 5                    | 5 |                          |   | 4                      | 4 |
| M Halloran   | 10    | 10 | 4                    | 3 | 4                     | 3   |                      |   |                          |   |                        |   |
| C Bloomfield | 5     | 5  | 2                    | 1 | 1                     | 0   |                      |   |                          |   |                        |   |

\*Fit & Proper Committee meeting was conducted with one Director and two independents

\*\* Attended as an Ex Officio member

E – Eligible to attend

A - Attended

### Board Remuneration

Directors are remunerated by fees determined by the Board within the aggregate amount approved by members at the Annual General Meeting. The aggregate amount of Directors' fees (including superannuation) for the year ended 30 June 2017 was \$233,183 (2016: \$229,548). The amount of Directors' fees excluding superannuation in 2017 was \$215,922 (2016: \$209,633) which is in accordance with the resolution made at the 2016 Annual General Meeting.

### Director's Benefits

No Directors have received or become entitled to receive, during or since the end of the financial year, a benefit because of a contract made by the Credit Union 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 7.4 of the financial report.

### Indemnifying Directors, Officers or Auditors

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

### Principal Activities

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

## DIRECTORS' REPORT

### For the Year ended 30 June 2017



#### Operating Results for the Year

The net profit of the Credit Union for the year after income tax is \$491,000 (2016: \$1,377,000) representing a decrease of 64.34% from the previous year.

The results for the financial year were underpinned by:

- A decrease in Net Income of 16.77% to \$14,917,000 from \$17,923,000 in the previous year; and
- A decrease in Operating Expenses of 12.12% to \$14,129,000 from \$16,079,000 in the previous year.

All prudential capital requirements have been satisfied throughout the year. A reconciliation of the Credit Union's regulatory capital and other prudential disclosures are published at [www.cu.com.au/financial/](http://www.cu.com.au/financial/).

#### Significant Changes In State of Affairs

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

#### Significant Events After the Balance Date

There have been no significant events occurring after the balance date which may affect the Credit Union's operations or the results of those operations.

#### Likely Developments and Expected Results

On the 19<sup>th</sup> August 2017 the Credit Union converted to the Ultracs Core Banking software, provided by Ultradata Australia Limited.

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 Credit Union;
- ii. The results of those operations; or
- iii. The state of affairs of the Credit Union;

in the financial years subsequent to this financial year.

#### Rounding

The financial report is presented in Australian Dollars. The Credit Union is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

#### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out following the Director's Report on page 24.

Signed in accordance with a resolution of the Directors:

R. Downs

Chairman of the Board

A. Abela

Chairman of the Board Audit Committee

Signed at Wollongong 6<sup>th</sup> September 2017

# CORPORATE GOVERNANCE STATEMENT

## For the Year ended 30 June 2017



The Board and Management of the Credit Union are committed to acting responsibly, ethically and with the highest standards of integrity to ensure the activities of the Credit Union are continually structured and delivered in a manner that allows the needs of members to be met.

To achieve these sound corporate governance principles, appropriate business practices and policies have been adopted by the Board and embedded throughout the Credit Union.

The Board is continually working to maintain governance policies and practices both at Board level and throughout the organisation. While our mutual values remain constant, we must adapt our business practices to ensure we meet our obligations as a responsible financial institution in a rapidly changing world.

The Board has carefully considered and implemented a 'fit and proper' framework in accordance with relevant legislation that endeavours to ensure the Directors and Senior Managers are appropriate persons to lead the Credit Union. The 'fit and proper' framework deals with matters such as minimum competencies, professional development, independence and performance.

### Minimum Competencies

Board Policy sets out the minimum competencies regarding personal attributes, character, skills and knowledge that each responsible person must bring to the Credit Union. The Board undertakes an annual director skills gap analysis to ensure the Board has the right mix of skills.

### Director Development

Board Policy outlines the knowledge requirements for Directors and provides the high-level guidelines for new Director induction as well as the standards for ongoing Director development. Each Director is expected to achieve a minimum of 60 hours of skills development per three-year cycle.

### Independence

Board Policy requires Directors to be independent in both judgement and action. Each Director is required to be independent in their thinking which must be maintained over time such that the Director makes their own judgement based on what is in the best interests of the Entity. It is each Director's responsibility to maintain and demonstrate their independence. The Board assesses each Director's independence by reference to the requirements contained within APRA Prudential Standard CPS 510 and the guidelines set out in the ASX Corporate Governance Committees Principles of Good Corporate Governance and Best Practice Recommendations. The Board has adopted a charter that addresses issues relating to conflicts of interest and the manner in which they are required to be reported, managed and disclosed. Other than approved Director remuneration, the Directors do not offer, seek or accept benefits in the performance of their duties.

In the event that a potential conflict of interest arises, the Director in question must withdraw from all debate and decisions concerning the matter unless the Board resolves that the relevant interest or conflict should not disqualify the Director from being present and/or voting.

### Performance

Board Policy requires an annual review of the performance of the Board. The Board undertakes an annual assessment of its collective performance, and a biennial assessment of its committees and individual directors.

# CORPORATE GOVERNANCE STATEMENT

## For the Year ended 30 June 2017



### Structure of the Board

The size and composition of the Board is determined by the Board subject to the limits set out in the Credit Union's Constitution and Board Policy.

As at 30 June 2017, the Board comprised seven Non-Executive Directors. All Directors are shareholding members of the Credit Union. Board members are elected by the members or appointed in accordance with the Credit Union's Constitution. All elected Directors hold a three-year term, and Directors appointed to the Board may hold a term of no longer than three years. The Chairman of the Board is a member-elected Non-Executive Director.

It is also important to ensure that the Board is able to operate independently of Senior Management. Each of the Directors are independent of management. This means that they are free from any relationship (for example, a business interest in a supplier or competitor of the Entity), which could materially interfere with the exercise of their independent judgement and their ability to act in the best interests of the Credit Union.

Refer to page 17 of this report for the names of Directors who held office at any time during or since the end of the financial year.

### Role of the Board

The roles, powers and responsibilities of the Board are formalised in the Board Charter, which defines which matters are reserved for the Board and Committees, and which matters are the responsibility of the Chief Executive Officer (CEO) and Senior Management. The Board is responsible for:

- ) Strategy
  - o Providing strategic direction including contributing to the development of and approving the corporate strategy;
  - o Appointing and evaluating the performance of the CEO; and
  - o Reviewing succession planning for the CEO and approving the remuneration of the CEO and Senior Management.
- ) Governance
  - o Monitoring the effectiveness of the corporate governance framework;
  - o Ensuring the Credit Union's business is conducted ethically and transparently; and
  - o Evaluating performance of the Board and determining its size and composition.
- ) Oversight
  - o Overseeing financial performance and monitoring business performance against the approved Strategic Plan;
  - o Overseeing internal controls and processes for identifying areas of significant business risk; and
  - o Monitoring compliance with regulatory and statutory requirements and the implementation of related policies.

### Committees of the Board

The Board has established five standing committees as described below. These committees consider various matters and make recommendations to the Board. Each committee's authority and responsibilities are set out in their individual committee charters, as approved by the Board. Other special purpose committees may be established from time to time to consider matters of particular importance. Committee members are chosen for the skills, experience and other pertinent qualities they bring to each particular committee role.

The Board Audit Committee, Board Risk Committee and the Governance Committee meet at least four times a year or more frequently as required. The Remuneration Committee meets as required, but at least annually, to consider and make recommendations or decisions on matters within its terms of reference. The Fit and Proper Committee meets annually or more often if required.

# CORPORATE GOVERNANCE STATEMENT

## For the Year ended 30 June 2017



Committee Chairmen give verbal reports to the Board at the next Board meeting and the Board reviews and notes the minutes of all committee meetings. All information prepared for the consideration of committees is also available to the Board.

Standing committees in operation at any time during or since the end of the financial year were:

### Board Audit Committee

The Board Audit Committee was established to oversee the financial reporting and audit frameworks of the Credit Union. Its role includes:

- ) Monitoring audit reports received from internal and external auditors and management's responses thereto;
- ) Determining with the auditors (internal and external) the scope of their work and experience in conducting an effective audit; and
- ) Ensuring the external auditors remain independent in the areas of work conducted.

### Board Risk Committee

The Board Risk Committee was established in line with Prudential Standard CPS 220 to oversee the risk framework of the Credit Union. Its role includes:

- ) Ensuring a sound risk culture exists in the organisation from the top down;
- ) Monitoring matters of risk management and prudential and other reporting obligations; and
- ) Monitoring compliance with applicable laws.

### Governance Committee

The Governance Committee was established to assist the Board in adopting and implementing good corporate governance practices. Its role includes:

- ) Making recommendations as to the size and composition of the Board;
- ) Ensuring an appropriate and effective Board and committee structure is in place;
- ) Considering the skills, knowledge and experience of the Board, and assessing whether those current skills meet the skill requirements identified; and
- ) Developing and monitoring Board, Chief Executive Officer and Senior Management succession plans.

### Remuneration Committee

The Remuneration Committee was established in line with Prudential Standard CPS510 to oversee remuneration practices. Its role includes:

- ) Reviewing and making recommendations to the Board on the Credit Union's remuneration policy; and
- ) Making recommendations to the Board on the remuneration of the Chief Executive Officer and Senior Management team.

### Fit and Proper Committee

The Fit and Proper Committee was established in line with Prudential Standard CPS520 to assist the Board in the selection, review and assessment of the fitness and propriety of the following:

- ) A Director standing for election or Director nominee; and
- ) An Associate Director nominee or appointed member of a Board Committee nominee.

The Committee consists of the Chairman of the Board, except where he/she is a candidate for election in that year, and two suitably qualified independent external nominees. All current Directors were assessed in accordance with the Credit Union's Fit & Proper Policy.

# CORPORATE GOVERNANCE STATEMENT

## For the Year ended 30 June 2017



### Governance Standards

The Board acknowledges the need for, and continued maintenance of, the highest standards of corporate governance, and therefore adopts practices including:

- ) An annual review of Board performance;
- ) Active participation by all Directors at all meetings and open access to information;
- ) Regular Senior Management reporting to the Board;
- ) The Chief Executive Officer and Chief Financial Officer providing assurance on the accuracy and completeness of financial information and the adequacy of risk management processes;
- ) The Senior Managers providing assurance to the Board that the business of the Credit Union has been conducted ethically and that all dealings have been conducted transparently with the Board;
- ) The transparency of information to members through publication of regular notices on the Credit Union's website – [www.illawarracu.com.au](http://www.illawarracu.com.au) and [www.catalystmoney.com.au](http://www.catalystmoney.com.au); and
- ) The gearing of Board policies towards risk management to safeguard the assets and interests of the Credit Union.

### External Audit

#### *External Audit*

The external audit is performed by KPMG.



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

To: The Directors of Community Alliance Credit Union Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Community Alliance Credit Union for the financial year ended 30 June 2017 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



Richard Drinnan

*Partner*

Wollongong

6<sup>th</sup> September 2017

# STATEMENT OF FINANCIAL POSITION

## For the year ended 30 June 2017



|   | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|---|------|----------------|----------------|
| <b>Assets</b>   |      |                |                |
| Cash and cash equivalents                                       | 4.1  | 23,584         | 10,771         |
| Held to maturity assets   | 4.3  | 26,126         | 20,521         |
| Loans and receivables   | 3.1  | 602,908        | 586,429        |
| Property, plant and equipment                                   | 5.1  | 8,392          | 6,956          |
| Net deferred tax assets   | 2.4  | -              | 36             |
| Intangible assets   | 5.2  | 2,331          | 839            |
| Other assets  | 5.3  | 837            | 788            |
| <b>Total Assets</b>   |      | <b>664,178</b> | <b>626,340</b> |
| <b>Liabilities</b>  |      |                |                |
| Deposits  | 4.2  | 615,574        | 580,833        |
| Payables  | 5.4  | 4,368          | 2,736          |
| Income tax payable  | 2.4  | 199            | 409            |
| Net deferred tax liabilities                                    | 2.4  | 417            | -              |
| Provisions  | 5.5  | 882            | 1,069          |
| <b>Total Liabilities</b>  |      | <b>621,440</b> | <b>585,047</b> |
| <b>Net Assets</b>   |      | <b>42,738</b>  | <b>41,293</b>  |
| <b>Equity</b>   |      |                |                |
| Reserves  | 5.6  | 3,742          | 2,713          |
| Retained profits  |      | 38,996         | 38,580         |
| <b>Total equity attributable to members of the Credit Union</b> |      | <b>42,738</b>  | <b>41,293</b>  |

The accompanying notes should be read in conjunction with these financial statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017



|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
| Interest revenue   | 2.1  | 24,096         | 23,142         |
| Interest expense   | 2.1  | (11,478)       | (10,266)       |
| Net interest income  |      | 12,618         | 12,876         |
| Other income   | 2.2  | 2,299          | 5,047          |
| Net income   |      | 14,917         | 17,923         |
| Net impairment on loans and receivables                        |      | (87)           | (79)           |
| Personnel expenses   | 2.3  | (6,167)        | (7,135)        |
| Depreciation and amortisation expenses                         | 2.3  | (1,280)        | (972)          |
| Data and transaction processing expenses                       |      | (1,303)        | (1,277)        |
| Information technology expenses                                |      | (1,674)        | (1,635)        |
| Property expenses  |      | (673)          | (1,231)        |
| Marketing expenses   |      | (501)          | (818)          |
| Office expenses  |      | (631)          | (659)          |
| Loss on disposal of assets                                     |      | (45)           | (96)           |
| Other corporate expenses                                       |      | (1,768)        | (2,177)        |
| Total operating expenses                                       |      | (14,129)       | (16,079)       |
| Profit before income tax                                       |      | 788            | 1,844          |
| Income tax (expense)/benefit                                   | 2.4  | (297)          | (467)          |
| Profit after tax   |      | 491            | 1,377          |
| <b>Other comprehensive income</b>                              |      |                |                |
| <b>Items that will never be reclassified to profit or loss</b> |      |                |                |
| Gain on revaluation of land and buildings                      |      | 954            | -              |
| <b>Other comprehensive income, net of income tax</b>           |      | 954            | -              |
| <b>Total comprehensive income</b>                              |      | <b>1,445</b>   | <b>1,377</b>   |

The accompanying notes should be read in conjunction with these financial statements



## STATEMENT OF CHANGES IN EQUITY

### For the year ended 30 June 2017

|  |      | General reserve<br>for credit losses | Redeemed share<br>capital reserve | Revaluation<br>reserve | Retained<br>earnings | Total  |
|--|------|--------------------------------------|-----------------------------------|------------------------|----------------------|--------|
|  | Note | \$'000                               | \$'000                            | \$'000                 | \$'000               | \$'000 |
| Balance as at 1 July 2015                              |      | 1,050                                | 234                               | 1,279                  | 37,353               | 39,916 |
| <b>Total comprehensive income for the year</b>         |      |                                      |                                   |                        |                      |        |
| Profit after tax                                       |      | -                                    | -                                 | -                      | 1,377                | 1,377  |
| Total other comprehensive income                       |      | -                                    | -                                 | -                      | -                    | -      |
| Total comprehensive income for the year                |      | -                                    | -                                 | -                      | 1,377                | 1,377  |
| Transfers to/from reserves                             |      | 146                                  | -                                 | -                      | (146)                | -      |
| Transactions with members, recorded directly in equity |      | -                                    | 4                                 | -                      | (4)                  | -      |
| <b>Balance as at 30 June 2016</b>                      | 5.6  | 1,196                                | 238                               | 1,279                  | 38,580               | 41,293 |
| <b>Total comprehensive income for the year</b>         |      |                                      |                                   |                        |                      |        |
| Profit after tax                                       |      | -                                    | -                                 | -                      | 491                  | 491    |
| Total other comprehensive income                       |      | -                                    | -                                 | 954                    | -                    | 954    |
| Total comprehensive income for the year                |      | -                                    | -                                 | 954                    | 491                  | 1,445  |
| Transfers to/from reserves                             |      | 71                                   | -                                 | -                      | (71)                 | -      |
| Transactions with members, recorded directly in equity |      | -                                    | 4                                 | -                      | (4)                  | -      |
| <b>Balance as at 30 June 2017</b>                      | 5.6  | 1,267                                | 242                               | 2,233                  | 38,996               | 42,738 |

Amounts are stated net of tax

The accompanying notes should be read in conjunction with these financial statements.

# STATEMENT OF CASH FLOWS

## For the year ended 30 June 2017



|   | Note | 2017<br>\$'000 | 2016<br>\$'000  |
|---|------|----------------|-----------------|
| <b>Cash flows from operating activities</b>                         |      |                |                 |
| Interest received   |      | 24,101         | 23,258          |
| Dividends received  |      | -              | 136             |
| Other cash receipts in the course of operations                     |      | 2,318          | 2,484           |
| Interest paid   |      | (10,183)       | (10,437)        |
| Cash paid to suppliers and employees                                |      | (12,678)       | (14,652)        |
| Net income tax paid   |      | (467)          | (159)           |
| Net loans disbursed   |      | (18,501)       | (116,876)       |
| Net increase in deposits  |      | 34,741         | 83,491          |
| <b>Net cash from/(used in) operating activities</b>                 | 4.4  | <b>19,331</b>  | <b>(32,755)</b> |
| <b>Cash flows from investing activities</b>                         |      |                |                 |
| Net movement in deposits with ADIs and held to maturity investments |      | (3,670)        | 25,623          |
| Proceeds from sale of other investments                             |      | -              | 4,090           |
| Proceeds from sale of property, plant and equipment                 |      | 100            | -               |
| Payments for property, plant and equipment, and intangibles         |      | (2,948)        | (1,489)         |
| <b>Net cash from/(used in) investing activities</b>                 |      | <b>(6,518)</b> | <b>28,224</b>   |
| <b>Cash flows from financing activities</b>                         |      |                |                 |
| Finance lease principal repayments                                  |      | -              | -               |
| <b>Net cash (used in) financing activities</b>                      |      | <b>-</b>       | <b>-</b>        |
| Net increase/(decrease) in cash held                                |      | 12,813         | (4,531)         |
| Cash and cash equivalents at the beginning of the year              |      | 10,771         | 15,302          |
| <b>Cash and cash equivalents at the end of the year</b>             | 4.1  | <b>23,584</b>  | <b>10,771</b>   |

The accompanying notes should be read in conjunction with these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



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# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 1. Corporate Information

#### 1.1 Reporting entity

Community Alliance Credit Union Limited ("the Credit Union") is a company limited by shares, incorporated and domiciled in Australia.

The address of the Credit Union's registered office is 38-40 Young Street, Wollongong, NSW. The Credit Union operates predominantly in retail banking within NSW.

The Credit Union is a for-profit entity and is primarily involved in the provision of financial products, services and associated activities to members.

#### 1.2 Basis of preparation

##### Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Directors on 6<sup>th</sup> September 2017.

##### Basis of measurement

The financial statements have been prepared on the historical cost basis except for freehold land and buildings in the statement of financial position which are measured at fair value.

The methods used to measure fair values are discussed further in Notes 5.1 and 6.1.

##### Functional and presentation currency

The financial report is presented in Australian Dollars. The Credit Union is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

##### Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

) Notes 3.2, 6.1 and 8.1 – impairment.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 2. Financial performance

|   | 2017<br>\$'000  | 2016<br>\$'000  |
|---|-----------------|-----------------|
| <b>2.1. Net interest income</b>                   |                 |                 |
| <b>Interest revenue</b>                           |                 |                 |
| Loans – members                                   | 21,830          | 19,905          |
| Loans – other ADIs                                | 1,397           | 2,033           |
| Held to maturity assets                           | 655             | 789             |
| Cash and cash equivalents                         | 214             | 415             |
| <b>Total interest revenue</b>                     | <b>24,096</b>   | <b>23,142</b>   |
| <b>Interest expense</b>                           |                 |                 |
| Deposits – members                                | (9,617)         | (9,916)         |
| Deposits – other ADIs                             | (1,853)         | (333)           |
| Borrowings  | (8)             | (17)            |
| <b>Total interest expense</b>                     | <b>(11,478)</b> | <b>(10,266)</b> |
| <b>Net interest revenue</b>                       | <b>12,618</b>   | <b>12,876</b>   |
| <b>2.2. Other income</b>                          |                 |                 |
| Fee Income  | 1,171           | 1,262           |
| Commission income                                 | 913             | 912             |
| Bad debts recovered                               | 87              | 117             |
| Income from property                              | 128             | 166             |
| Dividends on available for sale equity securities | -               | 136             |
| Gain on sale of assets                            | -               | -               |
| Gain on sale of available for sale investment     | -               | 2,454           |
| <b>Total other income</b>                         | <b>2,299</b>    | <b>5,047</b>    |

#### *Recognition and measurement*

Except as described below, revenue is recognised to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The principal sources of revenue are interest income, commission income and fee income. Revenues are recognised at fair value of the consideration received net of the amount of any Goods and Services Tax ("GST") payable to the Australian Taxation Office ("ATO").

#### **Interest revenue**

Interest income arising from loans and receivables and held-to-maturity investments is recognised using the effective interest rate method. Other interest income is recognised in the profit or loss when earned.

#### **Interest expense**

Interest expense arising from member deposits, interest bearing liabilities and the unwinding of discounts on make good or other provisions, is recognised in the profit or loss using the effective interest rate method.

#### **Commission and fee income**

When the Credit Union acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Credit Union. Commission and fee income are recognised when the relevant service is provided (except for loan origination fees as described below).

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



## 2. Financial performance (continued)

### Loan origination income

Revenue received in relation to the origination of loans is deferred and recognised as an increase in loan interest income, on a yield basis over the expected life of the loan. The balance outstanding of the deferred origination income is recognised in the Statement of Financial Position as a decrease in the value of loans outstanding. Where revenue received in relation to valuation and legal expenses incurred by the Credit Union as a result of the origination of mortgage loans, the revenue is recognised when the loan is originated.

### Rental income

Rental income from leases is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease.

### Other revenue

Other revenue is recognised when the service is provided, or when the fee in respect of the service provided is receivable.

|   | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|---|------|----------------|----------------|
| <b>2.3. Expenses</b>                                |      |                |                |
| <b>Personnel expenses</b>                           |      |                |                |
| Salaries and associated expenses                    |      | (5,645)        | (6,471)        |
| Superannuation                                      |      | (438)          | (499)          |
| Redundancy costs                                    |      | (84)           | (165)          |
| <b>Total personnel expenses</b>                     | 5.5  | <b>(6,167)</b> | <b>(7,135)</b> |
| <b>Depreciation and amortisation expenses</b>       |      |                |                |
| Buildings   | 5.1  | (125)          | (115)          |
| Plant and equipment                                 | 5.1  | (370)          | (358)          |
| Leasehold improvements                              | 5.1  | (183)          | (120)          |
| Intangible software                                 | 5.2  | (560)          | (336)          |
| Branch make good                                    |      | (42)           | (43)           |
| <b>Total depreciation and amortisation expenses</b> |      | <b>(1,280)</b> | <b>(972)</b>   |

### Recognition and measurement

#### Loan origination expenses

Expenses incurred directly in the origination of loans are deferred and recognised in the profit or loss as a reduction to loan interest income, on a yield basis over the expected life of the relevant loans.

The balance outstanding of the deferred origination expenses is recognised in the Statement of Financial Position as an increase in the value of loans outstanding.

#### Operating lease payments

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit or loss as an integral part of the lease expense and spread over the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 2.4. Taxation

|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
| <b>(a) Income tax expense</b>  |      |                |                |
| Current tax expense  |      |                |                |
| - current year   |      | (199)          | (406)          |
| - adjustments for prior periods  |      | (54)           | (3)            |
|  |      | (253)          | (409)          |
| Deferred tax expense   |      |                |                |
| - origination and reversal of temporary differences  |      | (44)           | (58)           |
| <b>Total income tax (expense)/benefit in the statement of profit and loss and other comprehensive income</b> |      | <b>(297)</b>   | <b>(467)</b>   |

#### (b) Current tax liabilities

The current tax liability for the Credit Union of \$199,000 (2016: \$409,000) represents the amount of income tax payable in respect of current and prior periods that arise from the payment of tax in deficit of the amounts due to the relevant tax authority.

#### (c) Numerical reconciliation between tax expense and pre-tax net profit

|  |              |              |
|--|--------------|--------------|
| Profit before tax  | 788          | 1,844        |
| Income tax using the company's tax rate of 30% (2016: 30%) | (237)        | (553)        |
| Increase in income tax expense due to:                     |              |              |
| - imputation gross up on dividends received                | -            | (41)         |
| - non-deductible expenses                                  | (6)          | (6)          |
| Decrease in income tax expense due to:                     |              |              |
| - franking credits on dividends received                   | -            | 136          |
| Under provided in prior years                              | (54)         | (3)          |
| <b>Income tax expense on pre-tax net profit</b>            | <b>(297)</b> | <b>(467)</b> |

#### (d) Deferred tax recognised directly in equity and other comprehensive income

|   |            |          |
|---|------------|----------|
| - Revaluation of freehold property                    | -          | -        |
| - Revaluation of freehold property - equity component | 409        | -        |
| <b>Total income tax recognised directly in equity</b> | <b>409</b> | <b>-</b> |

#### (e) Deferred tax assets/(liabilities)

|  |              |              |
|--|--------------|--------------|
| Provisions and accrued employee entitlements | 317          | 368          |
| Property, plant and equipment                | 37           | 46           |
| Accrued expenses                             | 36           | 24           |
| Income in advance                            | 9            | 7            |
| Sundry items                                 | 81           | 91           |
| <b>Total deferred tax assets</b>             | <b>480</b>   | <b>536</b>   |
| Property, plant and equipment                | (895)        | (498)        |
| Sundry items                                 | (2)          | (2)          |
| <b>Total deferred tax (liability)</b>        | <b>(897)</b> | <b>(500)</b> |
| <b>Net deferred tax (liability)/assets</b>   | <b>(417)</b> | <b>36</b>    |

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 2.4. Taxation (continued)

#### Recognition and measurement

##### Income tax

Income tax expense consists of current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities are to be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which temporary differences can be utilised. Deferred tax assets arising from carried forward tax losses are reviewed annually to ensure that the right to carry forward those losses still exists. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 3. Loans and receivables

|   | Note    | 2017<br>\$'000 | 2016<br>\$'000 |
|---|---------|----------------|----------------|
| <b>3.1. Loans and receivables</b>                     |         |                |                |
| Loans to:   |         |                |                |
| - members   |         | 543,344        | 524,893        |
| - key management personnel and their related entities |         | 937            | 849            |
|   |         | <b>544,281</b> | 525,742        |
| Loans to other ADIs                                   |         | 58,783         | 60,718         |
|   | 6.1     | <b>603,064</b> | 586,460        |
| Provision for impairment                              | 3.2,6.1 | (176)          | (157)          |
| Net deferred loan income and expenses                 | 6.1     | 20             | 126            |
| Net loans and receivables                             |         | <b>602,908</b> | 586,429        |

#### Recognition and measurement

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, and the Credit Union does not intend to sell immediately or in the near term. Such assets are recognised initially at cost plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. Loans and receivables comprise loans to members and other ADIs.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



|   | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|---|------|----------------|----------------|
| <b>3.2 Provision for impairment of financial assets</b> |      |                |                |
| <b>Loans and receivables</b>                            |      |                |                |
| <b>Specific provision for credit losses</b>             |      |                |                |
| Opening balance   |      | -              | -              |
| Bad debts written off                                   |      | -              | -              |
| Impairment charge for the year                          |      | -              | -              |
| Closing balance   | 6.1  | -              | -              |
| <b>Collective provision for credit losses</b>           |      |                |                |
| Opening balance   |      | 157            | 192            |
| Bad debts written off                                   |      | (68)           | (114)          |
| Impairment charge for the year                          |      | 87             | 79             |
| Closing balance   | 6.1  | 176            | 157            |
| <b>Total provision for impairment</b>                   | 3.1  | 176            | 157            |

### Recognition and measurement

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

### Held-to-maturity financial assets

The Credit Union considers evidence of impairment at both a specific and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets (carried at amortised cost) with a similar risk profile.

### Loans and receivables financial assets

The specific provision relates to doubtful loans that have been individually identified and provided for. The collective provision for credit losses is intended to cover losses inherent in the existing overall credit portfolio which are not yet specifically identifiable.

All loan assets are subject to recurring review and assessed for possible impairment. The Credit Union considers evidence of impairment at both a specific and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets (carried at amortised cost) with a similar risk profile.

In assessing collective impairment, the Credit Union's provision for loan losses is based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance date, even where the impairment event cannot be attributed to individual exposures.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 3.2 Provision for impairment of financial assets (continued)

Objective evidence that the financial assets may be impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not otherwise consider, indications that a borrower has or will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or economic conditions that correlate with defaults by borrowers.

The loss model adopted by the Credit Union considers historical trends of the probability of default, timing of recoveries and the amount of loss incurred. The Credit Union also gives consideration to whether the current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses (bad debts) are written off in the period in which they are identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the profit or loss.

The Credit Union holds a general reserve for credit losses as an additional allowance for bad debts to comply with prudential requirements. Refer to Note 5.6 for details on this reserve.

### 4. Funding and liquidity

|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
| <b>4.1 Cash and cash equivalents</b>   |      |                |                |
| Cash at bank and on hand               |      | 4,876          | 2,321          |
| Deposits at call                       |      | 18,708         | 8,450          |
| <b>Total cash and cash equivalents</b> | 6.1  | <b>23,584</b>  | <b>10,771</b>  |

#### *Recognition and measurement*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

Cash and cash equivalents are carried at amortised cost, with interest brought to account using the effective interest rate method.

### 4.2. Deposits

|                         |     |                |                |
|-------------------------|-----|----------------|----------------|
| Withdrawable shares     |     | 56             | 58             |
| Call deposits           |     | 347,245        | 333,741        |
| Retail term deposits    |     | 217,773        | 185,234        |
| Wholesale term deposits |     | 50,500         | 61,800         |
|                         | 6.1 | <b>615,574</b> | <b>580,833</b> |

#### *Recognition and measurement*

Deposits, being member savings, term investments and wholesale deposits are measured at amortised cost and are recognised as the aggregate amount of money owing to depositors. The amount of interest accrued at balance date is shown as part of payables.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 4.3 Held to maturity assets

|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
| Floating rate notes, at amortised cost | 6.1  | 26,126         | 20,521         |
| Total held-to-maturity assets          |      | 26,126         | 20,521         |

Held-to-maturity investments with a carrying amount including accrued interest of \$26,230,658 (2016: \$20,612,396) have interest rates ranging from 2.02% to 2.92% and mature in one to five years from the date of investment.

#### Recognition and measurement

As the Credit Union has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest rate method, less any impairment losses.

### 4.4 Reconciliation of cash flows from operating activities

#### Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheets as follows:

|  |     |               |                 |
|--|-----|---------------|-----------------|
| Cash and cash equivalents  | 4.1 | 23,584        | 10,771          |
| <b>Reconciliation of cash flows from operating activities</b>    |     |               |                 |
| Profit for the year attributable to members of the Credit Union  |     | 491           | 1,377           |
| <i>Adjustments for:</i>  |     |               |                 |
| Charge for bad and doubtful debts and impairment losses          |     | 87            | 79              |
| Depreciation and amortisation                                    |     | 1,280         | 929             |
| Gain on sale of assets   |     | -             | (2,454)         |
| Net loss on disposal of plant and equipment                      |     | 45            | 96              |
| Intangible Work in Progress assets expensed                      |     | -             | 59              |
| Make good interest charge  |     | -             | -               |
| <b>Operating profit before changes in assets and liabilities</b> |     | <b>1,903</b>  | <b>86</b>       |
| <b>Changes in assets and liabilities</b>                         |     |               |                 |
| Net loans (funded)   |     | (18,501)      | (116,875)       |
| Net movement in deposits   |     | 34,741        | 83,491          |
| Movement in interest receivable                                  |     | (6)           | 93              |
| Movement in other receivables                                    |     | 18            | 28              |
| Movement in deferred tax asset                                   |     | 56            | 59              |
| Movement in prepayments  |     | (61)          | (44)            |
| Movement in interest payable                                     |     | 1,305         | (150)           |
| Movement in sundry creditors and accruals                        |     | 285           | 545             |
| Movement in provision for employee entitlements                  |     | (167)         | (266)           |
| Movement in current tax liabilities                              |     | (210)         | 253             |
| Movement in make good provision                                  |     | (20)          | 30              |
| Movement in deferred tax liability                               |     | (12)          | (5)             |
| <b>Net cash flows from/(used in) operating activities</b>        |     | <b>19,331</b> | <b>(32,755)</b> |

#### Cash flows presented on a net basis

Cash flows arising from loan advances and repayments, member deposits and withdrawals and from sales and purchases of investment securities have been presented on a net basis in the Statement of Cash Flows.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 5. Other Financial Position notes

#### 5.1. Property, plant and equipment

|                                   |      | Land & Buildings<br>at Fair Value | Leasehold<br>Improvements at<br>cost | Plant and<br>Equipment at<br>cost | Work in Progress | Total          |
|-----------------------------------|------|-----------------------------------|--------------------------------------|-----------------------------------|------------------|----------------|
|                                   | Note | \$'000                            | \$'000                               | \$'000                            | \$'000           | \$'000         |
| <b>Gross carrying amount</b>      |      |                                   |                                      |                                   |                  |                |
| Balance as at 30 June 2015        |      | 4,875                             | 921                                  | 4,130                             | 81               | 10,007         |
| Additions                         |      | -                                 | 3                                    | 115                               | 754              | 872            |
| Revaluations                      |      | -                                 | -                                    | -                                 | -                | -              |
| Disposals                         |      | -                                 | (241)                                | (746)                             | (3)              | (990)          |
| Transfers                         |      | 124                               | 251                                  | 390                               | (765)            | -              |
| Balance as at 30 June 2016        |      | 4,999                             | 934                                  | 3,889                             | 67               | 9,889          |
| Additions                         |      | 7                                 | 48                                   | 341                               | 495              | 891            |
| Revaluations                      |      | 1,123                             | -                                    | -                                 | -                | 1,123          |
| Disposals                         |      | -                                 | (486)                                | (520)                             | -                | (1,006)        |
| Transfers                         |      | 121                               | 237                                  | 150                               | (508)            | -              |
| <b>Balance as at 30 June 2017</b> |      | <b>6,250</b>                      | <b>733</b>                           | <b>3,860</b>                      | <b>54</b>        | <b>10,897</b>  |
| <b>Accumulated Depreciation</b>   |      |                                   |                                      |                                   |                  |                |
| Balance as at 30 June 2015        |      | -                                 | (736)                                | (2,569)                           | -                | (3,305)        |
| Disposals                         |      | -                                 | 241                                  | 724                               | -                | 965            |
| Depreciation Expenses             | 2.3  | (115)                             | (120)                                | (358)                             | -                | (593)          |
| Balance as at 30 June 2016        |      | (115)                             | (615)                                | (2,203)                           | -                | (2,933)        |
| Disposals                         |      | -                                 | 485                                  | 381                               | -                | 866            |
| Depreciation Expenses             | 2.3  | (125)                             | (183)                                | (370)                             | -                | (678)          |
| Revaluations                      |      | 240                               | -                                    | -                                 | -                | 240            |
| <b>Balance as at 30 June 2017</b> |      | <b>-</b>                          | <b>(313)</b>                         | <b>(2,192)</b>                    | <b>-</b>         | <b>(2,505)</b> |
| <b>Net Book Value</b>             |      |                                   |                                      |                                   |                  |                |
| Balance as at 30 June 2016        |      | 4,884                             | 319                                  | 1,686                             | 67               | 6,956          |
| <b>Balance as at 30 June 2017</b> |      | <b>6,250</b>                      | <b>420</b>                           | <b>1,668</b>                      | <b>54</b>        | <b>8,392</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 5.1. Property, plant and equipment (continued)

#### *Recognition and measurement*

##### **Land and buildings**

Land and buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An independent valuation was carried out by Opteon in June 2017 on the basis of the open market value of the property concerned in existing use, which resulted in a valuation of \$6,250,000 for land and buildings. The valuation was performed on the basis of the Credit Union occupying the majority of the building, with sub-leases in place for areas let to tenants. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any increase in fair value is recorded in other comprehensive income and accumulated in equity under the Asset Revaluation Reserve. Any decrease in fair value is recognised in other comprehensive income to the extent of any credit balance in the Asset Revaluation Reserve, otherwise, the decrease is recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

The fair value measurement of freehold land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see Note 6.1). The fair value measurement is based on the market income capitalisation valuation technique, which measures fair value by converting future cash flows to a current capital value. The expected market capitalisation rate is a significant unobservable input and is currently 8.50%. The estimated fair value would increase/(decrease) if the expected market capitalisation was lower/(higher).

##### **Plant and equipment**

Items of plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Credit Union and its cost can be measured reliably. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amounts of plant and equipment and are recognised in profit or loss.

##### **Depreciation**

Depreciation is based on the cost of the asset less any estimated residual value and is recognised on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

|   |                            |              |
|---|----------------------------|--------------|
| ) | Plant and equipment        | 2 - 10 years |
| ) | Leased plant and equipment | 3 - 5 years  |
| ) | Buildings                  | 40 years     |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
|--|------|----------------|----------------|

### 5.2. Intangible assets

|                                |  |              |            |
|--------------------------------|--|--------------|------------|
| At cost                        |  | 6,371        | 6,301      |
| Provision for amortisation     |  | (5,919)      | (5,467)    |
| Intangible assets              |  | 452          | 834        |
| Work in progress               |  | 1,879        | 5          |
| <b>Total intangible assets</b> |  | <b>2,331</b> | <b>839</b> |

#### Reconciliation of carrying amounts

|   |     |              |            |
|---|-----|--------------|------------|
| Carrying amount at the beginning of the year  |     | 839          | 691        |
| Additions                                     |     | 2,057        | 617        |
| Expensed to Statement of Profit or Loss       |     | -            | (59)       |
| Amortisation                                  | 2.3 | (560)        | (336)      |
| Disposals                                     |     | (5)          | (74)       |
| <b>Carrying amount at the end of the year</b> |     | <b>2,331</b> | <b>839</b> |

#### Recognition and measurement

Intangible assets include acquired or internally generated computer software with a finite useful life where they are clearly identifiable, can be reliably measured, and it is probable they will lead to future economic benefits that the Credit Union controls. The Credit Union carries capitalised computer software assets at cost basis less accumulated depreciation and any impairment losses.

Subsequent expenditure on capitalised software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### Amortisation

Software is amortised using the straight-line method over its expected useful life. The estimated useful lives are as follows;

|                                |           |
|--------------------------------|-----------|
| ) Major banking infrastructure | 4-7 years |
| ) Other computer software      | 4 years   |

### 5.3. Other assets

|                     |            |            |
|---------------------|------------|------------|
| Prepayments         | 449        | 388        |
| Interest receivable | 319        | 313        |
| Other               | 69         | 87         |
|                     | <b>837</b> | <b>788</b> |

### 5.4. Payables

|                             |              |              |
|-----------------------------|--------------|--------------|
| Sundry creditors            | 1,261        | 825          |
| Accrued interest payable    | 2,680        | 1,375        |
| Accrued expenses            | 427          | 536          |
| <b>Total other payables</b> | <b>4,368</b> | <b>2,736</b> |

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



|                                   | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|-----------------------------------|------|----------------|----------------|
| <b>5.5. Provisions</b>            |      |                |                |
| Employee benefits                 |      |                |                |
| -Liability for annual leave       |      | 400            | 359            |
| -Liability for long service leave |      | 366            | 458            |
| -Provision for redundancies       |      | 13             | 129            |
| Make good costs                   |      | 103            | 123            |
|                                   |      | <b>882</b>     | <b>1,069</b>   |

Included in employee benefits is a non-current amount of \$138,000 (2016: \$113,000)

### *Recognition and measurement*

A provision is recognised if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

### **Short term employee benefits**

Liabilities for employee benefits which represent present obligations resulting from employees' services provided to reporting date and are calculated at amounts based on remuneration, wage and salary rates that the Credit Union expects to pay as at reporting date, including related on-costs such as workers compensation, superannuation and payroll tax. Non-accumulating non-monetary benefits, such as motor vehicles and subsidised goods and services, are expensed based on the net marginal cost to the Credit Union as the benefits are taken by the employees.

### **Long term employee benefits**

The liability for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made by the Credit Union resulting from employees' services provided in the current and prior financial reporting periods, as at balance date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history, and is discounted to determine its present value. The unwinding of the discount is treated as long service leave expense.

### **Redundancy benefits**

Termination benefits are expensed at the earlier of when the Credit Union can no longer withdraw the offer of those benefits and when the Credit Union recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

### **Make good provision**

A make good provision is recognised in respect of the branches that the Credit Union leases under operating leases. It is the present value of the cash outflows the Credit Union expects to incur to make good the site upon finalisation of the operating lease.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



|                                   | 2017<br>\$'000 | 2016<br>\$'000 |
|-----------------------------------|----------------|----------------|
| <b>5.6. Reserves</b>              |                |                |
| General reserve for credit losses | 1,267          | 1,196          |
| Redeemed share capital reserve    | 242            | 238            |
| Asset revaluation reserve         | 2,233          | 1,279          |
| <b>Total Reserves</b>             | <b>3,742</b>   | <b>2,713</b>   |

### *Recognition and measurement*

#### **General reserve for credit losses**

The general reserve for credit losses contains an additional allowance for impairment losses. The general reserve for credit losses together with the amounts calculated as a specific and collective provision must be adequate to comply with prudential requirements.

#### **Redeemed share capital reserve**

The share capital reserve represents the value of member shares redeemed. As member shares are redeemable preference shares, the Corporations Act 2001 requires that any redemptions are to be made from retained profits.

#### **Asset revaluation reserve**

The revaluation reserve represents the cumulative net changes in fair value of the Young St property in accordance with the revaluation method under AASB 116 Property, Plant and Equipment, net of tax.

## **6. Risk Management and Capital**

### **6.1. Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. To assist in performing the role of overseeing risk management, the Board has established the Board Risk Committee (BRC) and Board Audit Committee (BAC).

The BRC is responsible for developing and monitoring risk management policies and overseeing how management monitors compliance with the Credit Union's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Credit Union. The BRC reports regularly to the Board of Directors on its activities. Management has established the Risk Management Team that contributes to the oversight of risk management and regularly reports to the BRC on their activities.

The BAC is responsible for overseeing the financial reporting, audit and control framework of the Credit Union. The BAC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC and the Board of Directors.

The Credit Union applies the Three Lines of Defence model that articulates the key layers of risk management. The Second Line of Defence being the risk management function, headed by the Chief Risk Officer, which contributes toward the progressive development of the Credit Union's risk management framework. The function also provides management and the Board with risk reporting and maintains the regulatory compliance framework in line with regulatory expectations.

Risk management policies are established to identify and analyse the risks faced by the Credit Union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Credit Union activities. The Credit Union, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.



### 6.1. Risk management framework (continued)

This note presents information about the Credit Union's exposure to Credit, Liquidity, Market and Operational risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

#### a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's loans and receivables to members and other ADIs and investment securities. This risk is inherent in the Credit Union's lending activities.

#### Management of credit risk

The Board of Directors has delegated responsibility of the day-to-day management of credit risk to the Credit Team, Collections Team and Risk Management Team.

Credit risk is managed principally through embedded controls upon individual lending groups such as branches, call centres and business development. Lending is carried out within the parameters of lending policies (covering approvals, documentation and management), which have been developed having regard to statistical data and historical risk experience.

To maintain the quality of the lending portfolio, prudential standards have been followed and lending policies have been established.

Credit processes are typically structured so that loan origination, approval, document preparation, settlement and account monitoring and control are segregated to different individuals or areas. Credit must be evaluated against established credit policies and be structured, particularly in terms of security, to be prudent for the risk incurred. The Credit Team assesses credit beyond the lending authorities of lending groups and/or outside normal policies and guidelines. The Collections Team also assesses specific provision requirements where loan default has occurred and manages impaired assets in arrears with the aim of achieving the optimum result from such assets. Impaired assets in arrears are also referred to a third party Collections Agency with the expertise to achieve optimum results from such assets. The Risk Management Team regularly reviews credit quality, arrears, collective and specific provisions and reports to the Board of Directors.

Risk and Internal Audit personnel regularly test internal controls and adherence to credit policies and procedures.

The Credit Union applies standard credit risk assessment criteria to all extensions of credit, from credit scoring systems for basic retail products to complete credit assessment for commercial and business loans.

The quantification of credit risk is performed by analytical tools and models, which provide estimates of the probability of default. The output from this analysis provides support for the Collective Provision for Doubtful Debts.

Management regularly reports to the Board of Directors on arrears, portfolio analysis and stress testing, all approvals with an exception to policy, and all staff loans.

Counterparty risk for investments in financial instruments is limited to Australian owned banks, APRA regulated foreign subsidiary banks and other APRA regulated ADIs. The Credit Union has invested in a number of unrated Building Societies, Credit Unions and Mutual Banks, as well as other APRA regulated entities rated by Standard and Poors.



# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017

### 6.1. Risk management framework (continued)

#### a) Credit risk (continued)

##### Exposure to credit risk

The Credit Union's maximum exposure to credit risk at balance date, in relation to each class of recognised financial asset, is the carrying amount of those assets as stated in the Statement of Financial Position. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question. The Credit Union's maximum exposure to credit risk at the reporting date was:

|                                  |                 | Loans and receivables to members |                | Loans and receivables to other ADIs |                | Held to maturity investments |                | Cash and cash equivalents |                |
|----------------------------------|-----------------|----------------------------------|----------------|-------------------------------------|----------------|------------------------------|----------------|---------------------------|----------------|
|                                  | Note            | 2017<br>\$'000                   | 2016<br>\$'000 | 2017<br>\$'000                      | 2016<br>\$'000 | 2017<br>\$'000               | 2016<br>\$'000 | 2017<br>\$'000            | 2016<br>\$'000 |
| Carrying amount                  | 4.3,<br>3.1,4.1 | 544,125                          | 525,711        | 58,783                              | 60,718         | 26,126                       | 20,521         | 23,584                    | 10,771         |
| <b>Individually impaired</b>     |                 |                                  |                |                                     |                |                              |                |                           |                |
| Gross amount                     |                 | -                                | -              | -                                   | -              | -                            | -              | -                         | -              |
| Provision for impairment         | 3.1,3.2         | -                                | -              | -                                   | -              | -                            | -              | -                         | -              |
| Carrying amount                  |                 | -                                | -              | -                                   | -              | -                            | -              | -                         | -              |
| <b>Past due but not impaired</b> |                 |                                  |                |                                     |                |                              |                |                           |                |
| Days in arrears:                 |                 |                                  |                |                                     |                |                              |                |                           |                |
| < 8 days                         |                 | 1,661                            | 4,671          | -                                   | -              | -                            | -              | -                         | -              |
| > 8 days to 1 month              |                 | 4,304                            | 3,201          | -                                   | -              | -                            | -              | -                         | -              |
| > 1 to 2 months                  |                 | 2,502                            | 895            | -                                   | -              | -                            | -              | -                         | -              |
| > 2 to 3 months                  |                 | 2,289                            | 2,023          | -                                   | -              | -                            | -              | -                         | -              |
| > 3 months                       |                 | 1,473                            | 2,369          | -                                   | -              | -                            | -              | -                         | -              |
| Carrying amount                  |                 | 12,229                           | 13,159         | -                                   | -              | -                            | -              | -                         | -              |



# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017

### 6.1. Risk management framework (continued)

#### a) Credit risk (continued)

|   |     | Loans and receivables to members |                | Loans and receivables to other ADIs |               | Held to maturity investments |               | Cash and cash equivalents |               |
|---|-----|----------------------------------|----------------|-------------------------------------|---------------|------------------------------|---------------|---------------------------|---------------|
|   |     | 2017                             | 2016           | 2017                                | 2016          | 2017                         | 2016          | 2017                      | 2016          |
| Note  |     | \$'000                           | \$'000         | \$'000                              | \$'000        | \$'000                       | \$'000        | \$'000                    | \$'000        |
| <b><i>Neither past due nor impaired</i></b> |     |                                  |                |                                     |               |                              |               |                           |               |
| Secured by mortgage                         |     | 523,688                          | 502,162        | -                                   | -             | -                            | -             | -                         | -             |
| Investment grade                            |     | -                                | -              | 48,783                              | 55,718        | 26,126                       | 20,521        | 22,931                    | 9,877         |
| Unrated                                     |     | -                                | -              | 10,000                              | 5,000         | -                            | -             | -                         | -             |
| Other                                       |     | 8,364                            | 10,421         | -                                   | -             | -                            | -             | 653                       | 894           |
| Net deferred income and expense             | 3.1 | 20                               | 126            | -                                   | -             | -                            | -             | -                         | -             |
| Carrying amount                             |     | 532,072                          | 512,709        | 58,783                              | 60,718        | 26,126                       | 20,521        | 23,584                    | 10,771        |
| Provision for Impairment                    | 3.2 | (176)                            | (157)          | -                                   | -             | -                            | -             | -                         | -             |
| <b>Total adjusted carrying amount</b>       |     | <b>544,125</b>                   | <b>525,711</b> | <b>58,783</b>                       | <b>60,718</b> | <b>26,126</b>                | <b>20,521</b> | <b>23,584</b>             | <b>10,771</b> |
| Restructured Loans                          |     | 1,383                            | 460            | -                                   | -             | -                            | -             | -                         | -             |

As at balance date, there were no individual members that have loans that represent more than 10% of the Credit Union's net assets.

#### Impaired loans and receivables

Impaired loans and receivables are those that the Credit Union has determined it is probable they will be unable to collect the entire principal and interest due according to the contractual terms of the loan agreement. As at balance date, there were no loans identified as individually impaired (2016: \$0).

#### Past due but not impaired loans

This relates to loans and receivables where contractual interest or principal payments are past due, but the Credit Union believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Credit Union.

#### Restructured loans

Restructured loans are loans where the original contractual terms have been modified due to deterioration in the borrower's financial position and where the Credit Union has made concessions that it would not otherwise consider. During the financial year loan balances totalling \$1,383,000 were renegotiated (2016: \$460,000).



# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017

### 6.1. Risk management framework (continued)

#### a) Credit risk (continued)

|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
| The Credit Union's maximum exposure to credit risk for loans to members at the reporting date by geographic regions was: |      |                |                |
| Illawarra NSW  |      | 321,258        | 314,690        |
| Sydney NSW   |      | 152,787        | 147,327        |
| Far South Coast NSW  |      | 12,109         | 12,202         |
| Other NSW/ACT  |      | 23,567         | 19,234         |
| Victoria   |      | 11,772         | 11,832         |
| QLD  |      | 12,023         | 10,184         |
| WA   |      | 6,895          | 6,437          |
| Other  |      | 3,870          | 3,836          |
|  | 3.1  | <b>544,281</b> | <b>525,742</b> |

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

|                                       | Loans and receivables – members |                  | Loans and receivables – other ADIs |                |
|---------------------------------------|---------------------------------|------------------|------------------------------------|----------------|
|                                       | 2017<br>\$'000                  | 2016<br>\$'000   | 2017<br>\$'000                     | 2016<br>\$'000 |
| Against individually impaired         |                                 |                  |                                    |                |
| - Property                            | -                               | -                | -                                  | -              |
| Against past due but not impaired     |                                 |                  |                                    |                |
| - Property                            | 19,549                          | 22,597           | -                                  | -              |
| - Other                               | 2,322                           | 2,322            | -                                  | -              |
| Against neither past due nor impaired |                                 |                  |                                    |                |
| - Property                            | 1,117,337                       | 1,045,490        | -                                  | -              |
| - Other                               | 855                             | 855              | -                                  | -              |
| <b>Total value of collateral held</b> | <b>1,140,063</b>                | <b>1,071,264</b> | <b>-</b>                           | <b>-</b>       |
| Average Loan to Valuation ratio       | <b>46.78%</b>                   | 48.06%           |                                    |                |

#### Collateral

The Credit Union holds collateral against loans and advances to members in the form of interests over property, other registered securities over assets and guarantees. Mortgage insurance contracts are entered into in order to manage the credit risk around the residential loan mortgage portfolio, where the loan to value ratio exceeds 85%. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally, are not updated except when a loan is individually assessed as impaired. Collateral is not held over loans and receivables to other ADIs and held to maturity investments.

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 6.1. Risk management framework (continued)

#### a) Credit risk (continued)

The Credit Union obtained the following non-financial assets by taking possession of collateral held as security.

|  | 2017     | 2016       |
|--|----------|------------|
|  | \$'000   | \$'000     |
| Nature of non-financial assets – Property      | -        | 540        |
| Nature of non-financial assets – Motor vehicle | -        | 12         |
|  | <u>-</u> | <u>552</u> |

#### Write-off policy

The Credit Union writes-off a loan balance when the Collections Team determines that the loan is uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire balance. These debts can be referred to a third party agency for further recovery action.

#### Settlement Risk

Settlement risk is the risk of loss due to the failure of any counterparty to honour its contractual obligations. The Credit Union's operations may give rise to this risk at the time of settlement of transactions, but this risk is mitigated for certain types of transactions by conducting settlements through a settlement/clearing agent to ensure that a transaction is settled only when both parties have fulfilled their contractual settlement obligations.

#### b) Liquidity risk

##### Exposure to liquidity risk

Liquidity risk can arise from excessive withdrawals, excessive demand for loan funding, concentration of large deposits held by a small number of members as well as maturity disparities between assets and liabilities.

The Credit Union has a liquidity management strategy that ensures that enough high-quality liquid assets (HQLA) are always available for the Credit Union's cash flow and liquidity requirements. The Credit Union also has other liquid assets over and above HQLA prudential requirements, and these are included in total liquidity calculations. Liquidity standards which are set and approved by the Board ensure that at a minimum the APRA standards are sufficiently met. Liquidity management is monitored on a daily basis.

Details of the Credit Union's ratio of net liquid assets to deposits at the reporting date and during the reporting period were as follows:

|                             | 2017  | 2016  |
|-----------------------------|-------|-------|
|                             | %     | %     |
| HQLA at 30 June             | 13.99 | 12.88 |
| HQLA average for the period | 13.52 | 13.07 |
| HQLA maximum for the period | 15.37 | 15.20 |
| HQLA minimum for the period | 11.95 | 11.75 |
| Total liquidity at 30 June  | 16.97 | 14.71 |



## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2017

#### 6.1. Risk management framework (continued)

##### b) Liquidity risk (continued)

###### Management of liquidity risk

The Credit Union's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation. The Credit Union has an overdraft facility in place to assist in adequately managing liquidity.

The Credit Union's Risk Management Team assists with the oversight of asset and liability management – including liquidity risk management. The Credit Union's liquidity policies are approved by the Board of Directors, after endorsement by the Risk Management Team and the BRC. Liquidity policies address liquidity management including the observance of trigger levels, stress testing and cash flow forecasting. Stress testing is performed over at least the next 12 months and involves various scenarios including ones that are significantly worse than those that have been observed in the past.



# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017

### 6.1. Risk management framework (continued)

#### b) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

|  | Note | Carrying<br>amount<br>\$'000 | Gross nominal<br>inflow/<br>(outflow)<br>\$'000 | Less than 1<br>month<br>\$'000 | 1-3 months<br>\$'000 | 3 months to 1<br>year<br>\$'000 | 1-5 years<br>\$'000 | More than<br>5 years<br>\$'000 |
|--|------|------------------------------|---|--------------------------------|----------------------|---------------------------------|---------------------|--------------------------------|
| <b>30 June 2017</b>  |      |                              |   |                                |                      |                                 |                     |                                |
| <i>Non-derivative liabilities</i>                                |      |                              |   |                                |                      |                                 |                     |                                |
| Deposits – retail  | 4.2  | 565,074                      | (565,557)                                       | (383,808)                      | (68,198)             | (113,357)                       | (194)               | -                              |
| Deposits – wholesale   | 4.2  | 50,500                       | (50,761)  | (8,012)                        | (38,171)             | (4,578)                         | -                   | -                              |
| Payables   | 5.4  | 4,368                        | (4,368)   | (3,234)                        | (654)                | (480)                           | -                   | -                              |
|  |      | <b>619,942</b>               | <b>(620,686)</b>                                | <b>(395,054)</b>               | <b>(107,023)</b>     | <b>(118,415)</b>                | <b>(194)</b>        | <b>-</b>                       |
| Unrecognised finance commitments<br>- approved but undrawn loans | 7.2  | 16,906                       | (16,906)  | (8,573)                        | (3,520)              | (4,813)                         | -                   | -                              |
|  |      | <b>636,848</b>               | <b>(637,592)</b>                                | <b>(403,627)</b>               | <b>(110,543)</b>     | <b>(123,228)</b>                | <b>(194)</b>        | <b>-</b>                       |
| <b>30 June 2016</b>  |      |                              |   |                                |                      |                                 |                     |                                |
| <i>Non-derivative liabilities</i>                                |      |                              |   |                                |                      |                                 |                     |                                |
| Deposits – retail  | 4.2  | 519,033                      | (520,844)                                       | (375,673)                      | (62,426)             | (82,079)                        | (666)               | -                              |
| Deposits – wholesale   | 4.2  | 61,800                       | (62,229)  | (14,517)                       | (29,465)             | (18,247)                        | -                   | -                              |
| Payables   | 5.4  | 2,736                        | (2,736)   | (2,236)                        | (249)                | (249)                           | (2)                 | -                              |
|  |      | <b>583,569</b>               | <b>(585,809)</b>                                | <b>(392,426)</b>               | <b>(92,140)</b>      | <b>(100,575)</b>                | <b>(668)</b>        | <b>-</b>                       |
| Unrecognised finance commitments<br>- approved but undrawn loans | 7.2  | 39,837                       | (39,837)  | (20,599)                       | (11,279)             | (7,959)                         | -                   | -                              |
|  |      | <b>623,406</b>               | <b>(625,646)</b>                                | <b>(413,025)</b>               | <b>(103,419)</b>     | <b>(108,534)</b>                | <b>(668)</b>        | <b>-</b>                       |

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 6.1. Risk management framework (continued)

#### c) Market risk

Market risk is the risk that changes in market prices, such as interest rates applicable to Community Alliance Credit Union Limited, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### Interest rate risk

The principal tool to measure and control interest rate risk exposure within the Credit Union's interest earning assets and liabilities is Value at Risk (VaR). The VaR is the estimated loss that will arise over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based upon a 99 percent confidence level and assumes a 20-day holding period. The VaR model used is based mainly on historical simulation, taking account of market data from the previous year. The Credit Union positions some of its low rate call savings deposits from the one month repricing point to various repricing points to more accurately match the cash outflow of the product. The Credit Union is of the view that these assumptions more realistically reflect the true nature of low rate on-call savings deposits.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- ) A 20-day holding period assumes it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- ) A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR;
- ) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- ) The VaR measure is dependent upon the Credit Union's position and the volatility of market interest rates. The VaR of an unchanged position reduces if the market interest rate volatility declines and vice versa.

A summary of the VaR position of the Credit Union at 30 June is as follows:

|   | 2017<br>\$'000   | 2016<br>\$'000   |
|---|------------------|------------------|
| <b>Interest rate risk – Value at Risk</b>   | <b>397</b>       | <b>916</b>       |
| At the reporting date the interest rate profile of the Credit Union's interest bearing financial instruments was: |                  |                  |
| <b>Fixed rate instruments</b>   |                  |                  |
| Financial assets  | 392,248          | 408,862          |
| Financial liabilities   | (268,273)        | (247,034)        |
|   | <b>123,975</b>   | <b>161,828</b>   |
| <b>Variable rate instruments</b>  |                  |                  |
| Financial assets  | 234,415          | 208,891          |
| Financial liabilities   | (346,018)        | (333,956)        |
|   | <b>(111,603)</b> | <b>(125,065)</b> |

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 6.1. Risk management framework (continued)

#### d) Fair Values

##### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

|  |                        | 30 June 2017          |                       |           |                   |         |           |       |           |
|--|------------------------|-----------------------|-----------------------|-----------|-------------------|---------|-----------|-------|-----------|
| Note   | Carrying amount \$'000 |                       |                       |           | Fair value \$'000 |         |           |       |           |
|  | Held-to-maturity       | Loans and Receivables | Financial Liabilities | Total     | Level 1           | Level 2 | Level 3   | Total |           |
| <b>Assets carried at amortised cost</b>      |                        |                       |                       |           |                   |         |           |       |           |
| Loans to members                             | 3.1                    | -                     | 544,281               | -         | 544,281           | -       | 555,608   | -     | 555,608   |
| Loans to other ADIs                          | 3.1                    | -                     | 58,783                | -         | 58,783            | -       | 58,973    | -     | 58,973    |
| Floating rate notes                          | 4.3                    | 26,126                | -                     | -         | 26,126            | -       | 26,320    | -     | 26,320    |
| Cash and cash equivalents*                   | 4.1                    | -                     | 23,584                | -         | 23,584            |         |           |       |           |
|  |                        | 26,126                | 626,648               | -         | 652,774           | -       | 640,901   | -     | 640,901   |
| <b>Liabilities carried at amortised cost</b> |                        |                       |                       |           |                   |         |           |       |           |
| Deposits                                     | 4.2                    | -                     | -                     | (565,074) | (565,074)         | -       | (544,616) | -     | (544,616) |
| Wholesale deposits                           | 4.2                    | -                     | -                     | (50,500)  | (50,500)          | -       | (50,807)  | -     | (50,807)  |
| Payables*                                    | 5.4                    | -                     | -                     | (4,368)   | (4,368)           |         |           |       |           |
|  |                        | -                     | -                     | (619,942) | (619,942)         | -       | (595,423) | -     | (595,423) |

\*The Credit Union has not disclosed the fair values for financial instruments such as cash and cash equivalents, short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values. There have been no transfers between the valuation levels during 2017 (2016: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 6.1. Risk management framework (continued)

#### d) Fair Values (continued)

|  |      | 30 June 2016           |                       |                       |           |                   |           |         |           |
|--|------|------------------------|-----------------------|-----------------------|-----------|-------------------|-----------|---------|-----------|
|  | Note | Carrying amount \$'000 |                       |                       |           | Fair value \$'000 |           |         |           |
|  |      | Held-to-maturity       | Loans and Receivables | Financial Liabilities | Total     | Level 1           | Level 2   | Level 3 | Total     |
| <b>Assets carried at amortised cost</b>      |      |                        |                       |                       |           |                   |           |         |           |
| Loans to members                             | 3.1  | -                      | 525,742               | -                     | 525,742   | -                 | 538,543   | -       | 538,543   |
| Loans to other ADIs                          | 3.1  | -                      | 60,718                | -                     | 60,718    | -                 | 60,911    | -       | 60,911    |
| Floating rate notes                          | 4.3  | 20,521                 | -                     | -                     | 20,521    | -                 | 20,613    | -       | 20,613    |
| Cash and cash equivalents*                   | 4.1  | -                      | 10,771                | -                     | 10,771    |                   |           |         |           |
|  |      | 20,521                 | 597,231               | -                     | 617,752   | -                 | 620,067   | -       | 620,067   |
| <b>Liabilities carried at amortised cost</b> |      |                        |                       |                       |           |                   |           |         |           |
| Deposits                                     | 4.2  | -                      | -                     | (519,033)             | (519,033) | -                 | (511,228) | -       | (511,228) |
| Wholesale deposits                           | 4.2  | -                      | -                     | (61,800)              | (61,800)  | -                 | (61,699)  | -       | (61,699)  |
| Payables*                                    | 5.4  | -                      | -                     | (2,736)               | (2,736)   |                   |           |         |           |
|  |      | -                      | -                     | (583,569)             | (583,569) | -                 | (572,927) | -       | (572,927) |

\*The Credit Union has not disclosed the fair values for financial instruments such as cash and cash equivalents, short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values. There have been no transfers between the valuation levels during 2017 (2016: Nil)



### 6.1. Risk management framework (continued)

#### d) Fair Value (continued)

A number of the Credit Union's accounting policies and disclosures require the determination of fair values. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

##### Cash and cash equivalents

The carrying amount approximates fair value because of their short term to maturity or the fact that they are receivable on demand.

##### Payables

The carrying amount approximates fair value as they are short term in nature.

##### Loans and receivables

The fair values of loans and receivables, excluding impaired loans, are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The nominal interest rates used have been applied to all interest payments received for loans repricing in a given period. The methodology used to determine the net fair value of the known future cash flows is in accordance with generally accepted discounted cash flow analysis. The net fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the cash flows.

##### Deposits

The carrying amount of at call deposits approximates fair value as they are short term in nature or are payable on demand.

The fair value of term deposits carried at amortised cost is estimated using discounted cash flow analysis, based on current incremental deposit rates for similar deposit products. The nominal interest rates used have been applied to all interest payments made for deposits repricing in a given period. The methodology used to determine the net fair value of the known future cash flows is in accordance with generally accepted discounted cash flow analysis.

##### Interest bearing liabilities

This includes interest payable for which the carrying amount is considered to be a reasonable estimate of the net fair value. For liabilities which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

##### Fair value hierarchy

The different levels have been defined as follows:

- ) **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ) **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as process) or indirectly (i.e. derived from process).
- ) **Level 3:** Inputs for the asset or liability that are not based on an observable market data (unobservable inputs).

#### e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Credit Union's operations.



### 6.1. Risk management framework (continued)

#### e) Operational Risk (continued)

The Credit Union's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit. This responsibility is supported by the development of overall Credit Union standards for the management of operational risk in the following areas:

- ) Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- ) Requirements for the reconciliation and monitoring of transactions;
- ) Compliance with regulatory and other legal requirements;
- ) Requirements for the reporting of operational losses and proposed remedial action;
- ) Training and professional development;
- ) Ethical and business standards; and
- ) Risk mitigation, including insurance where this is effective.

Compliance with the Credit Union's standards is supported by a programme of periodic reviews undertaken by Compliance and Internal Audit. The results of Compliance and Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the BAC and Senior Management of the Credit Union.

### 6.2. Capital management

#### Regulatory capital

APRA sets a prudential capital requirement (PCR) for each ADI that sets capital requirements in excess of the minimum capital requirement of 8%. A key input into the PCR setting process is the Credit Union's Internal Capital Adequacy Assessment Process (ICAAP). The PCR remains confidential between each ADI and APRA in accordance with accepted practice. The Credit Union calculates capital requirements by analysing various major risks faced by the Credit Union and ensuring appropriate levels of capital are maintained to cover those risks. Major risks considered include credit risk, interest rate risk, liquidity risk, operational risk, reputational risk and economic risk.

The Credit Union's regulatory capital is analysed in two tiers:

- ) Tier 1 capital, which includes retained profits and the property revaluation reserve after deductions for certain capitalised expenses, intangible assets, and net deferred tax assets; and
- ) Tier 2 capital, which includes collective impairment allowances.

The Credit Union's policy is to maintain adequate capital to protect the interests of members, cover risk and support future growth. The Credit Union has complied with all externally imposed capital requirements throughout the period.

The Credit Union's regulatory capital position at 30 June was as follows:

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Regulatory capital   | 40,263         | 40,154         |
| Risk weighted assets   | 283,776        | 280,041        |
| Regulatory capital expressed as a percentage of total risk weighted assets | 14.19%         | 14.34%         |

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 7. Other notes

#### 7.1. Operating leases

The Credit Union leases out portions of its Young St building under operating leases typically running for a period of 2 years. All leases have options for renewal. Lease revenue comprises of a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in consumer price index or a fixed rate. The future minimum lease payments receivable by the Credit Union under non-cancellable leases are as follows:

|                            | 2017<br>\$'000 | 2016<br>\$'000 |
|----------------------------|----------------|----------------|
| Less than one year         | 121            | 65             |
| Between one and five years | 115            | -              |
|                            | <b>236</b>     | <b>65</b>      |

During the year ended 30 June 2017 \$126,000 was recognised as rental income (2016: \$158,000). Repairs and maintenance expense, recognised in property expenses was as follows:

|                            |          |           |
|----------------------------|----------|-----------|
| Income-generating property | 8        | 26        |
|                            | <b>8</b> | <b>26</b> |

#### 7.2. Commitments

##### Capital expenditure commitments

Capital expenditure commitments not taken up in the financial statements

|                              |     |     |
|------------------------------|-----|-----|
| - payable less than one year | 485 | 599 |
|------------------------------|-----|-----|

##### Lease expenditure commitments

*Operating leases (non-cancellable)*

|                                      |            |            |
|--------------------------------------|------------|------------|
| - payable less than one year         | 181        | 249        |
| - payable between one and five years | 320        | 497        |
|                                      | <b>501</b> | <b>746</b> |

The Credit Union leases retail branches to provide financial services to its members. The leases typically run for a period of three to five years, with an option to renew after that date. Lease rentals are generally indexed annually for inflation. During the financial year ended 30 June 2017, \$252,000 was recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income in respect of operating leases (2016: \$604,000).

##### Credit related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

|                            |               |               |
|----------------------------|---------------|---------------|
| Approved but undrawn loans | <b>16,906</b> | <b>39,837</b> |
|----------------------------|---------------|---------------|

#### 7.3. Contingent liabilities

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

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 7.3. Contingent liabilities (continued)

Letters of credit and financial guarantees written are conditional commitments issued by the Credit Union to guarantee the performance of a member to a third party.

|                   | 2017   | 2016   |
|-------------------|--------|--------|
|                   | \$'000 | \$'000 |
| Performance bonds | 55     | 63     |

### 7.4. Related parties

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity. During the 2016-17 period, key management personnel would consist of all Directors which served during the period, as well as the following senior managers.

#### Directors

Mr R Downs

Mr A Abela

Mrs M Youssif (resigned February 2017)

Mr P Kell

Ms N Murray

Mr M Halloran

Ms D De Santis

Mr C Bloomfield (appointed February 2017)

#### Key Management Personnel

Mr B Kotic (Chief Executive Officer)

Mr A Perkiss (Deputy Chief Executive Officer)

Mr T Ellem (General Manager Member Services)

Ms B Hogan (Chief Financial Officer/Company Secretary) (appointed August 2016)

Mr R Coldwell (Chief Information Officer) (appointed August 2016)

Ms E Anderson (Chief Risk Officer/Company Secretary) (resigned June 2017)

Mr R Cole (General Manager Product and Marketing) (resigned November 2016)

#### Transactions with Key Management Personnel

In addition to their salaries, the Credit Union also provides non-cash benefits to key management personnel and contributes to superannuation funds on their behalf.

#### Key Management Personnel compensation

The aggregate key management personnel compensation related to Senior Managers and Directors is included in 'personnel expense' and is as follows:

|                              | 2017             | 2016             |
|------------------------------|------------------|------------------|
|                              | \$               | \$               |
| Short term employee benefits | 1,558,406        | 1,473,926        |
| Other long-term benefits     | 46,450           | 20,347           |
| Post-employment benefits     | 139,783          | 125,845          |
| Termination benefits         | 40,647           | 53,797           |
|                              | <b>1,785,286</b> | <b>1,673,915</b> |

# NOTES TO THE FINANCIAL STATEMENTS

## For the year ended 30 June 2017



### 7.4. Related parties (continued)

Apart from the details disclosed in this note, no Director has entered into a material contract with the Credit Union since the end of the previous financial year, and there were no material contracts involving Directors' interests existing at year-end.

#### Loans to Key Management Personnel and their related parties

Details regarding the aggregate of loans made, guaranteed or secured by the Credit Union to key management personnel and their related parties are as follows:

|   | 2017<br>\$ | 2016<br>\$ |
|---|------------|------------|
| Aggregate of loans as at balance date                               | 937,286    | 1,286,712  |
| Total undrawn revolving credit facilities available at balance date | -          | -          |
| Interest charged on loans and overdraft facilities                  | 47,605     | 65,646     |

All loans to key management personnel are made on an arm's length basis, on the same terms and conditions as generally available to members. All loans are secured by a residential mortgage or unsecured personal loans, and no amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

#### Key management personnel related parties

Mr Roger Downs, a Director of the Credit Union, is the Chairman of Partners of Kells the Lawyers. The Credit Union has used the legal services of Kells the Lawyers. The total dollar value of these services provided for the year was \$5,825 (2016: \$11,618). This arrangement is on terms that are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis. There were no amounts owing to Kells the Lawyers at the end of the year.

Ms Deborah De Santis, a Director of the Credit Union since November 2014, was previously the Principal of De Santis Public Relations Ltd. The Credit Union has previously used the public relations services of De Santis Public Relations. The total dollar value of these services provided for the year was nil (2016: \$4,200). This arrangement was on terms that are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

### 7.5. Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Credit Union, to affect significantly the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union, in future financial years.

### 7.6. Auditor's Remuneration

#### Audit services

|                                 |                |                |
|---------------------------------|----------------|----------------|
| Audit of the financial report   | 102,665        | 93,330         |
| Other regulatory audit services | 31,760         | 30,980         |
|                                 | <b>134,425</b> | <b>124,310</b> |

#### Other services

|                            |                |                |
|----------------------------|----------------|----------------|
| Taxation services          | 18,230         | 11,874         |
| Accounting advice services | 8,560          | -              |
| Training Facilitation      | -              | 53,166         |
|                            | <b>26,790</b>  | <b>65,040</b>  |
|                            | <b>161,215</b> | <b>189,350</b> |



## **8. Accounting Policies**

### **8.1. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### **(a) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of GST, where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

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

#### **(b) Impairment of non-financial assets**

The carrying amounts of the Credit Union's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the CGU.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if no impairment loss has been recognised.

#### **(c) Leases**

Leases in terms of which the Credit Union assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases, and the leased assets are not recognised in the Statement of Financial Position.



### 8.2. New accounting policies

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017, and have not been applied in preparing these financial statements. Those standards with the most significant potential impact on the financial statements are outlined below:

AASB 9 Financial Instruments, published in November 2014, replaces the existing guidance in AAB39 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected loss model for calculating impairment on financial assets, and new general hedging requirements. It also carries forward guidance on recognition and re-recognition of financial instruments from AASB 39. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Credit Union has commenced work on the design and development of an Expected Credit Loss (ECL) impairment model, including incorporating forward looking information, for the calculation of ECL for its retail exposures. Until the model has been developed and fully tested, the Credit Union is unable to provide a quantitative impact on the adoption of the standard, however, based on an impact assessment completed using a Prototype Model, the adoption is not expected to result in a material change to equity.

AASB 16 Leases, replaces AASB 117 Leases. AASB 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. For lessees, the lease becomes an on-balance sheet liability that attracts interest, together with a new asset on the other side of the balance sheet.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Credit Union has not yet determined the impact on the new requirements on its financial statements.

AASB 15 (2015) *Revenue from contracts with customers*, establishes a comprehensive framework for the recognition of revenue and additional disclosures about revenue. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Credit Union does not expect the application of AASB 15 will have any impact on its financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2017



1. In the opinion of the Directors of Community Alliance Credit Union Limited ("the Credit Union"):
  - a) The financial statements and notes that are set out on pages 25 to 59 are in accordance with the *Corporations Act 2001*, including:
    - (i) Giving a true and fair view of the Credit Union's financial position as at 30 June 2017 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 Credit Union will be able to pay its debts as and when they become due and payable.
2. The Directors draw attention to note 1.2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

R. Downs  
Chairman of the Board

A. Abela  
Chairman of the Board Audit Committee

Wollongong, 6<sup>th</sup> September 2017



# Independent Auditor's Report

To the members of Community Alliance Credit Union Limited

## Opinion

We have audited the Financial Report of Community Alliance Credit Union Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the Corporations Act 2001, including:

- Giving a true and fair view of the Company's financial position as at 30 June 2017 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:

- Statement of financial position as at 30 June 2017
- 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
- Directors' Declaration.

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

## Other Information

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

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.



## Independent Auditor's Report

To the members of Community Alliance Credit Union Limited

### Responsibility 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 true and fair view and is free from material misstatement, whether due to fraud or error;
- Assessing the Company's ability to continue as a going concern. 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 Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Report

Our 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 in the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://auasb.gov.au/auditors\\_files/ar3.pdf](http://auasb.gov.au/auditors_files/ar3.pdf). This description forms part of our Auditor's Report.

  
KPMG  
  
Richard Drinnan

Partner

Wollongong, 6<sup>th</sup> September 2017

# Our locations

## Head Office / Wollongong

38-40 Young Street,  
Wollongong NSW 2500  
13 22 49

## Corrimal

225 Princes Highway,  
Corrimal NSW 2518

## Helensburgh

114 Parkes Street,  
Helensburgh NSW 2508

## Campbelltown

Shop 8, 101 Queen Street,  
Campbelltown NSW 2560

## Dapto

47 Princes Highway,  
Dapto NSW 2530



Our brands:

