Community Alliance Credit Union

2015 Annual Report

community alliance
credit union limited

Contents

Message from the Chairman

It is my pleasure to present to you the Community Alliance Credit Union 2015 Annual Report. Before I comment briefly on the year past and some of the major issues influencing our Credit Union, I would like to thank our members for their continuing support and loyalty, it is valued and appreciated at every level of our Credit Union.

The year has seen considerable change in our Credit Union amidst a challenging year for the banking industry, primarily defined by a historically low interest rate market and rapidly escalating housing prices. Earning a post-tax profit of $1.209 million was a sound result and a slight decrease of 14% on the previous year.

Our fundamentals were strong in terms of asset growth, and net interest margin management.

Assets grew by 5.57% in a highly competitive market, and net interest revenue increased by 1.13%. Despite a very challenging year in terms of the market and uncertain economic conditions, we remained confident and invested over $1.9 million on our infrastructure and premises, and refreshing our brand and image, to ensure that we remain relevant to a new generation of potential members, and just as important, to provide improved services and quality of environment to our existing members.

At the heart of every organisation is the depth and capability of its people, and I'm delighted to say that we have invested and improved at every level. We have strengthened our senior management team, our board of directors and our dedicated staff, especially our member servicing units. During the year I met with all member serving staff and was impressed by the enthusiasm and commitment of our staff in their desire to give our members outstanding personal service and support, that is both rare and unique in our increasingly technologically service oriented market.

Our purpose for being is to serve our members' needs, and I'm delighted with the continuously improving market research initiatives that management is developing to identify new and emerging needs of our members, while improving and building on our existing portfolio of products and services. I encourage all of our members to become engaged with us and let us know how we are doing and how we could improve the products and services we are providing for you.

While management is charged with the operations of the Credit Union, the Board is responsible for governance and ensuring that all of our activities, including that of management are of the highest order in terms of our regulatory and compliance obligations. It is in this area where we have seen significant change to our board structure and composition.

APRA, our primary regulator required the industry to set up a board committee specifically charged with focusing on risk management strategy and risk management frameworks. I'm pleased to say that we now have three board committees supporting the main board, these being the Board Audit Committee (BAC), Board Risk Committee (BRC), and the Governance Committee, which also oversees the effectiveness of our director's fit and proper policy and our Remuneration Committee. My role as chairman of the board is supported by the respective chairs of these three committees and the participation of fellow directors that comprise these committees, and embrace extra duties and responsibilities both positively and proactively.

We have had some changes to our board composition and I would like to welcome Deborah De Santis and Michael Halloran as new directors. Both bring considerable experience and knowledge to our board and new and fresh perspectives. I would like to thank our retiring directors, John Swan and Graham Holby for their contribution and service to our Credit Union. John has served 38 years as a director and has our gratitude and best wishes.

I especially want to thank Mary Youssif, our chair of 6 years who stepped down as chair during the year, and handed over to me, a motivated and supportive board of directors. I'm delighted to say that Mary continues to serve as a director and has taken on the responsibility of chair of the Board Risk Committee.

My role would be impossible without the support of my fellow directors and colleagues, whose support and contribution I appreciate and value, and in particular I wish to thank our staff and management, and our CEO, Bob Kotic for their hard work and ongoing commitment to our Credit Union.

Roger Downs, Chairman

Message from the *CEO*

I would like to thank our members for their continuing support and confidence during a demanding year for the industry.

The operating conditions for our industry have been challenging from many perspectives. Despite unprecedented low interest rates in terms of borrowing potential, property prices have reached levels where first home buyers must feel a sense of despair in terms of home ownership possibilities. Debt levels required to enter the market are also achieving historical levels, unfortunately historical highs, particularly in terms of multiples of individual's income as a ratio of borrowings.

While the media is preoccupied with the low interest rate environment in terms of borrowing money, inadequate attention is given to those that rely on their deposits to supplement their pension or are reliant on earnings on their savings in retirement. Their standard of living has dropped considerably along with interest rates.

Being a manager in our Credit Union is in essence managing a small bank, and we get to see the struggle of both sides of our members. We see the challenge that borrowers face in terms of economic uncertainty and the rapid growth of property prices as they try to enter the property market or upgrade to accommodate family expansion. On the other hand we see the struggle to save for that deposit for a home, or the value of hard earned savings over a lifetime diminish in contribution capacity and making retirement a struggle, rather than an enjoyable phase of life. In our case we've tried to make our rates as competitive as possible for our borrowers and as good as we can for our savers, this is often a very difficult balancing act, requiring sound planning, management, and timing, and I am pleased that we were able to live up to our commitment to provide banking with a conscience.

So how did we do overall? We were successful in improving our funding from refinances (transfers from other financial institutions) on prior year by over $4 million (16%), while reducing our discharges (transfers to other institutions) by $2 million (13%). The net impact of these two factors combined is an increase in net refinances of over $6 million, which is an improvement of 58% on prior year.

This has been a very difficult year for all financial institutions, due to a sustained period of low interest rates and the specter of further RBA rate reductions. Compounding the historically low interest rate environment were increasing compliance and regulatory costs, which included changes to the risk management standard, new financial claims scheme reporting and operational requirements, changes to liquidity standards impacting our treasury returns, increased regulatory guidelines on credit and lending practices, and changes to anti money laundering and counter terrorism financing requirements.

Despite all of these challenges we still managed to achieve a respectable post tax result of $1.209 million, a slight reduction of 14% on prior year. Please review our key performance indicators in the table below.

Ratio	2015	2014
Capital Adequacy	16.48%	15.74%
HQLA	13.32%	12.74%
Total Liquidity	24.10%	20.74%
Interest Margin	2.43%	2.52%
Return on Average Assets	0.23%	0.27%
Return on Average Equity	3.09%	3.73%

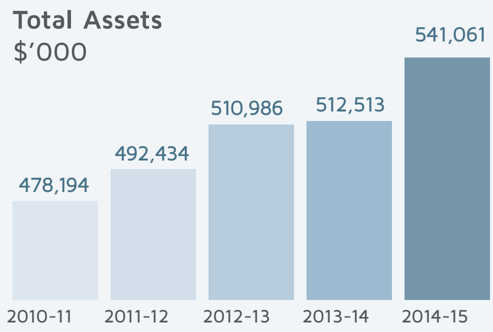
Key Performance Indicators	2015 $'000	2014 $'000
Operating Surplus after tax	1,209	1,407
Total assets	541,061	512,513
Gross loans & advances to Members	409,192	396,576
Provision for loan impairment	192	272
Member deposits	495,842	465,836
Total Members' equity	39,916	38,447
Total investments	106,861	92,442

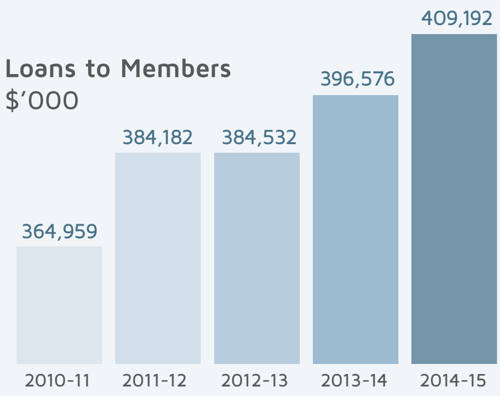
In conclusion, I would like to express my gratitude to my staff and colleagues in management and board, for their commitment and contribution throughout a most demanding year. I would also like to thank our many suppliers and stakeholders that enable us to run an effective and successful business.

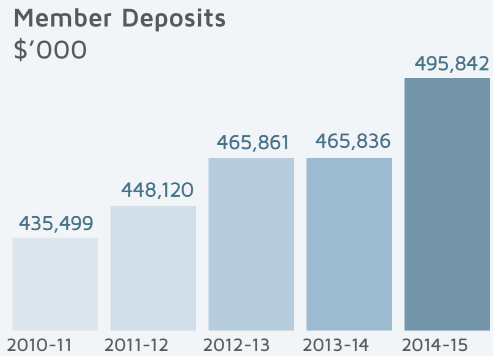
We look forward to 2015/16 with enthusiasm and optimism and supporting our members in achieving their financial aspirations.

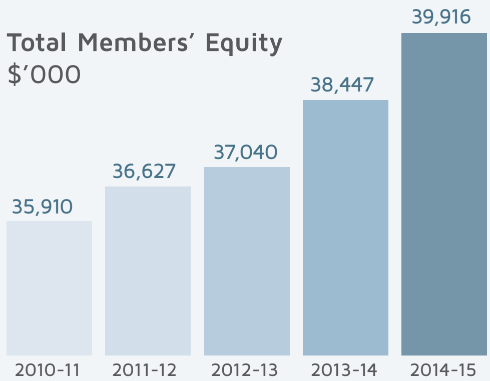
Bob Kotic, CEO

FIVE YEAR FINANCIAL SUMMARY









	2014-15	2013-14	2012-13	2011-12	2010-11
INCOME STATEMENT	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total income	**28,672**	29,685	33,458	36,948	36,283
Interest income	**24,441**	25,259	28,810	32,020	30,998
Net interest income	**12,670**	12,528	12,712	12,969	12,797
Impairment losses on loans and advances	**86**	132	216	537	144
Operating expenses	**15,850**	14,926	15,703	15,505	15,432
Operating profit after tax	**1,209**	1,407	1,508	1,389	1,860
STATEMENT OF FINANCIAL POSITION	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total assets	**541,061**	512,513	510,986	492,434	478,194
Gross loans and advances to Members	**409,192**	396,576	384,532	384,182	364,959
Provision for loan impairment	**192**	272	261	677	317
Deposits	**495,842**	465,836	465,861	448,120	435,499
Total Members' equity	**39,916**	38,447	37,040	36,627	35,910
RATIO ANALYSIS	**%**	**%**	**%**	**%**	**%**
Total revenue to average assets	**5.44**	5.80	6.67	7.61	7.86
Operating expenses to average assets	**3.01**	2.92	3.13	3.19	3.34
Net profit after tax to average assets	**0.23**	0.27	0.30	0.29	0.40
Net profit after tax to average equity	**3.09**	3.73	4.09	3.83	5.37
Net interest margin to average assets	**2.43**	2.45	2.53	2.67	2.77
Provision for loan impairment to average loans	**0.05**	0.07	0.07	0.18	0.09

Year in Review

Community Alliance Credit Union continues our dedication to our members, their families and our community. We are committed to delivering a true member-led experience and empowering our members to make sound financial decisions.

Through our community brands, we are able to provide a range of unique products and services for our members.

- Illawarra Credit Union
- Catalyst Money
- Western City Credit Union

At the heart of our organisation are these key principles; Loyalty & Integrity, Family & Commitment and Personal Service & Excellence.

Our members form part of the Credit Union family and with that comes a strong loyalty. As a member-owned and member-focussed organisation, we support our members through every stage of their lives and aim to provide them with a positive experience and a unique solution for their banking needs.

illawarra credit union CATALYST MONEY Western City Credit Union

Gillian Hendry (Principal)
PARA MEADOWS SCHOOL

On behalf of the students and staff at Para Meadows Special School we wish to express our sincere thanks once again for your kind donation.

Your donation will be used to buy Mathematics resources to assist in providing our students with the best possible learning tools for their future life skills.

The school community appreciates your kind comments and confience in our education program here at Para Meadows.

Community
Involvement

As a mutual we are devoted to the community in which we work and live. We have a long history of support and in 2014/15 we contributed 10% of our profits to our local community.

Some of the major events we supported over the past year include:

Australia Day Aquathon & The Splash n' Dash Festival
Illawarra Credit Union continues to be a major sponsor of the annual Australia Day Aquathon and the Splash n' Dash Festival.

These two high profile Illawarra community fitness events attract thousands of participants and spectators annually, and involve hundreds of volunteers. Credit Union staff are heavily involved in the event, both as participants and volunteers. Our continued support has seen funds raised for worthy local initiatives, such as Anglicare and NSW Cancer Council – Southern Region.

Kembla Joggers Fitness5

Illawarra Credit Union is a proud sponsor of the Kembla Joggers Fitness 5 Event. Fitness 5 promotes healthy lifestyle education and supports the Development Fund for the Kembla Joggers Cross Country Park.

Mission Australia Op Shop Ball

Since it was established three years ago, Illawarra Credit Union has proudly supported the Mission Australia op shop ball as the major sponsor. Mission Australia is a not-for-profit organsiation that assists over 300,000 Australians in need in each year.

KidsFest Shellharbour

KidFest Shellharbour is a great festival, which aims to celebrate and bring together children aged between 0-12 years. The event is a great way to promote the importance of physical and mental wellbeing in children. Illawarra Credit Union is pleased to be a part of the festival and promote such an important cause.

Community *Involvement*

Para Meadows School

Para Meadows School provides an individualised education program for children with special needs from Kindergarten to Year 12. The school does a fantastic job, not only educating the students but also preparing them for day-to-day life challenges. Illawarra Credit Union is pleased to be able to assist the school in improving their educational resources.

Legacy Business and Community Luncheon

Illawarra Credit Union is proud to again sponsor Legacy Illawarra. The organisation does a fantastic job supporting retired and injured service members as well as the families of our fallen veterans.

We also reinvest our funds into a broad range of community initiatives, sporting associations, clubs and local charities in the areas we operate including:

Community initiatives:

- Symbio Wildlife Park (educating children about Native Australian Mammals and Reptiles)
- Burgh2Beach Fun Run (supporting Motor Neurone Disease NSW)
- Kembla Joggers Fitness Five (raising money for Illawarra Charities and community projects)
- Salvation Army (supporting the Christmas Toy Appeal & Business Appeal)

Sporting Associations and Clubs:

- Hockey NSW
- Illawarra Hockey
- Illawarra District Rugby Union
- Football South Coast

Local charities:

- Movember
- Mission Australia (supporting individuals and families to stay housed, access education and training and find employment)
- Cancer Council
- Cure Brain Cancer Foundation

Ann Lehmann (Art Director)

KIDSFEST

KidsFest is proud to partner with Illawarra Credit Union to showcase events and activities that bring social inclusion and an enhanced sense of belonging for children 0-12 years, their families and carers. KidsFest Shellharbour is the biggest community run free week-long festival for children in NSW. The 2015 Festival theme Celebrate, Connect & Play saw over 4000 children, their families and carers celebrate Shellharbour's stunning natural locations, connect with the community and come together to play with hundreds of free activities at 50 festival events across Shellharbour City.

The support we got from Illawarra Credit Union was most appreciated. All our interactions with Liam Crowe and the team have been positive and supportive. Being able to use the ICU gazebo for our registration desk was great, and having staff at events was fantastic. Children loved the giveaway bags too.

KidsFest Shellharbour looks forward to growing the partnership with Illawarra Credit Union in years to come,

Technology

2014/15 saw the launch of our moneytree mobile banking app for Android, for both Illawarra Credit Union and Catalyst Money, following the successful release of the iPhone app last year. The smartphone app offers an improved service experience for our members and provides the freedom to bank anywhere, anytime.

The Credit Union reached a total of 4276 downloads of the moneytree app in 2014/15, with members embracing the new banking technologies and welcoming the convenience the mobile banking app provides.

Brand reinvigoration project

2014/15 saw Illawarra Credit Union undergo a brand transformation, launching a new logo, new visual identity and new tag line on 1 March 2015. The refreshed brand identity has been received positively by both members and the broader community.

The transformation of Illawarra Credit Union's brand is a display of our commitment to our core purpose; serving our members. After more than 42 years as an iconic Illawarra organisation, we've developed a position in the Illawarra as a competitive financial institution and it was essential that we continued to remain relevant and appeal to a wider demographic of members.

The new tag line *"Your money, your way"* highlights the Credit Union's dedication to serving our members, understanding their needs and providing competitive products and services. The reinvigoration of our brand identity communicates our brand ethos; that our members are at the heart of everything we do and every decision we make. We're proud of our member value approach and our brand position, as a strong alternative to banks, and most of all 'banking with a conscience'.

Partner Benefits Program

Our aim as a community-minded organisation, has always been to develop meaningful relationships with the organisations we partner with. With this in mind, the Partner Benefits Program was developed and implemented throughout the organisation. The initiative is simple. If a partner organisation refers a family member, friend, neighbour or one of their members to take out a loan with

us, they will receive a percentage of the loan balance back on a quarterly basis for the entire life of the loan. The initiative has allowed us to give back to sporting groups, charities and community organisations throughout the year, and continue our commitment to serving our local community in a worthwhile way.

People

It is important that our people work in a culture that is positive and enables them to achieve their best. Just as we strive to support our members, we are also committed to supporting our people. Our values – loyalty, integrity, family, community, personal service and excellence - are integral to this effort.

One of the most satisfying people achievements during 2014/15 has been the higher level of education attained by many of our team members. Further education is important to enhancing the capability and overall performance of the Credit Union and allowing each employee to reach their full potential. Supported by the Credit Union, and requiring significant personal effort, 60% of staff now have one or more tertiary qualifications ranging from the Certificate 4 level to Postgraduate University qualifications. This figure will continue to grow as the team continue their commitment to learning.

Investment in training and development is a major theme in our effort to support our people. The budget was increased by 50% providing many additional individually focussed training opportunities as well as group training and development. Our group training activities have centred on enhancing service capability, leadership skills, credit and regulatory knowledge.

During 2014/15, the Credit Union again provided more traineeships for recent Higher School Certificate school leavers in the Shoalhaven, Illawarra and Macarthur regions. These two year opportunities are popular and highly competitive with hundreds of interested candidates applying. Trainees study Certificate 4 in Banking Services and develop a range of valuable workplace skills.

We proudly support diversity, and our team is comprised of 73% women and we are committed to having a strong female representation at all levels of the Credit Union. Achievements in this regard include 75% of trainees, 100% of Team Leaders and 43% of the Board of Directors are female. We also support diversity through flexible work arrangements.

Achieving a high level of employee engagement is important to fostering higher levels of performance and member service. During the year we surveyed staff and found that effective communication and strong leadership was important to our employees. We will continue our work to improve and strengthen these aspects of the Credit Union. Employees were also found to be more optimistic about the future of the organisation, which was an improvement from last year.

Community involvement remains a key element of employee engagement, including the attraction of new employees. Our people were involved in many fund raising efforts including The Smith Family, Australia's Biggest Morning Tea for the Cancer Council, Beanies for Brain Cancer and Para Meadows School.

The health and safety of our people is not just a legal requirement, it is part of our value system. The Credit Union sees helping employees improve their overall wellbeing as another element to achieving their best, personally and professionally. During the year we recorded no lost time injuries. We also held several wellbeing initiatives including health checks and the Food Patrol Body Challenge.

2015 FINANCIALS

Annual Financial Report

30 June 2015

ABN 14 087 650 771

community alliance credit union limited

DIRECTORS' REPORT
For the Year ended 30 June 2015

Your directors present their report on Community Alliance Credit Union Limited ("the Credit Union") for the financial year ended 30 June 2015.

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 Mgt, MAMI — Chair

Mr Downs joined the Board in 2010 and became the Chair of the Board in November 2014. He is also a member of the Governance Committee and Remuneration Committee.

Ms Mary Youssif B Comm, MStudAccy, FCPA, AGIA, MAMI — Director

Ms Youssif joined the Board in 1990 and chaired the Audit and Risk Management Committee from 1994 to 1997. She was Chair of the Board between 2008 and 2014. Mary is currently the Chair of the Board Risk Committee and a member of the Board Audit Committee.

Mr Anthony Abela FIPA, FAMI, GAICD — Director

Mr Abela joined the Board in 2008. He has been a member of the Audit and Risk Management Committee since 2008, and during 2010 assumed Chair of the Audit and Risk Management Committee. As of November 2014 he became Chair of Board Audit Committee and a member of the Board Risk Committee as two committees were established.

Ms Nieves Murray BA (Psych), MSc (Commty Hlth), MBA, MAMI, FAIM — Director

Ms Murray was appointed to the Board in 2013 and is a member of the Board Audit Committee and Board Risk Committee.

Mr Peter Kell Dip Law, MAMI — Director

Mr Kell was appointed to the Board in 2013 and is Chair of the Governance Committee and Remuneration Committee.

Ms Deborah De Santis BA (Mgmt/Psych), MA (Journ), GAICD, MAMI — Director

Ms De Santis was invited to join the Board on 26 March 2014 as an Associate Director and became a Director in November 2014. She is a member of the Governance Committee and Remuneration Committee.

Mr Michael Halloran M Bus (mgmt.), GAICD, FAMI — Director

Mr Halloran joined the Board in November 2014 as a director. He is a member of the Board Audit Committee and the Board Risk Committee.

Mr John Thomas Swan MAMI — Director

Mr Swan joined the board in 1977 and held the position of Deputy Chair from 1981 to 1995. He was a member of the Governance Committee, Remuneration Committee and Chair of the NSW Credit Union Employers Association. Mr Swan's position as director ceased at the November 2014 AGM.

Mr Graham Holby FAMI — Director

Mr Holby joined the board in November 2011. He was a member of the Audit and Risk Management Committee. Mr Holby's position as director ceased at the November 2014 AGM.

Information on Associate Directors

There are no current Associate Directors as at 30 June 2015.

Information on External Members

Ms Marisa Mastroianni External Member

Ms Mastroianni was invited to join the Audit and Risk Management Committee as an External Member on 11 March 2014 and is currently an external member of the Board Audit Committee.

Information on Company Secretary

Ms Emma Anderson, Chief Risk Officer, was appointed the position of Company Secretary in May 2015. This position was previously held by Anthony Perkiss, Chief Financial 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 Audit Committee		Board Risk Committee		Governance Committee		Fit & Proper Committee *		Remuneration Committee	
	E	A	E	A	E	A	E	A	E	A	E	A
R Downs	10	10					5	5			4	4
M Youssif	10	10	4	4	4	4	3	3	1	1	4	4
A Abela	10	10	5	5	5	5						
N Murray	10	9	5	3	5	3						
P Kell	10	10	2	2	2	2	2	2			2	2
D De Santis	10	10					5	5			2	2
Started Nov -14												
M Halloran	6	4	3	2	3	2						
Exited Nov-14												
J.Swan **	4	-					2	-			2	-
G. Holby	4	4	2	2	2	2						
M. Mastroianni ***			5	5								

*Fit & Proper Committee meetings were conducted with one Director and two independents

**The Board granted Director Swan a leave of absence from June 2014 to his cessation as director in November 2014

***External Member to Board Audit Committee

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 2015 was $222,763 (2014: $211,779). The amount of Directors' fees excluding superannuation was $203,528 (2014: $193,847) which is in accordance with the resolution made at the 2014 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 27 of the financial report.

Indemnifying Directors, Officers or Auditors

Insurance premiums have been paid to insure 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 is 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.

Operating Results for the Year

The net profit of the Credit Union for the year before income tax is $965,000 (2014: $1,896,000) representing a decrease of 49% from the previous year.

The results for the financial year were underpinned by:

- A decrease in Total Income of 0.31% to $16,901,000 from $16,954,000 in the previous year and
- An increase in Operating Expenses of 5.83% from $15,058,000 to $15,936,000

The end of year result was impacted by three one off items being the gain on sale of the Chippendale Investment property of $1,000,000, a net GST recovery of $276,000, which was offset by redundancy costs due to staff restructuring of $551,000.

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-documents-2.html.

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

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 future financial years.

Rounding

The financial report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Credit Union under ASIC Class Order 98/100. The Credit Union is an entity to which the class order applies.

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 21.

Signed in accordance with a resolution of the Directors:

R. Downs	A. Abela
Chair of the Board	Chair of the Board Audit Committee

Signed at Wollongong 2 September 2015

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 us to meet the needs of our members.

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 improve our governance policies and practices both at Board level and throughout the organisation. While our mutual values remain constant, we know 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

Relevant 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 number of hours of skills development per annum.

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

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

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 Constitution and Board Policy.

As at 30 June 2015, the Board comprised seven Non-Executive Directors and has one External Member to the Board Audit Committee.

All Directors are shareholding members of the Credit Union. Board members are elected by the members or appointed in accordance with the Credit Union 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 Chair of the Board is a member elected Non-Executive Director.

The Board maintained the appointment of an External Member to the Board Audit Committee for the year. This was in accordance with the Board Audit Committee Charter and the Credit Union's 'fit and proper' framework. The External Member held a term of one year which was renewed for 2014/2015.

It is also important to ensure that the Board is able to operate independently of Senior Management. Each of the Directors is 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 13 of this financial 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 Board comprises of Non-Executive Directors, and in particular, the Board:

- Provides strategic direction including contributing to the development of and approving the corporate strategy;
- Monitors the effectiveness of the corporate governance framework;
- Appoints the Chief Executive Officer;
- Monitors the performance and approves the remuneration of the Chief Executive Officer;
- Reports to members and ensures that all regulatory requirements are met;
- Oversees financial performance and monitors business performance against the approved Strategic Plan;
- Oversees internal controls and processes for identifying areas of significant business risk;
- Monitors compliance with regulatory and statutory requirements and the implementation of related policies;
- Makes decisions in relation to major expenditures, acquisitions or merger opportunities; and
- Ensures the Credit Union's business is conducted ethically and transparently.

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 4 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 their terms of reference. The Fit and Proper Committee meets annually or more often if required.

Committee chairs give verbal reports to the Board at the next Board meeting and the Board reviews and notes 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:

Audit and Risk Management Committee (ceased at November 2014)

The Audit and Risk Management Committee was established to oversee the financial reporting, risk management and audit frameworks. This committee was split into a Board Audit Committee and a Board Risk Committee with the same members but different chairs. This was to align with best practice as per CPS 220.

Board Audit Committee (from November 2014)

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) on 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 (from November 2014)

The Board Risk Committee was established in line with 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 and the Remuneration Committee

The Governance Committee and the Remuneration Committee assist the Board in adopting and implementing good corporate governance in the areas of the Chief Executive Officer's appointment, director and Chief Executive Officer (CEO) remuneration, director elections, director and CEO performance reviews, oversight of the 'fit and proper' framework, monitoring the size and composition of the Board, and developing CEO succession plans.

Fit and Proper Committee

The Board has a Fit and Proper Committee as part of the Governance Committee.

- It is a standing committee formed to assist the Board in the selection, review and assessment of the fitness and propriety of the following:
    i. In the case of a director standing for election or director nominee
    ii. In the case of an associate director nominee or appointed member of a Board Committee nominee.
- The Committee was formed to comply with the requirements of APRA's Prudential Standard CPS 520 in 2006;
- The Committee consists of the Chair of the Board, except where he/she is a candidate for election in that year, and two suitably qualified independent external nominees; and
- All current directors were assessed in accordance with the Credit Union's Fit & Proper Policy.

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 provide assurance on the accuracy and completeness of financial information and the adequacy of risk management processes;
- The Senior Managers provide 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.cu.com.au; and
- The gearing of Board policies towards risk management to safeguard the assets and interests of the Credit Union.

Internal and External Audit

External Audit
The audit is performed by KPMG.

Internal Audit
The internal audit function is performed by Deloitte.

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 for the financial year ended 30 June 2015 there have been:

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

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

KPMG

KPMG

Richard Drinnan
Partner

Signed at Wollongong

2nd September 2015

STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2015

	Note	2015	2014
		$'000	$'000
Assets			
Cash and cash equivalents	16	**15,302**	11,833
Other financial assets	13	**28,173**	30,691
Loans and receivables	14	**489,239**	459,573
Property, plant and equipment	10	**6,702**	5,238
Investment property	12	**-**	3,350
Net deferred tax assets	9	**90**	-
Income tax receivable	9	**-**	430
Intangible assets	11	**691**	381
Other assets	17	**864**	1,017
Total Assets		**541,061**	**512,513**
Liabilities			
Deposits	19	**497,342**	469,836
Payables	22	**2,342**	2,628
Net deferred tax liabilities	9	**-**	198
Income tax payable	9	**156**	-
Provisions	21	**1,305**	1,404
Total Liabilities		**501,145**	474,066
Net Assets		**39,916**	38,447
Equity			
Reserves	18	**2,563**	2,316
Retained profits		**37,353**	36,131
Total equity attributable to members of the Credit Union		**39,916**	38,447

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 2015

	Note	2015 $'000	2014 $'000
Interest revenue	6	**24,441**	25,259
Interest expense	6	**(11,771)**	(12,731)
Net interest income		**12,670**	12,528
Other income	7	**4,231**	4,426
Net income		**16,901**	16,954
Net impairment on loans and receivables		**(86)**	(132)
Personnel expenses	8	**(7,665)**	(7,238)
Depreciation and amortisation expenses	8	**(768)**	(740)
Data and transaction processing expenses		**(1,259)**	(1,152)
Information technology expenses		**(1,405)**	(1,418)
Property expenses		**(1,114)**	(1,123)
Marketing expenses		**(716)**	(567)
Office expenses		**(707)**	(694)
Loss on disposal of assets		**(133)**	(18)
Other corporate expenses		**(2,083)**	(1,976)
Total operating expenses		**(15,936)**	(15,058)
Profit before income tax		**965**	1,896
Income tax benefit/(expense)	9	**244**	(489)
Profit after tax		**1,209**	**1,407**

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 30 June 2015

	Note	2015	2014
		$'000	$'000
Profit after tax		**1,209**	1,407
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Gain on revaluation of land and buildings	18	**260**	-
Other comprehensive income, net of income tax		**260**	-
Total comprehensive income		**1,469**	1,407

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2015

	Note	General reserve for credit losses	Redeemed share capital reserve	Revaluation reserve	Retained earnings	Total
		$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2014		1,067	230	1,019	36,131	38,447
Total comprehensive income for the year						
Profit after tax		-	-	-	1,209	1,209
Total other comprehensive income	18	-		260	-	260
Total comprehensive income for the year		-	-	260	1,209	1,469
Transfers between reserves	18	(17)	-	-	17	-
Total transfers		(17)	-	-	17	-
Transactions with members, recorded directly in equity						
Shares from closed memberships transferred from retained earnings	18	-	4	-	(4)	-
Total transactions with members		-	4	-	(4)	-
Balance as at 30 June 2015	18	1,050	234	1,279	37,353	39,916

Amounts are stated net of tax

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

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the year ended 30 June 2015

	Note	General reserve for credit losses	Redeemed share capital reserve	Revaluation reserve	Retained earnings	Total
		$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2013		1,146	225	1,019	34,650	37,040
Total comprehensive income for the year						
Profit after tax		-	-	-	1,407	1,407
Total other comprehensive income	18	-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,407	1,407
Transfers between reserves	18	(79)	-	-	79	-
Total transfers		(79)	-	-	79	-
Transactions with members, recorded directly in equity						
Shares from closed memberships transferred from retained earnings	18	-	5	-	(5)	-
Total transactions with members		-	5	-	(5)	-
Balance as at 30 June 2014	18	1,067	230	1,019	36,131	38,447

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 2015

	Note	2015	2014
		$'000	$'000
Cash flows from operating activities			
Interest received		**24,550**	25,338
Dividends received		**232**	300
Other cash receipts in the course of operations		**3,014**	3,351
Interest paid		**(12,154)**	(13,569)
Cash paid to suppliers and employees		**(14,959)**	(17,488)
Net income tax refund/(paid)		**430**	(438)
Net loans disbursed		**(12,816)**	(12,283)
Net increase in deposits		**27,506**	3,975
Net cash from / (used in) operating activities	16	**15,803**	(10,814)
Cash flows from investing activities			
Net movement in deposits with ADI's and held to maturity investments		**(14,419)**	10,397
Proceeds from sale of property, plant, equipment and investment property		**4,408**	-
Payments for property, plant and equipment, and intangibles		**(2,322)**	(318)
Net cash (used in) / from investing activities		**(12,333)**	10,079
Cash flows from financing activities			
Finance lease principal repayments		**(1)**	(1)
Net cash (used in) financing activities		**(1)**	(1)
Net increase / (decrease) in cash held		**3,469**	(736)
Cash and cash equivalents at the beginning of the year		**11,833**	12,569
Cash and cash equivalents at the end of the year	16	**15,302**	11,833

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

Note Contents

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 St, Wollongong. 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.

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 (IFRSs) adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Directors on 2nd September 2015.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position which are measured at fair value:

- Freehold land and buildings; and
- Investment property.

The methods used to measure fair values are discussed further in Notes 3, 4 and 5.

Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Credit Union's functional currency. The Credit Union is a type of company referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded off to the nearest thousand 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 amount recognised in the financial statements are described in the following notes:

- Notes 3(f), 15 and 23 – impairment;
- Notes 3(b), 5 and 10 – valuation of land and buildings; and
- Notes 3(d), 5 and 12 – valuation of investment property.

3. Significant accounting policies

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

a) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, available for sale investments, loans and receivables, including loans to members and other authorised deposit taking institutions (ADI's), held to maturity investments, deposits from members and payables. These non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Credit Union becomes party to the contractual provisions of the instrument. Financial assets and liabilities are recognised on the date that they originate or the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised if the Credit Union's contractual rights to the cash flows from the financial assets expire, or if the Credit Union transfers the financial asset to another party without retaining substantially all the risks and rewards attached to the asset.

Financial liabilities are derecognised if the Credit Union's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

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.

Available for sale investments

The Credit Union's investment in equity securities are classified as available for sale financial assets.

Available for sale investments are initially recognised at trade date and measured at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly through other comprehensive income and presented within the available for sale revaluation reserve. When the asset is derecognised or impaired the cumulative gain or loss in equity is transferred to profit or loss.

Investment securities available for sale consist of securities that are not actively traded and are intended to be held for an indefinite period of time. Such securities are available for sale and may be sold should the need arise, including liquidity needs or impacts of changes in interest rates.

Unlisted equity investments are those investments in equity securities that do not have a quoted market price in an active market and the Credit Union does not intend to sell immediately or in the near term. When no market value is readily available, fair value cannot be reliably measured. The Credit Union has one unlisted equity investment, being an investment in CUSCAL Limited, which is held for operational reasons and is not held for capital gain or the purposes of trading.

There is no active market for these shares and they are only traded between other mutual ADI's and therefore measured at cost less any impairment losses.

3. Significant accounting policies (continued)

a) Financial instruments (continued)

Held-to-maturity financial assets

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.

Loans and receivables

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, trade and other receivables.

Deposits

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.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments

During the year the Credit Union did not hold any derivative financial instruments to hedge its interest rate risk exposures.

b) Property, plant and equipment

Plant and equipment

Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

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.

Subsequent costs

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.

3. Significant accounting policies (continued)

b) Property, plant and equipment (continued)

Depreciation

Depreciation is based on the cost of the asset less its residual value.

Depreciation is recognised in profit or loss 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. Land is not depreciated.

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

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

Land and buildings

The category of land and buildings is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. 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 estimated useful lives for the current and comparative periods are as follows:

- Buildings 40 years

c) Intangible assets

Computer Software

Where computer software costs are not integrally related to associated hardware, the Credit Union recognises them as an intangible asset 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 less accumulated amortisation and any impairment losses.

Amortisation is calculated over the cost of the asset less its residual value. Amortisation is recognised in the profit and loss on a straight-line basis over the estimated useful life of the software from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset, usually for a period of 4 years.

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 methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3. Significant accounting policies (continued)

d) Investment property

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss. The methods used to measure fair values are discussed further in Note 5.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

e) Leased assets

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 on the Statement of Financial Position.

f) Impairment

Financial assets

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. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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.

Loans and receivables impairment

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.

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.

3. Significant accounting policies (continued)

f) Impairment (continued)

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.

Available-for-sale

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to the application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

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.

Non-financial assets

The carrying amounts of the Credit Union’s non-financial assets, other than investment property and 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 assets 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.

3. Significant accounting policies (continued)

f) Impairment (continued)

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.

g) Employee benefits

Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which the Credit Union pays contributions into a separate entity and will have no legal or constructive obligations to pay further amounts.

Obligations for contributions to defined contribution superannuation funds are recognised as a personnel expense in profit or loss in the periods during which services are rendered by employees.

Short-term 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 service leave

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.

Termination 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.

h) Provisions

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.

3. Significant accounting policies (continued)

h) Provisions (continued)

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.

i) Revenue recognition

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 income

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

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 is recognised in the profit or loss when the relevant service is provided (except for loan origination fees as described below).

Loan origination income

Revenue received in relation to the origination of loans is deferred and recognised in the Statement of Profit or Loss and Other Comprehensive Income, 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. In the case of revenue received in relation to the origination of mortgage loans, the revenue is recognised in the profit or loss when the loan is originated, as this income relates to valuation and legal expenses incurred by the Credit Union as a result of loan origination.

Dividends

Dividend revenue from equity investments is recognised in profit or loss when received/receivable.

Rental income

Rental income from investment property leases is recognised in profit or loss 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.

j) Expenses

Interest expense

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

3. Significant accounting policies (continued)

j) Expenses (continued)

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.

k) Finance lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

l) Income tax

Income tax expense comprises 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.

m) Goods and services tax

Financial services are deemed to be exempt from GST in the hands of the consumer. However, the Credit Union industry is only entitled to claim a reduced input tax credit (RITC) on the costs of a specified list of services used to make “Financial Supplies”.

Revenues, expenses and assets are recognised net of the amount of GST, except as discussed in the paragraph above, 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.

3. Significant accounting policies (continued)

m) Goods and services tax (continued)

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 which are recoverable from, or payable to, the ATO are classified as operating cash flows.

n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2015, 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*, which becomes mandatory for the Credit Union's 2019 financial report, and introduces new requirements for the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. The Credit Union does not plan to adopt this standard early and the extent of the impact has not yet been determined.

AASB 15 (2015) *Revenue from contracts with customers*, which is likely to be mandatory for the Credit Union's 2019 financial report, and introduces new requirements for determining whether, how much and when revenue is recognised. The Credit Union does not plan to adopt this standard early and the extent of the impact is expected to be minimal.

4. Financial risk management

a) Introduction and overview

The Credit Union has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

This note presents information about the Credit Union's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Board Risk Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities. Management and the Board have appointed a Chief Risk Officer, who is responsible for the day to day management and oversight of the risk management framework. Management has also established the Risk Management Team which contributes to the oversight of risk management and regularly reports to the Board Risk Committee on their activities.

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.

4. Financial risk management (continued)

a) Introduction and overview (continued)

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.

The Board Risk Committee oversees 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 Board Audit Committee is assisted in its oversight role by Compliance and 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 Board Audit Committee and the Board of Directors.

b) 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 advances to members and other ADIs and investment securities.

Management of credit risk

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

Credit risk is the potential for loss arising from a borrower or counterparty failing to meet their contractual financial obligations. This risk is inherent in the Credit Union's lending activities as well as transactions involving derivatives. 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 Lending Services 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 Credit Manager 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.

The 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.

4. Financial risk management (continued)

b) Credit risk (continued)

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.

Loans and receivables

The Credit Union offers fixed and variable rate mortgage loans, commercial loans, personal loans and revolving credit facilities to members being primarily householders, including some small business and corporate clients. Credit risk arises from the possibility that the borrower will not adhere to the repayment terms of the loan contract.

Counterparty risk for investments in financial instruments and derivatives is limited to Australian owned banks, APRA regulated foreign subsidiary banks and CUSCAL Limited which have a Standard and Poors investment grade rating. The Credit Union has invested in a number of unrated Building Societies, Credit Unions and Mutual Banks. All unrated counterparties are regulated by APRA.

Available-for-sale investments

Available-for-sale investments relate to investments in the Credit Union industry's major aggregator CUSCAL Limited, who has a long term Standard and Poors rating of A+. Counterparty risk for investments in financial instruments is limited by restricting investment to entities which have a Standard and Poors investment grade rating at the time of the investment.

Impairment losses

The Credit Union establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and receivables portfolio and other financial assets. A component of this allowance is a specific provision component attributable to individually significant exposures, and a collective provision established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans and receivables and other financial assets subject to individual impairment.

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 (2014: $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. A loan is considered to be past due when a contractual payment falls overdue by one or more days. When a loan is classified as past due, the entire loan balance is disclosed in the past due analysis.

Loans with renegotiated terms

Loans with renegotiated terms are those loans that have been restructured 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 $2,006,000 were renegotiated (2014: $1,438,000).

4. Financial risk management (continued)

b) Credit risk (continued)

Write-off policy

The Credit Union writes-off a loan balance when the Collections Team determines that the loan is uncollectible. 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.

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 advances to other ADI's and available-for-sale investments.

c) Liquidity risk

Management of liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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.

Liquidity standards set by the Board of Directors ensure that in addition to meeting the minimum requirements set by APRA, further liquid funds are available as required. It is a continuing objective of the Credit Union to maintain a stable funding base. The Credit Union's liquidity position is monitored on a daily basis. The Credit Union has an overdraft facility in place to adequately manage 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 Risk Management Team and the Board Risk Committee. 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 in advance and involves various scenarios including ones that are significantly worse than those that have been observed in the past.

d) Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices, 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.

Other Market Price Risk

The Credit Union does not have direct exposure to changes in equity prices. The Credit Union has an investment with CUSCAL Limited for operational reasons. There is no price risk posed by this investment as it is carried at cost and not re-valued due to the nature of the investment. This investment does not impact interest rate risk.

4. Financial risk management (continued)

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.

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;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with the Credit Union 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 Board Audit Committee and senior management of the Credit Union.

f) 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 eight percent. 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.

4. Financial risk management (continued)

f) Capital management (continued)

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, investments in other ADI's 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:

	2015	2014
	$'000	$'000
Regulatory capital	37,722	36,478
Risk weighted assets	228,928	231,818
Regulatory capital expressed as a percentage of total risk weighted assets	16.48%	15.74%

5. Determination of fair values

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.

Available-for-sale investments

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment.

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

5. Determination of fair values (continued)

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.

Land, Buildings and Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, values the Credit Union's land, buildings and investment property every three years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of the current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation. Valuations reflect, where appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Credit Union and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

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)

	2015	2014
	$'000	$'000

6. Net interest revenue

	2015 $'000	2014 $'000
Interest revenue		
Loans - members	**20,626**	21,244
Deposits with other ADI's	**3,689**	4,015
Property Settlement Interest	**126**	-
Total interest revenue	**24,441**	25,259
Interest expense		
Deposits - members	**11,609**	12,692
Deposits from other ADI's	**150**	29
Borrowings	**12**	10
Total interest expense	**11,771**	12,731
Net interest revenue	**12,670**	12,528

7. Other income

	2015 $'000	2014 $'000
Fees and commission		
- loan fee income	**102**	117
- other fee income	**1,204**	1,441
- commission income	**931**	972
Bad debts recovered	**88**	129
Income from property		
- ATM licence income	**12**	14
- rental income from freehold land and buildings	**126**	209
- rental income from investment property	**107**	124
- investment property revaluation	**-**	1,120
Dividends on available for sale equity securities	**232**	300
Gain on Sale of assets	**1,016**	-
GST Refund	**413**	-
Total other income	**4,231**	4,426

	Note	2015 $'000	2014 $'000
8. Expenses			
Depreciation and amortisation			
Buildings	10	**134**	122
Plant and equipment	10	**353**	323
Leasehold improvements	10	**83**	100
Intangible software	11	**183**	179
Branch make good		**15**	16
Total depreciation and amortisation expenses	16	**768**	740
Personnel expenses			
Salaries and associated expenses		**6,114**	6,564
Redundancy costs		**551**	674
Total personnel expenses		**7,665**	7,238

9. Taxation

(a) Income tax expense

	2015 $'000	2014 $'000
Current tax expense		
- current year	**186**	-
	186	-
Deferred tax expense		
- origination and reversal of temporary differences	**(430)**	489
Total income tax (benefit)/expense in the statement of comprehensive income	**(244)**	489

(b) Current tax assets / (liabilities)

The current tax liability for the Credit Union of ($156,000) (2014: receivable of $430,000) 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.

	2015	2014
	$'000	$'000

9. Taxation (continued)

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

	2015 $'000	2014 $'000
Profit before tax	965	1,896
Income tax using the company's domestic tax rate of 30% (2014: 30%)	289	569
Increase in income tax expense due to:		
- imputation gross up on dividends received	30	39
- other assessable income	-	-
- non-deductible expenses	6	10
Decrease in income tax expense due to:		
- other deductible expenses	-	-
- non assessable income	-	-
- franking credits on dividends received	(100)	(129)
- recognition of previously unutilised carry forward capital losses	(469)	-
Under provided in prior years	-	-
Income tax expense on pre-tax net profit	(244)	489

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

	2015 $'000	2014 $'000
- Revaluation of property, plant and equipment	371	-
- Revaluation of property, plant and equipment - equity component	(260)	-
Total income tax recognised directly in equity	111	-

(e) Deferred tax assets/(liabilities)

	2015 $'000	2014 $'000
Provisions and accrued employee entitlements	449	503
Property, plant and equipment	29	21
Accrued expenses	67	56
Income in advance	8	12
Sundry items	42	30
Tax losses	-	30
Total deferred tax assets	595	652

9. Taxation (continued)

	2015 $'000	2014 $'000
(e) Deferred tax assets/(liabilities) (continued)		
Property, plant and equipment	**(503)**	(395)
Investment property	-	(453)
Sundry items	**(2)**	(2)
Total deferred tax liabilities	**(505)**	(850)
Net deferred tax assets / (liabilities)	**90**	(198)

The deferred income tax assets will only be realised if:

i. the Credit Union derives future assessable income of a nature and an amount sufficient to enable the benefit to be raised in accordance with the Income Tax Assessment Act 1997; and
ii. the Credit Union continues to comply with the conditions for deductibility imposed by the law, and no changes in tax legislation adversely affect the Credit Union in realising the benefit.

(f) Unrecognised deferred tax assets/(liabilities)

Deferred tax assets have not been recognised in respect of the following items:

	2015 $'000	2014 $'000
Capital losses	-	469
Unrealised capital losses	-	-
Total unrecognised deferred tax assets	-	469

The capital losses carried forward from the prior year have been fully utilised in the current year.

10. Property, plant and equipment

	2015 $'000	2014 $'000
Freehold land		
Fair value	**2,281**	1,400
	2,281	1,400
Buildings on freehold land		
Fair value	**2,594**	3,045
Provision for depreciation	**-**	(233)
	2,594	2,812
Leasehold improvements		
At cost	**921**	977
Provision for depreciation	**(736)**	(856)
	185	121
Total land and buildings	**5,060**	4,333
Plant and equipment		
At cost	**4,130**	3,927
Provision for depreciation	**(2,569)**	(3,040)
	1,561	887
Work in progress		
At cost	**81**	18
	81	18
Total plant and equipment	**1,642**	905
Total property, plant and equipment		
At cost	**5,132**	4,922
Provision for depreciation	**(3,305)**	(4,129)
Fair value	**4,875**	4,445
	6,702	5,238

	Note	2015	2014
		$'000	$'000

10. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Note	2015	2014
Freehold land			
Carrying amount at the beginning of the year		**1,400**	1,400
Revaluation		**881**	-
Carrying amount at the end of the year		**2,281**	1,400
Buildings on freehold land			
Carrying amount at the beginning of the year		**2,812**	2,932
Revaluation		**(510)**	-
Additions		**31**	2
Depreciation	8	**(134)**	(122)
Transfer from work in progress		**422**	-
Disposals		**(27)**	-
Carrying amount at the end of the year		**2,594**	2,812
Leasehold improvements			
Carrying amount at the beginning of the year		**121**	221
Additions		**-**	-
Depreciation	8	**(83)**	(100)
Transfer from work in progress		**151**	-
Disposals		**(4)**	-
Carrying amount at the end of the year		**185**	121
Plant and equipment			
Carrying amount at the beginning of the year		**887**	1,023
Additions		**287**	141
Transfer from work in progress		**862**	64
Depreciation	8	**(353)**	(323)
Disposals		**(122)**	(18)
Carrying amount at the end of the year		**1,561**	887

	2015 $'000	2014 $'000

10. Property, plant and equipment (continued)

Work in progress		
Carrying amount at the beginning of the year	**18**	-
Additions	**1,507**	82
Transfer to plant and equipment	**(862)**	(64)
Transfer to buildings on freehold land	**(422)**	-
Transfer to leasehold improvement	**(151)**	-
Disposals	**(9)**	-
Carrying amount at the end of the year	**81**	18

Measurement of fair value

a) Fair value hierarchy

An independent valuation was carried out on 30 June 2015 by Opteon on the basis of the open market value of the property concerned in existing use, which resulted in a valuation of $4,875,000 for land and buildings. The valuation is in accordance with the Credit Union's policy of obtaining an independent valuation of land and buildings every three years.

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 5).

b) Valuation Techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of freehold land and buildings, as well as the significant unobservable inputs.

Valuation Technique	Significant Unobservable Inputs	Inter-relationship between key unobservable inputs and fair value measurement
Income Capitalisation Approach: The income approach provides an indication of value by converting future cash flows to a single current capital value. This approach considers the income that an asset will generate over its useful life and indicates value through a capitalisation process. Capitalisation involves the conversion of income into a capital sum through the application of an appropriate discount rate. The income stream may be derived under a contract or contracts, or be non-contractual, eg the anticipated profit generated from either the use of or holding of the asset. The income capitalisation method has been used, where an all-risks or overall capitalisation rate is applied to a representative single period income.	Expected market capitalisation rate (10%)	The estimated fair value would increase / (decrease) if: Expected market capitalisation was lower (higher).

	Note	2015	2014
		$'000	$'000

11. Intangible assets

	Note	2015 $'000	2014 $'000
Computer software			
At cost		**5,811**	5,869
Provision for amortisation		**(5,365)**	(5,488)
		446	381
Work in progress			
At cost		**245**	-
		245	-
Total intangible assets			
At cost		**6,056**	5,869
Provision for depreciation		**(5,365)**	(5,488)
		691	381

Reconciliation of the carrying amount of intangible assets is set out below:

	Note	2015 $'000	2014 $'000
Computer software			
Carrying amount at the beginning of the year		**381**	297
Additions		**92**	(45)
Transfer from work in progress		**160**	308
Amortisation	8	**(183)**	(179)
Disposals		**(4)**	-
Carrying amount at the end of the year		**446**	381
Work in progress			
Carrying amount at the beginning of the year		**-**	170
Additions		**405**	144
Disposals		**-**	(6)
Transfer to computer software		**(160)**	(308)
Carrying amount at the end of the year		**245**	-

	Note	2015	2014
		$'000	$'000

12. Investment property

	Note	2015 $'000	2014 $'000
Fair value		-	3,350
		-	3,350
Reconciliation			
Carrying amount at the beginning of the year		**3,350**	2,230
Re-valuation		-	1,120
Disposals		**(3,350)**	-
Carrying amount at the end of the year		-	3,350

13. Other financial assets

	Note	2015 $'000	2014 $'000
Available-for-sale:			
- Unlisted equity securities, at cost	23	**1,636**	1,636
Total available for sale financial assets		**1,636**	1,636
Held-to-maturity:			
Floating rate notes, at amortised cost	23	**26,537**	29,055
Total held-to-maturity assets		**26,537**	29,055
Total other financial assets		**28,173**	30,691

Held-to-maturity investments with a carrying amount including accrued interest of $26,638,000 (2014: $29,222,000) have interest rates ranging from 2.95% to 4.65% and mature in 2 to 5 years from date of investment.

	Note	2015	2014
		$'000	$'000

14. Loans and receivables

	Note	2015 $'000	2014 $'000
Loans to:			
- members		**407,800**	396,006
- key management personnel and their related entities		**1,392**	569
- other Authorised Deposit Taking Institutions (ADI's)	23	**80,324**	63,387
	23	**489,516**	459,962
Provision for impairment	15,23	**(192)**	(272)
Net deferred loan income and expenses	23	**(85)**	(117)
Net loans and receivables		**489,239**	459,573

	Note	2015 $'000	2014 $'000
Maturity analysis			
Current		**97,448**	80,739
Non-current		**392,068**	379,223
		489,516	459,962

15. Provision for impairment

	Note	2015 $'000	2014 $'000
Loans and receivables			
Specific provision for credit losses			
Opening balance		**-**	-
Bad debts written		**-**	-
Impairment charge for the year		**-**	-
Closing balance	23	**-**	-
Collective provision for credit losses			
Opening balance		**272**	261
Bad debts written off		**(166)**	(166)
Impairment charge for the year		**86**	177
Closing balance	23	**192**	272
Total provision for impairment	14	**192**	272

15. Provision for impairment (continued)

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.

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 18 for details on this reserve.

	Note	2015	2014
		$'000	$'000
16a. Cash and cash equivalents			
Cash at bank and on hand		**2,611**	1,435
Deposits at call		**12,691**	10,398
Total cash and cash equivalents	23	**15,302**	11,833

16b. 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:

	Note	2015	2014
Cash and cash equivalents		**15,302**	11,833
Reconciliation of cash flows from operating activities			
Profit for the year attributable to members of the Credit Union		**1,209**	1,407
Adjustments for:			
Charge for bad and doubtful debts and impairment losses		**86**	132
Depreciation and amortisation	8	**768**	740
Investment property revaluation	7	**-**	(1,120)
Gain on sale of assets		**(1,016)**	-
Net loss on disposal of plant and equipment		**133**	18
Finance lease charges		**1**	1
Operating profit before changes in assets and liabilities		**1,181**	1,178

	Note	2015	2014
		$'000	$'000

16b. Reconciliation of cash flows from operating activities (continued)

Changes in assets and liabilities

Net loans (funded)		**(12,815)**	(12,283)
Net movement in deposits		**27,506**	3,975
Movement in interest receivable		**109**	30
Movement in other receivable		**32**	9
Movement in deferred tax asset		**57**	147
Movement in prepayments		**12**	(41)
Movement in interest payable		**(383)**	(790)
Movement in sundry creditors and accruals		**73**	(2,884)
Movement in provision for employee entitlements		**(101)**	(387)
Movement in current tax liabilities		**586**	(93)
Movement in make good provision		**2**	(7)
Movement in deferred tax liability		**(456)**	332
Net cash flows from /(used in) operating activities		**15,803**	(10,814)

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.

17. Other Assets

Prepayments		**344**	356
Interest receivable		**405**	514
Other		**115**	147
		864	1,017

18. Reserves

General reserve for credit losses		**1,050**	1,067
Redeemed share capital reserve		**234**	230
Asset revaluation reserve		**1,279**	1,019
		2,563	2,316

18. Reserves (continued)

General reserve for credit losses
The general reserve for credit losses contains an additional allowance for bad debts. 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 revaluation of the Young St property in accordance with the revaluation method under AASB 116, net of tax.

	Note	2015	2014
		$'000	$'000
19. Deposits			
Withdrawable shares		59	60
Call deposits		289,124	248,654
Retail term deposits		206,659	217,122
Wholesale term deposits		1,500	4,000
	23	497,342	469,836
20. Employee benefits			
Liability for long service leave		397	458
Liability for annual leave		454	415
Provision for redundancies		361	440
Total employee benefits	21	1,212	1,313

Included in employee benefits is a non-current amount of $85,000 (2014: $95,000)

The present values of employee entitlements not expected to be settled within twelve months of the reporting date have been calculated using the following weighted averages:

		2015	2014
Assumed rate of increase in wages and salary rates		3.00%	3.00%
Discount rate		2.06%	2.48%

Defined contribution superannuation fund
The Credit Union allows staff to allocate their super guarantee payments to their choice of super fund. The amount recognised in the Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 30 June 2015 was $476,000 (2014: $460,000).

	Note	2015	2014
		$'000	$'000

21. Provisions

	Note	2015 $'000	2014 $'000
Employee benefits	20	**1,212**	1,313
Make good costs		**93**	91
		1,305	1,404

22. Payables

	Note	2015 $'000	2014 $'000
Sundry creditors		**403**	401
Accrued interest payable – retail		**1,519**	1,896
Accrued interest payable - wholesale		**7**	13
Accrued expenses		**413**	318
Total other payables	23	**2,342**	2,628

23. Financial instruments

(a) Credit risk

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 indicated 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 ADI's		Available for sale investments		Held to maturity investments		Cash and cash equivalents	
		2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	Note	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Carrying amount	13,14,16	**408,915**	396,186	**80,324**	63,387	**1,636**	1,636	**26,537**	29,055	**15,302**	11,833
Individually impaired											
Gross amount		**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Provision for impairment	14,15	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Carrying amount		**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Past due but not impaired											
Days in arrears:											
< 8 days		**3,165**	3,886	**-**	-	**-**	-	**-**	-	**-**	-
> 8 days to 1 month		**2,189**	3,906	**-**	-	**-**	-	**-**	-	**-**	-
> 1 to 2 months		**883**	1,112	**-**	-	**-**	-	**-**	-	**-**	-
> 2 to 3 months		**869**	400	**-**	-	**-**	-	**-**	-	**-**	-
> 3 months		**240**	593	**-**	-	**-**	-	**-**	-	**-**	-
Carrying amount		**7,346**	9,897	**-**	-	**-**	-	**-**	-	**-**	-

23. Financial instruments (continued)

(a) Credit risk (continued)

		Loans and receivables to members		Loans and receivables to other ADI's		Available for sale investments		Held to maturity investments		Cash and cash equivalents	
		2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	Note	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Neither past due nor impaired											
Secured by mortgage		**390,475**	372,651	**-**	-	**-**	-	**-**	-	**-**	-
Investment grade		**-**	-	**65,824**	47,087	**1,636**	1,636	**26,537**	29,055	**14,205**	10,816
Unrated		**-**	-	**14,500**	16,300	**-**	-	**-**	-	**-**	-
Other		**11,371**	14,027	**-**	-	**-**	-	**-**	-	**1,097**	1,017
Net deferred income and expense	14	**(85)**	(117)	**-**	-	**-**	-	**-**	-	**-**	-
Carrying amount		**401,761**	386,561	**80,324**	63,387	**1,636**	1,636	**26,537**	29,055	**15,302**	11,833
Provision for Collective Impairment	15	**(192)**	(272)	**-**	-	**-**	-	**-**	-	**-**	-
Total adjusted carrying amount		**408,915**	396,186	**80,324**	63,387	**1,636**	1,636	**26,537**	29,055	**15,302**	11,833
Includes loans with renegotiated terms		**2,007**	1,438	**-**	-	**-**	-	-	-	-	-

There are no members who individually have loans that represent 10% or more of the Credit Union's net assets.

23. Financial instruments (continued)

(a) Credit risk (continued)

	Note	2015 $'000	2014 $'000
The Credit Union's maximum exposure to credit risk at reporting date by type of loans to members was:			
Overdrafts		**2,258**	2,493
Residential loans		**390,775**	374,129
Personal Loans		**9,813**	12,384
Commercial purpose loans		**6,346**	7,569
	14	**409,192**	396,575

Commercial purpose loans and residential loans are secured by mortgage property.

The Credit Union's maximum exposure to credit risk for loans to members at the reporting date by geographic regions was:

	Note	2015 $'000	2014 $'000
Illawarra NSW		**265,531**	266,861
Sydney NSW		**105,070**	91,976
Far South Coast NSW		**12,061**	13,713
Other NSW/ACT		**11,187**	12,221
Victoria		**5,936**	3,965
QLD		**3,766**	3,481
WA		**2,822**	2,142
Other		**2,819**	2,216
	14	**409,192**	396,575

23. Financial instruments (continued)

(a) Credit risk (continued)

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 ADI's	
	2015	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000
Against individually impaired				
- Property	**-**	-	**-**	-
Against past due but not impaired				
- Property	**13,749**	18,658	**-**	-
- Other	**-**	-	**-**	-
Against neither past due nor impaired				
- Property	**851,757**	812,058	**-**	-
- Other	**73**	137	**-**	-
Total value of collateral held	**865,579**	830,853	**-**	-
Average Loan to Valuation ratio	**45.87%**	45.97%		

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

	2015	2014
	$'000	$'000
Nature of non-financial assets – Property	-	-
	-	-

Where assets are not readily convertible into cash, the Credit Union's policy for disposing of assets is:

1. Upon the Credit Union taking legal possession of the property a new valuation is obtained and specific comment obtained from the valuer as to the property's condition together with details of necessary repair (and likely cost) to ensure a fair market price is achieved at auction.
2. Where the new valuation confirms that the total debt may not be repaid from the sale of the property and the debt is subject to lenders mortgage insurance, the mortgage insurers are advised and a copy of the valuation report included with the advice.
3. Methods to obtain a buyer for any real property recovered as a result of mortgagee action may include auction, tender or listing with any recognised registered real estate agent. Unless special circumstances warrant, the approach taken is to proceed to sale by auction in the first instance.

23. Financial instruments (continued)

(a) Credit risk (continued)

4. Every attempt is made to ensure a fair market price is obtained for any such property and the Chief Executive Officer must approve agreement to a sale price below that of the valuation obtained following possession.

(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 from members at the reporting date and during the report period were as follows:

	2015	2014
	%	%
HQLA at 30 June	**13.32**	12.74
HQLA average for the period	**13.39**	13.29
HQLA maximum for the period	**14.84**	15.17
HQLA minimum for the period	**11.97**	12.27
Total liquidity at 30 June	**24.10**	20.74

23. Financial instruments (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 amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2015								
Non-derivative liabilities								
Deposits – retail	19	**495,842**	**(499,171)**	**(331,042)**	**(69,992)**	**(97,539)**	**(598)**	**-**
Deposits – wholesale	19	**1,500**	**(1,510)**	**(504)**	**(1,006)**	**-**	**-**	**-**
Payables	22	**2,342**	**(2,342)**	**(1,823)**	**(220)**	**(297)**	**(2)**	**-**
		499,684	**(503,023)**	**(333,369)**	**(71,218)**	**(97,836)**	**(600)**	**-**
Unrecognised finance commitments *- approved but undrawn loans and credit limits*		**7,051**	**(7,051)**	**(4,484)**	**(997)**	**(1,570)**	**-**	**-**
		506,735	**(510,074)**	**(337,853)**	**(72,215)**	**(99,406)**	**(600)**	**-**
30 June 2014								
Non-derivative liabilities								
Deposits – retail	19	465,836	(470,154)	(287,056)	(75,428)	(106,836)	(834)	-
Deposits – wholesale	19	4,000	(4,033)	-	(4,033)	-	-	-
Payables	22	2,628	(2,628)	(1,877)	(317)	(431)	(3)	-
		472,464	(476,815)	(288,933)	(79,778)	(107,267)	(837)	-
Unrecognised finance commitments *- approved but undrawn loans and credit limits*		10,195	(10,195)	(7,213)	(1,630)	(1,352)	-	-
		482,659	(487,010)	(296,146)	(81,408)	(108,619)	(837)	-

23. Financial instruments (continued)

(c) Market risk

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 1 month repricing point to various repricing points to more accurately match repricing of fixed rate exposures. 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:

	2015	2014
	$'000	$'000
Interest rate risk – Value at Risk	**86**	212

At the reporting date the interest rate profile of the Credit Union's interest bearing financial instruments was:

Fixed rate instruments		
Financial assets	**275,681**	229,195
Financial liabilities	**(208,159)**	(221,122)
	67,522	8,073
Variable rate instruments		
Financial assets	**255,675**	271,656
Financial liabilities	**(288,745)**	(248,402)
	(33,070)	23,254

23. Financial instruments (continued)

(c) Market risk (continued)

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 2015

	Note	Carrying amount $'000					Fair value $'000			
		Held-to-maturity	Loans and Receivables	Available-for-sale	Financial Liabilities	Total	Level 1	Level 2	Level 3	Total
Assets carried at amortised cost										
Loans to members	14	-	408,915	-	-	408,915	-	499,181	-	499,181
Loans to other ADIs	14	-	80,324	-	-	80,324	-	80,604	-	80,604
Floating rate notes	13	26,537	-	-	-	26,537	-	26,765	-	26,765
Cash and cash equivalents*	16	-	15,302	-	-	15,302				
Unlisted equity security*	13	-	-	1,636	-	1,636				
		26,537	504,541	1,636	-	532,714	-	606,550	-	606,550
Liabilities carried at amortised cost										
Deposits	19	-	-	-	(497,342)	(497,342)	-	(485,419)	-	(485,419)
Payables*	22	-	-	-	(2,342)	(2,342)				
		-	-	-	(499,684)	(499,684)	-	(485,419)	-	(485,419)

*The Credit Union has not disclosed the fair values for financial instruments such as 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 2015 (2014:Nil).

23. Financial instruments (continued)

(c) Market risk (continued)

		30 June 2014								
	Note	Carrying amount $'000					Fair value $'000			
		Held-to-maturity	Loans and Receivables	Available-for-sale	Financial Liabilities	Total	Level 1	Level 2	Level 3	Total
Assets carried at amortised cost										
Loans to members	14	-	396,576	-	-	396,576	-	468,394	-	468,394
Loans to other ADIs	14	-	63,387	-	-	63,387	-	63,715	-	63,715
Floating rate notes	13	29,056	-	-	-	29,056	-	29,513	-	29,513
Cash and cash equivalents*	16	-	11,833	-	-	11,833				
Unlisted equity security*	13	-	-	1,636	-	1,636				
		29,056	471,796	1,636	-	502,488	-	561,622	-	561,622
Liabilities carried at amortised cost										
Deposits	19	-	-	-	(469,835)	(469,835)	-	(451,576)	-	(451,576)
Payables*	22	-	-	-	(2,628)	(2,628)				
		-	-	-	(472,463)	(472,463)	-	(451,576)	-	(451,576)

24. Operating leases

The Credit Union leased out its investment property at Chippendale under an operating lease which expired on the 31 December 2014. This property was sold during the 2015 financial year. The Credit Union leases out portions of its administration building under operating leases expiring within five years on the 4 April 2017. All leases have options for renewal. Lease revenue comprises 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:

	2015	2014
	$'000	$'000
Less than one year	90	168
Between one and five years	70	160
	160	328

During the year ended 30 June 2015, $233,000 was recognised as rental income (2014: $333,000), including $107,000 recognised as investment property income in the Statement of Profit or Loss and Other Comprehensive Income (2014: $124,000). Repairs and maintenance expense, recognised in property expenses was as follows:

Income-generating property	28	10
	28	10

25. Commitments

Capital expenditure commitments		
Capital expenditure commitments not taken up in the financial statements		
- payable less than one year	441	152
Lease expenditure commitments		
Operating leases (non-cancellable)		
- payable less than one year	582	563
- payable between one and five years	363	409
	945	972

The Credit Union leases retail branches to provide financial services to its members. The leases typically run for a period of 5 years, with an option to renew after that date. Lease rentals are generally indexed annually for inflation. During the financial year ended 30 June 2015, $639,000 was recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income in respect of operating leases (2014: $709,000).

25. Commitments (continued)

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.

	2015	2014
	$'000	$'000
Approved but undrawn loans and credit limits	7,051	10,195

26. 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.

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.

	2015	2014
Performance bonds	125	115

27. Related parties

The following were key management personnel of the Credit Union at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Directors	Senior Management
Ms M Youssif	Mr B Kotic (Chief Executive Officer)
Mr A Abela	Mr E Thomas (Chief Operating Officer)
Mr G Holby (resigned November 2014)	Mr A Perkiss (Chief Financial Officer)
Mr J Swan (resigned November 2014)	Ms D Donovan (General Manager HR)
Mr R Downs	Mr T Ellem (General Manager Member Growth)
Mr P Kell	Ms E Anderson (Chief Risk Officer) (appointed January 2015)
Ms N Murray	Mr R Cole (General Manager Product) (appointed February 2015)
Mr M Halloran (appointed November 2014)	Ms K Prendergast (Manager Loan/Product) (redeployed August 2014)
Ms D De Santis (appointed November 2014)	Mr M Nedeski (Head of Credit and Policy) (resigned July 2014)

27. Related parties (continued)

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:

	2015	2014
	$	$
Short term employee benefits	1,651,547	1,398,743
Other long-term benefits	10,565	15,976
Post-employment benefits	127,099	124,280
Termination benefits	53,282	-
	1,842,493	1,538,999

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:

	2015	2014
	$	$
(i) Aggregate value of loans to Key Management Personnel	1,392,266	568,631
(ii) Total value of revolving credit facilities to Key Management Personnel	-	150,000
Less amount drawn down and included in (i)	-	(147,181)
Net Balance available	-	2,819
(iii) New Loans advanced to Key Management Personnel	397,580	356,900
(iv) New revolving credit facilities advanced to Key Management Personnel	-	-
(v) Interest received on loans to Key Management Personnel	45,283	19,008
(vi) Repayments received from Key Management Personnel	365,470	276,864

27. Related parties (continued)

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

There are currently no loans to key management personnel related parties outstanding.

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 $5,514 (2014: $2,850). 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, is the Principal of De Santis Public Relations Ltd. The Credit Union has used the public relations services of De Santis Public Relations. The total dollar value of these services provided for the year from November 2014 was $13,800 (2014: NA). 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 was $4,900 owing to De Santis Public Relations at the end of the year.

28. Events subsequent to balance date

There have been no events subsequent to balance date which would have a material effect on the Credit Union's financial statements as at 30 June 2015.

29. Auditor's Remuneration

	2015	2014
	$	$
Audit services		
Audit of the financial report	**91,500**	87,980
Other regulatory audit services	**30,375**	24,496
	121,875	112,476
Other services		
Internal audit	**-**	75,758
Other assurance services	**-**	-
Taxation services	**12,210**	10,075
	12,210	85,833
	134,085	198,309

DIRECTOR'S DECLARATION
For the year ended 30 June 2015

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 22 to 71 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 2015 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   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 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
Chair of the Board

A. Abela
Chair of the Board Audit Committee

Dated at Wollongong 2nd September 2015

Independent Auditor’s Report

To the members of Community Alliance Credit Union Limited

Report on the financial report

We have audited the accompanying financial report of Community Alliance Credit Union Limited (the company), which comprises the statement of financial position as at 30 June 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 29 comprising a summary of significant accounting policies and other explanatory information and the directors’ declaration.

Directors’ responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor’s responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company’s financial position and of its performance.

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

Independent Auditor's Report

To the members of Community Alliance Credit Union Limited

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

KPMG

KPMG

Richard Drinnan

Partner

Signed at Wollongong 2nd September 2015

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