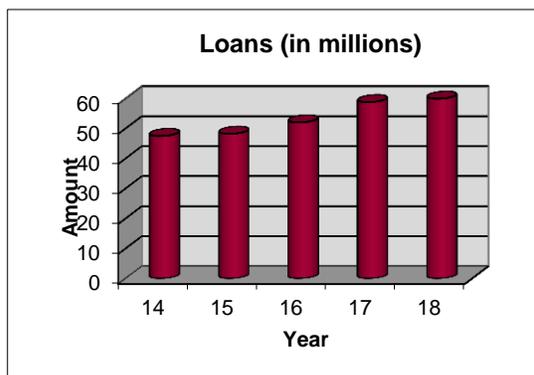




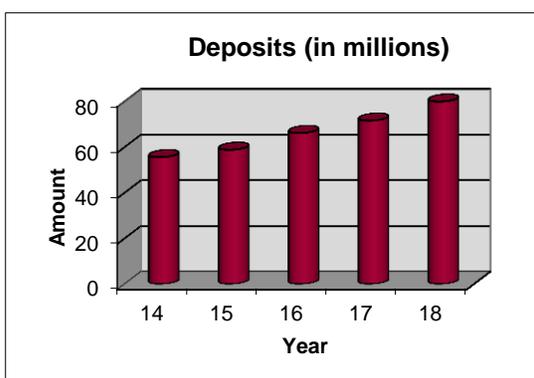
**Customer
Owned
Banking**

2018 Annual Report

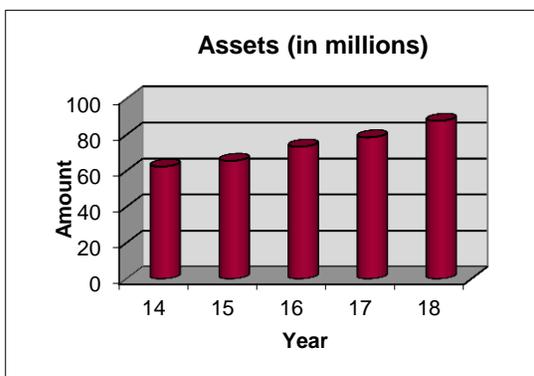
Performance Review Comparison



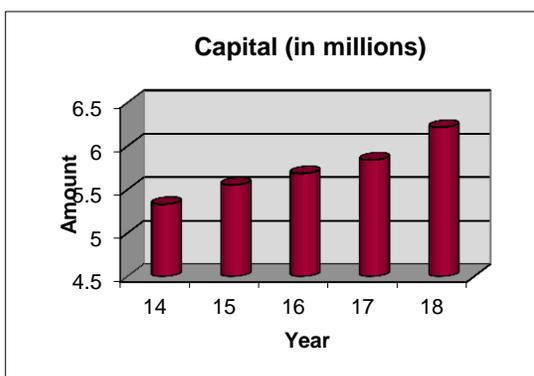
2011	\$57,410,145		
2012	\$59,887,194	growth	2.07%
2013	\$62,706,860	growth	5.04%
2014	\$62,497,350	growth	4.31%
2015	\$65,652,726	growth	4.71%
2016	\$73,525,908	loss	-0.33%
2017	\$78,692,940	growth	7.03%
2018	\$87,841,693	growth	11.63%



2011	\$44,707,289		
2012	\$44,554,820	loss	-0.34%
2013	\$44,091,650	loss	-1.04%
2014	\$47,563,235	growth	7.87%
2015	\$48,295,439	growth	1.54%
2016	\$52,080,020	growth	7.84%
2017	\$58,857,579	growth	13.01%
2018	\$63,116,177	growth	7.24%



2011	\$51,092,711		
2012	\$53,299,401	growth	4.32%
2013	\$55,994,082	growth	5.06%
2014	\$55,651,104	loss	-0.61%
2015	\$58,889,216	growth	5.82%
2016	\$66,224,383	growth	12.46%
2017	\$71,643,723	growth	8.18%
2018	\$80,107,351	growth	11.81%



2011	\$4,880,492	growth	
2012	\$5,077,082	growth	4.03%
2013	\$5,173,494	growth	1.90%
2014	\$5,332,689	growth	3.08%
2015	\$5,555,099	growth	4.17%
2016	\$5,686,408	growth	2.36%
2017	\$5,842,175	growth	2.74%
2018	\$6,217,440	growth	6.42%

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Directors

John Gorman LL.B,B.Juris	Michael Forster-Knight
Michael O'Dwyer	Steve Cusack
Linda Douglas	Joshua Vagg
Faith McCallum	

Company Secretary

John Edward Pattison

Management

Chief Executive Officer:	John Pattison
Finance Manager:	Julie Barnes
Operations Manager:	Sally Eales

Staff

Assistant Accountant:	Bree Williams
Senior Loans Officer	Amanda Seccull
Loans Officer:	Jessica Westwood

Member Services Staff

Member Services Supervisor Yarrwonga:	Stephanie Ferguson
Senior Member Services Officer (Cobram)	Leeanne Williams
Member Services Officers:	Jade Barany Allison Lewis Emma Horne Tracy Knight Shantal Spencer Rebecca MacDonald

Registered Office

58 Belmore Street
Yarrawonga Vic 3730 Australia
Ph: (03) 5744 3713
Fax: (03) 5744 1926
Website: www.cmcu.com.au
Email: info@cmcu.com.au

Solicitor

Purcell Partners Pty Ltd, Level 1 (East) 327 Police Road, Mulgrave Vic 3170

Bankers

Credit Union Services Corporation (Australia) Limited

Auditors

External - Crowe Howarth, 491 Smollett Street Albury NSW 2640
Internal – AFS & Associates Pty Ltd, 61 Bull Street, Bendigo Vic 3550

Notice of the Forty Sixth Annual General Meeting

An invitation is extended to members of Central Murray Credit Union Limited to join us at the 46th Annual General Meeting.

When: Wednesday 7th November 2018 at 5:30pm registration for start at 6pm

Where: Club Mulwala, Melbourne Street, Mulwala.

For members attending the meeting in person it will be necessary to register your name for voting purposes prior to the commencement of the meeting. Registration will commence at 5:30pm.

Members who wish to raise any queries or seek information at the AGM about the Financial Statements or about the overall performance of CMCU are asked to give the CEO notice in writing of their queries or request at least 7 days prior to the meeting. This will enable properly researched replies to be prepared for the benefit of members'.

By Order of the Board

John Pattison

Secretary

AGENDA

1. **Apologies**
2. **Minutes** - To confirm the minutes of the Forty Fourth Annual General Meeting held on Wednesday 8th November 2017.
3. **Business Arising** – To consider any business arising from the above Minutes.
4. **Reports** - To receive and consider and adopt the following reports for the year ended 30th June 2018
 - a. Directors Report;
 - b. Financial Statements; and
 - c. Auditors report.
5. **Directors Remuneration** - To consider the honorarium for Directors on the Board of Directors of the Central Murray Credit Union Limited for the current year.
6. **Election of Director** – To elect two (2) directors. The following directors retire in accordance with the constitution of the Central Murray Credit Union Limited: Ms Linda Douglas and Mr Stephen Cusack.
7. **Any business for which due notice has been given**
8. **General Business.**

Notes

Copies of all Financial Statements and the Directors' and Auditors reports are available by visiting our website www.cmcu.com.au or from any Credit Union offices or by calling 03 5744 3713.

Should a member be unable to attend the AGM, the member may vote by proxy. Proxy forms, together with instruction for completion and return are available on application to Julie Barnes on (03) 5744 3713 or jbarnes@cmcu.com.au. Please note that proxy forms must be received by the Secretary no later than 5:00pm on 31st October 2018.

Chairman's Report

I present the 2018 Annual Report on the operations and performance of Central Murray Credit Union Limited for the past financial year.

The Credit Union achieved a pleasing and solid financial result for the 2018 financial year with a pre-tax operating profit of \$277,980 and net operating profit of \$167,884. Combined with other income from the revaluation of our properties of \$207,381, the total reserves of the Credit Union increased by \$375,265 to \$6,217,440.

Even though market conditions throughout the financial year continued to be challenging, volatility has abated and the Credit Union again recorded strong growth in its Balance Sheet, with total assets increasing to \$87,841,693 an 11.63% growth on previous year.

The Credit Union maintained its budgeted forecast surplus throughout the financial year, aware that domestic circumstances have stabilised the Reserve Bank (RBA) will continue to monitor market conditions. No official Interest Rate movement (up/down) is expected for some time as interest rates have remained at 1.50% for past two years. We may well see no movement in official Interest rates till 2020.

In achieving our 2018 financial result some pleasing positives did occur. Targets set in operational areas were still achieved and in most areas surpassed. Total assets, deposit and loans surpassed predicted growth targets.

Importantly for the Credit Union strong customer demands for our loan products remain. Loan funding has again averaged in excess of \$1 million monthly, pleasingly the level of loan enquiries throughout the financial year resulted in total loan growth for the year of 7.24% taking our portfolio to \$63,116,117.

Low interest rates will remain for some time, however, we will see movement by the big four major banks on interest rates due to their increased costs in their funding model as a greater proportion of their funding is sourced internationally and interest rates are on an upward movement particularly in the USA.

We are focused on cost-control wherever possible and are constantly looking at areas for increasing non-interest income revenue to ensure stronger future financial results.

The Board of Directors are committed to ensure financial products available to our customers are comparable to all other financial services providers operating within our communities and include loans, savings and access products as well as the latest payment technology. During the financial year the New Payments Platform Australia (NPP) was launched creating a better, faster and more efficient payments process for real time payments. The Credit Union as part of the Mutual Banking sector was an early participant of the NPP whereas some major banks failed to grab the opportunity to the benefit of their customers.

No other local financial institution provides customer service levels to the standard of the Credit Union.

Central Murray Credit Union is the only Customer Owned Banking Institution where all benefits remain within the community. No other banking institution operating within our communities support local clubs, schools and local events to the equivalent level as the Credit Union. The amount donated and sponsorships for the 2018 year totalled \$31,729.55.

Central Murray Credit Union Limited continues to comply with all Regulatory Authorities in particular ASIC (Australian Securities & Investments Commission) and APRA (Australian Prudential Regulatory Authority). The Credit Union as an ADI (Authorised Deposit-Taking Institution) is required to maintain minimum specific standards. As shown below the Credit Union maintains levels well in excess of the required minimum standards.

Chairman's Report (continued)

Liquidity: Standard Requirement 9% Central Murray Credit Union actual 18.67%

Capital: Standard Requirement 8% Central Murray Credit Union actual 14.29%

The Board of Directors are required and remain focused in maintaining Prudential Compliance in accordance with the regulatory governing bodies APRA and ASIC. Director responsibility has continually increased over the years and will continue to do so each year. The introduction of APRA Prudential Standard CPS510 Fit and Proper details the message from the regulators what is expected of senior members associated with ADI'S (Authorised Deposit-Taking Institutions). CPS510 places greater challenges and expectations upon each director in order to fulfil their role as a director of the Credit Union. New regulation CPS220 Risk Management requires the formation of a Risk Committee. The new committee will see a reassignment of duties between the Audit and Risk committees.

On behalf of my fellow Directors I would like to thank John and his entire staff. Without dedicated staff we would not be able to excel in the service levels provided to our customers and owners.

To my fellow Directors I would like to acknowledge my appreciation for their support and dedication during the past year in overseeing the Credit Unions operations on behalf of all our customers and owners.

In closing, I would like to thank all Central Murray Credit Union customers and owners for their continued support

Directors' report

The Directors present their report together with the financial statements of Central Murray Credit Union Limited (the 'Credit Union') for the year ended 30 June 2018 and the auditor's report thereon.

Directors

The names and details of the Directors of the Credit Union in office during the financial year and until the date of this report are:

J Gorman

Board Chairperson
Occupation: Solicitor
Director since 1984

F McCallum

Occupation: Bookkeeper
Director since 2010

M O'Dwyer

Board Vice Chairperson
Occupation: Marketing Manager
Director since 2002

S Cusack

Occupation: Marketing Consultant
Director since 2011

M Forster-Knight

Board Audit Committee Chairman
Board Risk Committee Chairman
Occupation: Business Manager
Director since 2004

J Vagg

Occupation: Accountant
Director since 2017

L Douglas

Occupation: Office Administration
Director since 2003

All Directors were in office from the beginning of the financial year until the date of this report, unless otherwise indicated. All Directors are considered independent, non-executive directors.

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	Board of Directors	Board Audit Committee	Board Risk Committee
Number of meetings held	13	8	12
Number of meetings attended:			
J Gorman	12	-	-
M O'Dwyer	12	-	-
L Douglas	12	4	9
M Forster-Knight	12	8	10
F McCallum	11	8	10
S Cusack	10	-	-
J Vagg	12	8	10

Directors' report (continued)

Company Secretary

Mr John Pattison, the Credit Union's Chief Executive Officer, was appointed to the position of Company Secretary in February 1996 and continues to act in this capacity as at and since the end of the financial year.

Principal activities

The principal activity of the Credit Union is to raise funds from the Credit Union's members for the purpose of making loans to members. No significant change in the nature of the activity has occurred during the year.

Trading results

The operating profit for the financial year before income tax was \$277,980 (2017: \$207,422). Income tax expense was \$110,096 (2017: \$51,655).

Operating and financial review

Net loans for the year have increased by \$4,258,598 to \$63,116,177.
Member deposits increased during the year by \$8,463,628 to \$80,107,351.
Members' equity during the year has increased by \$375,265 to \$6,217,440.

Dividends

The Credit Union does not have a permanent share capital and has therefore not paid or declared any dividends for the financial year.

State of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Credit Union during the financial year under review.

Events subsequent to balance date

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

Likely developments

No material likely developments are foreseen at this time that may affect the Credit Union's operations.

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

Directors' report (continued)

Environmental regulation

The Credit Union's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Credit Union has adequate systems in place for the management of its environmental requirements.

Directors' benefits

During or since the end of the financial year, no Director of the Credit Union has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of remuneration paid or payable to the Directors as shown in the general purpose financial statements) by reason of a contract entered into by the Credit Union (or an entity that the Credit Union controlled, or a body corporate that was related to the Credit Union when the contract was made, or when the Director received, or became entitled to receive, the benefit) with:

- a Director,
- a firm of which a Director is a member, or
- an entity in which a Director has a substantial financial interest, except for those outlined in Note 24 to the financial statements.

Public Prudential Disclosure

In accordance with the APS 330 Public Disclosure requirements, the Credit Union is to publicly disclose certain information in respect of:

- details on the composition and features of capital and risk weighted assets; and
- both qualitative disclosure and quantitative disclosures for Senior Managers and material risk-takers.

These disclosures can be viewed on the Credit Union's website:

http://www.cmcu.com.au/about_cmcu/aps330_public_disclosure_of_prudential_information (under About Us section).

Indemnification and insurance of Directors and Officers

During the year, a premium was paid in respect of a contract insuring Directors and Officers of the Credit Union against liability. The Officers of the Credit Union covered by the insurance contract include the Directors, Executive Officers, Secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

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

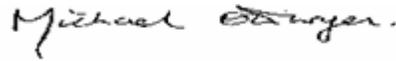
Lead auditor's independence declaration

The Lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 10 of the financial report.

Signed in accordance with a resolution of the Directors.



J Gorman
Chairperson



M O'Dwyer
Vice Chairperson

Dated at Yarrowonga this 19th September 2018.



Crowe Horwath Albury
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Member Crowe Horwath International

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491 Smollett Street
Albury NSW 2640 Australia
PO Box 500
Albury NSW 2640 Australia

Tel 02 6021 1111
Fax 02 6041 1892
www.crowehorwath.com.au

Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001* to the Directors of Central Murray Credit Union Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2018 there have been no contraventions of:

- (1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (2) Any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Central Murray Credit Union Limited during the financial year ended 30 June 2018.



CROWE HORWATH ALBURY



BRADLEY D BOHUN
Partner

19 September 2018
Albury

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Interest revenue	2	3,517,978	3,250,295
Interest expense	2	(1,265,485)	(1,246,299)
Net interest income		2,252,493	2,003,996
Non-interest revenue	3	524,470	543,573
Other income	4	-	3,944
		2,776,963	2,551,513
Impairment charge	11	(35,924)	(23,207)
Other expenses	5	(2,463,059)	(2,320,884)
Profit from operations before income tax		277,980	207,422
Income tax expense	6	(110,096)	(51,655)
Profit after tax		167,884	155,767
<i>Other comprehensive income</i>			
Net gain on revaluation of property, plant and equipment, net of tax		207,381	-
Total comprehensive income for the year		375,265	155,767

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes set out on pages 15 to 60.

**Statement of Changes in Equity
For the year ended 30 June 2018**

	Retained profits \$	Member share redemption reserve \$	Lending risk reserve \$	Asset revaluation reserve \$	General reserve \$	Total \$
Year ended 30 June 2017						
Opening balance at 1 July 2016	4,480,240	41,602	178,799	435,767	550,000	5,686,408
Profit after tax	155,767	-	-	-	-	155,767
Other comprehensive income for the period	-	-	-	-	-	-
Total recognised income and expense for the period	155,767	-	-	-	-	155,767
Transfer to member share redemption reserve	(2,910)	2,910	-	-	-	-
Closing balance at 30 June 2017	4,633,097	44,512	178,799	435,767	550,000	5,842,175
Year ended 30 June 2018						
Opening balance at 1 July 2017	4,633,097	44,512	178,799	435,767	550,000	5,842,175
Profit after tax	167,884	-	-	-	-	167,884
Other comprehensive income for the period	-	-	-	207,381	-	207,381
Total recognised income and expense for the period	167,884	-	-	-	-	167,884
Transfer to member share redemption reserve	(1,998)	1,998	-	-	-	-
Transfer to lending risk reserve	(15,000)	-	15,000	-	-	-
Closing balance at 30 June 2018	4,783,983	46,510	193,799	643,148	550,000	6,217,440

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes set out on pages 15 to 60.

Statement of Financial Position

As at 30 June 2018

	Note	2018 \$	2017 \$
ASSETS			
Cash and cash equivalents	8	22,252,629	17,558,532
Other receivables	9	70,794	68,375
Loans and advances	10	63,116,177	58,857,579
Other financial assets	12	130,089	130,089
Property, plant and equipment	13	1,890,311	1,737,567
Intangible assets	14	219,108	98,975
Income tax receivable	7	-	2,500
Deferred tax assets	7	79,574	65,601
Other assets	15	83,011	173,722
TOTAL ASSETS		87,841,693	78,692,940
LIABILITIES			
Member deposits	16	80,107,351	71,643,723
Trade and other payables	17	1,182,093	987,828
Employee benefits	18	161,136	147,709
Income tax payable	7	48,364	-
Deferred tax liabilities	7	125,309	71,505
TOTAL LIABILITIES		81,624,253	72,850,765
NET ASSETS		6,217,440	5,842,175
EQUITY			
Reserves		1,433,457	1,209,078
Retained profits		4,783,983	4,633,097
		6,217,440	5,842,175

The Statement of Financial Position is to be read in conjunction with the accompanying notes set out on pages 15 to 60.

Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Interest received on loans and advances		3,518,172	3,252,006
Interest paid on member deposits		(1,234,539)	(1,276,652)
Dividends received		13,435	20,987
Other non-interest income received		511,021	608,153
Income tax paid/(refund received)		(39,270)	(61,413)
Payments to employees and suppliers		(2,055,885)	(2,687,368)
		712,934	(144,287)
Net (increase)/decrease in loans and advances		(4,294,522)	(6,800,765)
Net increase/(decrease) in deposits		8,463,628	5,419,340
		<u>712,934</u>	<u>(144,287)</u>
Net cash from operating activities	19	4,882,040	(1,525,712)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(10,923)	(71,755)
Proceeds from sale of property, plant and equipment		7,935	29,802
Acquisition of intangible assets		(184,955)	(81,370)
		<u>(187,943)</u>	<u>(123,323)</u>
Net cash from investing activities		(187,943)	(123,323)
Net increase/(decrease) in cash and cash equivalents		4,694,097	(1,649,035)
Cash and cash equivalents at 1 July		17,558,532	19,207,567
Cash and cash equivalents at 30 June	8	<u>22,252,629</u>	<u>17,558,532</u>

The Statement of Cash Flows is to be read in conjunction with the accompanying notes set out on pages 15 to 60.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Significant accounting policies

Central Murray Credit Union Limited (the "Credit Union") is a company domiciled in Australia.

The financial statements were authorised for issuance by the Directors on 19th September 2018.

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

Not-for-profit status

Under AIFRS, there are requirements that apply specifically to not-for-profit entities that are not consistent with International Financial Reporting Standards (IFRS) requirements. The Credit Union has analysed its purpose, objectives and operating philosophy and determined that it does not have profit generation as a prime objective. Consequently where appropriate the Credit Union has elected to apply options and exemptions within AIFRS that are applicable to not-for-profit entities.

(b) Basis of preparation

The financial statements are presented in Australian dollars.

The financial statements have been prepared on the basis of historical costs except that the following assets and liabilities (if applicable) are stated at their fair value: derivative financial instruments, financial instruments classified as available-for-sale and land and buildings.

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 1(o).

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

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand; deposits held at call with other financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change of value.

(d) Loans and advances

Loans and advances are stated at their amortised cost less impairment losses (see Note 1(f)).

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below:

Non-accrual loans - are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.

Restructured loans - arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required.

Assets acquired through the enforcement of security - are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

Past-due loans - are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If a provision for impairment is required, the loan is included in non-accrual loans.

(e) Full time equivalent employees

The Credit Union employed 13 (2017:12.8) full time equivalent staff at the end of the financial year.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(f) Impairment

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Statement of Profit or Loss and Other Comprehensive Income.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available for sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Credit Union's investments in held to maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held to maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

If the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the Statement of Profit or Loss and Other Comprehensive Income.

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 had been recognised.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(g) Property, plant and equipment & intangible assets

(i) Owned assets

Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see Note 1(f)).

Land and Buildings have been revalued to fair value at the date of the revaluation as outlined in Note 13.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Credit Union assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see Note 1(f)). Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property-by-property basis.

(iii) Subsequent recognition

The Credit Union recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Credit Union and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- Buildings 40 years
- Plant & equipment 2 to 20 years
- Leasehold improvements 3 to 50 years

The residual value, if not insignificant, is reassessed annually.

(v) Intangible assets

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

Computer software is amortised over the expected useful life of the software. The estimated useful lives in the current and comparative periods are as follows:

- Computer software 3 years

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(h) Employee entitlements

Long term service benefits

The Credit Union's net obligation in respect of long term service benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the High Quality Corporate bonds at the balance date which have maturity dates approximating to the terms of the Credit Union's obligations.

Short term benefits

Liabilities for employee benefits for wages, salaries and annual leave expected to be taken within 12 months represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wages and salary rates that the Credit Union expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

(i) Income recognition

Interest revenue

Loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Fees and commissions

Fees and commissions are recognised as revenue on an accrual basis.

Dividend income

Dividend income is taken into revenue as received.

(j) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(k) Income tax

The Credit Union was classified for income tax purposes as large for both the year ended 30 June 2018 and 30 June 2017 and subject to income tax at the rate of 27.5% (2017: 27.5%), the general company tax rate.

Income tax on the Statement of Profit or Loss and Other Comprehensive Income for the periods presented comprises current and deferred tax. Income tax is recognised in the Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

(l) Goods and services tax

As a financial institution, the Credit Union is input taxed on all income except for income from commissions, rents and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis using the safe harbour apportionment rate of 18% adopted per Practical Compliance Guideline 2017/5 from 1 July 2017. In addition certain prescribed purchases are subject to reduced input tax credits ('RITC'), of which 75% of the GST paid is recoverable.

Revenues, expenses and assets are recognised net of the GST, except where the amount of the GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of accounting of the asset or as part of the expense.

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

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

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(m) Off balance sheet funding

The Credit Union has facilitated the funding of Integris Securitisation Services Pty Ltd (Perpetual Trustees) securitised loans totalling \$880,841 at 30 June 2018 (2017: \$929,710) whereby the Credit Union has acted as an agent to promote and complete loans on their behalf for on-sale to an investment trust. The Credit Union receives a management fee in relation to each separate loan funded via this method. The Credit Union bears no credit risk exposure in respect of these loans.

(n) Reserves

Member share redemption reserve

The Credit Union has, in accordance with ASIC Compliance Note 2001.84, complied with Section 254K of the *Corporations Act 2001* via the creation of a member share redemption reserve. At the conclusion of each financial year the Credit Union establishes the number of members that resigned during the financial year and transfers the equivalent monetary amount to a member share redemption reserve from retained profits as the law requires that the redemption of the shares be made out of profits. The balance represents the amount of redeemable preference shares redeemed by the Credit Union since 1 July 1999. The reserve has a balance of \$46,510 as at 30 June 2018 (2017: \$44,512).

Lending risk reserve

AIFRS precludes the Credit Union from holding a general provision for doubtful debts in its Statement of Financial Position. The balance of the general provision must now be carried in a suitably styled reserve account in equity as an allocation from retained profits.

The Credit Union has a lending risk reserve of \$193,799 as at 30 June 2018 (2017: \$178,799). This reserve is calculated at a minimum rate of 0.5% of risk weighted assets.

Asset revaluation reserve

The asset revaluation reserve relates to the revaluation of owner occupied land and buildings. The asset revaluation reserve as at 30 June 2018 is \$643,148 (2017: \$435,767).

General reserve

The general reserve represents a carry forward from a prior year equity transaction relating to the Credit Union. The general reserve as at 30 June 2018 is \$550,000 (2017: \$550,000).

(o) Accounting estimates and judgments

Management has been involved in the development, selection and disclosure of the Credit Union's critical accounting policies and estimates and the application of these policies and estimates. In particular, information about areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 11 – Impairment of Loans and Advances.
- Note 13 – Property, Plant and Equipment – fair value assessment and estimation of useful life.
- Note 14 – Intangible Assets – fair value assessment and estimation of useful life.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(o) Accounting estimates and judgments (continued)

Loan impairment – specific provision

Losses for impaired loans are recognised where there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The amount provided for impaired loans is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with the terms of the loan agreement.

Loan impairment – collective provision

APRA Prudential Standards require a collective provision to be maintained, based on specific percentages of the loan balance which are contingent upon the length of time the repayments are in arrears.

Determination of fair values

A number of the Credit Union's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. 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.

Fair value measurement hierarchy

The Credit Union is required to classify all asset and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in the active markets for identical assets or liabilities that the Credit Union can access at the measurement dated; Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as Level 3 is determined by the use of valuation models these include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Property, plant and equipment

The fair value of land and buildings is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of 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.

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Credit Union's land and buildings.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(p) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principle market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurement, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant external valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(q) Provisions

A provision is recognised in the Statement of Financial Position when the Credit Union has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

(r) Member deposits

Basis for determination

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

Interest payable

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

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(s) Financial instruments

Recognition & initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Credit Union becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

Classification & subsequent measurement

(i) Loans & receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Credit Union's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(iv) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the Credit Union assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(t) New accounting standards and interpretations

Certain accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to materially impact the financial report of the Credit Union have not been reported.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 <i>Financial Instruments</i>	<p>AASB 9 replaces the existing guidance in AASB 139 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>AASB 9 includes revised guidance on the classification and measurement of financial instruments, as well as the general hedge accounting requirements.</p> <p>Furthermore, AASB 9 introduces a new 'expected' credit loss model for calculating impairment on financial assets. This moves away from the current 'incurred' loss model required under AASB 139.</p> <p>Under the expected credit loss model, the Credit Union will be required to consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.</p>	Annual reporting periods beginning or after 1 January 2018 (i.e. Credit Union's financial statements for year ended 30 June 2019).	<p>The Credit Union has conducted an initial analysis on the impact of this standard, with the following summary of the impact assessment:</p> <p>Recognition and measurement – financial assets:</p> <ul style="list-style-type: none"> - All financial assets, with the exception of equity investments, will remain held at amortised cost under AASB 9. - Equity investments currently measured at amortised cost will be required to be measured at fair value under AASB 9. The Credit Union holds 2 equity investments, which is disclosed in Note 12. The fair value of these investments is currently being determined by the Credit Union, but the difference to the current carrying amount is not expected to be material to the overall investment level or net asset level of the Credit Union. <p>Recognition and measurement – financial liabilities:</p> <p>There will be no impact on the Credit Union's accounting for liabilities, as the new requirements only affect the accounting for financial liabilities that are designed at fair value through profit or loss and the Credit Union does not have any such liabilities.</p>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(t) New accounting standards and interpretations (continued)

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 <i>Financial Instruments</i>			<p>Expected credit loss model – loan impairment provision:</p> <p>The move to an expected credit loss model for impairment will impact the Credit Union with earlier recognition of expected credit losses. The main impact for the Credit Union will be the impairment provision raised against its loan portfolio due from members – as detailed at Note 11.</p> <p>The Credit Union has performed a detailed historical loss analysis for its loans/advances portfolio and identified minimal losses over the past 8 years. The most frequent losses have come from personal loans to members. The low value of loss experienced in the past is reflective of the high quality of the loan book and risk-appetite of the Credit Union. The personal loan category (secured and unsecured) only makes up approximately 6.81% of the total loan portfolio of the Credit Union.</p> <p>Based on the above, the Credit Union expects the impairment provision for loans to remain at an immaterial level under the new AASB 9 requirements.</p> <p>Management have developed an implementation project to fully quantify the impact of this standard during the 2019 financial year, to be ready for the 30 June 2019 financial statements prepared under AASB 9.</p>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

1. Significant accounting policies (continued)

(t) New accounting standards and interpretations (continued)

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 15 <i>Revenue from Contracts with Customers</i>	<p>AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.</p> <p>It replaces most of the existing standards and interpretations relating to revenue recognition including AASB 118 Revenue.</p> <p>The standard shifts the focus from the transaction level to a contract-based approach. Recognition is determined based on what the customer expects to be entitled to, while measurement encompasses estimation by the Credit Union of the amount expected to be entitled for performing under the contract.</p>	<p>Periods beginning on or after 1 January 2019. (i.e. Credit Union's financial statements for year ended 30 June 2020), as the Credit Union is considered not-for-profit entity for accounting purposes (refer to note 1(a)).</p>	<p>Based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted, as most of the Credit Union's revenue arises from the provision of financial services which will be governed by AASB 9 <i>Financial Instruments</i>.</p> <p>There are limited revenue transactions of the Credit Union that are impacted by AASB 15. To date, the Credit Union has identified the following material revenue stream that will be impacted by AASB 15:</p> <ul style="list-style-type: none"> - Insurance commission income (which is disclosed in Note 3 of the financial statements); and <p>Management have developed an implementation project to quantify the impact of this standard during the 2019 financial year, to enable further disclosure of the impact in the 30 June 2019 financial statements.</p>
AASB 16 <i>Leases</i> :	<p>AASB 16 requires all leases to be accounted for 'on-balance sheet' by lessees, other than short term and low value asset leases. It also provides new guidance on the application of the definition of lease and on sale and lease back accounting and requires new and different disclosures about leases.</p>	<p>Annual reporting periods beginning on or after 1 January 2019 (i.e. Credit Union's financial statements for year ended 30 June 2020).</p>	<p>The Credit Union currently has a number of lease arrangements, in which it is the lessee. The Credit Union does not act as lessee in any arrangements.</p> <p>Based on the Credit Union's preliminary assessment, the Credit Union does not expect the implementation of AASB 16 to have a material effect on the financial statements.</p>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

2. Interest revenue and interest expense	2018	2017
	\$	\$
Interest Revenue		
Investment securities	326,187	310,651
Loans and advances	3,191,791	2,939,644
	<u>3,517,978</u>	<u>3,250,295</u>
Interest Expense		
Member deposits	1,265,485	1,246,299
	<u>1,265,485</u>	<u>1,246,299</u>
3. Non-interest revenue		
Dividends	13,435	20,987
Fees and commissions		
• Loan fee income	96,022	93,496
• Other fee income	288,127	291,166
• Commissions	85,287	98,389
Bad debts recovered	1,430	3,808
Other income	40,169	35,727
Total non-interest revenue	<u>524,470</u>	<u>543,573</u>
4. Other income		
Gain on disposal of property, plant and equipment	<u>-</u>	<u>3,944</u>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

	2018 \$	2017 \$
5. Other expenses		
Amortisation		
• Leasehold improvements	8,718	9,102
• Intangible assets	64,822	50,456
Depreciation		
• Buildings	12,315	12,170
• Plant and equipment	56,461	61,566
Fees and commissions	7,276	8,669
General and administration	1,280,134	1,187,589
Personnel costs		
• Wages and salaries	875,629	839,646
• Other associated personnel expenses	24,909	23,848
• Contributions to defined contribution superannuation plans	91,208	100,473
• Annual leave expense	226	7,565
• Long service leave expense	13,202	(5,737)
Rental on operating leases	28,159	38,909
Total other expenses	<u>2,463,059</u>	<u>2,320,884</u>
6. Income tax		
Profit before tax	277,980	207,422
Prima facie income tax expense calculated at effective rate of 27.5% (2017: 30%) on net profit	76,445	57,041
Increase/(decrease) in income tax due to:		
Imputation credits	(4,175)	(6,521)
Other items	37,826	1,135
Prior year adjustments	-	-
Income tax expense	<u>110,096</u>	<u>51,655</u>
Current tax expense	89,431	33,500
Deferred tax expense	20,665	18,155
Income tax expense	<u>110,096</u>	<u>51,655</u>

Notes to the Financial Statements For the year ended 30 June 2018 (continued)

7. Recognised deferred tax assets & liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Loans & advances	9,385	3,427	-	-	9,385	3,427
Other financial assets	-	-	(866)	(866)	(866)	(866)
Prepayments	-	-	(19,405)	(16,425)	(19,405)	(16,425)
Other receivables	-	-	-	-	-	-
Property, plant & equipment (1)	-	-	(105,038)	(54,214)	(105,038)	(54,214)
Accrued expenses	25,877	21,555	-	-	25,877	21,555
Employee benefits	44,312	40,619	-	-	44,312	40,620
	<u>79,574</u>	<u>65,601</u>	<u>(125,309)</u>	<u>(71,505)</u>	<u>(45,735)</u>	<u>(5,903)</u>

- (1) The Credit Union's land and buildings includes some property that is exempt from Capital Gains Tax ('CGT'). As such, a deferred tax liability in relation to the revaluation has only been recognised on the property that is subject to CGT.

Income tax payable:

The current tax payable for the Credit Union of \$48,364 (2017: receivable \$2,500) represents the amount of income taxes payable in respect of current and prior periods.

	2018	2017
	\$	\$
Income tax payable / (receivable)	48,364	(2,500)
Movement in Taxation Provision		
Balance at beginning of the year	(2,500)	25,414
Current year's income tax expense on profit before tax	89,431	33,500
Income tax paid – current year	(41,067)	(36,000)
Income tax paid – prior year	2,500	(25,414)
Balance at the end of the year	<u>48,364</u>	<u>(2,500)</u>

8. Cash and cash equivalents

Cash on hand and at bank	2,550,663	2,165,506
Deposits at call	10,000,000	6,190,000
Term deposits and Negotiable Certificates of Deposits	9,701,966	9,203,026
	<u>22,252,629</u>	<u>17,558,532</u>

Maturity Analysis

Remaining maturity not longer than 3 months	21,752,629	17,058,532
Remaining maturity longer than 3 months and less than 6 months	500,000	500,000
	<u>22,252,629</u>	<u>17,558,532</u>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

8. Cash and cash equivalents (continued)	2018 \$	2017 \$
Credit rating of cash & cash equivalents		
Cuscal Limited – rated A-1	12,447,271	7,872,865
ADI's rated A-1+	500,000	500,000
ADI's rated A-1	1,000,000	1,000,000
ADI's rated A-2	4,474,935	4,475,925
ADI's rated A-3	497,031	-
ADI's rated B	-	497,100
Unrated	2,500,000	2,000,000
Cash on hand – N/A	833,392	1,212,642
	22,252,629	17,558,532
9. Other receivables		
Accrued income	56,898	54,493
Other	13,896	13,882
	70,794	68,375
10. Loans and advances		
Overdrafts	832,139	1,186,120
Term loans	62,318,164	57,683,924
Gross loans and advances	63,150,303	58,870,044
Provision for impairment	(34,126)	(12,465)
Net loans and advances	63,116,177	58,857,579
Maturity Analysis		
Overdrafts	832,139	1,186,120
Not longer than 3 months	798,204	752,166
Longer than 3 and not longer than 12 months	2,145,754	2,044,018
Longer than 1 and not longer than 5 years	10,090,961	9,688,115
Longer than 5 years	49,283,245	45,199,625
	63,150,303	58,870,044
Security held against loans		
Secured by mortgage over residential property	56,643,077	52,359,126
Secured by mortgage over commercial property	2,124,058	2,342,572
<i>Total loans secured by real estate</i>	58,767,135	54,701,698
Secured by funds	78,937	174,423
Partly secured by goods mortgage	4,045,558	3,684,687
Wholly unsecured	256,673	309,236
	63,150,303	58,870,044
It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:		
Loan to value ratio of 80% or less	48,530,226	44,022,721
Loan to value ratio of more than 80% but mortgage insured	8,126,533	6,628,785
Loan to value ratio of more than 80% not mortgage insured	2,110,376	4,050,192
	58,767,135	54,701,698

Notes to the Financial Statements For the year ended 30 June 2018 (continued)

10. Loans and advances (continued)	2018 \$	2017 \$
Concentration of risk		
Significant individual exposures		
- Individual credit facilities greater than 10% of capital in aggregate	3,744,185	3,927,905
Geographical concentrations		
The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to the geographical areas of North Eastern Victoria.		
- Victoria	51,838,874	48,310,355
- New South Wales	10,894,727	10,032,399
- Other	416,702	527,290
	<u>63,150,303</u>	<u>58,870,044</u>

11. Impairment of loans and advances

Total provision comprises of

Collective provisions	34,126	12,465
Additional specific provisions	-	-
Total provision	<u>34,126</u>	<u>12,465</u>

Movement in the provision for impairment

Balance at beginning of year	12,465	27,207
Expensed during the year	35,924	23,207
Bad debts written off provision	(14,263)	(37,949)
Balance at end of year	<u>34,126</u>	<u>12,465</u>

Impairment charge comprises of

Impairment provision adjustment	35,924	23,207
Bad debts recognised directly to Statement of Profit or Loss and Other Comprehensive Income	-	-
Total impairment charge	<u>35,924</u>	<u>23,207</u>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

	2018 \$	2017 \$
11. Impairment of loans and advances (continued)		
<i>Ageing analysis of loans and advances past due</i>		
Loans and advances past due and not impaired		
Up to 30 days	751,239	2,333,093
More than 30 days, but less than 90 days	415,960	5,998
More than 90 days, but less than 180 days	521,053	-
More than 180 days, but less than 270 days	-	-
More than 270 days, but less than 365 days	-	-
More than 365 days	-	-
Over limit facilities less than 14 days	109	2,295
	<u>1,688,361</u>	<u>2,341,386</u>
Loans and advances past due and impaired		
Up to 30 days	-	-
More than 30 days, but less than 90 days	20,543	-
More than 90 days, but less than 180 days	19,603	204,787
More than 180 days, but less than 270 days	-	21,580
More than 270 days, but less than 365 days	-	-
More than 365 days	-	-
Over limit facilities more than 14 days	25,223	-
	<u>65,369</u>	<u>226,367</u>
<i>Security analysis of loans and advances past due</i>		
Loans and advances past due and not impaired		
Secured by mortgage over real estate	1,575,396	2,204,968
Secured by funds	-	-
Partly secured by goods mortgage	112,856	133,988
Wholly unsecured	109	2,430
	<u>1,688,361</u>	<u>2,341,386</u>
Loans and advances past due and impaired		
Secured by mortgage over real estate	-	204,787
Secured by funds	-	-
Partly secured by goods mortgage	40,146	-
Wholly unsecured	25,223	21,580
	<u>65,369</u>	<u>226,367</u>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

	2018 \$	2017 \$
11. Impairment of loans and advances (continued)		
<i>Assets acquired through enforcement of security</i>		
Real Estate acquired through enforcement of security held at the end of the financial year	-	-
Specific provision for impairment	-	-
Balance at the end of the financial year	-	-
Net fair value of real estate assets acquired through the enforcement of security during the financial year	-	-
Net fair value of other assets acquired through the enforcement of security during the financial year	-	-

In the event that the Credit Union takes possession of an asset that is not readily convertible to cash, the Credit Union may sell the asset at auction or by private treaty with the objective of obtaining maximum value. The Credit Union also has discretion to retain the asset for its use in operations.

12. Other financial assets

Unlisted shares – Shares in Cuscal Limited – at cost (a)	125,516	125,516
Other investments – Shares in TransAction Solutions Pty Ltd - at cost (b)	4,573	4,573
	<u>130,089</u>	<u>130,089</u>

(a) Cuscal Limited

The shareholding in Cuscal Limited is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member credit unions. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 23. The shares are not able to be traded and are not redeemable.

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

The Credit Union is not intending to dispose of these shares.

(a) TransAction Solutions Pty Ltd

The shareholding in TransAction Solutions Pty Ltd is measured at cost as its fair value could not be measured reliably.

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

The Credit Union is not intending to dispose of these shares.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

	2018 \$	2017 \$
13. Property, plant and equipment		
Land		
At fair value	1,150,000	1,025,000
	<u>1,150,000</u>	<u>1,025,000</u>
Buildings on freehold land		
At fair value	556,794	486,793
Accumulated depreciation	(12,221)	(32,155)
	<u>544,573</u>	<u>454,638</u>
Plant and equipment		
At cost	819,400	831,960
Accumulated depreciation	(662,398)	(621,485)
	<u>157,002</u>	<u>210,475</u>
Leasehold improvements		
At cost	170,853	170,853
Accumulated amortisation	(132,117)	(123,399)
	<u>38,736</u>	<u>47,454</u>
Total property, plant and equipment at written down value	<u>1,890,311</u>	<u>1,737,567</u>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

13. Property, plant & equipment (continued)

a) Reconciliations

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

	<i>Land</i>	<i>Buildings</i>	<i>Plant and equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Balance at 1 July 2016	1,025,000	466,808	227,494	55,205	1,774,507
Additions	-	-	70,404	1,351	71,755
Revaluations	-	-	-	-	-
Disposals	-	-	(25,857)	-	(25,857)
Depreciation	-	(12,170)	(61,566)	-	(73,736)
Amortisation	-	-	-	(9,102)	(9,102)
Balance at 30 June 2017	1,025,000	454,638	210,475	47,454	1,737,567
Balance at 1 July 2017	1,025,000	454,638	210,475	47,454	1,737,567
Additions	-	-	10,923	-	10,923
Revaluations	125,000	102,250	-	-	227,250
Disposals	-	-	(7,935)	-	(7,935)
Depreciation	-	(12,315)	(56,461)	-	(68,776)
Amortisation	-	-	-	(8,718)	(8,718)
Balance at 30 June 2018	1,150,000	544,573	157,002	38,736	1,890,311

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

13. Property, plant and equipment (continued)

(b) Valuations

The basis of land and buildings is fair value, being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The freehold land and buildings located at 58 Belmore Street and 60 Belmore Street, Yarrowonga were independently valued on 18 June 2018 by Roger M Porter, AVLE (Val) and applied by the Credit Union as at 30 June 2018. This valuation does not include the property located at Barr Street Tungamah, which was last independently valued in 2010. The Directors do not believe that there has been a material movement in fair value since the latest valuation in 2018 and 2010 for this property. Refer to Note 1 (n), Note 1 (o) and Note 29 for further information on fair value measurement.

	2018 \$	2017 \$
14. Intangible assets		
<i>Computer and software licenses</i>		
At cost	756,670	571,715
Accumulated amortisation	(537,562)	(472,740)
	<u>219,108</u>	<u>98,975</u>
Reconciliations		
Reconciliations of the carrying amounts for each class of intangible assets are set out below:		
<i>Computer software & licences</i>		
Balance at beginning of the year	98,975	68,061
Additions	184,955	81,370
Amortisation	(64,822)	(50,456)
Balance at end of the year	<u>219,108</u>	<u>98,975</u>
15. Other assets		
Prepayments	<u>83,011</u>	<u>173,722</u>
16. Member deposits		
Call deposits	37,936,257	32,178,644
Term deposits	42,171,094	39,465,079
	<u>80,107,351</u>	<u>71,643,723</u>
<i>Maturity analysis</i>		
At call	37,936,257	32,178,644
Not longer than 3 months	19,755,968	16,448,339
Longer than 3 and not longer than 12 months	20,992,664	18,827,319
Longer than 1 and not longer than 5 years	1,422,462	3,250,712
	<u>80,107,351</u>	<u>71,643,723</u>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

16. Member deposits (continued)

	2018 \$	2017 \$
<i>Concentration of deposits</i>		
Geographical concentrations		
The Credit Union operates in the geographic areas of North Eastern Victoria and Southern New South Wales and member deposits at balance date were principally received from members employed in these areas.		
The geographical segment details are below:		
- Victoria	55,398,749	50,187,909
- New South Wales	24,349,127	21,058,389
- Other	359,475	397,425
	<u>80,107,351</u>	<u>71,643,723</u>

Significant individual member deposits

As at 30 June 2018 the Credit Union's deposit portfolio included \$nil deposit exposures which represented 5% or more of total liabilities (2017: \$nil).

17. Trade and other payables

Accrued interest payable	422,660	391,714
Sundry creditors and accruals	759,433	596,114
	<u>1,182,093</u>	<u>987,828</u>

18. Employee benefits

Current

Liability for long service leave	70,195	62,539
Liability for annual leave	66,062	65,837

Non-current

Liability for long service leave	24,879	19,333
	<u>161,136</u>	<u>147,709</u>

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

	2018 \$	2017 \$
19. Reconciliation of cash flows from operating activities		
(a) Cash flow from operating activities		
Profit after income tax	167,884	155,767
<i>Non cash flows in operating surplus/(deficit):</i>		
Impairment charge	35,924	23,207
Depreciation and amortisation	142,316	133,294
Loss/(gain) on disposal of non-current assets	-	(3,944)
<i>Changes in assets and liabilities:</i>		
(Increase)/Decrease in receivables	(2,419)	(575)
(Increase)/Decrease in other assets	90,711	(48,603)
(Increase)/Decrease in deferred tax asset	(13,973)	7,143
Increase/(Decrease) in payables and accruals	194,265	(382,132)
Increase/(Decrease) in income tax payable	50,864	(27,914)
Increase/(Decrease) in employee benefits	13,427	(11,543)
Increase/(Decrease) in deferred tax liability	33,935	11,013
Net cash from revenue activities	<u>712,934</u>	<u>(144,287)</u>
<i>Add/(deduct) non revenue operations</i>		
(Increase)/decrease in loans and advances	(4,294,522)	(6,800,765)
Increase/(decrease) in deposits	8,463,628	5,419,340
Cash flow from operating activities	<u>4,882,040</u>	<u>(1,525,712)</u>

(b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- (i) member deposits to and withdrawals from deposit accounts;
- (ii) borrowings and repayments on loans, advances and other receivables;
- (iii) investment securities, including shares in special service providers.

(c) Bank overdraft facility

As at 30 June 2018, the Credit Union does not have a bank overdraft facility. This is consistent with 2017.

(d) Special finance line – standby facility

As at 30 June 2018, the Credit Union does not have a standby facility. This is consistent with 2017.

(e) CUSCAL – Settlement Security Deposit

During the previous financial year, CMCU lodged a Settlement Security Deposit (“SSD”) with CUSCAL. The SSD is a security deposit of \$1,730,000 held in a standard term deposit account with CUSCAL.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

19. Reconciliation of cash flows from operating activities (continued)

(e) CUSCAL – Settlement Security Deposit (continued)

In accordance with the agreement between CUSCAL and the Credit Union, CUSCAL need not repay the SSD:

- (a) until CUSCAL have received all money the Credit Union owe them at any time or which CUSCAL determine the Credit Union will or may owe them in the future; and
- (b) until CUSCAL are satisfied that they will not be asked to refund any such money (or any part of it) to a trustee in bankruptcy, a liquidator or any other person; and
- (c) other than in accordance with the terms applying to each deposit.

Further, the Credit Union irrevocably authorised CUSCAL at any time to apply all or any part of any credit balance in any other deposits that the Credit Union may have with them at that time by way of set-off or counterclaim in or towards payment of any liability (whether due now or later and whether actual or contingent) which the Credit Union may owe to CUSCAL at that time.

The Credit Union has classified the SSD as cash and cash equivalents in the statement of financial position and Note 8 on the basis of a determination made by the prudential regulator (APRA) that the Settlement Security Deposit is for the purpose of facilitating or securing settlement obligations, deposits relating to industry support schemes are to be utilised for a prudential purpose and thus can be included as part of the Credit Union's prudential liquidity holding. The Credit Union has therefore included the SSD in its calculation of MLH disclosed in Note 27 Risk Management Objectives and Policies.

The Credit Union has also treated the SSD in accordance with its accounting policy for cash and cash equivalents for the purpose of interest rate risk and the maturity profile of financial assets in Note 28 Financial Instruments notwithstanding the existence of these specific contractual encumbrances.

20. Expenditure commitments

Capital expenditure commitments

Estimated capital expenditure contracted for at balance date but not provided for:

- payable not later than one year

Operating leases (non-cancellable)

- not later than one year
- later than one and not later than five years

Aggregate expenditure contracted for at balance date

Operating leases receivable

- not later than one year
- later than one and not later than five years

Aggregate income contracted for at balance date

	2018 \$	2017 \$
- payable not later than one year	-	67,800
Operating leases (non-cancellable)		
- not later than one year	16,714	28,107
- later than one and not later than five years	-	-
Aggregate expenditure contracted for at balance date	<u>16,714</u>	<u>95,907</u>
Operating leases receivable		
- not later than one year	23,214	-
- later than one and not later than five years	7,800	-
Aggregate income contracted for at balance date	<u>31,014</u>	<u>-</u>

Commitments existing as at balance date are inclusive of Goods and Services Tax.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

21. Superannuation

During the year the Credit Union contributed on behalf of its employees to 14 superannuation funds under the Super Choice legislation.

Under the Superannuation Guarantee (Administration) Act 1995 the Credit Union is required to provide minimum levels of Superannuation support for employees. This obligation is legally enforceable. In accordance with the award, employees up until 30 June 2018 receive 9.5% paid directly to one of the above funds.

The funds are defined contribution funds where benefits are based on the amount of contributions made to the fund plus an allocated share of the earnings of the fund.

22. Contingent liabilities and credit commitments

In the normal course of business the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of customers. 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.

	2018 \$	2017 \$
<i>Credit related commitments</i>		
Approved but undrawn loans and credit limits	2,514,124	4,314,294
Security analysis of credit-related commitments		
Secured by mortgage over real estate	2,115,808	3,882,869
Secured by funds	68,927	29,151
Partly secured by goods mortgage	112,303	175,626
Wholly unsecured	184,197	189,071
Guarantee	32,889	37,577
	2,514,124	4,314,294
<i>Financial guarantees</i>		
Guarantees	53,736	33,651
Security analysis of credit-related commitments		
Secured by mortgage over real estate	10,000	10,000
Secured by funds	15,000	15,000
Partly secured by goods mortgage	23,636	-
Wholly unsecured	5,100	8,651
	53,736	33,651

Other contingent liabilities

With effect from 1 July 1999, Central Murray Credit Union Limited is a party to the Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme that all Credit Unions who are affiliated with Cuscal Limited have agreed to participate in.

CUFSS is a company limited by guarantee with each credit union's guarantee being \$100.

As a member of CUFSS, the Credit Union:

- May be required to advance funds of up to 3% (excluding permanent loans) of total assets to another credit union requiring financial support;

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

22. Contingent liabilities and credit commitments (continued)

- May be required to advance permanent loans of up to 0.2% of total assets per financial year to another credit union requiring financial support; and
- Agrees, in conjunction with other members, to fund the operating costs of CUFSS.

Other commitments

The Credit Union has a number of Service Agreements with external parties for the supply of services into the future.

23. Outsourcing arrangements

The Credit Union has outsourcing arrangements with the National Australia Bank and Cuscal Limited for the provision of corporate banking services and facilities, settlement services with bankers for member cheques and access to the direct entry system.

The Credit Union has outsourcing arrangements with Cuscal Limited for the provision of network transactions for automatic teller facilities, the provision of debit cards and personal identification numbers and access to the BPAY scheme and the New Payments Platform.

The Credit Union has outsourcing arrangements with TransAction Solutions Pty Ltd for the provision of computer data processing services and Cuscal Limited for computer software services, rights to visa cards and the provision of central banking facilities.

Ultradata Australia provides and maintains the application software (Ultracs) utilised by the Credit Union.

The Credit Union has an outsourcing arrangement with AFS & Associates for the provision of internal audit services.

24. Key management personnel

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.

Non-executive directors

J Gorman	Chairperson
M O'Dwyer	Vice-Chairperson
L Douglas	
M Forster-Knight	
F McCallum	
S Cusack	
J Vagg	

Executive

J Pattison	Chief Executive Officer
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Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

24. Key management personnel (continued)

Transactions with key management personnel

In addition to their salaries, the Credit Union also provides banking services and products to key management personnel as outlined below.

Key Management personnel compensation

The key management personnel compensation included in "personnel costs" (see Note 5) are as follows:

	2018 \$	2017 \$
Short-term employee benefits	262,291	220,500
Other long term benefits	2,983	5,704
Post-employment benefits	25,074	42,553
	<u>290,348</u>	<u>268,757</u>

Public disclosure of remuneration

In accordance with the APS 330 *Public Disclosure* requirements, the Credit Union is required to include both qualitative disclosure and quantitative disclosures for senior managers and material risk-takers in the Regulatory Disclosure section on their website.

Loans and advances to key management personnel and other related parties

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

Loans and advances to key management personnel	1,838,280	1,971,359
Loans and advances to other related parties	-	-
	<u>1,838,280</u>	<u>1,971,359</u>

All loans to Directors by the Credit Union have been made in the normal course of business and on the normal commercial terms and conditions. A concessional loan rate facility is available to all staff.

Revolving credit facilities totalling \$Nil (2017: \$5,000) were made available to Directors and Key Management Personnel during the year. The aggregate amount receivable at 30 June 2018 was \$41,076 (2017: \$22,204). Key Management Personnel who are not Directors receive a concessional rate of interest on their facilities. These benefits, where subject to fringe benefits tax, are included in the remuneration above. All other revolving credit facilities are at normal commercial terms and conditions.

There was \$129,381 concessional loan rate facilities funded during 2018 (2017: \$129,292), excluding those disclosed separately as Key Management Personnel loans.

Loans totalling \$30,000 (2017: \$1,318,737) were made to Key Management Personnel and other related parties during the year. As at 30 June 2018 there was nil (2017: nil) of loans approved but not yet funded in relation to Key Management Personnel.

Notes to the Financial Statements For the year ended 30 June 2018 (continued)

24. Key management personnel (continued)

Loans to key management personnel and other related parties (continued)

During the year, Mr M O'Dwyer, Ms L Douglas, Mr J Vagg, Mr M Forster-Knight, Mrs F McCallum, and Mr J Pattison (2017: Mr M O'Dwyer, Ms L Douglas, Mr M Forster-Knight, Mrs F McCallum, and Mr J Pattison) repaid \$787,944 (2017: \$1,459,639) of the balances outstanding on their loans and revolving credit facilities.

The Credit Union's policy for lending to Key Management Personal and their related parties is that all loans are approved on the same terms and conditions as is applied to members of each class of loan. Interest is payable monthly. All loans are secured by either a registered first mortgage over the borrowers' residences, or by goods mortgages, over security provided by the borrower.

This note excludes loans and advances through the use of the Integris securitisation program, as outlined in Note 1(m).

Interest received on the loans to Key Management Personnel and other related parties totalled \$81,262 (2017: \$85,672). No amounts have been written down or recorded as allowances, as all balances outstanding are considered fully collectable.

There were no other amounts receivable at 30 June 2018 (2017: nil).

	2018 \$	2017 \$
<i>Deposits from key management personnel and other related parties as at balance date</i>		
Total value term and savings deposits from key management personnel	711,125	98,694
Total value term and savings deposits from other related parties	-	-
Total interest paid on deposits to key management personnel	975	30
Total interest paid on deposits to other related parties	-	-

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

Other key management personnel transactions with the Credit Union

From time to time the key management personnel of the Credit Union and their related parties may conduct banking related transactions with the Credit Union. These transactions are on the same terms and conditions as those entered into by other members.

No members of the key management personnel of the Credit Union, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

Each Director would hold at least 1 share in the Credit Union.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

25. Concentration of assets and liabilities

The Credit Union has cash and cash equivalents exposures in excess of 10% of member's equity in regards to a number of investment institutions. At 30 June 2018, these holdings are in accordance with the requirements of APS 221 *Large Exposures*.

One of the entities is Cuscal Limited, a Special Services Provider (SSP). The net investment totalling \$12,572,787 (2017: \$7,998,381) represents shares held in Cuscal Limited of \$125,516 (2017: \$125,516) and cash and investments with Cuscal Limited of \$12,447,271 (2017: \$7,872,865).

Other cash investments in excess of 10% of shareholders equity were also placed in APRA regulated deposit taking institutions at 30 June 2018.

Concentration of loans and advances and member deposits are detailed in Notes 10 and 16 respectively.

26. Auditor's remuneration

	2018 \$	2017 \$
Amounts received or due and receivable by the External Auditor of Central Murray Credit Union (including GST) for:		
- audit of the financial statements of the Credit Union	34,397	33,396
- other regulatory assurance services:	16,770	15,213
- other services – taxation:	6,622	6,265
	57,789	54,874

All audit and related services were provided by Crowe Horwath Albury. The above amounts exclude out of pocket expenses recovered.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

27. Risk management objectives and policies

Introduction

The Board of the Credit Union has overall responsibility for the establishment and oversight of the risk management framework. The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

The Credit Union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Board Risk Committee and Board Audit Committee from there to the Management Risk Committee and from there to Internal Audit which are integral to the management of risk.

The main elements of risk governance are as follows.

- *Board:* This is the primary governing body. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks.
- *Board Audit Committee:* Its key role in risk management is to consider and confirm that the significant risks and controls are to be assessed within the internal audit plan. The Committee receives the internal audit reports to assess compliance with the controls, and provides feedback to the Board for their consideration.
- *Board Risk Committee:* Its key role in risk management is the overview of the Credit Union's internal control framework and risk management systems.
- *Management Risk Committee:* Its key role is to provide independent and objective challenge, oversight, monitoring and reporting to material risk arising from the Credit Union's operations.
- *Internal Audit:* Internal audit has responsibility for implementing the controls testing and assessment as required by the Board Audit Committee:

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

- Market risk management system;
- Liquidity risk management system;
- Credit risk management system;
- Large exposures risk management system;
- Operational risk management system;
- Business continuity management policy; and
- Outsourcing policy.

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments:

(a) Market risk

The objective of the Credit Union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is exposed only to interest rate risk arising from changes in market interest rates within its own banking book. The Credit Union is not exposed to currency risk or other significant price risk. The Credit Union does not trade in the financial instruments it holds on its books.

The management of market risk is the responsibility of the Chief Executive Officer, who reports directly to the Board.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

27. Risk management objectives and policies (continued)

(a) Market risk (continued)

(i) *Interest rate risk*

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes of interest rates.

Most financial institutions are exposed to interest rate risk within its treasury operations. The Credit Union does not have a treasury operation and does not trade its financial instruments.

Interest rate risk in the banking book

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

The interest rate risk on the banking book is monitored and measured on a regular basis, including via the quarterly APRA reporting.

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to the risk of sensitivity should the interest rate change.

The level of mismatch on the banking book is set out in Note 28 below. The table set out in Note 28 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The Credit Union manages its interest rate risk by the use of interest rate sensitivity analysis. The details and assumptions used are set out below.

Interest rate sensitivity

The policy of the Credit Union to manage the risk is to maintain a balanced 'on book' strategy by ensuring that the net interest gap between assets and liabilities (the Gap) is not excessive.

The Gap is measured regularly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposit liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks.

Based on the calculations as at 30 June 2018, the net profit impact for a 2% increase in interest rates would be \$1,061,765 increase in profit (2017: \$739,270). A decrease of 2% in interest rates would have an equal but opposite effect.

The Credit Union performs a sensitivity analysis to measure market risk exposures on an annual basis, as part of the annual budgeting process. The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Credit Union for the next 12 months using a variety of assumptions.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

27. Risk management objectives and policies (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet its financial obligations as they fall due. It is the policy of the Credit Union that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flow needs;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, and
- Monitoring the prudential ratio daily.

The liquidity strategy requires the holding of surplus funds in liquid assets which meet APRA's criteria for classification as eligible Minimum Liquidity Holdings ("MLH") the availability of appropriate standby lines of funding; maintenance of reliable sources of funding and daily liquidity projections.

The Credit Union has a contractual arrangement with the Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support for the Credit Union in times of need. Further details of the CUFSS arrangements are included at Note 22.

APRA Prudential Standards place specific management and reporting requirements on ADIs in relation to liquidity risk. The Credit Union uses the MLH basis to calculate liquidity. Under this calculation the Credit Union is required to maintain at least 9% of total adjusted liabilities in specified eligible assets at all times. The Credit Union maintains a required minimum liquidity level of at least 13% (2017: 13%) to meet adequate operational cash flow requirements. The ratio is monitored daily. Should the liquidity ratio fall below this level, management and the Board are to address the matter and ensure that liquid funds are obtained from new deposits.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in the notes to the financial statements.

As at 30 June 2018, the Credit Union held 18.67% of total adjusted liabilities as liquid assets (2017: 17.10%). The average during the financial year was 18.87% (2017: 18.84%), with the minimum reaching 17.58% during the year (2017: 17.07%).

The Credit Union also maintains additional liquid assets which are not MLH eligible. After taking into consideration these assets the total liquidity of the Credit Union at 30 June 2018 is 24.08% (2017: 21.35%).

In order to ensure compliance with APS 210 *Liquidity*, the Credit Union has set up an Austraclear Proxy and Settlement Services agreement with FIIG Securities Limited. This facility ensures that the Credit Union has the ability to liquidate MLH assets within 48 hours as required by APS 210.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

27. Risk management objectives and policies (continued)

(c) Credit risk

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

(i) Credit risk – loans & advances:

All loans and facilities are within Australia. The geographic distribution is monitored and analysed, with details of the concentration detailed in Note 10.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit risk management policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy and capable of meeting loan repayments.

The Credit Union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the value of individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Debt recovery procedures where appropriate; and
- Establishing appropriate provisions to recognise the impairment of loans and facilities.

A regular review of the Credit Union's compliance with the credit risk management policy and associated policies and procedures is conducted as part of the internal audit program.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. A past due classification can trigger various actions such as a renegotiation, enforcement of covenants or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

The Credit Union's exposures to losses arise predominately in the personal loans and facilities not secured by registered mortgages over real estate.

The estimated recoverable amount of that asset is determined based on the net present value of future anticipated cash flows and the net loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income. In estimating these cash flows, management makes judgement about a counterparty's financial situation and the net realisable value of any underlying collateral.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the principal will not be repaid or recovered.

Specific loans and facilities are provided against depending on a number of factors including environmental factors, changes in a counterparty's industry, technological developments and identified structural weaknesses or deterioration in cash flows.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

27. Risk management objectives and policies (continued)

(c) Credit risk (continued)

Details on the impairment of loans and advances are set out in Note 11.

Bad Debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 11.

Collateral securing loans

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

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

The Credit Union maintains a general policy to attract residential mortgages which carry an 80% loan to valuation ratio or less. Note 10 details the nature and extent of the security held against the loan held as at balance date.

Concentration risk

Concentration risk is a measurement of the Credit Unions' exposure to an individual borrower or industry.

The Credit Union has in place a large exposure policy limit of 10% of regulatory capital. The Credit Union can lend above 10% of capital, however APRA must be consulted prior to undertaking the loan or facility. APRA may impose additional capital requirements on the Credit Union if the aggregate of large exposures is deemed to be higher than prudentially acceptable.

Details of the Credit Union's large exposures at balance date are set out in Note 10.

(ii) Credit risk – liquid investments:

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss.

The risk of losses from the liquid investments undertaken is mitigated by the nature and quality of the independent rating of the investment bodies and the limits to concentration as approved by APRA from time to time.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

27. Risk management objectives and policies (continued)

(c) Credit risk (continued)

(iii) Credit risk – liquid investments (continued)

The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been compiled with.

Given the high quality of these investments, the Credit Union does not expect any counterparty to fail to its obligations. The exposure values associated with each credit quality investment body are detailed in Notes 8 and 25.

External Credit Assessment for Institution Investments

The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been compiled with.

The exposure values associated with each credit quality step are detailed in Note 8.

(d) Operational risk

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in processes, personal technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly from those risks arising from a number of sources including legal compliance, business continuity, information technology, outsources services failures, fraud and employee errors.

The Company's objective is to manage operational risk so as to balance the evidence of financial losses through implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact.

(e) Regulatory and Compliance risk

Regulatory and Compliance risk is the risk of failing to comply with regulatory requirements.

The Credit Union's compliance program identifies the key legislative and regulatory obligations that impact the Credit Union and identifies the measures in place to ensure compliance with them.

(f) Strategic risk

Strategic risk is the risk to current or prospective earnings and capital, resulting from unexpected or adverse changes in the business environment with respect to the economy, the political landscape, regulation, technology, social morals, the actions of competitors and business decisions.

Strategic risk is constantly considered through business strategy, i.e. planning and, where applicable, monitored via the quarterly risk report with additional commentary on emerging issues included in the monthly report.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

27. Risk management objectives and policies (continued)

(g) Capital risk

Capital risk is the risk that there is insufficient capital available to protect against unexpected loss.

The Credit Union's policy is to maintain a strong capital base and to maintain a balance between profitability and benefits provided to members by way of better interest rates, lower fees, convenient locations and superior service.

The Credit Union's capital management objectives are to:

- Ensure there is sufficient capital to support the Credit Union's operational requirements;
- Maintain sufficient capital to exceed internal and externally imposed capital requirements; and
- Safeguard the Credit Union's ability to continue as a going concern in all types of market conditions.

The Credit Union is subject to minimum capital requirements imposed by APRA based on the guidelines developed by the Basel Committee on Banking Supervision. The Credit Union reports to APRA under Basel III capital requirements and uses the standardised approach for credit and operational risk.

APRA requires Authorised Deposit-taking Institutions ("ADIs") to have a minimum ratio of capital to risk weighted assets of 8%. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels.

The Board approved internal capital assessment process requires capital to be well above the regulatory required levels.

The Credit Union's capital contains tier 1 and tier 2 capital. Tier 1 capital can contain both common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital comprises the highest quality components of capital that fully satisfy all of the following characteristics:

- a) provide a permanent and unrestricted commitment of funds;
- b) are freely available to absorb losses;
- c) do not impose any unavoidable servicing charge against earnings; and
- d) rank behind the claims of depositors and other creditors in the event of winding-up of the issuer.

Common equity tier 1 capital consists of retained earnings, realised reserves and the asset revaluation reserve. Deductions from tier 1 capital are made for intangible assets, certain capitalised expenses, deferred tax assets and equity investments in other ADI's.

Tier 2 capital includes the reserve for credit losses and tier 2 capital instruments including subordinated debt. Tier 2 capital instruments combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption features of equity.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

27. Risk management objectives and policies (continued)

(g) Capital risk (continued)

	2018 \$	2017 \$
Capital adequacy calculation		
Tier 1 capital		
<u>Common equity tier 1 capital</u>		
Retained earnings & member share redemption reserve – per APRA requirement	4,825,680	4,677,073
General reserve	550,000	550,000
Asset revaluation reserve	643,148	435,767
	<u>6,018,828</u>	<u>5,662,840</u>
Less prescribed deductions to tier 1 capital	(349,197)	(229,063)
Net tier 1 capital	5,669,631	5,433,776
Tier 2 Capital		
Lending risk reserve – net per APRA requirement	184,414	175,371
Net tier 2 capital	<u>184,414</u>	<u>175,371</u>
Total Capital	<u>5,854,045</u>	<u>5,609,147</u>
Capital adequacy calculation (continued)		
Risk profile		
Credit Risk	36,515,994	34,835,685
Operational Risk	4,458,188	4,118,808
Total risk weighted assets	<u>40,974,182</u>	<u>38,954,494</u>
Capital adequacy ratio	14.29%	14.40%

The Capital Adequacy Ratio as at the end of financial year over the past 5 years is as follows:

2018	2017	2016	2015	2014
14.29%	14.40%	15.25%	16.62%	16.86%

The level of capital ratio can be affected by growth in assets relative to growth in capital and by changes in the mix of financial assets managed by the Credit Union.

To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board if the capital ratio falls below the internal trigger point of 14% and APRA if the capital ratio falls below 13%. Further a 3 year budget projection of the capital levels is prepared annually to address how strategic decisions or trends may impact on the capital level.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

27. Risk management objectives and policies (continued)

(g) Capital risk (continued)

Operational Risk Capital Charge

The Credit Union uses the Standardised approach which is considered to be most suitable for its business given the nature of its transaction activities. The operational risk capital charge is calculated by mapping the Credit Union's three year average net interest income and net non interest income to the Credit Union's various business lines.

Internal capital adequacy assessment process

The Credit Union manages its internal capital levels for both current and future activities through the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's strategic direction, forecasts, or unforeseen circumstances, are assessed by the Board.

Public disclosure of capital

In accordance with the APS 330 *Public Disclosure* requirements, the Credit Union is required to include details on the composition and features of capital and risk weighted assets in the Regulatory Disclosure section on their website.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

28. Financial instruments

(a) Terms, conditions and accounting policies

The Credit Union's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Recognised Financial Instruments	Note	Accounting Policies	Terms and Conditions
Financial assets			
Loans and advances	10	Loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. Loans and advances are recorded at their recoverable amount. For further details on the classification of loans refer to Note 1(d).	Details of maturity terms are set out in Note 10. Details of security against loans and advances is set out in Note 10.
Cash and cash equivalents	8	Cash and cash equivalents are stated at the lower of cost and net realisable value. Interest revenue is recognised when earned.	Details of maturity terms are set out in Note 8.
Other financial assets	12	Other financial assets are carried at the lower of cost or recoverable amount. Restrictions apply to the repayment of deposits held with Cuscal Limited for other regulatory purposes.	
Financial liabilities			
Members deposits	16	Deposits are recorded at the principal amount. Interest is calculated on the daily balance outstanding or the minimum monthly balance.	Details of maturity terms are set out in Note 16.
Trade and other payables	17	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Credit Union.	Trade liabilities are normally settled on 30-day terms.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

28. Financial instruments

(b) Interest rate risk

The Credit Union's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial instruments	Floating (variable) interest rate		Fixed interest rate maturing in:				Non-interest bearing		Total carrying amount as per the Statement of Financial Position		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years							
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 %	2017 %
Financial assets:												
Cash and cash equivalents	11,718	7,143	9,702	9,203	-	-	833	1,213	22,253	17,559	1.76%	1.91%
Other receivables	-	-	-	-	-	-	71	68	71	68	N/A	N/A
Loans and advances (gross)	57,530	51,775	3,965	553	1,655	6,542	-	-	63,150	58,870	5.27%	5.29%
Other investments	-	-	-	-	-	-	130	130	130	130	N/A	N/A
Total financial assets	69,248	58,918	13,667	9,756	1,655	6,542	1,034	1,411	85,604	76,627		
Financial liabilities:												
Members deposits	37,895	32,138	40,749	36,214	1,422	3,251	41	41	80,107	71,644	1.67%	1.85%
Trade and other payables	-	-	-	-	-	-	1,182	988	1,182	988	N/A	N/A
Total financial liabilities	37,895	32,138	40,749	36,214	1,422	3,251	1,223	1,029	81,289	72,632		

N/A - not applicable for non-interest bearing financial instruments.

Notes to the Financial Statements For the year ended 30 June 2018 (continued)

28. Financial instruments

(c) Maturity profile of financial assets and liabilities

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

Financial instruments	Within 3 months		From 3 to 12 months		From 1 to 5 years		More than 5 years		No maturity		Total cash flows		Total carrying amount as per the Statement of Financial Position	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Financial assets:														
Cash and cash equivalents	9,232	8,735	509	511	-	-	-	-	12,563	8,364	22,304	17,610	22,253	17,559
Other Receivables	-	-	-	-	-	-	-	-	14	14	14	14	71	68
Loans and advances (gross)	1,635	1,524	4,583	4,265	21,486	20,004	80,650	71,250	-	-	108,353	98,229	63,150	58,870
Other investments	-	-	-	-	-	-	-	-	130	130	130	130	130	130
Total financial assets	10,867	10,259	5,092	4,776	21,486	20,004	80,650	71,250	12,707	8,508	130,801	114,797	85,604	76,627
Financial liabilities:														
Members deposits	20,120	16,706	21,455	20,282	1,485	3,400	-	-	37,937	32,179	80,997	72,567	80,107	71,644
Trade and other payables	-	-	-	-	-	-	-	-	759	596	759	596	1,182	988
Total financial liabilities	20,120	16,706	21,455	20,282	1,485	3,400	-	-	38,696	32,775	81,756	73,163	81,289	72,632

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

28. Financial instruments (continued)

(d) Net fair values

The fair value is required to be disclosed where the financial instruments are not measured at fair value in the Statement of Financial Position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

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

The Credit Union has assessed that at balance date, the carrying amount of all financial instruments approximates fair value. The description of the valuation techniques and assumptions are detailed below:

Recognised financial instruments

Cash and cash equivalents

The carrying amounts approximate fair value because of their short-term to maturity (i.e. less than six months) or are receivable on demand.

Other receivables

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

Loan and advances

The majority of the Credit Union's loans are variable rate loans. The carrying amount of these loans is considered to approximate fair value. The net fair value of any non-variable rate loans are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The net fair value of impaired loans was calculated by using a method not materially different from discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows. The carrying amount of loans at 30 June 2017 approximates net fair value.

Member deposits

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

The Credit Union has assessed its own credit risk in regards to the fair value of deposits, and has assessed that no material valuation adjustment based on the capital management system utilised by the Credit Union as outlined in Note 27 (g).

Trade and other payables

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

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

28. Financial instruments (continued)

(e) Categories of financial instruments

The following information classifies the financial instruments into measurement classes.

	2018 \$	2017 \$
Financial assets		
Loans and receivables – carried at amortised cost		
Cash and cash equivalents	22,252,629	17,558,532
Other receivables	70,794	68,375
Loans and advances (gross)	63,150,303	58,870,044
	<u>85,473,726</u>	<u>76,496,951</u>
Available for sale investments – carried at cost		
Other financial assets	130,089	130,089
	<u>130,089</u>	<u>130,089</u>
TOTAL FINANCIAL ASSETS	<u>85,603,815</u>	<u>76,627,040</u>
Financial liabilities		
Carried at amortised cost		
Trade and other payables	1,182,093	987,827
Member deposits	80,107,351	71,643,723
	<u>81,289,444</u>	<u>72,631,550</u>
TOTAL FINANCIAL LIABILITIES	<u>81,289,444</u>	<u>72,631,550</u>

29. Fair value measurement

Fair value hierarchy

The following tables detail the Credit Union's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Notes to the Financial Statements For the year ended 30 June 2018 (continued)

29. Fair value measurement (continued)

	2017			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets measured at fair value				
Land and buildings	-	1,479,638	-	1,479,638
TOTAL ASSETS	-	1,479,638	-	1,479,638

	2018			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets measured at fair value				
Land and buildings	-	1,694,573	-	1,694,573
TOTAL ASSETS	-	1,694,573	-	1,694,573

The Credit Union has assessed that at balance date, the carrying amount of all financial instruments approximates fair value. Refer to Note 28(d).

Valuation techniques for fair value measurements categorised as level 2

Land and buildings have been valued based on similar assets, location and market conditions.

30. Corporate information

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

The address of the registered office is 58 Belmore Street, Yarrowonga Vic 3730.

Head office of the business is located in Yarrowonga Vic 3730.

The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to members of the Credit Union.

31. Subsequent Events

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

Directors' declaration

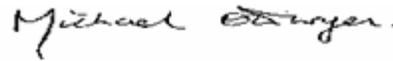
In the opinion of the Directors of Central Murray Credit Union Limited:-

1. the financial statements and notes, set out on pages 11 to 60, are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the Credit Union's financial position as at 30 June 2018 and of its performance as for the year ended on that date; and
 - (b) complying with the Accounting Standards and the *Corporations Regulations 2001*; and
2. 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.

Signed in accordance with a resolution of the Directors:



J Gorman
Chairperson



M O'Dwyer
Vice Chairperson

Dated at Yarrawonga this 19th day of September 2018.



Crowe Horwath Albury
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Independent Auditor's Report

To the Members of Central Murray Credit Union Limited

Opinion

We have audited the financial report of Central Murray Credit Union Limited (the Credit Union), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Central Murray Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Credit Union in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other Information

The directors are responsible for the other information. The other information comprises the information contained in the Credit Union's Annual Report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

Crowe Horwath Albury is a member of Crowe Horwath International, a Swiss *verein*. Each member firm of Crowe Horwath is a separate and independent legal entity. Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.



Responsibilities of the Directors for the Financial Report

The directors of the Credit Union 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

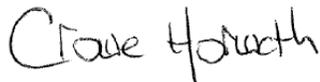
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.


CROWE HORWATH ALBURY



BRADLEY D BOHUN
Partner

19 September 2018
Albury