

# Annual Report 2018



**Unity Bank**

*your bank at work*





## Our Vision

The lifelong financial prosperity, security  
and dignity of our Members.

## Our Mission

Unity Bank is Member-Owned. We are committed to our Members...workers,  
their families and the communities we serve. Our values are built on the  
principles of cooperation, mutuality and unity of purpose, carrying forward the  
vision of our Founders. We always stand by our Members.

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## CHAIR'S REPORT



### A Successful First Year as a Member Owned Bank

I would like to start this report by thanking our members, staff and partners for making our first year as a Mutual Bank one to remember. We recorded our best operating performance for several years, received a very strong endorsement from members through the survey we

conducted in early 2018 and successfully transitioned our merger with Bankstown City Credit Union. In addition, we were extremely pleased to be selected by Central Coast Credit Union as their preferred merger partner and we are looking forward to them joining our growing Mutual Bank family in December 2018.

Continuing on where I left off in my report last year, we have witnessed extraordinary revelations emanating out of the Financial Services Royal Commission. While I do not intend to go into too much detail here, as there has been an enormous amount of comment and analysis, I would like to point out that the member owned banking sector that we are proudly part of has not been subject to the criticism and outrage that the large banks have rightfully attracted. ***The reason for this is simple, our sole purpose has been and always will be, to look after the best interests of our members.***

We are working closely with our Industry Association "COBA" to build a voice of influence in government and the community to highlight the difference in behaviour between large listed banks and the mutual member owned sector. The Commission has also highlighted the need for regulators to focus more of their energies on better targeting their activities which we hope will lead to a more equitable and favourable environment for smaller member owned banks and credit unions.

### Innovation

Our commitment to provide members with access to the latest developments in banking and payments continued during the year with the launch of the National Payments Platform (NPP) and our Children's Financial Literacy App, Chore Scout. ***The NPP became available in February 2018 and we were one of over 30 member owned banks/credit unions that were up and running on day one.***

Cuscal, our payment partner, has been a major contributor to the development and roll-out of what is a significant change in the way people can transfer value and information between each other. No longer do you have to wait days to transfer funds between bank accounts, it now only takes seconds. Over 1500 of our members have already registered for this service and with the major banks slowly coming online, we expect the take up to increase considerably in coming months.

Chore Scout, which provides parents with the ability to use digital technology to educate their children about the value of savings and setting financial goals, has also been greatly appreciated by a number of our members.

### Bankstown City Unity Bank

I am very pleased to be able to report that our merger with Bankstown City Credit Union, as predicted, has been a wonderful addition to our Bank and we have been delighted to be able to carry on with the proud tradition and legacy that those before us had developed. To ensure we were meeting member expectations, we undertook a member survey in early 2018 with BCUB members and the results were very encouraging. Overall members were extremely satisfied with the service they were receiving and were also making good use of the additional services now available to them.

***Our commitment to Bankstown and the surrounding communities will remain as strong as it has been since the Credit Union was first formed and our soon to be opened Service Centre within the exciting new development at Bankstown Sports Club is a clear demonstration of this.***

### Reliance Bank

Our Central West operations have recorded the strongest results since our merger with Reliance Credit Union in 2010. Membership continues to grow, our loans portfolio grew by over 15%, more members are trusting us with their hard earned savings, all of which has allowed us to increase our involvement in supporting community events and social causes. While the list of items we support is too long to mention, they do include being the major sponsor of the Royal Bathurst Show, the Bathurst Memorial Entertainment Centre, Bathurst Community Transport, Bathurst Panthers Rugby League Team, the Bathurst Criterion Cycle Classic and the Penrith Panthers Children's Football Clinic.

***We see ourselves as having a responsibility to work with community leaders in developing strategies to enhance the economic and social fabric of what is a wonderful region.***

Our participation in "Upstairs", a Start Up initiative between Bathurst Regional Council, Charles Sturt University, the NSW Department of Premier and ourselves, is a great example of how we are fulfilling our responsibilities in this area.

### Our Partners

***Our success is built around collaboration and this can be best demonstrated through the partnerships we have with organisations that are also committed to serving the best interests of their members.*** Trade Unions, including the Maritime Union (who were responsible for the creation of the Bank), the Mining & Energy and Forestry, Furnishing and Products divisions of the CFMMEU, and in more recent times the Electrical Trades Union of Victoria, are organisations that play an important role in our success. We continue to work closely with Industry Super Funds Maritime Super and Mine Super in developing ways in which we can jointly enhance our service offerings to our respective members.

In more recent times, our merger with Bankstown City Credit Union has led to the creation of additional partnerships with the Bankstown Chamber of Commerce and Bankstown Sports Club.

In regional areas the support and encouragement we receive from community groups, local council and small business associations are greatly appreciated.





## Community Support



Reliance Bank Panthers Football Clinic



Reliance Bank Royal Bathurst Show



Lakes Surf Club



Reliance Junior Sports Awards 2018



ETU Victoria Conference



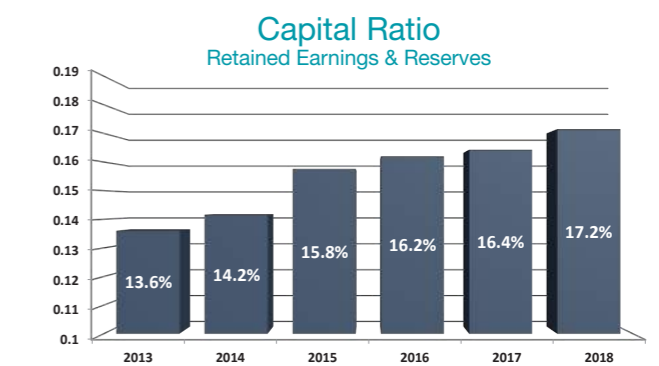
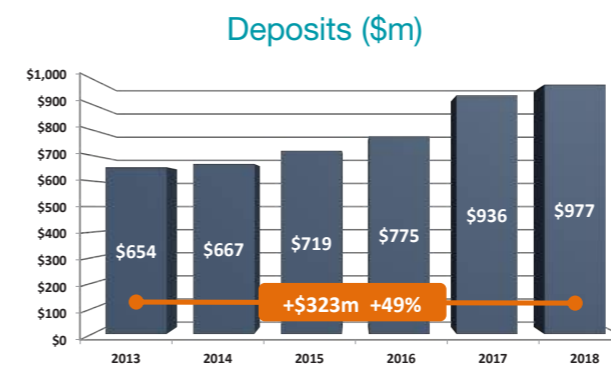
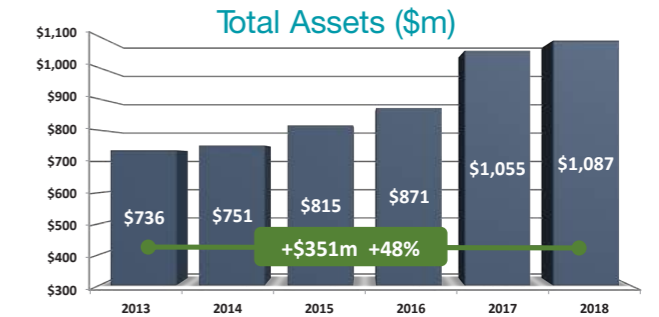
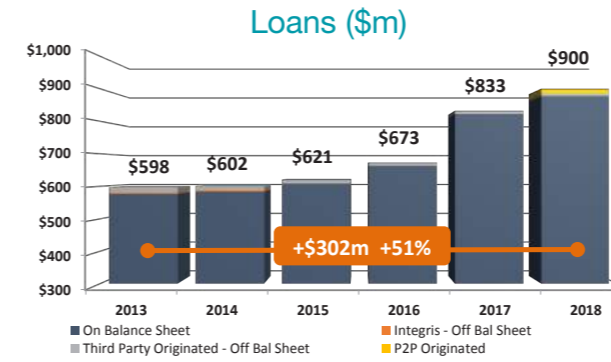
CFMMEU National Conference



The Collie Eagles



Bankstown Food Festival



## Board of Directors

As reported last year, the Board had acknowledged the need to reduce the number of directors following recent mergers. Greg Busson, who joined us from Collie Miners Credit Union (CMCU), retired during the year. Greg was instrumental in overseeing the merger with CMCU and is someone who was greatly respected by everyone associated with the Bank. On behalf of the Board and the team at Unity I would like to thank Greg for his service and wish him well as he takes on the challenging role as a full time trade union official.

There will be additional reductions to director numbers during the 2018/19 financial year which will be detailed at this year's AGM.





## Gratitude

Any member owned organisation relies heavily on the support of members, staff and key partners to succeed in what is a very competitive and challenging financial services market. In the past twelve months we have seen reams of new regulations, the launch of a Royal Commission, the introduction of new payments systems and the maintenance of record low interest rates, all of which add to the cost of doing business. *Our challenge, which we have met thanks to our members support, is to maintain the caring and professional service that stands us apart from the larger profit focused banks.*

During the year, three of our long term staff members announced their retirement after stellar careers - Barbara Ryan the Manager of our Melbourne operations for over 32 years, Lee Sutherland, our Hunter Valley Relationship Manager, who served our members in the region for over 12 years and Jan Bayliss our Procurement and Office Manager, who was a key member of our Reliance Bank team. All three ladies provided exceptional service to thousands of our members and made a real difference through the genuine care they demonstrated for everyone they came in touch with. On behalf of the Board, our staff, and members I would like to express our heartfelt appreciation and thanks for the contribution they made to our member owned bank.

To all of our staff, I would like to personally recognise your ongoing efforts in caring for the needs of our members and ensuring that their best interests are always our priority.



Mick Doleman  
CHAIR

## OUR EXECUTIVE MANAGEMENT TEAM



Joanne Charles General Manager, Member Experience & Digital Transformation	Mark Genovese Chief Executive Officer	Adrian Finch General Manager, Treasury & Strategic Projects	Danny Pavisic Deputy CEO, General Manager Corporate Services	David Gilbert General Manager, Sales & Service
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Your Directors present their report on Unity Bank Limited for the financial year ended 30 June 2018. The Bank is a company registered under the **Corporations Act 2001**.

## INFORMATION ON DIRECTORS

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

### MICHAEL DOLEMAN

Chair

**Experience:** Chair, Unity Bank since 2010  
Director of Unity Bank since 1999  
Former Director, Australian Diver Accreditation Scheme  
Director, Maritime Super  
SUA Official 1984 - 1993  
Former Director, Seacare Authority  
Former Director Transport & Logistics Industry Council  
Former Deputy National Secretary of MUA  
Chair ITF Offshore Taskforce Group



**Committees:** Member, Audit Committee  
Member, Risk Committee  
Chair, Remuneration Committee  
Chair, Director Nominations Committee  
Chair, Corporate Governance Committee

### SARAH HALL

Deputy Chair

**Experience:** Director of Unity Bank since 2008  
Former Director, Power Credit Union 2001 - 2008  
Former Chair, Hardies Employees Credit Union 18 months  
Former Director, Hardies Employees Credit Union 3 yrs



**Qualifications:** Bachelor Commerce - Legal Studies  
Masters of Commerce - Marketing  
Graduate Certificate - Management  
MAMI

**Committees:** Member, Corporate Governance Committee  
Member, Director Nominations Committee  
Member, Remuneration Committee

### DAVID CONROY

Board Appointed Director

**Experience:** Director of Unity Bank since 2008  
Principal - Conroy Audit and Advisory  
Fellow of the Institute of Chartered Accountants in Australia  
Registered Company Auditor  
Registered Tax Agent  
Chair, Bowlers Club of New South Wales Limited



**Committees:** Chair, Audit Committee  
Chair, Risk Committee  
Member, Remuneration Committee



**ANDREW VICKERS**

Director

Resigned from the Board on 22/11/2017

**Experience:**

Director of Unity Bank 2009 - 2017  
 General Secretary CFMEU Mining and Energy 2009 - 2017  
 General Vice President CFMEU Mining and Energy 2006 - 2009  
 Queensland President CFMEU Mining and Energy 1981 - 2006  
 Co-Chair, Mining Sector, IndustriALL - Global Union  
 Chair, United Colliery Joint Venture Board  
 Chair, Mine Worker's Trust 2009 - 2017  
 Chair and Director, Coal Mining Industry Long Service  
 Leave Corporation 2009 - 2018  
 Director, Queensland Coal and Oil Shale Superannuation Fund 2001 - 2004



**Committees:**

Member, Marketing Committee

**MATTHEW IRVINE**

Director

**Experience:**

Director of Unity Bank since October 2010  
 Former Director of Reliance Credit Union since  
 November 2009 and previously from 2004 - 2008  
 Two terms on Reliance Credit Union Board as Deputy Chair  
 Director and Principal Consultant, iDrive NSW Pty Ltd  
 (T/A Calare Academy of Road Safety)  
 Chair - Western Region Academy of Sport 2013 - Current, Director since 2005  
 Chair, The Westhaven Association  
 Vice President and Honorary Treasurer - Bathurst AH&P Association & Royal  
 Bathurst Show 2012 - Current  
 Board Member, Bathurst Community Transport Group Incorporated  
 Public Officer and Treasurer, Perthville Development Group Incorporated  
 White Ribbon Ambassador



**Qualifications:**

Graduate Certificate in Commerce  
 Bachelor of Business Studies  
 Member, Australian Institute of Company Directors, Western Region Committee  
 Fellow, AICD  
 Fellow, AMI

**Committees:**

Chair, Marketing Committee  
 Chair, Reliance Community Support Fund

**GARRY KEANE**

Director

**Experience:**

Director of Unity Bank since July 2011  
 Rank & File Member of Waterside Workers Federation  
 1974 - 1993  
 Rank & File Member of Maritime Union of Australia 1993 - 2007  
 Honorary Deputy Branch Secretary NSW Branch MUA 1998 - 2007  
 Southern NSW MUA Branch Secretary 2007 to present  
 MUA Deputy National Presiding Officer 2015 to present



**Committees:**

Member, Corporate Governance Committee  
 Member, Director Nominations Committee  
 Member, Marketing Committee

**MARC WORNER**

Director

**Experience:**

Director of Unity Bank since July 2010  
 Director, Gosford City Credit Union 2009 - 2010  
 Chair, Gosford City Credit Union 2010  
 Director, Landscape Contractors Assoc NSW/ACT 2009 - 2010  
 National President Aust Institute of Horticulture 2006 - 2008  
 NSW State President Aust Institute of Horticulture 2005 - 2006  
 Member, Technical Comm., NSW Environmental Trust 2011 - 2018  
 Chair, Central Coast Community College since 2016 - 2018  
 Small Business Owner since 1991  
 White Ribbon Ambassador since 2012



**Qualifications:**

Bachelor Economics  
 Post Grad Cert Bank & Finance  
 Diploma Horticulture (Lscape Design)  
 Diploma Marketing  
 Diploma Australian Institute  
 of Company Directors  
 Fellow, AICD  
 Fellow, AMI

**Committees:**

Member, Corporate Governance Committee  
 Member, Director Nominations Committee  
 Member, Risk Committee

**MARK WATSON**

Director

**Experience:**

Director of Unity Bank since September 2012  
 Director of Auscoal Superannuation Pty Ltd, as trustee  
 for Mine Super since July 2013  
 CFO, CFMEU Mining & Energy National  
 Office since March 2005



**Qualifications:**

Bachelor of Commerce  
 Member, Institute of Chartered Accountants  
 Graduate, Australian Institute of Company Directors

**Committees:**

Member, Audit Committee  
 Member, Risk Committee

**MICH-ELLE MYERS**

Director

**Experience:**

Director of Unity Bank since November 2013  
 Elected member of MUA National Council 2015  
 Rank and File Member of the MUA since 1999  
 National Officer of the MUA since 2009



**Committees:**

Member, Marketing Committee

**GREG BUSSON**

Director

**Experience:**

Term ended on 18/03/2018  
 Director of Unity Bank 2015 - 2018  
 Former Chair of Collie Miners Credit Union 2013 - 2015  
 and Director from 2010.  
 CFMEU W.A. District President, since 2012



**RAY SHINA**

Director

**Experience:** Director of Unity Bank since April 2016  
Former Director, Shell Employees' Credit Union Ltd 1996 - 2016  
Former Chair, Shell Employees' Credit Union Ltd 2008 - 2016  
Former Director BOC Superannuation Pty Ltd 2010 - 2016

**Qualifications:** Bachelor of Commerce - Accounting & Business Law  
Associate Diploma of Business, Accounting  
Diploma of Project Management, Member AICD, Member AMI

**Committees:** Member, Risk Committee



**RAAD RICHARDS**

Director

**Experience:** Director of Unity Bank since June 2017  
Former Chair of Bankstown City Credit Union Ltd 2010 - 2017  
Former Deputy Chair of Bankstown City Credit Union Ltd 2003 - 2010  
Former Director of Bankstown City Credit Union Ltd 2000 - 2017  
Chairman, Creating Links Community Services Ltd.  
Deputy Chairman, Leigh Place Aged Care Ltd.  
Board Member, Meaningful Ageing Australia

**Qualifications:** Graduate Diploma HR and IR, Bachelor of Business  
MHP, AFCHSE, AAIM, MAICD  
Master of Health Planning (MHP)

**Committees:** Member, Audit Committee



**DARREN GOSSLING**

Director

**Experience:** Director of Unity Bank since June 2017  
Former Deputy Chair of Bankstown City Credit Union Ltd 2010 - 2017  
Former Director of Bankstown City Credit Union Ltd 2001 - 2017  
Managing Partner and Director Rohling International Pty Ltd.

**Qualifications:** MBA - Marketing & Global Strategy  
Bachelor of Engineering - Computer Systems and Telecommunications  
GAICD

**Committees:** Member, Risk Committee



**GRAHAME KELLY**

Director

Appointed to the Board 24/01/2018

**Experience:** Director of Unity Bank since January 2018  
General Secretary with the Construction Forestry Mining and Energy Union (CFMEU), Mining and Energy Division since 2017  
Chair of Auscoal Superannuation Pty Ltd, as trustee for the Mine Super Fund since January 2015 and Director since 2006  
Director of Mine Super Services Pty Ltd (formerly AUSCOAL Services Pty Ltd) since October 2006  
Director of the Coal Long Service Leave Funding Corporation since 2018

**Committees:** Member, Marketing Committee



**Company Secretary**

The name of the Company Secretary in office at the end of the year is:

Name	Qualifications	Experience
<b>Danny Pavisic</b> Deputy CEO	MBA-MGSM DIP Business - Accounting	37 years management experience in the Financial Services Industry.

**Directors' Meeting Attendances**

Director	Board		Audit		Risk		Corporate Governance	
	H	A	H	A	H	A	H	A
Michael Doleman	11	10	6	5	6	6	2	2
Sarah Hall	11	10					2	2
David Conroy	11	11	6	6	6	6		
Matthew Irvine	11	11	3	3			1	1
Andrew Vickers (1)	5	5						
Marc Worner	11	11			6	5	2	2
Garry Keane	11	9					2	2
Mark Watson	11	11	6	6				
Mich-Elle Myers	11	10						
Greg Busson (3)	8	6	1	1	3	2		
Ray Shina	11	9	3	3	3	2		
Raad Richards	11	9	3	1				
Darren Gosling	11	10			3	3		
Grahame Kelly (2)	5	4						

**H = Meeting held in the period of Appointment    A = Attended**

(1) Mr Andrew Vickers resigned from the Board in November 2017

(2) Mr Grahame Kelly was appointed to the Board in January 2018

(3) Mr Greg Busson's term ended in March 2018

**Directors' Benefits**

No Director has received or become entitled to receive during, or since the end of the financial year, a benefit because of a contract made by the Bank, controlled Bank, or a related body corporate with a Director, a firm of which a Director is a member or a Bank in which a Director has a substantial financial interest, other than that disclosed in note 32 of the financial report.

**Indemnifying Officer or Auditor**

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

No insurance cover has been provided for the benefit of the auditors of Unity Bank Limited.





### Principal Activities

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

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

### Operating Results

The net profit of Unity Bank Limited for the year after providing for income tax was \$4,150,869 [2017: \$2,190,406].

### Dividends

No dividends have been paid or declared on member shares since the end of the financial year and no dividends have been recommended or provided for by the Directors of the Bank.

### Review of operations

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

### Significant changes in state of affairs

The \$10m Tier 2 Capital Instruments were redeemed on the 28th of December 2017.

There were no other significant changes in the state of the affairs of Unity Bank Limited during the year.

### Events occurring after the end of the reporting date

There are no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of Unity Bank Limited in subsequent financial years.

### Likely developments and results

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

- (i) The operations of Unity Bank Limited;
- (ii) The results of those operations; or
- (iii) The state of affairs of Unity Bank Limited

in the financial years subsequent to this financial year.

### Rounding

The Bank is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000, or in certain cases, to the nearest dollar.

### Auditors' Independence

The auditors have provided the declaration of independence to the Board as prescribed by the *Corporations Act 2001* as set out on page 14.

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



Mr M Doleman  
Chair



Mr D Conroy  
Chair, Audit & Risk Committees

Signed and dated this 29th day of August 2018.







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## Auditor's Independence Declaration

To the Directors of Unity Bank Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Unity Bank Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

*Grant Thornton*

Grant Thornton Audit Pty Ltd  
Chartered Accountants

*Madeleine Mattera*

Madeleine Mattera  
Partner – Audit & Assurance

Sydney, 29 August 2018

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## Independent Auditor's Report

To the Members of Unity Bank Limited

Report on the audit of the financial report

### Opinion

We have audited the financial report of Unity Bank Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in member equity and consolidated 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 the Company is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the year ended on that date; 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 Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have 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.

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**Information other than the financial report and auditor's report thereon**

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 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.

**Responsibilities of the Directors' for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The Directors' responsibility also includes 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial report**

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our auditor's report.

*Grant Thornton*

Grant Thornton Audit Pty Ltd  
Chartered Accountants

*Madeleine Mattera*

Madeleine Mattera  
Partner – Audit & Assurance

Sydney, 29 August 2018

1. In the opinion of the directors of Unity Bank Limited:
  - a. the financial statements and notes of Unity Bank Limited and its controlled entities are in accordance with the Corporations Act 2001, including:
    - i. giving a true and fair view of its financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
    - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - b. there are reasonable grounds to believe that Unity Bank Limited will be able to pay its debts as and when they become due and payable.
  
2. The consolidated financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.

Director \_\_\_\_\_  
Mr M Doleman  
Chair

Dated this 29th day of August 2018.



The Board of Unity Bank is responsible for the corporate governance of the Bank. This statement generally describes the practices and processes adopted by the Board to ensure sound management of the Bank within the legal framework under which we operate.

### Composition of the Board

To enable the Board to undertake all of its functions, it is necessary to have a well structured Board. Unity Bank's Constitution permits the Bank to determine the number of elected and appointed Directors. Unity Bank currently has eight (8) elected Directors and four (4) appointed Directors.

### Role of the Board

The Board's primary role is to enhance and protect long-term member value. To fulfil this role, the Board has extensive business acumen and a close association and deep understanding of the unique characteristics of the industries and communities in which it operates. This allows the Board to bring accountability and judgment to its deliberations thus ensuring optimal benefits are passed on to its members and employees. In particular the Board:

- Provides strategic direction
- Provides leadership in terms of corporate governance
- Reports to members and ensures all regulatory requirements are met
- Oversees the financial performance and monitors its business affairs on behalf of members
- Develops, reviews, monitors and ensures the effectiveness of the Risk Management Framework and Compliance systems in order to identify and manage significant business risk
- Appoints the Chief Executive Officer
- Monitors performance and approves the remuneration of the Chief Executive Officer
- Ensures that the Bank's business is conducted ethically and transparently.

Responsibility for the day to day activities of the Bank is delegated to the Chief Executive Officer.

### Director Independence

As required by APRA's Governance Standard (CPS 510) and the Bank's own Governance Policy, the Board has conducted its annual review of the Board's composition and succession arrangements. As part of that review, the Board assessed each Director's independence by reference to the requirements and guidelines set out in CPS 510 and the 2014 Australian Stock Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations third edition.

Although the Board assessed Directors against each of the 7 ASX independence factors the Board paid particular regard to the threshold independence test set out in paragraph 23 in CPS 510. That is, the Board resolved that it would only determine Directors to be 'Independent' upon being absolutely satisfied that they were: "... free from any business or other association...that could materially interfere with the exercise of their independent judgment".

All the current Directors of the Bank have been assessed as independent Directors. In reaching that determination, the Board has taken into account (in addition to the matters set out below) the intent of each principle by reference to the broader context and arguments contained in the full ASX Council report.

The Board took into account whether each Director:

- is or has been employed in an executive capacity by the entity or any of its child entities and there has not been a period of at least three years between ceasing such employment and serving on the Board
- is, or has within the last three years been, a partner, Director or senior employee of a provider of material professional services to the entity or any of its child entities
- is, or has within the last three years, been in a material business relationship (e.g. as a supplier or customer) with the entity or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship
- is a substantial security holder of the entity or an officer of, or otherwise associated with, a substantial security holder of the entity
- has a material contractual relationship with the entity or its child entities other than as a Director
- has close family ties with any person who falls within any of the categories described above
- has been a Director of the entity for such a period that his or her independence may have been compromised

The Bank does not consider that term of service on the Board is a factor affecting a Director's ability to act in the best interests of the Bank. Independence is judged against the ability, integrity and willingness of the Director to act.

A number of Directors are Officers or Directors of the superannuation funds Maritime Super Pty Limited or Mine Super Services Pty Ltd and unions (MUA and CFMMEU) which serve the maritime and mining industries. These associations are detailed under Information on Directors.

In assessing these relationships, the Board considered the nature of the customer relationships between the relevant organisations and the Bank, the 'materiality' of any relationship and the nature of each Director's personal role and position in those organisations, both generally and with specific regard to matters relating to the customer relationships between those organisations and the Bank.

By adopting this dual perspective, the Board's broad aim was to determine whether or not any current Directors have (or could reasonably be perceived to have) a conflict of interest due to their relationships with certain customers of the Bank. More specifically, the Board sought to determine whether the concurrent existence of the applicable 'customer' and personal relationships were of a kind that could materially interfere with the relevant Directors exercising their independent judgment when fulfilling their roles on the Board.

The Board determined that it does not consider it would be appropriate for it to conclude (as a necessary consequence of those customer relationships) that these Directors should be regarded as non-independent.





### Conflicts of Interest

In accordance with the *Corporations Act 2001* and the Board Charter, Directors must keep the Board informed of any interests which potentially conflict with the interests of the Bank. The Board has developed guidelines to assist Directors in disclosing potential conflicts of interest. Directors' disclosures are formally updated monthly. Transactions between Directors and the Bank are subject to the same terms and conditions that apply to members.

### Board Performance Assessment

The Board is committed to continual improvement and has established an evaluation process for each individual Director and the Board as a whole. The Board has assessed the skills of individual Directors against those it considers the Board as a whole should possess. It has identified a number of required and desired skill sets which it will be addressing through a measured approach to Director renewal and the addition of Board Appointed Directors.

### Risk Management

The recognition and management of risk is a critical function within the Bank. During the course of the year, the Board has further developed and enhanced its comprehensive Risk Management Framework (RMF). The RMF consists of committee structures, policies, risk tolerances, processes, internal controls, external review and training to manage:

- Strategic Risk
- Market Risk
- Operational Risk
- Credit Risk
- Asset Quality
- Balance Sheet Risk
- Regulatory Risk
- Capital & Liquidity

The RMF will be further enhanced and maintained on an ongoing basis.

### Internal Audit

Internal audit services are currently provided by Unity Bank's Internal Audit Department and supported by Ernst and Young. Internal Audit provides independent and objective assurance to management and the Board to assist the Board in determining whether the Bank's network of risk management, control, and governance processes, as designed and represented by management, are adequate and functioning in a proper and effective manner.

### Board Committees

To assist in the execution of its responsibilities, the Board has established a number of committees each with their own Terms of Reference which are reviewed annually. Details of the Committees in place are contained below.

#### Audit Committee

Key responsibilities include:

- Overseeing and examining the internal and external audit process and reports
- Approval and monitoring of the internal audit program
- Reviewing the draft annual financial report and audit and making recommendations to the Board for approval of the annual report
- Making recommendations on the appointment of and monitoring the effectiveness and independence of the external auditor.
- Oversight of APRA statutory reporting requirements.

#### Risk Committee

Key responsibilities include:

- Overseeing compliance with statutory and corporate requirements
- Overseeing and examining the adequacy of the risk management systems
- Advising the Board of current and future risks

#### Director Nominations Committee

The purpose of the Director Nominations Committee is to assess all Directors, including existing Directors, prior to their appointment or election. This is in accordance with the Board's Fit and Proper Policy and APRA's Fit and Proper Prudential Standard.

The Committee also assesses all senior managers against the Fit and Proper Policy of the Bank except for the CEO who is assessed by the Board.

#### Remuneration Committee

The Remuneration Committee sets the parameters for the remuneration of Directors and the Chief Executive Officer whilst recognising the Unity Bank Constitution and its Governance policy. It proposes to the Board remuneration for Directors and the Chief Executive Officer in line with the Bank's strategic plan, budget and succession plans.

#### Marketing Committee

The Marketing Committee assists with developing strategies and plans to identify benefits and products that enhance the Bank and lead to overall growth in membership.

#### Corporate Governance Committee

The primary objective of the Corporate Governance Committee is to assist the Board in promoting and implementing improved governance practices.

The Committee's key responsibilities are to:

- Monitor corporate governance developments and bring to the Board's attention matters of importance and recommendations for improvement.
- Review and recommend amendments to the guidelines for Directors and monitor compliance.
- Review and recommend to the Board this Corporate Governance Statement for inclusion in the Annual Report.
- Recommend policies and guidelines for matters of governance generally, including the process of disclosure of information from the Board to members.
- Review and recommend preferred attributes for the nomination of potential Board appointed Directors.
- Develop and oversee a Director educational programme.



**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018 \$'000	2017 \$'000
Interest Revenue	2(a)	46,303	39,539
Interest Expense	2(c)	16,226	14,137
Net Interest Income		<b>30,077</b>	<b>25,402</b>
Fees, commission and other income	2(b)	5,610	5,506
		<b>35,687</b>	<b>30,908</b>
Less			
Non Interest expenses			
Impairment losses on available for sale assets	2(d)	50	44
Impairment losses on loans receivable from members	2(d)	482	655
Impairment losses on other loans	2(d)	852	177
Fee and commission expenses		1,598	1,472
General administration			
- Employees compensation and benefits		15,362	13,661
- Depreciation and amortisation	2(e)	1,636	1,437
- Information technology		2,753	2,308
- Office occupancy		1,734	1,510
- Other administration		2,488	2,355
Other operating expenses		3,892	4,127
Total non interest expenses		<b>30,847</b>	<b>27,746</b>
Profit before income tax		<b>4,840</b>	<b>3,162</b>
Income tax expense	3	689	972
Profit after income tax		<b>4,151</b>	<b>2,190</b>
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the period		<b>4,151</b>	<b>2,190</b>

The accompanying notes form part of the financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBER EQUITY  
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	Capital Reserve \$'000	Asset Revaluation Reserve \$'000	Reserve for Credit Losses \$'000	General Reserve \$'000	Retained Earnings \$'000	Total Members' Equity \$'000
		(21)	(22)	(23)			
<b>Total at 1 July 2016</b>		<b>357</b>	<b>350</b>	<b>2,040</b>	<b>1,496</b>	<b>71,048</b>	<b>75,291</b>
Profit for the year		-	-	-	-	2,190	2,190
Dividends Paid and provided		-	-	-	-	-	-
Net Profit After Dividend		-	-	-	-	2,190	2,190
Transfer to General Reserve on Repayment of T1 Capital Instrument		-	-	-	680	-	680
Transfer from Provision for Redunancy		-	-	-	-	258	258
Transfer from Provision for Merger Incentive		-	-	-	-	47	47
Transfer to capital account on redemption of shares		13	-	-	-	(13)	-
Transfer of Business - Bankstown City CU		225	3,703	623	603	13,300	18,454
							-
<b>Total at 30 June 2017</b>		<b>595</b>	<b>4,053</b>	<b>2,663</b>	<b>2,779</b>	<b>86,830</b>	<b>96,920</b>
Profit for the year		-	-	-	-	4,151	4,151
Dividends Paid and provided		-	-	-	-	-	-
Net Profit After Dividend		-	-	-	-	4,151	4,151
Transfer to capital account on redemption of shares		20	-	-	-	(20)	-
Transfer of Business - Bankstown City CU		-	-	-	-	(327)	(327)
<b>Total at 30 June 2018</b>		<b>615</b>	<b>4,053</b>	<b>2,663</b>	<b>2,779</b>	<b>90,634</b>	<b>100,744</b>

The accompanying notes form part of the financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018 \$'000	2017 \$'000
<b>ASSETS</b>			
Cash	4	15,287	20,485
Liquid investments	5	163,257	178,101
Receivables	6	1,204	1,571
Prepayments		1,121	1,102
Loans to members	7 & 8	877,690	822,612
Other loans	9	13,904	13,983
Available for sale equity investments	10	4,449	4,499
Property, plant and equipment	11	11,223	12,107
Taxation assets	12 & 17	1,914	2,857
Intangible assets and capitalised costs	13	456	432
<b>Total Assets</b>		<b>1,090,505</b>	<b>1,057,749</b>
<b>LIABILITIES</b>			
Deposits from other financial institutions	14	-	4,000
Deposits from members	15	977,658	932,210
Creditor accruals and settlement accounts	16	8,656	8,688
Taxation liabilities	17	-	-
Provisions	18	3,433	5,917
Deferred tax liabilities	19	14	14
Long term borrowings	20	-	10,000
<b>Total Liabilities</b>		<b>989,761</b>	<b>960,829</b>
<b>NET ASSETS</b>		<b>100,744</b>	<b>96,920</b>
<b>MEMBERS' EQUITY</b>			
Capital reserve account	21	615	595
Asset revaluation reserve	22	4,053	4,053
General reserve for credit losses	23	2,663	2,663
General reserve		2,779	2,779
Retained earnings		90,634	86,830
<b>Total Members Equity</b>		<b>100,744</b>	<b>96,920</b>

The accompanying notes form part of the financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018 \$'000	2017 \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Interest received		46,302	40,151
Fees and commissions		5,146	4,716
Dividends		143	252
Other income		416	440
		-	-
<b>Cash Outflows</b>			
Interest paid		(15,493)	(14,207)
Suppliers and employees		(30,893)	(26,119)
Income taxes paid		253	(934)
Net cash from revenue activities	36(b)	<b>5,874</b>	<b>4,299</b>
<b>Inflows from other operating activities</b>			
Increase in member loans (net movement)		(55,585)	(26,286)
Increase in member deposits and shares (net movement)		45,196	18,200
Receivables from other financial institutions (net movement)		14,844	34,609
<b>Net cash from operating activities</b>		<b>10,329</b>	<b>30,822</b>
<b>INVESTING ACTIVITIES</b>			
<b>Inflows</b>			
Proceeds on sale on investments in shares		-	-
Proceeds on sale of property, plant and equipment		139	106
Net Cash received on Transfer of Engagements		-	2,863
		-	-
<b>Less: Outflows</b>			
Loan Funding to SocietyOne		(772)	(11,231)
Purchase on investments in shares		-	(750)
Purchase of property, plant and equipment		(573)	(2,111)
Purchase of Intangible Assets		(320)	(273)
<b>Net cash from investing activities</b>		<b>(1,527)</b>	<b>(11,396)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Inflows (Outflows)</b>			
(Decrease)/Increase in deposits to other financial institutions (net)		-	-
Increase in borrowings (net movement)		(4,000)	-
Loan to capital investors		(10,000)	680
Repayment of Subordinated Debt		-	(9,000)
Dividends paid on preference shares		-	-
<b>Net cash from financing activities</b>		<b>(14,000)</b>	<b>(8,320)</b>
<b>Total net cash (decrease)/increase</b>		<b>(5,198)</b>	<b>11,106</b>
<b>Cash at beginning of year</b>		<b>20,485</b>	<b>9,379</b>
<b>Cash at end of year</b>	36(a)	<b>15,287</b>	<b>20,485</b>



The accompanying notes form part of the financial statements.

**Table of other notes to accounts**

24	Financial risk management objectives and policies
25	Categories of financial instruments
26	Maturity profile of financial assets and liabilities
27	Interest rate change profile of financial assets and liabilities
28	Fair value of financial assets and liabilities
29	Financial commitments
30	Standby borrowing facilities
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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

This financial report is prepared for Unity Bank Limited, for the year ended the 30<sup>th</sup> June 2018. The report was authorised for issue on the 29<sup>th</sup> of August, 2018 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

Unity Bank Limited is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is:

L7, 215 - 217 Clarence Street  
Sydney NSW 2000

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

Compliance with Australian Accounting Standards ensures compliance with the *International Financial Reporting Standards* (IFRSs) as issued by the International Accounting Standards Board (IASB). Unity Bank Limited is a for-profit entity for the purpose of preparing the financial statements.

**(a) Basis of Measurement**

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non-current assets [except for real property and available for sale investments which are stated at fair value]. The accounting policies are consistent with the prior year unless otherwise stated.

**(b) REPO Securitisation Trust consolidation**

The Bank has initiated the creation of a trust which holds rights to a portfolio of mortgage secured loans to enable the Bank to secure funds from the Reserve Bank of Australia if required to meet emergency liquidity requirements.

The Bank continues to manage these loans and receives all residual benefits from the trust and bears all the losses should they arise. Accordingly:

- a. The trust meets the definition of a controlled entity; and
- b. As prescribed under the accounting standards, since the Bank has not transferred all risks and rewards to the trust, the assigned loans are retained on the books of the Bank and are not de-recognised.

The Bank has elected to present one set of financial statements to represent both the Bank as an individual entity and consolidated entity on the basis that the impact of consolidation is not material to the entity.

**(c) Classification and subsequent measurement of financial assets**

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

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

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

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

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

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

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

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Bank's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

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

#### **Financial assets at FVTPL**

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Bank does not carry any assets in this category.

#### **HTM investments**

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

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

#### **Available-For-Sale (AFS) financial assets**

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

The equity investments in Cuscal Limited, TransAction Solutions Ltd, SocietyOne Holdings Ltd and Shared Service Partners Ltd are measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

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

#### **(d) Classification and subsequent measurement of financial liabilities**

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

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. Any derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

#### **Derivative financial instruments and hedge accounting**

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which requires a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

The Bank does not carry any assets or liabilities in this category.

#### **(e) Loans to Members**

##### **(i) Basis of recognition**

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the income statement over the period of the loans using the effective interest method.

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

**(ii) Interest earned**

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

**Overdraft** – interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

**Credit cards** – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the 10th day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

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

**(iii) Loan origination fees and discounts**

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

**(iv) Transaction costs**

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

**(v) Fees on loans**

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

**(vi) Net gains and losses**

Net gains and losses on loans to members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

**(f) Loan Impairment**

**(i) Specific and collective provision for impairment**

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8. Note 25 details the credit risk management approach for loans.

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

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

**(ii) Reserve for credit losses**

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

- the level of security taken as collateral;
- the historical performance on bad and doubtful debts provisioning;
- the concentration of loans taken by employment type;
- the concentration of loans taken by geographical concentration; and
- the estimated movement in the GDP.

**(iii) Renegotiated loans**

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

**(g) Bad debts written off (direct reduction in loan balance)**

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

**(h) Property, plant and equipment**

Land and buildings are measured at cost less accumulated depreciation. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the income statement. Revaluation decreases are debited to the income statement unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

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

- Buildings - 40 years.
- Leasehold improvements - 5 to 10 years.
- Plant and equipment - 3 to 7 years.
- Assets less than \$1,000 are not capitalised.



**(i) Receivables from other financial institutions**

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

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

**(j) Equity investments and other securities**

**Investments in marketable financial instruments**

Available for sale financial instruments held for trading are measured at fair value. Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

Investments in shares listed on the stock exchanges are revalued to fair value based on the market bid price at the close of business on statement of financial position date. Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount.

Movements on Available for Sale asset balances are reflected in equity through the Available for Sale Reserve.

All investments are in Australian currency.

**(k) Member Deposits**

**(i) Basis for measurement**

Member savings and term investments are quoted at the aggregate amount payable to depositors as at the balance date.

**(ii) Interest payable**

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

**(l) Borrowings**

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

**(m) Provision for employee benefits**

Provision is made for the Bank's liability for employee benefits arising from services rendered by employees to balance date.

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement. Annual Leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the Group does not expect all annual leave for all employees to be used wholly within 12 months of the end of the reporting period. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Annual leave liability is still presented as a current liability for presentation purposes under AASB 101 Presentation of Financial Statements.

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

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

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

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

**(n) Leasehold on premises**

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

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted using national government bond rates.

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

**(o) Income tax**

The income tax expense shown in the income statement is based on the profit before income tax adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

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

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Bank will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit an income tax benefit to be obtained.

**(p) Intangible assets**

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

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

**(q) Goods and services tax**

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

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

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

**(r) Cash and cash equivalents**

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

**(s) Business combinations**

The Group applies the acquisition method in accounting for business combinations. Under the Financial Sector (Transfers of Business) Act 1999 all the assets and liabilities of the transferring body, wherever those assets and liabilities are located, become (respectively) assets and liabilities of the receiving body without any transfer, conveyance or assignment.

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

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

Where the fair values of identifiable net assets exceed the sum calculated above, the excess amount is recognised directly in equity for a mutual organisation [as prescribed by AASB3 Guidance B47].

Acquisition costs are expensed as incurred.

**(t) Impairment of assets**

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

**(u) Accounting estimates and judgements**

Management have made judgements when applying the Bank's accounting policies with respect to:

- i. De-Recognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 7d and 35.

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

**(v) New standards applicable for the current year**

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

**(w) New or emerging standards not yet mandatory**

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

AASB reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 Financial Instruments (December 2014)	The new standard replaces AASB 139 and supersedes AASB 9 versions previously issued in December 2009 and December 2010. It amends the requirements for classification and measurement of financial assets. AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.  Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. Recognition of credit losses are to no longer be dependent on the Bank first identifying a credit loss event. The Bank will consider a broader range	Periods beginning on or after 1 January 2018	The Bank has carried out a preliminary assessment of the impact of the new standard. The classification and measurement of financial assets is expected to remain largely unchanged with HTM investments to be reclassified to amortised cost and FVOCI categories and the AFS investments reclassified as FVOCI.  The Bank does not currently carry any hedge instruments. The new expected loss impairment model will require more timely recognition of expected

AASB reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 Financial Instruments con't  (December 2014)	of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.		credit losses. The overall impact of applying AASB 9 has not yet been determined by the Bank. Adjustments during the transition process will be recognised either in opening retained earnings or the general reserve for credit losses. The range of potential outcomes are best estimates and actual outcomes will be based on the size and credit characteristics of the portfolio on adoption of the standard.
AASB 15 Revenue from Contracts with Customers	Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard replaces AASB 118 Revenue, AASB 111 Construction Contracts and related revenue interpretations.	Periods beginning on or after 1 January 2018.	The Bank is yet to make a detailed assessment of the impact of AASB 15. However, 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.
AASB 16 Leases Replaces AASB 117	AASB 16: replaces AASB 117 Leases and some lease-related Interpretations ; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019	The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2019 includes: -a significant increase in lease assets and financial liabilities recognised on the balance sheet - the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities - EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses -operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

## 2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### (a) Analysis of interest revenue

#### Interest revenue on assets carried at amortised cost

Note	2018 \$'000	2017 \$'000
Cash - deposits at call	179	153
Receivables from financial institutions	4,756	4,713
Loans to members	40,025	33,833
Other Loans to non-members via SocietyOne	1,343	844
Loans to capital investors		(4)
<b>Total income from receivables</b>	<b>46,124</b>	<b>39,386</b>
<b>Total Interest Revenue</b>	<b>46,303</b>	<b>39,539</b>

### (b) Fee, commission and other income

#### Fee and commission revenue

Fee income on loans - other than loan origination fees	1,642	1,431
Fee income from member deposits	1,255	1,260
Other fee income	1,018	996
Insurance commissions	541	538
Other commissions	573	549
<b>Total Fee and Commission Revenue</b>	<b>5,029</b>	<b>4,774</b>

#### Other income

Dividend received on available for sale assets	143	252
Bad debts recovered	184	214
Income from property (rental income)	205	170
Gain on disposal of assets		
- Property, plant and equipment	22	40
Miscellaneous revenue	27	56
<b>Total Fee Commission and Other Income</b>	<b>5,610</b>	<b>5,506</b>



(c) Interest expense

	Note	2018 \$'000	2017 \$'000
<b>Interest expense on liabilities carried at amortised cost</b>			
Deposits from financial institutions		6	10
Deposits from members		15,839	13,351
Other		381	776
<b>Total Interest Expense</b>		<b>16,226</b>	<b>14,137</b>

(d) Impairment losses

<b>Available for Sale Financial Assets</b>			
Increase/(decrease) in provision (SSP impairment)	10(d)	50	-
Loss on disposal of assets - Property, plant, equipment		-	44
<b>Total Impairment Losses</b>		<b>50</b>	<b>44</b>

**Loans and advances**

Increase/(decrease) in provision for impairment		(268)	137
Bad debts written off directly against profit		750	518
<b>Total Impairment Losses</b>		<b>482</b>	<b>655</b>

Increase/(Decrease) in impairment on loans receivable brought forward on prior year acquisition		25	(17)
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**Other Loans to non-members via SocietyOne**

Increase/(decrease) in provision for impairment		114	68
Bad debts written off directly against profit		738	109
<b>Total Impairment Losses</b>		<b>852</b>	<b>177</b>

(e) Other prescribed disclosures

General administration - employees costs include:			
- net movement in provisions for employee annual leave		53	14
- net movement in provisions for employee long service leave		51	186
- net movement in provisions for employee sick leave		(8)	(7)
		<b>96</b>	<b>193</b>

General administration - depreciation expense include:			
- buildings		255	120
- plant and equipment		354	316
- leasehold improvements		554	502
- computer hardware		176	178
- amortisation of software		297	321
		<b>1,636</b>	<b>1,437</b>

	Note	2018 \$'000	2017 \$'000
General administration - office occupancy costs include:			
property operating lease payments			
- minimum lease payments		981	965
- contingent rents, and		-	-
- sublease agreements		-	-
Lease make good expenses - interest on liability		-	-
		<b>981</b>	<b>965</b>
Other operating expenses include:			
Auditors remuneration (excluding GST)			
- Audit fees		127	127
- Other services - taxation		15	22
- Other services - compliance		13	4
- Other services - other		8	61
		<b>163</b>	<b>214</b>
Defined contribution superannuation expenses		<b>1,495</b>	<b>1,301</b>

3. INCOME TAX EXPENSE

(a) The income tax expense comprises amounts set aside as:

Current Income Tax Payable		541	861
Add / (less) current year movement in deferred tax asset		801	7
Current tax expense - current year profits	(3b)	1,342	868
Under provision from prior years		-	-
Shell Employees tax payment		-	23
Over provision from prior years		(6)	36
Adjustment to deferred tax asset - prior year		(647)	45
Adjustment to deferred tax liability - prior year		-	-
<b>Total current income tax expense (3b)</b>		<b>689</b>	<b>972</b>

(b) The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows

Profit		4,840	3,162
Prima facie tax payable on profit before income tax at 30%		1,452	948
Add tax effect on expenses not deductible		38	57
Less tax effect of additional deductions allowed not in accounting expenses		(87)	(29)
Less			
- Franking rebate		(61)	(108)
<b>Income tax expense attributable to current year profit</b>		<b>1,342</b>	<b>868</b>

#### 4. CASH

	Note	2018 \$'000	2017 \$'000
Cash on Hand		1,228	1,398
Deposits at Call		14,059	19,087
		<u>15,287</u>	<u>20,485</u>

#### 5. LIQUID INVESTMENTS

##### Investments at Amortised Cost

##### (a) Hold to Maturity

Negotiable certificates of deposit		16,795	42,100
Receivables		85,309	77,609
Term deposits		61,153	58,392
		<u>163,257</u>	<u>178,101</u>

##### (b) Dissection of receivables

Deposits with industry bodies		18,500	16,500
Deposits with other societies		4,980	9,500
Deposits with banks		139,777	152,101
		<u>163,257</u>	<u>178,101</u>

Amounts expected to be repaid within 12 months are described in Note 27.

#### 6. RECEIVABLES

Interest receivable on deposits with other financial institutions		791	790
Sundry debtors and settlement accounts		413	781
		<u>1,204</u>	<u>1,571</u>

#### 7. LOANS TO MEMBERS

##### (a) Amount due comprises:

Overdrafts and revolving credit		25,803	26,452
Term loans		852,591	797,106
<b>Subtotal</b>		<u>878,394</u>	<u>823,558</u>
Less:			
Unamortised loan origination fees		-	-
<b>Subtotal</b>		<u>-</u>	<u>-</u>
Less:			
Provision for impaired loans	8	704	946
		<u>877,690</u>	<u>822,612</u>

#### (b) Credit quality – Security held against loans:

	Note	2018 \$'000	2017 \$'000
Secured by mortgage over business assets		2,152	2,659
Secured by mortgage over real estate		811,873	759,874
Partly secured by goods mortgage		9,899	9,687
Wholly unsecured		54,470	51,338
		<u>878,394</u>	<u>823,558</u>

It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

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

- loan to valuation ratio of less than 80%	684,151	628,637
- loan to valuation ratio of more than 80% but mortgage insured	70,866	74,738
- loan to valuation ratio of more than 80% and no mortgage insurance	56,856	56,499
<b>Total</b>	<u>811,873</u>	<u>759,874</u>

Where the loan value is less than 80% of the security value there is a 20% margin to cover the costs of any sale, or potential value reduction.

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

#### (c) Concentration of Loans

The values discussed below include on statement of financial position values and off balance sheet undrawn facilities as described in Note 30.

(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate	-	-
(ii) Loans to members are concentrated to individuals employed in the following industries		
- Maritime industry	250,630	246,255
- Mining and energy industry	132,344	134,101
- Other	495,420	443,202
	<u>878,394</u>	<u>823,558</u>

(iii) Geographical Concentrations

	2018	Housing	Personal	Business	Total
NSW		534,474	27,506	30,804	592,784
Victoria		79,853	4,390	1,193	85,436
Queensland		86,140	5,268		91,408
South Australia		10,047	1,101		11,148
Western Australia		69,617	4,146	783	74,546
Tasmania		9,555	644		10,199
Northern Territory		4,409	131		4,540
ACT		1,362	120	-	1,482
Other		5,350	363	1,138	6,851
<b>Total per statement of financial position</b>		<b>800,807</b>	<b>43,669</b>	<b>33,918</b>	<b>878,394</b>

	2017	Housing	Personal	Business	Total
NSW		488,923	29,658	24,558	543,139
Victoria		68,141	4,069	1,482	73,692
Queensland		89,161	5,248	1	94,410
South Australia		10,210	1,162		11,372
Western Australia		74,575	4,349	627	79,551
Tasmania		10,090	591	-	10,681
Northern Territory		3,632	177		3,809
ACT		912	122	-	1,034
Other		4,389	298	1,183	5,870
<b>Total per statement of financial position</b>		<b>750,033</b>	<b>45,674</b>	<b>27,851</b>	<b>823,558</b>

(iv) Concentration by Purpose

	2018	2017
<b>Loans to natural persons</b>		
Residential loans and facilities	797,306	749,211
Personal loans and facilities	39,558	40,173
Business loans and facilities	19,220	10,750
	<b>856,084</b>	<b>800,134</b>
<b>Loans to Corporations</b>	<b>22,310</b>	<b>23,424</b>
<b>Total</b>	<b>878,394</b>	<b>823,558</b>

(d) Securitised loans

The Bank has assigned the rights and benefits of a parcel of mortgage secured loans to a securitisation entity. No loans were transferred during the financial year. Previous transfers satisfy the de-recognition criteria prescribed in AASB 139, and the value has been removed from the carrying loan value in the statement of financial position. The purpose of the transfer was to secure additional liquid funds to meet further loan demands from members.

In addition the Bank acts as the agent for the securitisation entity to arrange and fund loans made directly by the securitisation entity. These loans do not qualify for recognition in the books of the Bank and are not recognised in the books of the Bank at any time.

The value of the securitised loans under management comprising both those assigned and those funded as agents is set out in Note 35.

8. PROVISION ON IMPAIRED LOANS

	2018 \$'000	2017 \$'000
<b>(a) Total Provision comprises</b>		
Collective provisions	346	670
Individual specific provisions	358	276
<b>Total Provision</b>	<b>704</b>	<b>946</b>
<b>(b) Movement in the provision for impairment</b>		
Balance at the beginning of year	946	754
Add (Deduct):		
Transfer from (to) income statement	(267)	154
Transfer from (to) income statement - Reduction of impairment on loans receivable brought forward on prior year acquisition - Note 2(d)	25	(17)
Transfer from merger	-	55
Bad Debts Written off provision	-	-
Balance at end of year	<b>704</b>	<b>946</b>
Details of credit risk management is set out in Note 25.		
<b>(c) Impaired loans written off</b>		
Amounts written off against the provision for impaired loans	-	-
Amounts written off directly to expense	750	517
Total Bad Debts	<b>750</b>	<b>517</b>
Bad Debts Recovered in the period	185	214
	<b>565</b>	<b>303</b>

(d) Analysis of loans that are impaired or potentially impaired by class

In the note below:

- Carrying Value is the amount of the statement of financial position
- Impaired loans value is the 'on statement of financial position' loan balances which are past due by 90 days or more
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2018 Carrying Value \$'000	2018 Value of Impaired Loans \$'000	2018 Provision for Impairment \$'000	2017 Carrying Value \$'000	2017 Value of Impaired Loans \$'000	2017 Provision for Impairment \$'000
Loans to Members						
Mortgages	797,306	3,426	-	749,211	7,115	305
Personal	46,367	614	207	38,477	753	271
Credit Cards	7,102	68	58	6,921	57	45
Overdrafts	5,309	46	35	5,525	31	26
<b>Total to natural persons</b>	<b>856,084</b>	<b>4,154</b>	<b>300</b>	<b>800,134</b>	<b>7,956</b>	<b>647</b>
Corporate Borrowers	22,310	-	-	23,424	-	-
Provision for Loans Not in Arrears	-	-	404	-	-	299
<b>Total</b>	<b>878,394</b>	<b>4,154</b>	<b>704</b>	<b>823,558</b>	<b>7,956</b>	<b>946</b>

It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.



**(e) Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding**

	2018 Carrying Value \$'000	2018 Provision \$'000	2017 Carrying Value \$'000	2017 Provision \$'000
Non impaired up to 31 days	871,905	-	814,204	-
31 to 90 days in arrears	5,535	105	4,804	94
90 to 180 days in arrears	228	161	3,572	200
180 to 270 days in arrears	72	80	216	82
270 to 365 days in arrears	408	85	104	102
Over 365 days in arrears	35	140	557	404
Overlimit facilities over 14 days	211	133	101	64
<b>Total</b>	<b>878,394</b>	<b>704</b>	<b>823,558</b>	<b>946</b>

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

**(f) Loans with repayments past due but not regarded as impaired**

There are loans with a value of \$6.04m past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

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

Loans to members

2018	1 - 3 Mths	3 - 6 Mths	6 -12 Mths	> 1 Year	Total
Mortgage secured loans	5,073	82	314	105	5,574
Personal loans	463	-	-	-	463
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
<b>Total</b>	<b>5,536</b>	<b>82</b>	<b>314</b>	<b>105</b>	<b>6,037</b>

2017	1 - 3 Mths	3 - 6 Mths	6 -12 Mths	> 1 Year	Total
Mortgage secured loans	4,493	2,437	140	57	7,127
Personal loans	311	-	-	-	311
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
<b>Total</b>	<b>4,804</b>	<b>2,437</b>	<b>140</b>	<b>57</b>	<b>7,438</b>

**(g) Key assumptions in determining the provision for impairment**

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

Period of impairment	%
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 365 days	80
Over 365 days	100

**9. OTHER LOANS**

	2018 \$'000	2017 \$'000
<b>Other loans to non members - at amortised cost</b>		
- Unsecured personal lending	14,089	14,055
- Less provision for impairment	(185)	(72)
<b>Total value of other loans</b>	<b>13,904</b>	<b>13,983</b>

The Bank entered into an agreement in 2015 to commit funds supporting the online marketplace lending platform of SocietyOne Australia Pty Ltd. Loans are made via SocietyOne to non-members.

The Bank has applied the standard APRA provisioning methodology for any loans that are past due 90 days or more.

**10. AVAILABLE FOR SALE INVESTMENTS**

Note	2018 \$'000	2017 \$'000
<b>Shares in unlisted companies - at cost</b>		
- CUSCAL	2,025	2,025
- Transaction Solutions Pty Ltd	174	174
- SocietyOne Holdings Pty Ltd	2,250	2,250
- Shared Service Partners Pty Ltd	-	50
<b>Total value of share investments</b>	<b>4,449</b>	<b>4,499</b>

**(a) CUSCAL Limited (CUSCAL)**

The shareholding in CUSCAL is measured at cost value in the Statement of Financial Position. This company supplies services to the member organisations which are all Credit Unions, Mutual Banks and Banks. The Bank holds shares in Cuscal to enable the Bank to receive essential banking services – refer to Notes 30 and 33. The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded is low with few transactions in the past 3 years.

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

No dividend was paid by Cuscal in 2017/18. Management has determined that the cost value of \$0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale.

The Bank is not intending to dispose of these shares.

**(b) Transaction Solutions Pty Ltd (TAS)**

The shareholding in TAS is measured at its cost value in the Statement of Financial Position. TAS provide a data processing support service to the Bank, and manages the Bank's core banking system and network operations on its system – refer to Notes 10 and 33.

The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded is low.

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

The net dividend return in 2017/18 was 65.05 cents per share. Management has determined that the cost value of \$1.12 per share is a reasonable approximation of fair value based on the likely value available on a sale.

The Bank is not intending to dispose of these shares.

**(c) SocietyOne Holdings Pty Ltd**

The shareholding in SocietyOne is measured at its cost value in the Statement of Financial Position.

SocietyOne is an online marketplace lender specialising in online personal loans.

The shares are able to be traded but within a market limited to investors and other mutual ADI's.

Management have used the unobservable inputs to assess the fair value of the shares as a ready market is not available and a market value is not able to be determined readily.

Management has determined that the cost value of \$3.30 per share is a reasonable approximation of fair value based on the likely expected cashflows from the investments.

**(d) Shared Service Partners Pty Ltd**

The shareholding in Shared Service Partners Pty Ltd is measured at its cost value in the Statement of Financial Position.

Shared Service Partners is an aggregator of services to the mutual sector. The shares are able to be traded but within a market limited to other mutual ADI's.

Management have used the unobservable inputs to assess the fair value of the shares as a ready market is not available and a market value is not able to be determined readily.

During the year, following business feedback from Shared Service Partners Pty Ltd (difficult trading conditions and slower take-up of SSP services), management agreed to review the shareholding value.

Management has determined that the cost value of \$1.00 per share be reduced by a \$1.00 per share impairment charge as a reasonable approximation of fair value based on the likely value available on a sale.

**11. PROPERTY, PLANT AND EQUIPMENT**

	2018 \$'000	2017 \$'000
<b>(a) Fixed Assets</b>		
Land (Deemed cost)	425	425
Buildings (Deemed cost)	9,368	9,319
Less: accumulated depreciation	<u>1,041</u>	<u>786</u>
	<u>8,327</u>	<u>8,533</u>
<b>Total Land and Buildings</b>	<b>8,752</b>	<b>8,958</b>
<b>Plant and Equipment - at cost</b>	4,462	4,905
Less: accumulated depreciation	<u>3,322</u>	<u>3,485</u>
	<u>1,140</u>	<u>1,420</u>
<b>Capitalised leasehold improvements - at cost</b>	4,240	4,084
Less: accumulated depreciation	<u>2,909</u>	<u>2,355</u>
	<u>1,331</u>	<u>1,729</u>
<b>Total Property, Plant and Equipment</b>	<b>11,223</b>	<b>12,107</b>

**(b) Movements in the asset balances during the year were:**

	2018			
	Property \$'000	Plant & Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
Opening Balance	8,958	1,420	1,729	12,107
Purchases	49	368	156	573
Acquired under merger	-	-	-	-
<b>Less:</b>				
Assets Disposed	-	118	-	118
Depreciation charges	255	530	554	1,339
Impairment loss	-	-	-	-
<b>Balance at the end of year</b>	<b>8,752</b>	<b>1,140</b>	<b>1,331</b>	<b>11,223</b>

	2017			
	Property \$'000	Plant & Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
Opening Balance	3,678	1,040	1,051	5,768
Purchases	-	920	1,191	2,111
Acquired under merger	5,399	48	7	5,454
<b>Less:</b>				
Assets Disposed	-	94	17	111
Depreciation charges	119	494	502	1,115
Impairment loss	-	-	-	-
<b>Balance at the end of year</b>	<b>8,958</b>	<b>1,420</b>	<b>1,729</b>	<b>12,107</b>

## 12. TAXATION ASSETS

	Note	2018 \$'000	2017 \$'000
Opening balance		2,006	2,193
Add movements in the current year		(801)	(7)
Adjustment for changes in opening balances		-	(900)
Additional Deferred Tax Assets from merger entities		-	720
		<b>1,205</b>	<b>2,006</b>
Deferred Tax Assets			
Tax Instalments recoverable	17	709	851
		<b>1,914</b>	<b>2,857</b>
<b>Deferred Tax Assets Comprise:</b>			
Accrued Expenses not deductible until incurred		37	108
Provisions for impairment on loans		267	306
Provisions for employee benefits		1,261	1,367
Deferred income		-	-
Depreciation on fixed assets		(612)	(711)
Prepayments		-	-
Deferred expenses for tax purposes		224	209
Tax Losses on Merger		-	-
Member Incentive		28	675
		<b>1,205</b>	<b>1,954</b>

## 13. INTANGIBLE ASSETS

Computer software	3,112	2,791
less accumulated amortisation	2,656	2,359
	<b>456</b>	<b>432</b>

### Movements in the asset balances during the year were:

Opening balance	432	468
Purchases	321	273
Acquired under merger	-	12
<b>Less:</b>		
Assets disposed	-	-
Amortisation charge	297	321
Impairment loss	-	-
<b>Balance at the end of year</b>	<b>456</b>	<b>432</b>

## 14. DEPOSITS FROM OTHER INSTITUTIONS

	2018 \$'000	2017 \$'000
Term Deposits	-	4,000
	<b>-</b>	<b>4,000</b>

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

## 15. DEPOSITS FROM MEMBERS

Member Deposits		
- At Call	471,787	456,754
- Term	505,473	475,057
Member withdrawable shares	398	399
	<b>977,658</b>	<b>932,210</b>

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

### Concentration of member deposits

(i) Significant individual member deposits which in aggregate represent more than 10% of the total liabilities:	<b>127,485</b>	<b>124,307</b>
(ii) Member deposits at balance date were received from individuals employed principally in the Maritime, Mining and Energy industries.		
(iii) Geographic concentrations		

NSW	774,615	743,645
Victoria	61,939	52,511
Queensland	47,166	44,485
South Australia	10,232	9,992
Western Australia	53,964	55,986
Tasmania	4,860	4,412
Northern Territory	2,229	2,180
ACT	606	399
Other	21,649	18,201
<b>Total per balance sheet</b>	<b>977,260</b>	<b>931,811</b>

Amounts expected to be repaid within 12 months are as described in Note 26.



## 16. CREDITORS ACCRUALS AND SETTLEMENT ACCOUNTS

	Note	2018 \$'000	2017 \$'000
Annual Leave		1,444	1,431
Creditors and accruals		1,510	1,761
Settlement accounts		746	1,164
Interest payable on deposits		4,787	4,054
Accrual for GST payable		29	33
Accrual for other tax liabilities		140	245
		<u>8,656</u>	<u>8,688</u>

## 17. TAXATION LIABILITIES

Current income tax liability		-	-
<b>Current income tax liability comprises:</b>			
Balance - previous year		-	34
Instalments recoverable from prior year		851	-
Less paid		-	(34)
Over/under statement in prior year		5	
Liability for income tax in current year		541	861
Tax Losses arising from Mergers		-	(855)
Less instalments paid in current year		1,306	857
Less Tax refunds		(912)	-
Tax Instalments recoverable in current year	12	709	851
<b>Balance - current year</b>		<u>-</u>	<u>-</u>

## 18. PROVISIONS

Long Service Leave		2,749	2,721
Lease make good of premises		149	149
Provisions other		535	3,047
		<u>3,433</u>	<u>5,917</u>

### Provision movements comprises:

#### Lease make good

Balance - previous year		149	149
Less paid		-	(20)
Liability increase in current year		-	20
<b>Balance - current year</b>		<u>149</u>	<u>149</u>

The Bank has entered into an agreement to lease premises at 215-217 Clarence Street, which contains a lease make good provision.

## 19. DEFERRED TAX LIABILITIES

	2018 \$'000	2017 \$'000
Deferred tax liabilities	<u>14</u>	<u>14</u>

Deferred income tax liability relates to the sale of the shares in Combined Financial Processing to Transaction Solutions shares in 2010 script-for-script swap which created a deferred capital gain on the value of the Transaction solutions shares received.

## 20. LONG TERM BORROWINGS

### Subordinated Debt

Balance at the beginning of the year	10,000	10,000
Repaid debt	(10,000)	-
Increase due to debt issued	-	-
Increase due to acquisition from merger	-	-
Amortisation of capitalised debt raising costs	-	-
<b>Balance at the end of the year</b>	<u>-</u>	<u>10,000</u>

On the 16th of November 2012, the Bank entered into an agreement to issue \$10m in Subordinated Debt. The instrument was repaid on the 28th of December 2017.

## 21. CAPITAL RESERVE ACCOUNT

Balance at the beginning of the year	595	357
Transfer from retained earnings on share redemptions	20	13
Increase due to shares issued to members of: Bankstown City Credit Union Ltd	-	225
<b>Balance at the end of the year</b>	<u>615</u>	<u>595</u>

### Share Redemption

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

2018  
\$'000      2017  
\$'000

**22. ASSET REVALUATION RESERVE**

Asset revaluation reserve - Land and Buildings 4,053      4,053

**Movements in Reserves - Land and Buildings**

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

Balance at beginning of the year	4,053	350
Add: Increase on revaluation	-	-
Less: Deferred tax liability	-	-
Increase due to acquisition from Bankstown City Credit Union merge	-	3,703
<b>Balance at the end of year</b>	<u><b>4,053</b></u>	<u><b>4,053</b></u>

**23. GENERAL RESERVE FOR CREDIT LOSSES**

General Reserve for Credit Losses 2,663      2,663

**General Reserve for Credit Losses**

This reserve records amount previously set aside as a General Provision and is maintained to comply with the Prudential Standards set down by APRA

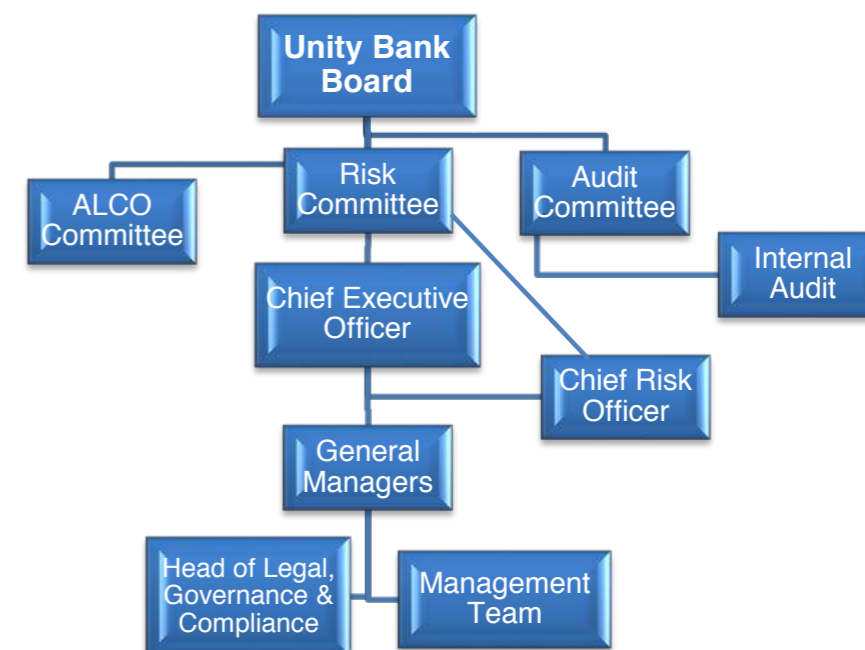
Balance at beginning of the year	2,663	2,040
Add: increase transferred from Bankstown City Credit Union merger	-	623
Add: increase transferred from retained earnings	-	-
<b>Balance at the end of year</b>	<u><b>2,663</b></u>	<u><b>2,663</b></u>

**24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

**Introduction**

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Bank.

The Bank'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 Audit and Risk committees which are integral to the management of risk. The following diagram gives an overview of the structure.



The main elements of risk governance are as follows:

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

**Risk Committee:** This is a key body in the control of risk. It has representatives from the Board as well as the Chief Risk Officer. The Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Risk Committee through review of operational reports and control assignments to confirm whether risks are within the parameters outlined by the Board.

The Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

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

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

**Asset & Liability Committee (ALCO):** This committee meets monthly and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP.

**Chief Risk Officer:** This person has responsibility for both liaising with the operational function to ensure timely production of information for the Risk committee and ensuring that instructions passed down from the Board via the Risk Committee are implemented.

**Internal Audit:** Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

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

- Interest rate risk
- Liquidity management
- Credit risk management
- Operations risk management including data risk management.

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

#### A. MARKET RISK AND HEDGING POLICY

The objective of the Bank'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 Bank's financial condition or results. The Bank is not exposed to currency risk, and other significant price risk. The Bank does not trade in the financial instruments it holds on its books. The Bank is exposed only to interest rate risk arising from changes in market interest rates.

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

##### (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 in interest rates.

Most banks are exposed to interest rate risk within their Treasury operations. This Bank does not trade in financial instruments.

##### Interest rate risk in the banking book

The Bank is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the banking book is measured monthly.

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

The level of mismatch on the banking book is set out in Note 27 below. The table set out at Note 27 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 Bank manages its interest rate risk by the use of interest rate sensitivity analysis. The detail and assumptions used are set out below.

#### Interest Rate Sensitivity

The Bank's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Bank to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The Gap is measured monthly to identify large exposures to interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Bank is not to undertake derivatives to match the interest rate risks. The Bank's exposure to interest rate risk is set out in Note 27 which details the contractual interest change profile.

Based on the calculations as at 30 June 2018 the net profit impact for a 1% movement in interest rates would be \$3,484,730 [2017: \$3,609,484].

The Bank performs a sensitivity analysis to measure market risk exposures.

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 Bank for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate after a 1 month delay;
- personal loans would reprice after a 1 month delay;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Bank's exposure to market risk or the way the Bank manages and measures market risk in the reporting period.

## B. LIQUIDITY RISK

Liquidity risk is the risk that the Bank may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that the Bank maintain adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Bank manages liquidity risk by:

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

The Bank has a longstanding arrangement with the industry liquidity support credit union, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Bank should it be necessary at short notice.

The Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Bank policy is to apply 11.0% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 30 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in the specific Note 26. The ratio of liquid funds over the past year is set out below:

	30-Jun-18	30-Jun-17
	\$'000	\$'000
Liquid Funds	131,897	144,348
Total Adjusted Liabilities	1,054,406	1,012,750
	%	%
Liquid Ratio (%)	12.51%	14.25%
<b>Prescribed Liquidity % (per policy)</b>	9.00%	9.00%
<b>Average for the year</b>	13.50%	12.60%
<b>Minimum during the year</b>	11.83%	11.32%

## C. CREDIT RISK

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Bank which may result in financial losses. Credit risk arises principally from the Bank's loan book, investment assets and derivative contracts (where applicable).

## (i) CREDIT RISK – LOANS

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

	2018	2018	2018	2017	2017	2017
	Carrying Value	Off Balance Sheet	Max Exposure	Carrying Value	Off Balance Sheet	Max Exposure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage	797,306	59,101	856,407	749,211	55,087	804,298
Personal	46,367	1,698	48,065	38,477	2,372	40,849
Credit Cards	7,102	7,366	14,468	6,921	6,854	13,775
Overdrafts	5,309	25,585	30,894	5,525	27,237	32,762
<b>Total to Natural Persons</b>	<b>856,084</b>	<b>93,750</b>	<b>949,834</b>	<b>800,134</b>	<b>91,550</b>	<b>891,684</b>
Corporate Borrowers	22,310	4,547	26,857	23,424	3,649	27,073
<b>Total</b>	<b>878,394</b>	<b>98,297</b>	<b>976,691</b>	<b>823,558</b>	<b>95,199</b>	<b>918,757</b>

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities, line of credit facilities, overdraft facilities, credit cards limits). The details are shown in Note 29 and a summary is in Note 7(c).

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

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

The Bank has established policies over the:

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

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

### Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Bank that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that the counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans are regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loans are over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.



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

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

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

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

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the 'on statement of financial position' loan balances which are past due by 90 days or more.

Details are as set out in Note 8.

#### Bad debts

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

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

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

#### Collateral securing loans

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

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7(b) describes the nature and extent of the security held against the loans held as at the balance date.

#### Concentration risk – individuals

Concentration risk is a measurement of the Bank's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Bank's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but the APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The aggregate value of large exposure loans are set out in Note 7. The Bank holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

The Bank's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) below 80 per cent and bi-annual reviews of compliance with this policy are conducted.

#### Concentration risk – industry

The Bank has a concentration in the retail lending for members who comprise employees and family in the maritime, mining and power industries. This concentration is considered acceptable on the basis that the Bank was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 7.

#### (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 Bank incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Bank.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL and other financial institutions. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 47.5% of Capital can be invested with any one financial institution at a time.

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

Under the liquidity support scheme at least 3.0% of the total assets must be invested in an approved CUFSS Financial Institution, to allow the scheme to have adequate resources to meet its obligations if needed.

The Bank will only invest in Australian Incorporated ADI's that have been approved by the APRA.

#### External Credit Assessment for Institution Investments

The Bank 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 complied with.

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

	2018	2018	2018	2017	2017	2017
Investments With	Carrying Value	Past Due Value	Provision	Carrying Value	Past Due Value	Provision
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CUSCAL - Rated A	30,980	-	-	16,525	-	-
Banks - Rated AA and Above	-	-	-	-	-	-
Banks - Rated below AA	141,357	-	-	151,274	-	-
Credit Unions - Rated below AA	4,979	-	-	-	-	-
Unrated Institutions - Credit Unions	-	-	-	18,500	-	-
	<b>177,316</b>	-	-	<b>186,299</b>	-	-

## D. OPERATIONAL RISK

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimize the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behavior;
- implementation of the whistle blowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to the Bank promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses; and
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

### Fraud

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

### IT systems

The worst case scenario would be the failure of the Bank's core banking and IT network suppliers, to meet customer obligations and service requirements. The Bank has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of Banks and Credit Unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Bank by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM & Visa cards, and Bpay etc.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

## E. CAPITAL MANAGEMENT

The capital levels are prescribed by the Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

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

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

### Capital resources

#### Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Retained profits
- Realised reserves
- Asset Revaluation Reserves on Property.

#### Additional Tier 1 Capital

This classification of Capital includes

- Preference share capital approved by the APRA that qualifies as Tier 1 capital.

#### Tier 2 Capital

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

Tier 2 capital generally comprises:

- General reserve for Credit Losses
- Tier 2 capital instruments – subordinated loan

Capital in the Bank is made up as follows:

	2018 \$'000	2017 \$'000
<b>Tier 1 Common Equity</b>		
Asset revaluation reserves on property	4,053	4,053
Capital Reserve	615	596
General Reserve	2,981	2,981
Retained Earnings	90,634	86,829
	<b>98,283</b>	<b>94,459</b>
Less Prescribed Deductions	(6,096)	(6,923)
<b>Net Tier 1 Common Equity</b>	<b>92,187</b>	<b>87,536</b>
<b>Tier 1 Additional Equity</b>		
Additional Tier 1 Capital instruments	-	-
	-	-
Less Prescribed Deductions / adjustments	(202)	(202)
<b>Net Tier 1 Additional Equity</b>	<b>(202)</b>	<b>(202)</b>
<b>Total Tier 1 Capital</b>	<b>91,985</b>	<b>87,334</b>
<b>Tier 2 Capital</b>		
Subordinated Debt	-	10,000
Reserve for Credit Losses	2,663	2,663
	2,663	12,663
Less Prescribed Deductions	-	(5,000)
<b>Net Tier 2 Capital</b>	<b>2,663</b>	<b>7,663</b>
<b>Total Capital</b>	<b>94,648</b>	<b>94,997</b>

The Bank's policy is to maintain a capital level of 14.5% as compared to the risk weighted assets at any given time.

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

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

2018	2017	2016	2015	2014
Basel III	Basel III	Basel III	Basel III	Basel III
17.11%	17.52%	17.37%	18.72%	17.41%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the Bank's capital the Bank reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 12.5%. Further, a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

## Pillar 2 Capital on Operational Risk

This capital component was introduced as from the 1<sup>st</sup> of January 2012 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Bank uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital requirement is calculated by mapping the Bank's three year average net interest income and net non-interest income to the Bank's various business lines.

Based on this approach, the Bank's operational risk requirement is as follows:

- Operational risk capital \$4,955,093 [2017 - \$4,996,309]

It is considered that the Standardised approach accurately reflects the Bank's operational risk other than for the specific items set out below.

## Internal Capital Adequacy Management

The Bank manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Bank's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

In relation to the operational risks, the major measurement for additional capital are recognised by the monitoring and stress testing for:

- Asset impairment – the impact of economic and employment factors on the loan losses, and/or recovery of investments.
- Property Value Decline – the impact on property values declining and the related exposure to higher capital required to recognise potential losses or risk weight on assets.
- Interest rate risk – measures the impact on capital from changes in interest rates impacting the net interest margin and net surplus.
- Events impacting on additional costs of retention of liquid funds and exercising available liquidity drawdown facilities.

## 25. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes.

	Note	2018 \$'000	2017 \$'000
<b>Financial Assets - carried at amortisation cost</b>			
Cash	4	15,287	20,485
Liquid investments	5	163,257	178,101
Receivables	6	1,204	1,571
Loans to members	7 & 8	878,394	823,558
Other loans	9	14,089	14,055
<b>Total loans and receivables</b>		<b>1,072,231</b>	<b>1,037,770</b>
AFS investments - carried at cost	10	4,449	4,499
<b>Total available for sale investments</b>		<b>4,449</b>	<b>4,499</b>
<b>TOTAL FINANCIAL ASSETS</b>		<b>1,076,680</b>	<b>1,042,269</b>
<b>Financial liabilities - carried at amortisation cost</b>			
Creditors		7,073	7,012
Deposits from other institutions	14	-	4,000
Deposits from members	15	977,658	932,210
Long term borrowings	20	-	10,000
<b>Total carried at amortised cost</b>		<b>984,731</b>	<b>953,222</b>
Fair value through profit and loss Derivatives		-	-
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>984,731</b>	<b>953,222</b>

## 26. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

	2018	Balance Sheet \$'000	Up to 3 Months \$'000	3 - 12 Months \$'000	1 - 5 Years \$'000	After 5 Years \$'000	No Maturity \$'000	Total Cash Flows \$'000
<b>ASSETS</b>								
Cash		15,287	15,297	-	-	-	-	15,297
Receivables		1,204	1,204	-	-	-	-	1,204
Liquid investments		163,257	37,122	58,723	73,248	-	-	169,093
Loans to members		878,394	18,713	53,465	254,549	979,640	-	1,306,367
Other loans		14,089	625	357	19,852	307	-	21,141
AFS investments		4,449	-	-	-	-	4,449	4,449
<b>On Balance Sheet</b>		<b>1,076,680</b>	<b>72,961</b>	<b>112,545</b>	<b>347,649</b>	<b>979,947</b>	<b>4,449</b>	<b>1,517,551</b>
<b>Total Financial Assets</b>		<b>1,076,680</b>	<b>72,961</b>	<b>112,545</b>	<b>347,649</b>	<b>979,947</b>	<b>4,449</b>	<b>1,517,551</b>
<b>LIABILITIES</b>								
Creditors		7,073	7,073	-	-	-	-	7,073
Deposits from financial institutions		-	-	-	-	-	-	-
Member withdrawable shares		398	-	-	-	-	398	398
Deposits from members - at call		471,787	471,787	-	-	-	-	471,787
Deposits from members - term		505,473	231,418	287,776	8,170	-	-	527,364
Long term borrowings		-	-	-	-	-	-	-
<b>On Balance Sheet</b>		<b>984,731</b>	<b>710,278</b>	<b>287,776</b>	<b>8,170</b>	<b>-</b>	<b>398</b>	<b>1,006,622</b>
Undrawn loan commitments		-	98,297	-	-	-	-	98,297
<b>Total Financial Liabilities</b>		<b>984,731</b>	<b>808,575</b>	<b>287,776</b>	<b>8,170</b>	<b>-</b>	<b>398</b>	<b>1,104,919</b>
<b>2017</b>								
<b>ASSETS</b>								
Cash		20,485	20,499	-	-	-	-	20,499
Receivables		1,571	1,571	-	-	-	-	1,571
Liquid investments		178,101	63,781	28,934	92,763	-	-	185,478
Loans to members		823,558	18,257	50,704	239,120	915,075	-	1,223,156
Other loans		14,055	594	49	20,111	78	-	20,832
AFS investments		4,499	-	-	-	-	4,499	4,499
<b>On Balance Sheet</b>		<b>1,042,269</b>	<b>104,702</b>	<b>79,687</b>	<b>351,994</b>	<b>915,153</b>	<b>4,499</b>	<b>1,456,035</b>
<b>Total Financial Assets</b>		<b>1,042,269</b>	<b>104,702</b>	<b>79,687</b>	<b>351,994</b>	<b>915,153</b>	<b>4,499</b>	<b>1,456,035</b>
<b>LIABILITIES</b>								
Creditors		7,012	7,012	-	-	-	-	7,012
Deposits from financial institutions		4,000	4,005	-	-	-	-	4,005
Member withdrawable shares		399	-	-	-	-	399	399
Deposits from members - at call		456,754	456,754	-	-	-	-	456,754
Deposits from members - term		475,057	221,005	245,183	19,353	-	-	485,541
Long term borrowings		10,000	-	-	10,000	-	-	10,000
<b>On Balance Sheet</b>		<b>953,222</b>	<b>688,776</b>	<b>245,183</b>	<b>29,353</b>	<b>-</b>	<b>399</b>	<b>963,711</b>
Undrawn loan commitments		-	95,199	-	-	-	-	95,199
<b>Total Financial Liabilities</b>		<b>953,222</b>	<b>783,975</b>	<b>245,183</b>	<b>29,353</b>	<b>-</b>	<b>399</b>	<b>1,058,910</b>



The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by members choosing to repay loans earlier. These advance repayments are at the discretion of the members and are not able to be reliably estimated.

The table below represents the assets and liabilities due to be received and paid within 12 months based on the contractual repayment terms on each instrument. These amounts are excluding of the future interest receivable and payable as it represented in the previous table.

	2018			2017		
	Within 12 months \$'000	After 12 months \$'000	Total	Within 12 months \$'000	After 12 months \$'000	Total
<b>ASSETS</b>						
Cash	15,287	-	15,287	20,485	-	20,485
Receivables	1,204	-	1,204	1,571	-	1,571
Liquid investments	95,072	68,185	163,257	92,246	85,855	178,101
Loans to members	43,944	834,450	878,394	31,584	791,974	823,558
Other loans	909	13,180	14,089	633	13,422	14,055
AFS investments	-	4,449	4,449	-	4,499	4,499
<b>Total Financial Assets</b>	<b>156,416</b>	<b>920,264</b>	<b>1,076,680</b>	<b>146,519</b>	<b>895,750</b>	<b>1,042,269</b>
<b>LIABILITIES</b>						
Creditors	7,073	-	7,073	7,012	-	7,012
Deposits from financial institutions	-	-	-	4,000	-	4,000
Member withdrawable shares	-	398	398	-	399	399
Deposits from members - at call	471,787	-	471,787	456,754	-	456,754
Deposits from members - term	497,911	7,562	505,473	457,840	17,217	475,057
Long term borrowings	-	-	-	-	10,000	10,000
<b>Total Financial Liabilities</b>	<b>976,771</b>	<b>7,960</b>	<b>984,731</b>	<b>925,606</b>	<b>27,616</b>	<b>953,222</b>

## 27. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

2018	0 - 3 Months \$'000	3 - 12 Months \$'000	1 - 5 Years \$'000	After 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
<b>ASSETS</b>						
Cash	14,059	-	-	-	1,228	15,287
Receivables	-	-	-	-	1,204	1,204
Liquid investments	140,846	22,411	-	-	-	163,257
Loans to members	713,787	39,119	125,488	-	-	878,394
Other loans	14,089	-	-	-	-	14,089
AFS Investments	-	-	-	-	4,449	4,449
<b>On Balance Sheet</b>	<b>882,781</b>	<b>61,530</b>	<b>125,488</b>	<b>-</b>	<b>6,881</b>	<b>1,076,680</b>
<b>Total Financial Assets</b>	<b>882,781</b>	<b>61,530</b>	<b>125,488</b>	<b>-</b>	<b>6,881</b>	<b>1,076,680</b>
<b>LIABILITIES</b>						
Creditors	-	-	-	-	7,073	7,073
Deposits from financial institutions	-	-	-	-	-	-
Deposits from members	535,290	321,808	120,162	-	398	977,658
Long term borrowings	-	-	-	-	-	-
<b>On Balance Sheet</b>	<b>535,290</b>	<b>321,808</b>	<b>120,162</b>	<b>-</b>	<b>7,471</b>	<b>984,731</b>
Undrawn loan commitments	98,297	-	-	-	-	98,297
<b>Total Financial Liabilities</b>	<b>633,587</b>	<b>321,808</b>	<b>120,162</b>	<b>-</b>	<b>7,471</b>	<b>1,083,028</b>

2017	0 - 3 Months \$'000	3 - 12 Months \$'000	1 - 5 Years \$'000	After 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
<b>ASSETS</b>						
Cash	19,087	-	-	-	1,398	20,485
Receivables	-	-	-	-	1,571	1,571
Liquid investments	142,484	35,617	-	-	-	178,101
Loans to members	735,427	19,506	68,414	211	-	823,558
Other loans	14,055	-	-	-	-	14,055
AFS investments	-	-	-	-	4,499	4,499
<b>On Balance Sheet</b>	<b>911,053</b>	<b>55,123</b>	<b>68,414</b>	<b>211</b>	<b>7,468</b>	<b>1,042,269</b>
<b>Total Financial Assets</b>	<b>911,053</b>	<b>55,123</b>	<b>68,414</b>	<b>211</b>	<b>7,468</b>	<b>1,042,269</b>
<b>LIABILITIES</b>						
Creditors	-	-	-	-	7,012	7,012
Deposits from financial institutions	4,000	-	-	-	-	4,000
Deposits from members	674,874	239,720	17,217	-	399	932,210
Long term borrowings	10,000	-	-	-	-	10,000
<b>On Balance Sheet</b>	<b>688,874</b>	<b>239,720</b>	<b>17,217</b>	<b>-</b>	<b>7,411</b>	<b>953,222</b>
Undrawn loan commitments	95,199	-	-	-	-	95,199
<b>Total Financial Liabilities</b>	<b>784,073</b>	<b>239,720</b>	<b>17,217</b>	<b>-</b>	<b>7,411</b>	<b>1,048,421</b>

## 28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of **expected future cash flows** under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are held, that are regularly traded by the Bank, and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for any changes in the credit ratings of these assets.

	Fair Value \$'000	2018 Carrying Value \$'000	Variance \$'000	Fair Value \$'000	2017 Carrying Value \$'000	Variance \$'000
<b>FINANCIAL ASSETS</b>						
Cash	15,287	15,287	-	20,485	20,485	-
Receivables	1,204	1,204	-	1,571	1,571	-
Liquid investments	164,074	163,257	817	179,052	178,101	951
Loans to members	878,610	878,394	216	823,145	823,558	(413)
Other loans	14,089	14,089	-	14,055	14,055	-
AFS investments	4,449	4,449	-	4,499	4,499	-
<b>Total Financial Assets</b>	<b>1,077,713</b>	<b>1,076,680</b>	<b>1,033</b>	<b>1,042,807</b>	<b>1,042,269</b>	<b>538</b>
<b>FINANCIAL LIABILITIES</b>						
Creditors	7,073	7,073	-	7,012	7,012	-
Deposits from financial institutions	-	-	-	3,999	4,000	(1)
Member withdrawable shares	398	398	-	399	399	-
Deposits from members - at call	471,787	471,787	-	456,754	456,754	-
Deposits from members - term	505,302	505,473	(171)	475,146	475,057	89
Long term borrowings	-	-	-	10,000	10,000	-
<b>Total Financial Liabilities</b>	<b>984,560</b>	<b>984,731</b>	<b>(171)</b>	<b>953,310</b>	<b>953,222</b>	<b>88</b>

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

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

### Liquid assets and receivables from other financial institutions

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

### Loans and advances

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

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

The rates applied to give effect to the discount of the cash flows were between 3.99% and 4.53% (2017-3.99%-4.48%). The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

### Deposits from members

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

The rate applied to give effect to the discount of the cash flows was 2.70% [2017-2.65%].

### Short term borrowings

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

## 29. FINANCIAL COMMITMENTS

	2018 \$'000	2017 \$'000
<b>(a) Outstanding loan commitments</b>		
The loans approved but not funded	27,109	22,837
<b>(b) Loan Redraw Facilities</b>		
The loan redraw facilities available	38,244	38,125
<b>(c) Undrawn Loan Facilities</b>		
Loan facilities available to members for overdrafts are as follows:		
Total value of facilities approved	59,409	61,258
Less: Amount advanced	(26,465)	(27,021)
Net Undrawn Value	<b>32,944</b>	<b>34,237</b>
<b>Total Financial Commitment</b>	<b>98,297</b>	<b>95,199</b>

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

2018  
\$000's

2017  
\$000's

**(d) Computer capital commitments**

The costs committed under contract with Ultradata are as follows:

Not later than one year	1,414	1,194
Later than 1 year but not 2 years	1,414	900
Later than 2 years but not 5 years	2,026	2,700
Later than 5 years	233	686
	<b>5,087</b>	<b>5,480</b>

**(e) Lease expense commitments for operating leases on property occupied by the Bank**

Not later than one year	860	787
Later than 1 year but not 5 years	2,430	2,655
Later than 5 years	67	364
	<b>3,357</b>	<b>3,806</b>

The operating leases are in respect of property used for providing administration accommodation and branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 to 10 years and options for renewal are usually obtained for further periods. There are no restrictions imposed on the Bank so as to limit the ability to undertake further leases, borrow funds or issue dividends.

**(f) Other expense commitments**

Not later than one year	706	677
Later than 1 year but not 2 years	701	640
Later than 2 years but not 5 years	526	1,760
Later than 5 years	-	-
	<b>1,933</b>	<b>3,077</b>

**(g) Future capital commitments**

The Bank has entered into contracts for the purchase of assets for which the amounts are to be paid over the following periods:

Not later than one year	97	131
Later than 1 year but not 2 years	-	-
Later than 2 years but not 5 years	-	-
Later than 5 years	-	-
	<b>97</b>	<b>131</b>

**30. STANDBY BORROWING FACILITIES**

The Bank has a borrowing facility with Credit Union Services Corporation (Australia) Limited (CUSCAL) of:

	2018	Gross \$'000	Current Borrowing \$'000	Net Available \$'000
Loan Facility		-	-	-
Overdraft Facility		10,000	-	10,000
<b>Total Standby Borrowing Facilities</b>		<b>10,000</b>	<b>-</b>	<b>10,000</b>
	2017	Gross \$'000	Current Borrowing \$'000	Net Available \$'000
Loan Facility		-	-	-
Overdraft Facility		4,000	-	4,000
<b>Total Standby Borrowing Facilities</b>		<b>4,000</b>	<b>-</b>	<b>4,000</b>

Withdrawal of the loan facility is subject to the availability of funds at CUSCAL.

**31. CONTINGENT LIABILITIES**

**Liquidity support scheme**

The Bank is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member Banks in the event of a liquidity or capital problem. As a member, the Bank is committed to maintaining 3.0% of the total assets as deposits with an approved CUFSS financial institution.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Bank would be 3.0% of the Bank's total assets. This amount represents the participating Bank's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

**Reserve Bank Repurchase Obligations (REPO) Trust**

To support the liquidity management the Bank has entered into an agreement to maintain a portion of the mortgage backed loans as security against any future borrowings from the Reserve Bank as a part of the Bank's liquidity support arrangements.

## 32. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

### (a) Remuneration of key management persons [KMP]

Key management persons are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any Director (whether executive or otherwise) of that Bank. Control is the power to govern the financial and operating policies of a Bank so as to obtain benefits from its activities.

Key management persons (KMP) have been taken to comprise the Directors and the 5 [2017: 5] members of the executive management responsible for the day to day financial and operational management of the Bank.

The aggregate Compensation of key management persons during the year comprising amounts paid or payable or provided for was as follows:

#### (a) Remuneration of Key Management Personnel

	2018 \$'000	2017 \$'000
(i) Short term employee benefits	1,900	1,737
(ii) post-employment benefits - super contributions	163	156
(iii) other long term benefits - net increase in LSL provision	53	40
(iv) termination benefits	-	-
(v) shared-based payments	-	-
<b>Total</b>	<b>2,116</b>	<b>1,933</b>

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

All remuneration to Directors was approved by the members at a previous Annual General Meeting of the Bank.

### (b) Loans to Directors and other Key Management Persons

#### (b) Loans to Directors and Other Key Management Persons

	2018 \$'000			2017 \$'000		
	Mortgage Secured	Other term loans	Credit cards	Mortgage Secured	Other term loans	Credit cards
(i) Funds available to be drawn	34	10	190	178	20	486
(ii) Balance	5,141	60	567	3,883	12	276
(iii) Value of Loans Disbursed During the Year	2,421	15	-	1,076	9	-
(iv) Value of Revolving Credit Facilities Granted	-	-	-	-	-	-
(v) Interest & Other Revenue earned on Loans & Revolving Credit	177	18	21	69	88	3

### (c) Total Value of Term and Savings Deposits from KMP

	2018 \$'000	2017 \$'000
Total value term and savings deposits from KMP	694	557
Total interest paid on deposits to KMP	6	3

The Bank's policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit.

There are no loans which are impaired in relation to the loan balances with Directors or other KMP's.

There are no benefits or concessional terms and conditions applicable to the close family of members of the key management persons (KMP). There are no loans which are impaired in relation to the loan of close family members of Directors and other KMP's.

### (d) Transactions with Other Related Parties

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

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

There are no benefits paid or payable to the close family members of the key management persons. There are no service contracts to which key management persons or their close family members are an interested party.



### 33. OUTSOURCING ARRANGEMENTS

The Bank has arrangements with other organisations to facilitate the supply of services to members.

#### (a) CUSCAL Limited

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. The Bank has equity in the company. This organisation:

- (i) provides the license rights to Visa Card in Australia and settlement other institutions for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;
- (ii) operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM providers to Bank's EDP Systems.
- (iii) provides treasury and money market facilities to the Bank. The Bank invests a significant part of its liquid assets with the CUSCAL to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

The valuation of the Cuscal shares is based on the net assets backing as at the most recent financial report to recognise the company is not readily marketable, except within the current ADI membership of Cuscal. Refer Note 10 for details on the fair value assessment.

#### (b) Ultradata Australia Pty Limited

Provides and maintains the application software utilised by the Bank.

#### (c) Transaction Solutions Pty Limited

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

### 34. SUPERANNUATION LIABILITIES

The Bank contributes to various superannuation providers for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The providers are administered by independent corporate trustees.

The Bank has no interest in any of the superannuation providers (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

### 35. TRANSFER OF FINANCIAL ASSETS

The Bank has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements include

- i. The Waterside Trust No.1 - Repurchase obligation (REPO) trust for securing the ability to obtain liquid funds from the Reserve Bank – these loans are not de-recognised as the Bank retains the benefits of the trust until such time as a drawing is required.
- ii. The Integris securitisation trust where the Bank acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred in each of the above situations.

#### (a) Securitised loans retained on the balance sheet

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

#### Waterside Trust No.1 - Repurchase Obligations REPO Trust

The Waterside Trust No.1 is a trust established by the Bank to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee. In the case of the REPO Trust the Bank receives a Note certificate to sell to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The Note is secured over residential mortgage-backed securities (RMBS).

The Bank has financed the loans and received the net gains or losses from the trust after trustee expenses. The Bank has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the Notes received. The Bank retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

#### (a) Securitised Loans on the Balance Sheet

	2018 \$'000	2017 \$'000
<b>Balance sheet values - Loans and receivables</b>		
<i>Waterside Trust No.1</i>	173,052	113,311
<b>Carrying amount of loans at time of transfer</b>		
<i>Waterside Trust No.1</i>	97,158	97,158

(b) Securitised loans not on the balance sheet - Derecognised in their entirety

A number of Securitised loans qualify for de-recognition as they do not meet the criteria in the accounting standards. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans. The associated liabilities are equivalent to the book value of the loans reported.

The values of above securitised loans qualify for de-recognition as they meet the criteria in accounting standard AASB 139, where the Bank assumes the contractual obligation to pay all cash flows it received on the loans to the trust, but receives no benefit from the net gains or losses in the trust.

**Integrus Securitisation Services Pty Limited**

The Integrus securitisation trust is an independent securitisation vehicle established by Cuscal.

The Bank has an arrangement with Integrus Securitisation Services Pty Limited to manage the loans portfolio on behalf of the trust. The Bank bears no risk exposure in respect of these loans. The Bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

In addition the Bank was able to assign mortgage secured loans to Integrus at the book value of the loans, subject to acceptable documentation criteria. During the year the Bank did not assign any loans to Integrus. All loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integrus and there is no residual benefits to the Bank.

The Bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

(b) Securitised Loans not on the Balance Sheet	2018 \$'000	2017 \$'000
<b>Balance sheet values - Loans and receivables</b>		
<i>Integrus Securitisation Trust</i>	99	131
<b>Net Income received from continuing involvement</b>		
<i>Integrus Securitisation Trust</i>	2	3

**36. NOTES TO CASH FLOW STATEMENT**

(a) Reconciliation of cash	2018 \$'000	2017 \$'000
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on Hand	1,228	1,398
Deposits at call	14,059	19,087
Bank Overdraft	-	-
	<b>15,287</b>	<b>20,485</b>

(b) Reconciliation of cash from operations to accounting profit

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

Profit after income tax	4,151	2,190
<b>Add (Deduct):</b>		
Bad debts written off and provided for	1,488	749
Depreciation expense	1,636	1,437
Amortisation of borrowing costs	-	-
Increase in provision for staff leave	40	247
Increase/(Decrease) in provision for income tax	142	(30)
Increase/(Decrease) in other provisions	(2,903)	(465)
Increase in accrued expenses	(254)	(98)
(Decrease)/Increase in interest payable	733	(71)
Gain on sale of assets	(21)	4
(Increase)/Decrease in prepayments	(20)	(78)
(Increase)/Decrease in deferred tax assets	801	67
Gain on disposal of investments	-	-
Decreases (increases) in interest receivable	(1)	612
Decreases (increases) in other receivables	82	(266)
<b>Net cash from operating activities</b>	<b>5,874</b>	<b>4,299</b>

**37. CORPORATE INFORMATION**

The Bank is a company limited by shares and is registered under the Corporations Act 2001.

The address of the registered office is: Level 7, 215-217 Clarence Street, Sydney NSW 2000  
The address for the principal place of business is: Level 7, 215-217 Clarence Street, Sydney NSW 2000

The natures of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Bank.



# Unity Bank

*your bank at work*

## Unity Bank Limited.



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