2017 Annual Report

Unity Bank
your bank at work

Reliance Bank
you first always

Bankstown City Unity Bank
you first always

CONTENTS

Our Vision

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

Unity Bank is a member owned cooperative and financial mutual. We are 100% committed to our members and the Australian communities we serve. We will always stand by our members, delivering better all round financial value, service and care for the individual.

One Billion Dollars in Strength

During the year we passed the $1 billion dollars in assets milestone and are now looking after the financial wellbeing of 40,000 members. This milestone could not have been achieved without the tremendous support we receive from our members and the dedicated service and genuine care that our exceptional staff provide.

While the larger banking institutions continue to demonstrate an inability to meet community expectations, we remain very focused and committed to fulfilling our role as a member owned banking institution that puts the interest of members at the forefront of everything we do. Unfortunately, we have been impacted by a number of the measures Government and regulators have put in place in response to poor corporate behaviour by the larger institutions, which is extremely disappointing. Items such as capping investment loan growth to 10% and restricting interest only loans has simply locked in the market share of the major banks and also allowed them to generate greater profits through re-pricing. In many ways, they have been rewarded for poor behaviour while institutions such as ours are being punished despite not contributing to the problems around questionable lending practices.

In spite of these developments your bank continues to perform strongly and maintains industry leading capital backing, a quality loans portfolio in excess of $800 million, and a comprehensive and competitively priced product range that caters for the needs of our members.

During the year we held a Shell Employees' Credit Union social function which was very well supported and it was pleasing to see long serving members enjoy the evening with long term friends.

Exciting Developments

We were very pleased to be one of the first financial institutions in the country to offer Apple Pay, Android Pay and Samsung Pay. These payment initiatives are designed to improve the payment experience for those members who prefer using their smart phones for as many activities as possible. Launching these innovations is a clear demonstration of our commitment to provide members with the latest digital offerings.

In addition to these initiatives we also successfully launched Australia's first Tech Hub that provides access to the latest digital technology. Gunthers Lane located in our Bathurst premises allows the community to gain first-hand experience with items such as 3D printing, Artificial Intelligence, Augmented Reality, Virtual Reality along with the latest smart phones, tablets and desktops. It is especially pleasing to see a broad section of the community utilising the facilities including local schools, the business sector, professional groups, community organisations and families.

During the year we commenced work in preparing our bank to participate in the New Payments Platform (NPP) which is scheduled to be launched early in 2018. The NPP will be the most significant development within the payments system we have experienced in recent history and will allow for real time transfer of funds, 24 hours a day 365 days a year from the convenience of your phone, tablet or desktop.

Member Survey

To ensure we continue to retain a clear understanding of our members views and thoughts we regularly conduct a survey to gauge how we are tracking in terms of the adequacy of our product range and the service we provide. Pleasingly we received over 1,000 responses to our most recent survey from a cross section of our membership and the key results were:

- Endorsement of our decision to change from a credit union to member owned bank
- Strong service ratings from all members especially those under 35
- Increasing number of members using online services to conduct their banking

Bank Branding

Our members overwhelmingly supported the change of name to Unity Bank which we launched on the 1st March 2017. This was an historical moment for our member owned banking institution and the Board, management and staff greatly appreciated the support and encouragement we received from our members as we worked through making the change. We took this opportunity to modernise a number of our branches, upgrade our webpage and extend our Call Centre hours.

As we promised our change of name would not change our values and principles which remain deeply enshrined in placing the interests of our members first.

Bankstown City Unity Bank

Our merger with Bankstown City Credit Union (BCCU) was a great success and we were delighted to welcome their members to our mutual bank family. BCCU has a proud history of looking after their members and the communities they serve and we are determined to continue building upon this wonderful legacy. Through our new bank branding, Bankstown City Unity Bank, we have plans to expand our activities within the community and to encourage more residents and small businesses to bank with an institution they own.

Reliance Bank

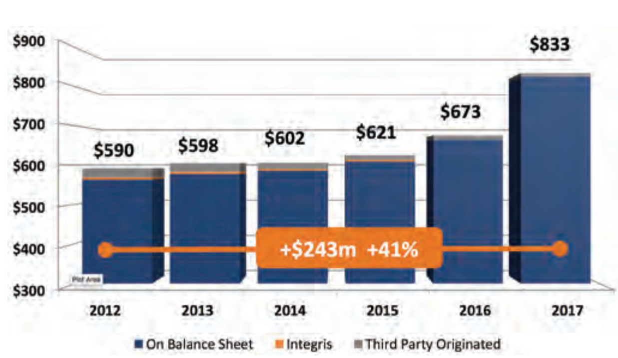
Our business in the Central West of NSW continues to go from strength to strength with excellent loans and membership growth. This has allowed us to build upon our community support activities, which are substantial, and our plans are to continue to work closely with the community leaders to ensure that Bathurst and the surrounding region fulfils its potential.

Our Partners

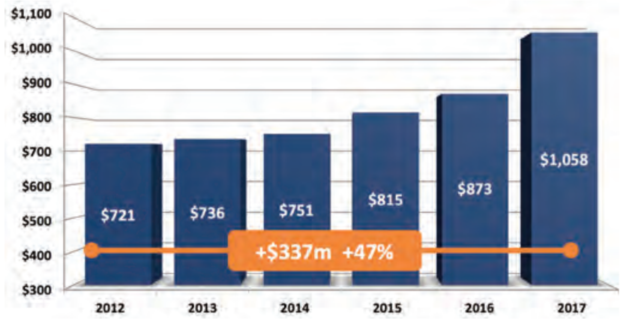
One of the most pleasing developments during the year was the establishment of our partnership with the Electrical Trade Union (ETU) of Victoria. The ETU are one of the most progressive and well respected unions in the country and represent over 20,000 workers throughout Victoria. The leadership of the Union have assisted us greatly and we are looking forward to providing banking services and financial advice to their members.

We continue to seek out ways in which we can improve our service to the industries we serve and plans are currently being developed.

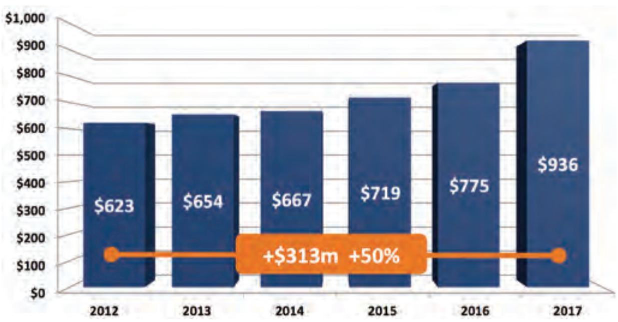
Loans ($m)



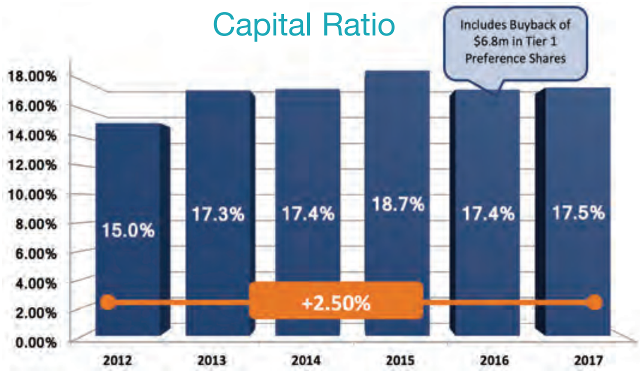
Total Assets ($m)



Deposits ($m)



Capital Ratio



The support we receive from the Maritime Union of Australia and the Mining and Energy Division of the CFMEU is greatly appreciated and we continue to work collaboratively to ensure their membership receive banking services that improve their financial wellbeing.

Maritime Super and Mine Wealth and Wellbeing are important partners of Unity and we remain committed to building upon what has been a mutually beneficial relationship. The sharing of offices, sponsorships, staff, products and expertise has been of great benefit to our respective members and we are continuously looking for new opportunities to enhance our services to members.

Supporting the Communities We Serve

One of the many pleasing activities of a member owned banking institution is our capacity to support our members within their workplace or communities they reside in. This support increases as more members join our bank and this year we have been able to add to the considerable list of events that we assist through sponsorships and participation. Our Bankstown Credit Union merger has seen this support extend to several groups including the Bankstown District Amateur Football Association, Bankstown Basketball Association, Fairfield Hospital, Canterbury – Bankstown Local Business Awards, Youth Off the Streets and Share Care.

Our financial support throughout our membership amounts to well over $300,000 and when you also add the contribution our staff make in supporting many of these activities you can be assured that your bank is fulfilling its role as a trusted partner.

Board of Directors

Our merger with Bankstown City Credit Union (BCCU) allowed us to welcome two additional directors to our Board, Raad Richards, the previous Chairman of BCCU and Darren Gossling. Both Raad and Darren bring a wealth of experience to our Board and we are looking forward to the contribution they will make as we enter the next phase of our bank’s development.

Our Board recognises that our director numbers through recent mergers has reached a level where a reduction is warranted and as has always been the case the Board have resolved to address this matter over the next 12 months in a constructive and collaborative way.

Acknowledgments

The past twelve months has certainly been a momentous one for your bank with our name change and merger with Bankstown City Credit Union both being significant undertakings in their own right. So to complete both successfully is a credit to our team of loyal and dedicated staff who went above and beyond what would normally be expected of them. In a clear sign of the trust and strength of our relationship with staff we also finalised our Enterprise Bargaining Agreement in a constructive and consultative manner which resulted in unanimous support for the new three year agreement.

On behalf of the Board and our members I would like to pass on our sincere thanks and gratitude to all our staff for their contribution in making 2016/17 another memorable year for Unity Bank.

I thank my fellow directors for their counsel, support and dedication, as their responsibilities and duties increase each year as we grow and develop our business.

> “**Finally I would like to pay special recognition to you our members, as your support, encouragement, along with the trust you place in us to look after your financial needs is what drives all of us to ensure your bank continues to grow from strength to strength.**”

Mick Doleman
CHAIR

Your directors present their report on Unity Bank Limited for the financial year ended 30 June 2017. 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
Director Transport & Logistics Industry Skills Council
Former Deputy National Secretary of MUA
Deputy Chair ITF Offshore Taskforce Group
Member, National Leaders Group White Ribbon Foundation
White Ribbon Ambassador

Committees:
Member, Audit Committee
Member, Risk Committee
Member, Remuneration Committee
Member, Director Nominations Committee
Member, 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
Member, Marketing Committee

DAVID CONROY
Director

Experience:
Director of Unity Bank since 2008
Principal - Bryan Rush & Co Chartered Accountant
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

Experience:
Director of Unity Bank since 2009
General Secretary CFMEU Mining and Energy since 2009
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
Chair and Director, Coal Mining Industry Long Service Leave Corporation
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
Chair – Western Region Academy of Sport (2013 - Current, Director since 2005)
Treasurer – Bathurst AH&P Association & Royal Bathurst Show (2012 - Current)
White Ribbon Ambassador
20 years' experience in Road Safety advocacy; policy development & research; crash investigation; and driver licencing & training
Self-employed consultant specialising in business management and road safety

Qualifications:
Graduate Certificate in Commerce
Bachelor of Business Studies
Graduate, Australian Institute of Company Directors
Fellow, AICD
Fellow, AMI

Committees:
Member, Corporate Governance Committee
Member, Director Nominations Committee
Member, Audit Committee
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 to 1993
Rank & File Member of Maritime Union of Australia 1993 to 2007
Honorary Deputy Branch Secretary NSW Branch MUA 1998 to 2007
Southern NSW MUA Branch Secretary 2007 to present
MUA Deputy National Presiding Officer 2015

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

MARC WORNER
Director

Experience:
Director of Unity Bank since July 2010
Former Director, Gosford City Credit Union 2009 to 2010
Former Chair, Gosford City Credit Union 2010
Director, Landscape Contractors Assoc NSW/ACT 2009 to 2010
National President Aust Institute of Horticulture 2006 to 2008
NSW State President Aust Institute of Horticulture 2005 to 2006
Green Industry Rep., Technical Comm., NSW Enviro. Trust since March 2011
Chair, Central Coast Community College since 2016
Small Business Owner over 20 years
White Ribbon Ambassador since 2012

Qualifications:
Bachelor Economics
Post Grad Cert Bank & Finance
Diploma Hort (Lscape Design)
Diploma Mkting
Diploma Australian Institute of Company Directors
Fellow, AICD
Fellow, AMI
Assoc Member, FINSIA

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 the Mine Wealth and Wellbeing Super Fund since July 2013
Finance Manager of 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:
Director of Unity Bank since March 2015
Former Chair of Collie Miners Credit Union 2013 - 2015 and Director from 2010.
CFMEU W.A. District President, since 2012

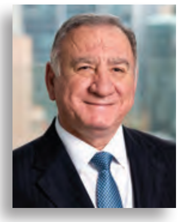
RAY SHINA
Director

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

Committees: Member, Audit Committee

RAAD RICHARDS
Director - Appointed to the Board 02/06/2017



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

Qualifications: Bachelor of Business
MHP, AFCHSE, AAIM, MAICD

DARREN GOSSLING
Director - Appointed to the Board 02/06/2017

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

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

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*

Company Secretary

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

Name	Qualifications	Experience
Danny Pavisic Deputy CEO	MBA-MGSM DIP Business - Accounting	36 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	13	13	6	6	6	6	3	3
Sarah Hall	13	12					3	3
David Conroy	13	12	6	6	6	6		
Matthew Irvine	13	13	6	6			3	3
Andrew Vickers	13	12						
Marc Worner	13	11			6	6	3	3
Garry Keane	13	11					3	2
Mark Watson	13	12	6	6	6	6		
Mich-Elle Myers	13	11						
Greg Busson	13	8			3	2		
Ray Shina	13	12	3	2				
Raad Richards (1)	1	1						
Darren Gossling (2)	1	1						

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

(1) Mr Raad Richards was appointed to the Board in June 2017.
(2) Mr Darren Gossling was appointed to the Board in June 2017.

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 33 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 (before dividend) was $2,190,406 [2016: $3,245,560].

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

On the 1st of March 2017, the Bank's incorporated name was changed from Maritime, Mining and Power Credit Union Limited to Unity Bank Limited. This change was approved by members at the Annual General Meeting held on the 30th of November 2016.

In addition, the Bank completed a merger with Bankstown City Credit Union Ltd on the 2nd of June 2017.

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

Events occuring 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 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 13.

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 30th day of August 2017.

Grant Thornton

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
Einfo.nsw@au.gt.com
W www.grantthornton.com.au

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 2017, I declare that, to the best of my knowledge and belief, that 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, 30 August 2017

Grant Thornton

Level 17,383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

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Independent Auditor's Report to the Members of Unity Bank Limited

Auditor's Opinion

We have audited the financial report of Unity Bank Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 Unity Bank Limited 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 2017 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.

Information other than the Financial Report and Auditor's Report

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 2017, but does not include the financial report and our auditor's report thereon.

Grant Thornton

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 management either intends to liquidate the Company or to cease operations, or has 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_files/ar3.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, 30 August 2017

DIRECTORS' DECLARATION

1. In the opinion of the directors of Unity Bank Limited:

   a. the financial statements and notes of Unity Bank Limited and it's 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 2017 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 30th day of August 2017.

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 five (5) appointed Directors.

Role of the Board

The Board's primary role is to enhance and protect long-term member value. To fulfill 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 25 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, 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 it's 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 Wealth + Wellbeing Pty Limited and Unions (MUA and CFMEU) 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 Ernst and Young and supported by Unity Bank's Internal Audit Department following the Internal Audit Activity Charter. The role of internal audit is to determine 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 Committees 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.

The Audit Committee meets at least six times per year.

Risk Committee

Key Committees include:

- Overseeing compliance with statutory and corporate requirements
- Overseeing and examining the adequacy of the risk management systems.

The Risk Committee meets at least six times per year.

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.

The Director Nominations Committee meets as and when required.

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.

The Remuneration Committee meets as and when required.

Marketing Committee

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

The Marketing Committee meets at least four times per year.

Corporate Governance Committee

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

The Committees key Committees 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.

The Corporate Governance Committee meets at least three times per year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $'000	2016 $'000
Interest Revenue	2(a)	39,539	39,055
Interest Expense	2(c)	14,137	14,973
Net Interest Income		**25,402**	**24,082**
Fees, commission and other income	2(b)	5,506	6,078
		30,908	**30,160**
Less			
Non Interest expenses			
Impairment losses on available for sale assets	2(e)	44	4
Impairment losses on loans receivable from members	2(d)	655	818
Impairment losses on other loans	2(d)	177	4
Fee and commission expenses		1,472	1,468
General administration			
- Employees compensation and benefits		13,661	12,853
- Depreciation and amortisation	2(e)	1,437	1,199
- Information technology		2,308	2,197
- Office occupancy		1,510	1,461
- Other administration		2,355	2,410
Other operating expenses		4,127	3,332
Total non interest expenses		**27,746**	**25,746**
Profit before income tax		**3,162**	**4,414**
Income tax expense	3	972	1,168
Profit after income tax		**2,190**	**3,246**
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the period		**2,190**	**3,246**

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN MEMBER EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Preference Shares	Capital Reserve	Asset Revaluation Reserve	Reserve for Credit Losses	General Reserve	Retained Earnings	Total Members' Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Note	(21)	(22)	(23)	(24)			
Total at 1 July 2015	**5,918**	**338**	**350**	**1,790**	**2,378**	**63,504**	**74,278**
Profit for the year	-	-	-	-	-	3,246	3,246
Dividends Paid and provided	-	-	-	-	-	(244)	(244)
Net Profit After Dividend	-	-	-	-	-	3,002	3,002
Transfer to reserve for credit losses in year	-	-	-	-	-	-	-
Transfer to capital account on redemption of shares	-	15	-	-	-	(15)	-
Transfer of Business (38)	-	4	-	250	-	4,557	4,811
							-
Repayment of T1 Capital Instrument (22)	(5,918)				(882)		(6,800)
Total at 30 June 2016	**-**	**357**	**350**	**2,040**	**1,496**	**71,048**	**75,291**
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 (38)	-	225	3,703	623	603	13,300	18,454
Total at 30 June 2017	**-**	**595**	**4,053**	**2,663**	**2,779**	**86,830**	**96,920**

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $'000	2016 $'000
ASSETS			
Cash	4	20,485	9,379
Liquid investments	5	178,101	182,805
Receivables	6	1,571	1,869
Prepayments		1,102	980
Loans to members	7 & 8	822,612	663,160
Other loans	9	13,983	2,821
Available for sale equity investments	10	4,499	3,103
Property, plant and equipment	11	12,107	5,768
Taxation assets	12 & 17	2,857	2,193
Intangible assets and capitalised costs	13	432	468
Total Assets		**1,057,749**	**872,546**
LIABILITIES			
Deposits from other financial institutions	14	4,000	13,000
Deposits from members	15	932,210	762,814
Creditor accruals and settlement accounts	16	8,688	7,184
Taxation liabilities	17	-	34
Provisions	18	5,917	4,209
Deferred tax liabilities	19	14	14
Long term borrowings	20	10,000	10,000
Total Liabilities		**960,829**	**797,255**
NET ASSETS		**96,920**	**75,291**
MEMBERS' EQUITY			
Share capital preference shares	21	-	-
Capital reserve account	22	595	357
Asset revaluation reserve	23	4,053	350
General reserve for credit losses	24	2,663	2,040
General reserve		2,779	1,496
Retained earnings		86,830	71,048
Total Members Equity		**96,920**	**75,291**

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
OPERATING ACTIVITIES		**$'000**	**$'000**
Revenue Inflows			
Interest received		40,151	39,310
Fees and commissions		4,716	5,203
Dividends		252	236
Other income		440	638
Revenue Outflows			
Interest paid		(14,207)	(15,855)
Suppliers and employees		(26,119)	(25,124)
Income taxes paid		(934)	(1,588)
Net cash from revenue activities	37(b)	**4,299**	**2,820**
Inflows from other operating activities			
Increase in member loans (net movement)		(26,286)	(30,744)
Increase in member deposits and shares (net movement)		18,200	1,896
Receivables from other financial institutions (net movement)		34,609	19,401
Net cash from operating activities		**30,822**	**(6,627)**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale on investments in shares		-	-
Proceeds on sale of property, plant and equipment		106	69
Net Cash received on Transfer of Engagements	38	2,863	2,646
Less: Outflows			
Loan Funding to SocietyOne		(11,231)	-
Purchase on investments in shares		(750)	(4,380)
Purchase of property, plant and equipment		(2,111)	(851)
Purchase of Intangible Assets		(273)	(259)
Net cash from investing activities		**(11,396)**	**(2,775)**
FINANCING ACTIVITIES			
Inflows (Outflows)			
(Decrease)/Increase in deposits to other financial institutions (net)		-	13,000
Increase in borrowings (net movement)		-	-
Loan to capital investors		680	-
Repayment of Subordinated Debt		(9,000)	(6,800)
Dividends paid on preference shares		-	(244)
Net cash from financing activities		**(8,320)**	**5,956**
Total net cash (decrease)/increase		**11,106**	**(3,446)**
Cash at beginning of year		**9,379**	**12,825**
Cash at end of year	37(a)	**20,485**	**9,379**

The accompanying notes form part of the financial statements.

Table of other notes to accounts

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is prepared for Unity Bank Limited, for the year ended the 30th June 2017. The report was authorised for issue on the 30th of August, 2017 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 writeoffs 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 to10 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.

Annual leave liability is still presented as current liability for presentation purposes under AASB 101 Presentation of Financial Statements. Previously annual leave benefits have been measured at their nominal amount.

The impact of the change in measurement has seen no change in the liability.

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 high quality corporate 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 high quality corporate 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.

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 36.
ii. The classification of preference shares as equity instruments – refer Note 21.

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 2016 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 2017 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	Periods beginning on or after 1January 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

	Mutual Bank first identifying a credit loss event. The Mutual Bank will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.		require more timely recognition of expected 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 Bank is yet to undertake a detailed assessment of the impact of AASB 16.
AASB 2016-1 Amendments to Australian Accounting Standards-Disclosure Initiative: Amendments to AASB 112.	AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.	1 January 2017	When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements.
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.	AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements.

Transfers of Investment Property (Amendments to IAS 40).	The amendments clarify that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in IAS 40,57 (a) – (d) as a non- exhaustive list of examples of evidence that a change in use has occurred. In addition, the IASB has clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.	1 January 2018	When these amendments are first adopted for the year ending 30 June 2019 there will be no material impact on the financial statements

2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Analysis of interest revenue

Interest revenue on assets carried at amortised cost

	2017 $'000	2016 $'000
Cash - deposits at call	**153**	**188**
Receivables from financial institutions	4,713	5,470
Loans to members	33,833	33,295
Other Loans to non-members via SocietyOne	844	86
Loans to capital investors	(4)	16
Total income from receivables	**39,386**	**38,867**
Total Interest Revenue	**39,539**	**39,055**

(b) Fee commission and other income

	2017 $'000	2016 $'000
Fee and commission revenue		
Fee income on loans - other than loan origination fees	1,431	1,605
Fee income from member deposits	1,260	1,382
Other fee income	996	1,023
Insurance commissions	538	612
Other commissions	549	578
Total Fee and Commission Revenue	**4,774**	**5,200**
Other income		
Dividend received on available for sale assets	252	236
Bad debts recovered	214	310
Income from property (rental income)	170	200
Gain on disposal of assets		
- Property, plant and equipment	40	3
Miscellaneous revenue	56	129
Total Fee Commission and Other Income	**5,506**	**6,078**

(c) Interest expense

	2017 $'000	2016 $'000
Interest expense on liabilities carried at amortised cost		
Deposits from financial institutions	10	5
Deposits from members	13,351	14,148
Other	776	820
Total Interest Expense	**14,137**	**14,973**

(d) Impairment losses

Loans and advances		
Increase/(decrease) in provision for impairment	137	125
Bad debts written off directly against profit	518	693
Total Impairment Losses	**655**	**818**
Reduction of impairment on loans receivable brought forward on prior year acquisition	(17)	(12)
Other Loans to non-members via SocietyOne		
Increase/(decrease) in provision for impairment	68	4
Bad debts written off directly against profit	109	-
	177	**4**

(e) Other prescribed disclosures

General administration - employees costs include:		
- net movement in provisions for employee annual leave	14	(29)
- net movement in provisions for employee long service leave	186	40
- net movement in provisions for employee sick leave	(7)	(152)
	193	**(141)**
General administration - depreciation expense include:		
- buildings	120	108
- plant and equipment	316	287
- leasehold improvements	502	330
- computer hardware	178	155
- amortisation of software	321	319
	1,437	**1,199**

	Note	2017 $'000	2016 $'000
General administration - office occupancy costs include:			
property operating lease payments			
- minimum lease payments		965	978
- contingent rents, and		-	-
- sublease agreements		-	-
Lease make good expenses - interest on liability		-	-
		965	**978**
Other operating expenses include:			
Auditors remuneration (excluding GST)			
- Audit fees		127	114
- Other services - taxation		22	10
- Other services - compliance		4	2
- Other services - other		61	27
		214	**153**
Defined contribution superannuation expenses		**1,301**	**1,225**
Loss on disposal of assets			
- property,plant,equipment		44	4
- investments		-	-
		44	**4**

3. INCOME TAX EXPENSE

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

	Note	2017	2016
Current Income Tax Payable		861	1,199
Add / (less) current year movement in deferred tax asset		7	(45)
Current tax expense - current year profits	(3b)	868	1,154
Under provision from prior years		-	-
Shell Employees tax payment		23	
Over provision from prior years		36	(30)
Adjustment to deferred tax asset - prior year		45	44
Adjustment to deferred tax liability - prior year		-	-
Total current income tax expense (3b)		972	1,168

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

	2017	2016
Profit	3,162	4,414
Prima facie tax payable on profit before income tax at 30%	948	1,323
Add tax effect on expenses not deductible	57	43
Less tax effect of additional deductions allowed not in accounting expenses	(29)	(112)
Less		
- Franking rebate	(108)	(100)
Income tax expense attributable to current year profit	**868**	**1,154**

4. CASH

	Note	2017 $'000	2016 $'000
Cash on Hand		1,398	1,379
Deposits at Call		19,087	8,000
		20,485	**9,379**

5. LIQUID INVESTMENTS

Investments at Amortised Cost

	2017	2016
(a) Hold to Maturity		
Negotiable certificates of deposit	42,100	41,458
Receivables	80,609	50,144
Term deposits	55,392	91,203
	178,101	**182,805**
(b) Dissection of receivables		
Deposits with industry bodies	16,500	6,000
Deposits with other societies	9,500	24,500
Deposits with banks	152,101	152,305
	178,101	**182,805**

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

6. RECEIVABLES

	2017	2016
Interest receivable on deposits with other financial institutions	790	1,332
Sundry debtors and settlement accounts	781	537
	1,571	**1,869**

7. LOANS TO MEMBERS

	Note	2017	2016
(a) Amount due comprises:			
Overdrafts and revolving credit		26,452	20,756
Term loans		797,106	643,158
Subtotal		**823,558**	**663,914**
Less:			
Unamortised loan origination fees		-	-
Subtotal		**-**	**-**
Less:			
Provision for impaired loans	8	946	754
		822,612	**663,160**

(b) Credit quality – Security held against loans:	**2017 $'000**	**2016 $'000**
Secured by mortgage over business assets	2,659	3,024
Secured by mortgage over real estate	759,874	608,393
Partly secured by goods mortgage	9,687	11,783
Wholly unsecured	51,338	40,714
	823,558	**663,914**

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%	628,637	515,437
- loan to valuation ratio of more than 80% but mortgage insured	74,738	61,915
- loan to valuation ratio of more than 80% and no mortgage insurance	56,499	31,041
Total	**759,874**	**608,393**

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	Nil	Nil
	Nil	**Nil**
(ii) Loans to members are concentrated to indivduals employed in the following industries		
- Maritime industry	246,255	254,228
- Mining and energy industry	134,101	133,748
- Other	443,202	275,938
	823,558	**663,914**

(iii) Geographical Concentrations

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
Total per statement of financial position	**750,033**	**45,674**	**27,851**	**823,558**

2016	Housing	Personal	Business	Total
NSW	340,620	25,838	21,373	387,831
Victoria	65,469	4,779	1,037	71,285
Queensland	86,299	5,995	1	92,295
South Australia	9,898	1,356	-	11,253
Western Australia	74,376	6,944	667	81,987
Tasmania	9,950	700	-	10,650
Northern Territory	3,284	182	-	3,465
ACT	1,244	88	-	1,332
Other	2,941	249	624	3,814
Total per statement of financial position	**594,081**	**46,131**	**23,702**	**663,914**

(iv) Concentration by Purpose

	2017	2016
Loans to natural persons		
Residential loans and facilities	749,211	594,047
Personal loans and facilities	40,173	42,911
Business loans and facilities	10,750	9,220
	800,134	**646,178**
Loans to Corporations	**23,424**	**17,736**
Total	**823,558**	**663,914**

(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 36.

8. PROVISION ON IMPAIRED LOANS

	2017 $'000	2016 $'000
(a) Total Provision comprises		
Collective provisions	670	402
Individual specific provisions	276	352
Total Provision	**946**	**754**
(b) Movement in the provision for impairment		
Balance at the beginning of year	754	623
Add (Deduct):		
Transfer from (to) income statement	154	137
Transfer from (to) income statement - Reduction of impairment on loans receivable brought forward on prior year acquisition - Note 2(d)	(17)	(12)
Transfer from merger	55	6
Bad Debts Written off provision	-	-
Balance at end of year	**946**	**754**
Details of credit risk management is set out in Note 25.		
(c) Impaired loans written off		
Amounts written off against the provision for impaired loans	-	-
Amounts written off directly to expense	517	693
Total Bad Debts	**517**	**693**
Bad Debts Recovered in the period	214	309
	303	**384**

(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

	2017 Carrying Value $'000	2017 Value of Impaired Loans $'000	2017 Provision for Impairment $'000	2016 Carrying Value $'000	2016 Value of Impaired Loans $'000	2016 Provision for Impairment $'000
Loans to Members						
Mortgages	749,211	7,115	305	594,047	4,326	112
Personal	38,477	753	271	40,363	598	156
Credit Cards	6,921	57	45	7,164	54	41
Overdrafts	5,525	31	26	4,604	58	41
Total to natural persons	**800,134**	**7,956**	**647**	**646,178**	**5,036**	**350**
Corporate Borrowers	23,424	-	-	17,736	-	-
Provision for Loans Not in Arrears	-	-	299	-	-	404
Total	**823,558**	**7,956**	**946**	**663,914**	**5,036**	**754**

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

	2017 Carrying Value $'000	2017 Provision $'000	2016 Carrying Value $'000	2016 Provision $'000
Non impaired up to 31 days	814,204	-	655,738	90
31 to 90 days in arrears	4,804	94	4,784	70
90 to 180 days in arrears	3,572	200	1,631	176
180 to 270 days in arrears	216	82	469	78
270 to 365 days in arrears	104	102	582	135
Over 365 days in arrears	557	404	479	74
Overlimit facilities over 14 days	101	64	231	131
Total	**823,558**	**946**	**663,914**	**754**

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 $7,437,274 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

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	-	-	-	-	-
Total	**4,804**	**2,437**	**140**	**57**	**7,438**

2016	1 - 3 Mths	3 - 6 Mths	6 -12 Mths	> 1 Year	Total
Mortgage secured loans	4,107	855	742	74	5,778
Personal loans	677	-	-	-	677
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Total	**4,784**	**855**	**742**	**74**	**6,455**

(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

	2017 $'000	2016 $'000
Other loans to non members - at amortised cost		
- Unsecured personal lending	14,055	2,825
- Less provision for impairment	(72)	(4)
Total value of other loans	**13,983**	**2,821**

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	2017 $'000	2016 $'000
Shares in unlisted companies - at cost			
- CUSCAL	10(a)	2,025	1,479
- Transaction Solutions Pty Ltd	10(b)	174	74
- SocietyOne Holdings Pty Ltd	10(c)	2,250	1,500
- Shared Service Partners Pty Ltd	10(d)	50	50
Total value of share investments		**4,499**	**3,103**

(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 31 and 34. 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.

The net dividend return in 2016/17 was 8.5 cents per share. 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 34.

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 2016/17 was 70.00 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.

Management has determined that the cost value of $1.00 per share is a reasonable approximation of fair value based on the likely value available on a sale.

11. PROPERTY, PLANT AND EQUIPMENT

	2017 $'000	2016 $'000
(a) Fixed Assets		
Land (Deemed cost)	425	319
Buildings (Deemed cost)	9,319	4,026
Less: accumulated depreciation	786	667
	8,533	3,359
Total Land and Buildings	**8,958**	**3,678**
Plant and Equipment - at cost	4,905	3,833
Less: accumulated depreciation	3,485	2,793
	1,420	**1,040**
Capitalised leasehold improvements - at cost	4,084	3,009
Less: accumulated depreciation	2,355	1,959
	1,729	**1,050**
Total Property, Plant and Equipment	**12,107**	**5,768**

2017

	Property $'000	Plant & Equipment $'000	Leasehold Improvements $'000	Total $'000
Opening Balance	3,678	1,040	1,050	5,768
Purchases	-	920	1,191	2,111
Acquired under merger	5,399	48	7	5,454
Less:				
Assets Disposed	-	94	17	111
Depreciation charges	119	494	502	1,115
Impairment loss	-	-	-	-
Balance at the end of year	**8,958**	**1,420**	**1,729**	**12,107**

2016

	Property $'000	Plant & Equipment $'000	Leasehold Improvements $'000	Total $'000
Opening Balance	3,786	1,028	1,053	5,867
Purchases	-	522	329	851
Acquired under merger	-	-	-	-
Less:				
Assets Disposed	-	69	-	69
Depreciation charges	108	442	330	880
Impairment loss	-	-	-	-
Balance at the end of year	**3,678**	**1,040**	**1,051**	**5,768**

12. TAXATION ASSETS

	Note	2017 $'000	2016 $'000
Opening balance		2,193	1,691
Add movements in the current year		(7)	45
Adjustment for changes in opening balances		(900)	(44)
Additional Deferred Tax Assets from merger entities		668	501
Deferred Tax Assets		**1,954**	**2,193**
Tax Instalments recoverable	17	851	-
		2,805	**2,193**
Deferred Tax Assets Comprise:			
Accrued Expenses not deductible until incurred		108	115
Provisions for impairment on loans		306	227
Provisions for employee benefits		1,367	1,292
Deferred income		-	-
Depreciation on fixed assets		(711)	178
Prepayments		-	-
Deferred expenses for tax purposes		209	129
Tax Losses on Merger		-	-
Member Incentive		675	252
		1,954	**2,193**

13. INTANGIBLE ASSETS

	2017 $'000	2016 $'000
Computer software	2,791	2,445
less accumulated amortisation	2,359	1,977
	432	**468**
Movements in the asset balances during the year were:		
Opening balance	468	528
Purchases	273	259
Acquired under merger	12	-
Less:		
Assets disposed	-	-
Amortisation charge	321	319
Impairment loss	-	-
Balance at the end of year	**432**	**468**

14. DEPOSITS FROM OTHER INSTITUTIONS

	2017 $'000	2016 $'000
Term Deposits	4,000	13,000
	4,000	**13,000**

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

15. DEPOSITS FROM MEMBERS

	2017	2016
Member Deposits		
- At Call	456,754	366,072
- Term	475,057	396,383
Member withdrawable shares	399	359
	932,210	**762,814**

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:	**124,307**	**120,240**

(ii) Member deposits at balance date were received from individuals employed principally in the Maritime, Mining and Energy industries.

(iii) Geographic concentrations

NSW	743,645	587,516
Victoria	52,511	46,447
Queensland	44,485	42,000
South Australia	9,992	9,195
Western Australia	55,986	53,607
Tasmania	4,412	3,761
Northern Territory	2,180	2,780
ACT	399	435
Other	18,201	16,714
Total per balance sheet	**931,811**	**762,455**

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

16. CREDITORS ACCRUALS AND SETTLEMENT ACCOUNTS

	Note	2017 $'000	2016 $'000
Annual Leave		1,431	1,291
Creditors and accruals		1,761	1,494
Settlement accounts		1,164	302
Interest payable on deposits		4,054	3,957
Accrual for GST payable		33	30
Accrual for other tax liabilities		245	110
		8,688	**7,184**

17. TAXATION LIABILITIES

	Note	2017 $'000	2016 $'000
Current income tax liability		-	34
Current income tax liability comprises:			
Balance - previous year		34	251
Less paid		(34)	(251)
Over/under statement in prior year		-	(36)
Liability for income tax in current year		861	1,200
Tax Losses arising from Mergers		(855)	-
Less instalments paid in current year		857	1,130
Tax Instalments recoverable in current year	12	851	-
Balance - current year		**-**	**34**

18. PROVISIONS

	2017 $'000	2016 $'000
Long Service Leave	2,721	2,472
Lease make good of premises	149	149
Provisions other	3,047	1,588
	5,917	**4,209**

Provision movements comprises:

	2017 $'000	2016 $'000
Lease make good		
Balance - previous year	149	134
Less paid	(20)	-
Liability increase in current year	20	15
Balance - current year	**149**	**149**

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

	2017 $'000	2016 $'000
Deferred tax liabilities	**14**	**14**

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	-	-
Increase due to debt issued	-	-
Increase due to acquisition from merger	-	-
Amortisation of capitalised debt raising costs	-	-
Balance at the end of the year	**10,000**	**10,000**

On the 16th of November 2012, the Bank entered into a new agreement to issue $10m in Subordinated Debt. The loans mature on the 16th of November 2022. The terms include the payment of interest at the rate of 5.93% above the BBSW, payable quarterly. The transaction costs are amortised over the 10 year period of the loan to maturity.

21. PREFERENCE SHARES

Balance at the beginning of the year	-	5,918
Increase due to debt issued	-	-
Increase due to acquisition from merger	-	-
Buy back of Preference shares	-	(5,918)
Amortisation of capitalised debt raising costs	-	-
Balance at the end of the year	**-**	**-**

The Bank entered into an agreement to issue 430,000 preference shares in 2006 which was approved at the members meeting held on 10th March 2006. Additionally, the Bank acquired a further 250,000 preference shares from the merger with Australian Country Credit Union Ltd on the 1st of October 2010.

The Bank held 680,000 redeemable preference shares with a face value of $100.00 each to Australian Mutual T1 Capital Funding Trust until the 21st of June 2016, when the Bank agreed to buy back the 680,000 redeemable preference shares.

22. CAPITAL RESERVE ACCOUNT

	2017 $'000	2016 $'000
Balance at the beginning of the year	357	338
Transfer from retained earnings on share redemptions	13	16
Increase due to shares issued to members of:		
Shell Employees' Credit Union Ltd	-	3
Bankstown City Credit Union Ltd	225	-
Balance at the end of the year	**595**	**357**

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.

23. ASSET REVALUATION RESERVE

	2017 $'000	2016 $'000
Asset revaluation reserve - Land and Buildings	**4,053**	**350**

Movements in Reserves - Land and Buildings
The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value

	2017 $'000	2016 $'000
Balance at beginning of the year	350	350
Add: Increase on revaluation	-	-
Less: Deferred tax liability	-	-
Increase due to acquisition from Bankstown City Credit Union merger	3,703	-
Balance at the end of year	**4,053**	**350**

24. GENERAL RESERVE FOR CREDIT LOSSES

	2017 $'000	2016 $'000
General Reserve for Credit Losses	**2,663**	**2,040**

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

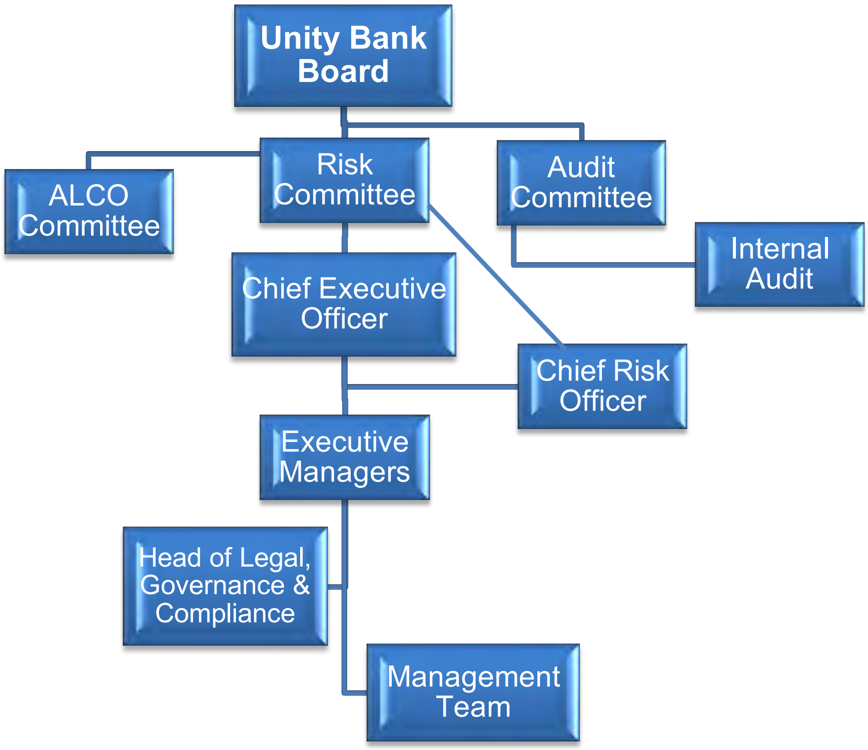
	2017 $'000	2016 $'000
Balance at beginning of the year	2,040	1,790
Add: increase transferred from Shell Employees' Credit Union merger	-	250
Add: increase transferred from Bankstown City Credit Union merger	623	
Add: increase transferred from retained earnings	-	-
Balance at the end of year	**2,663**	**2,040**

25. 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, and reported to the board via the Risk Committee.

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

Method of managing risk

The 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 28 which details the contractual interest change profile.

Based on the calculations as at 30 June 2017 the net profit impact for a 1% movement in interest rates would be $3,609,484 [2016: $3,259,709].

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 31 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 27. The ratio of liquid funds over the past year is set out below:

	30-Jun-17	30-Jun-16
	$'000	$'000
Liquid Funds	144,348	99,123
Total Adjusted Liabilities	1,012,750	836,593
	%	%
Liquid Ratio (%)	14.25%	11.85%
Prescribed Liquidity % (per policy)	9.00%	9.00%
Average for the year	12.60%	12.34%
Minimum during the year	**11.32%**	**11.19%**

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:

	2017 Carrying Value $'000	2017 Off Balance Sheet $'000	2017 Max Exposure $'000	2016 Carrying Value $'000	2016 Off Balance Sheet $'000	2016 Max Exposure $'000
Mortgage	749,211	55,087	804,298	594,047	45,541	639,588
Personal	38,477	2,372	40,849	40,364	1,667	42,031
Credit Cards	6,921	6,854	13,775	7,164	6,647	13,811
Overdrafts	5,525	27,237	32,762	4,603	20,476	25,079
Total to Natural Persons	**800,134**	**91,550**	**891,684**	**646,178**	**74,331**	**720,509**
Corporate Borrowers	23,424	3,649	27,073	17,736	2,038	19,774
Total	**823,558**	**95,199**	**918,757**	**663,914**	**76,369**	**740,283**

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 30 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 Note7(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 weekly 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 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:

	2017	2017	2017	2016	2016	2016
Investments With	**Carrying Value**	**Past Due Value**	**Provision**	**Carrying Value**	**Past Due Value**	**Provision**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
CUSCAL - Rated A	16,525	-	-	6,925	-	-
Banks - Rated AA and Above	-	-	-	13,544	-	-
Banks - Rated below AA	151,274	-	-	139,610	-	-
Credit Unions - Rated below AA	-			4,000		
Unrated Institutions - Credit Unions	18,500	-	-	20,500	-	-
	186,299	**-**	**-**	**184,579**	**-**	**-**

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 polices 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

Other classes included in 2013 have been removed or transferred to Tier 1 capital:

- Asset revaluation reserve on property (now in Tier 1)
- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year.

Capital in the Bank is made up as follows:

	2017 $'000	2016 $'000
Tier 1 Common Equity		
Asset revaluation reserves on property	4,053	350
Capital Reserve	596	357
General Reserve	2,981	2,378
Retained Earnings	86,829	70,671
	94,459	**73,756**
Less Prescribed Deductions	(6,923)	(6,206)
Net Tier 1 Common Equity	**87,536**	**67,550**
Tier 1 Additional Equity		
Additional Tier 1 Capital instruments	-	-
	-	**-**
Less Prescribed Deductions / adjustments	(202)	(202)
Net Tier 1 Additional Equity	**(202)**	**(202)**
Total Tier 1 Capital	**87,334**	**67,348**
Tier 2 Capital		
Subordinated Debt	10,000	10,000
Reserve for Credit Losses	2,663	2,039
	12,663	12,039
Less Prescribed Deductions	(5,000)	(4,000)
Net Tier 2 Capital	**7,663**	**8,039**
Total Capital	**94,997**	**75,388**

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:

2017	2016	2015	2014	2013
Basel III	**Basel III**	**Basel III**	**Basel III**	**Basel II**
17.52%	**17.37%**	**18.72%**	**17.41%**	**17.32%**

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 1st of January 2010 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 $4,996,309 [2016 - $4,172,467]

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:

1. Asset impairment – the impact of economic and employment factors on the loan losses, and/or recovery of investments.
2. 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.
3. Interest rate risk – measures the impact on capital from changes in interest rates impacting the net interest margin and net surplus.
4. Events impacting on additional costs of retention of liquid funds and exercising available liquidity drawdown facilities.

26. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes.

	Note	2017 $'000	2016 $'000
Financial Assets - carried at amortisation cost			
Cash	4	20,485	9,379
Liquid investments	5	178,101	182,805
Receivables	6	1,571	1,869
Loans to members	7 & 8	823,558	663,914
Other loans	9	14,055	2,825
Total loans and receivables		**1,037,770**	**860,792**
AFS investments - carried at cost	10	4,499	3,103
Total available for sale investments		**4,499**	**3,103**
TOTAL FINANCIAL ASSETS		**1,042,269**	**863,895**
Financial liabilities - carried at amortisation cost			
Creditors		7,012	5,783
Deposits from other institutions	14	4,000	13,000
Deposits from members	15	932,210	762,814
Long term borrowings	20	10,000	10,000
Total carried at amortised cost		**953,222**	**791,597**
Fair value through profit and loss			
Derivatives		-	-
TOTAL FINANCIAL LIABILITIES		**953,222**	**791,597**

27. 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.

2017	Balance Sheet	Up to 3 Months	3 - 12 Months	1 - 5 Years	After 5 Years	No Maturity	Total Cash Flows
ASSETS	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
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
On Balance Sheet	**1,042,269**	**104,702**	**79,687**	**351,994**	**915,153**	**4,499**	**1,456,035**
Total Financial Assets	**1,042,269**	**104,702**	**79,687**	**351,994**	**915,153**	**4,499**	**1,456,035**
LIABILITIES							
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
On Balance Sheet	**953,222**	**688,776**	**245,183**	**29,353**	**-**	**399**	**963,711**
Undrawn loan commitments	-	95,199	-	-	-	-	95,199
Total Financial Liabilities	**953,222**	**783,975**	**245,183**	**29,353**	**-**	**399**	**1,058,910**

2016	Balance Sheet	Up to 3 Months	3 - 12 Months	1 - 5 Years	After 5 Years	No Maturity	Total Cash Flows
ASSETS	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash	9,379	9,394	-	-	-	-	9,394
Receivables	1,869	1,869	-	-	-	-	1,869
Liquid investments	182,805	86,021	51,796	53,492	-	-	191,309
Loans to members	663,914	15,770	43,993	202,088	741,512	-	1,003,363
Other loans	2,825	89	1	3,941	105	-	4,136
AFS investments	3,103	-	-	-	-	3,103	3,103
On Balance Sheet	**863,895**	**113,143**	**95,790**	**259,521**	**741,617**	**3,103**	**1,213,174**
Total Financial Assets	**863,895**	**113,143**	**95,790**	**259,521**	**741,617**	**3,103**	**1,213,174**
LIABILITIES							
Creditors	5,783	5,783	-	-	-	-	5,783
Deposits from financial institutions	13,000	13,005	-	-	-	-	13,005
Member withdrawable shares	359	-	-	-	-	359	359
Deposits from members - at call	366,072	366,072	-	-	-	-	366,072
Deposits from members - term	396,383	178,349	216,076	12,950	-	-	407,375
Long term borrowings	10,000	-	-	10,000	-	-	10,000
On Balance Sheet	**791,597**	**563,209**	**216,076**	**22,950**	**-**	**359**	**802,594**
Undrawn loan commitments	-	76,369	-	-	-	-	76,369
Total Financial Liabilities	**791,597**	**639,578**	**216,076**	**22,950**	**-**	**359**	**878,963**

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.

	2017			2016		
	Within 12 months $'000	**After 12 months $'000**	**Total**	**Within 12 months $'000**	**After 12 months $'000**	**Total**
ASSETS						
Cash	20,485	-	20,485	9,379	-	9,379
Receivables	1,571	-	1,571	1,869	-	1,869
Liquid investments	92,246	85,855	178,101	158,155	24,650	182,805
Loans to members	31,584	791,974	823,558	27,156	636,758	663,914
Other loans	633	13,422	14,055	90	2,731	2,821
AFS investments	-	4,499	4,499	-	3,103	3,103
On Balance Sheet	**146,519**	**895,750**	**1,042,269**	**196,649**	**667,242**	**863,891**
Total Financial Assets	**146,519**	**895,750**	**1,042,269**	**196,649**	**667,242**	**863,891**
LIABILITIES						
Creditors	7,012	-	7,012	5,783	-	5,783
Deposits from financial institutions	4,000	-	4,000	13,000	-	13,000
Member withdrawable shares	-	399	399	-	359	359
Deposits from members - at call	456,754	-	456,754	366,072	-	366,072
Deposits from members - term	457,840	17,217	475,057	385,101	11,282	396,383
Long term borrowings	-	10,000	10,000	-	10,000	10,000
Total Financial Liabilities	**925,606**	**27,616**	**953,222**	**769,956**	**21,641**	**791,597**

28. 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.

2017	0 - 3 Months	3 - 12 Months	1 - 5 Years	After 5 Years	Non Interest Bearing	Total
ASSETS	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
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
On Balance Sheet	**911,053**	**55,123**	**68,414**	**211**	**7,468**	**1,042,269**
Total Financial Assets	**911,053**	**55,123**	**68,414**	**211**	**7,468**	**1,042,269**
LIABILITIES						
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
On Balance Sheet	**688,874**	**239,720**	**17,217**	**-**	**7,411**	**953,222**
Undrawn loan commitments	95,199	-	-	-	-	95,199
Total Financial Liabilities	**784,073**	**239,720**	**17,217**	**-**	**7,411**	**1,048,421**

2016	0 - 3 Months	3 - 12 Months	1 - 5 Years	After 5 Years	Non Interest Bearing	Total
ASSETS	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash	8,000	-	-	-	1,379	9,379
Receivables	-	-	-	-	1,869	1,869
Liquid investments	135,480	47,325	-	-	-	182,805
Loans to members	594,465	8,781	58,473	2,195	-	663,914
Other loans	2,825	-	-	-	-	2,825
AFS investments	-	-	-	-	3,103	3,103
On Balance Sheet	**740,770**	**56,106**	**58,473**	**2,195**	**6,351**	**863,895**
Total Financial Assets	**740,770**	**56,106**	**58,473**	**2,195**	**6,351**	**863,895**
LIABILITIES						
Creditors	-	-	-	-	5,783	5,783
Deposits from financial institutions	13,000	-	-	-	-	13,000
Deposits from members	541,730	209,444	11,281	-	359	762,814
Long term borrowings	10,000	-	-	-	-	10,000
On Balance Sheet	**564,730**	**209,444**	**11,281**	**-**	**6,142**	**791,597**
Undrawn loan commitments	76,369	-	-	-	-	76,369
Total Financial Liabilities	**641,099**	**209,444**	**11,281**	**-**	**6,142**	**867,966**

29. 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.

	2017			2016		
	Fair Value	Carrying Value	Variance	Fair Value	Carrying Value	Variance
	$'000	$'000	$'000	$'000	$'000	$'000
FINANCIAL ASSETS						
Cash	20,485	20,485	-	9,379	9,379	-
Receivables	1,571	1,571	-	1,869	1,869	-
Liquid investments	179,052	178,101	951	184,131	182,805	1,326
Loans to members	823,145	823,558	(413)	665,098	663,914	1,184
Other loans	14,055	14,055	-	2,825	2,825	-
AFS investments	4,499	4,499	-	3,103	3,103	-
Total Financial Assets	**1,042,807**	**1,042,269**	**538**	**866,405**	**863,895**	**2,510**
FINANCIAL LIABILITIES						
Creditors	7,012	7,012	-	5,783	5,783	-
Deposits from financial institutions	3,999	4,000	(1)	12,999	13,000	(1)
Member withdrawable shares	399	399	-	359	359	-
Deposits from members - at call	456,754	456,754	-	366,072	366,072	-
Deposits from members - term	475,146	475,057	89	397,105	396,383	722
Long term borrowings	10,000	10,000	-	10,000	10,000	-
Total Financial Liabilities	**953,310**	**953,222**	**88**	**792,318**	**791,597**	**721**

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 4.48% [2016– 3.99%-4.68%].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 2.65% [2016–2.55%].

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.

30. FINANCIAL COMMITMENTS

	2017 $'000	2016 $'000
(a) Outstanding loan commitments		
The loans approved but not funded	22,837	14,147
(b) Loan Redraw Facilities		
The loan redraw facilities available	38,125	35,099
(c) Undrawn Loan Facilities		
Loan facilities available to members for overdrafts are as follows:		
Total value of facilities approved	61,258	48,249
Less: Amount advanced	(27,021)	(21,126)
Net Undrawn Value	**34,237**	**27,123**
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn		
Total Financial Commitment	**95,199**	**76,369**

	2017 $000's	2016 $000's
(d) Computer capital commitments		
The costs committed under contract with Ultradata are as follows:		
Not later than one year	1,194	1,169
Later than 1 year but not 2 years	900	936
Later than 2 years but not 5 years	2,700	2,111
Later than 5 years	686	248
	5,480	**4,464**
(e) Lease expense commitments for operating leases on property occupied by the Bank		
Not later than one year	787	792
Later than 1 year but not 5 years	2,655	2,618
Later than 5 years	364	1,016
	3,806	**4,426**

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.

	2017 $000's	2016 $000's
(f) Other expense commitments		
Not later than one year	677	572
Later than 1 year but not 2 years	640	558
Later than 2 years but not 5 years	1,760	1,534
Later than 5 years	-	-
	3,077	**2,664**
(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	131	76
Later than 1 year but not 2 years	-	-
Later than 2 years but not 5 years	-	-
Later than 5 years	-	-
	131	**76**

31. STANDBY BORROWING FACILITIES

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

2017	Gross $'000	Current Borrowing $'000	Net Available $'000
Loan Facility	-	-	-
Overdraft Facility	4,000	-	4,000
Total Standby Borrowing Facilities	**4,000**	**-**	**4,000**

2016	Gross $'000	Current Borrowing $'000	Net Available $'000
Loan Facility	-	-	-
Overdraft Facility	4,000	-	4,000
Total Standby Borrowing Facilities	**4,000**	**-**	**4,000**

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

32. 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.

33. 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 [2016: 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

	2017 $'000	2016 $'000
(i) Short term employee benefits	1,737	1,589
(ii) post-employment benefits - super contributions	156	129
(iii) other long term benefits - net increase in LSL provision	40	43
(iv) termination benefits	-	-
(v) shared-based payments	-	-
Total	**1,933**	**1,761**

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

	2017 $'000			2016 $'000		
	Mortgage Secured	Other term loans	Credit cards	Mortgage Secured	Other term loans	Credit cards
(i) Funds available to be drawn	178	20	486	44	15	56
(ii) Balance	3,883	12	276	2,788	11	24
(iii) Value of Loans Disbursed During the Year	1,076	9	-	348	-	-
(iv) Value of Revolving Credit Facilities Granted	-	-	-	-	-	-
(v) Interest & Other Revenue earned on Loans & Revolving Credit	69	88	3	55	76	1

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

	2017 $'000	2016 $'000
Total value term and savings deposits from KMP	557	297
Total interest paid on deposits to KMP	3	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.

34. 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.

35. 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.

36. 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	2017 $'000	2016 $'000
Balance sheet values - Loans and receivables		
Waterside Trust No.1	113,311	41,983
Carrying amount of loans at time of transfer		
Waterside Trust No.1	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.

Integris Securitisation Services Pty Limited

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

The Bank has an arrangement with Integris 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 Integris at the book value of the loans, subject to acceptable documentation criteria. During the year the Bank did not assign any loans to Integris. All loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris 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	**2017 $'000**	**2016 $'000**
Balance sheet values - Loans and receivables		
Integris Securitisation Trust	131	219
Net Income received from continuing involvement		
Integris Securitisation Trust	3	3

37. NOTES TO CASH FLOW STATEMENT

(a) Reconciliation of cash

	2017 $'000	2016 $'000
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on Hand	1,398	1,379
Deposits at call	19,087	8,000
Bank Overdraft	-	-
	20,485	**9,379**

(b) Reconciliation of cash from operations to accounting profit

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

	2017 $'000	2016 $'000
Profit after income tax	2,190	3,246
Add (Deduct):		
Bad debts written off and provided for	749	818
Depreciation expense	1,437	1,199
Amortisation of borrowing costs	-	-
Increase in provision for staff leave	247	(918)
Increase/(Decrease) in provision for income tax	(30)	(240)
Increase/(Decrease) in other provisions	(465)	384
Increase in accrued expenses	(98)	(351)
(Decrease)/Increase in interest payable	(71)	(882)
Gain on sale of assets	4	-
(Increase)/Decrease in prepayments	(78)	(511)
(Increase)/Decrease in deferred tax assets	67	(180)
Gain on disposal of investments	-	-
Decreases (increases) in interest receivable	612	255
Decreases (increases) in other receivables	(266)	-
Net cash from operating activities	**4,299**	**2,820**

38. TRANSFER OF BUSINESS

The Bank accepted a transfer of business from Bankstown City Credit Union Limited effective on the 2nd of June 2017.

The shares in the above Credit Union were redeemed and replaced with Unity Bank shares.

The primary reason for the transfer was detailed in the information pack issued to members, which was to consolidate the mutual interests of the entities into an organisation better capable of withstanding the economic pressures and regulatory requirements.

There was no goodwill which arises in the transfer as Bankstown City Credit Union Limited had surplus net assets in excess of the value of the shares issued by Unity Bank Limited.

The cost to Unity Bank Limited was represented by the issue of the following number of shares to the members of the transferring Credit Union:

Bankstown City Credit Union Limited 3,973 shares

While the fair value of the shares on a winding up may exceed the withdrawable value, the members of the transferring institution are only entitled to the withdrawable value of the shares. The value of the shares issued was increased from $2.00 to $10.00 per share in line with Unity Bank shares and are therefore at a new withdrawable value of $39,730 in aggregate.

Other prescribed disclosures are as follows:

(a) There are no contingent considerations or indemnification assets.

(b) The amounts recognised as of the acquisition dates for each major class of assets acquired and liabilities assumed, are as follows:

	Bankstown City Credit Union Ltd			
	Gross Contractual Amounts Receivable	Fair Value Adjustment	Provision for Impairment	Net Amounts Received
	$'000	$'000	$'000	$'000
ASSETS				
Cash	9,863	-	-	9,863
Receivables from ADI's	22,905	-	-	22,905
Receivables from members	133,952	38	-	133,914
Other receivables	152	-	-	152
Fixed assets	5,455	-	-	5,455
Equity investments	646	-	-	646
Intangible assets	12	-	-	12
Deferred tax assets	286	-	-	286
Total Assets	**173,271**	**38**	**-**	**173,233**
LIABILITIES				
Member deposits	151,932	-	-	151,932
Borrowing to ADI's	-	-	-	-
Staff leave provisions	63	-	-	63
Creditors and accruals	924	(44)	-	968
Other provisions	-	-	-	-
Taxation liabilities	931	-	-	931
Tier 2 Subordinated Debt	-	-	-	-
Total Liabilities	**153,851**	**(44)**	**-**	**153,894**
Net Assets	**19,421**	**82**	**-**	**19,339**

(c) Contingent liabilities – there are no contingent liabilities.

(d) The following key transactions are recognised separately from the acquisitions of assets and liabilities and assumption of liabilities in the business combination.

(i) Merger Member Incentive

As part of the merger approval process, the financial institutions have agreed for the payment of a member incentive of $2,250,000 to be distributed evenly if membership and business is maintained for a period of 6 months following merger.

(e) Cost of the acquisitions expensed as per AASB3 comprised

Description	Bankstown City Credit Union Ltd $'000
Professional due diligence and legal costs	48
Acquisition related costs	425
Total Direct Costs	**473**

These costs were incurred in the 2016/2017 financial year and form part of the 'Other Operating Costs' of the Bank.

(f) There are no costs of the acquisitions incurred but not expensed.

(g) Post Acquisition Performance

Since the transfers the revenue and expenses have been absorbed into the revenue and expenses of the Bank as a whole and are not separated as a separate business unit. That was done to allow the economies of scale to maximise the benefits to members and to recognise that the assets and liabilities acquired are not separable from the combined Bank.

Accordingly the amounts of revenue and profit and loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period are not available.

39. 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 Ltd.

Level 7, 217 Clarence St Sydney NSW 2000
PO Box K237 Haymarket NSW 1240

1300 36 2000

mail@unitybank.com.au

+61 2 9891 0800 (International)

02 8263 3277

unitybank.com.au

Reliance Bank and Bankstown City Unity Bank are divisions of Unity Bank.
ABN 11 087 650 315 AFSL/Australian Credit Licence 240399