ANNUAL REPORT

2019

Our Mutual Journey

cua

BANKING | INSURANCE

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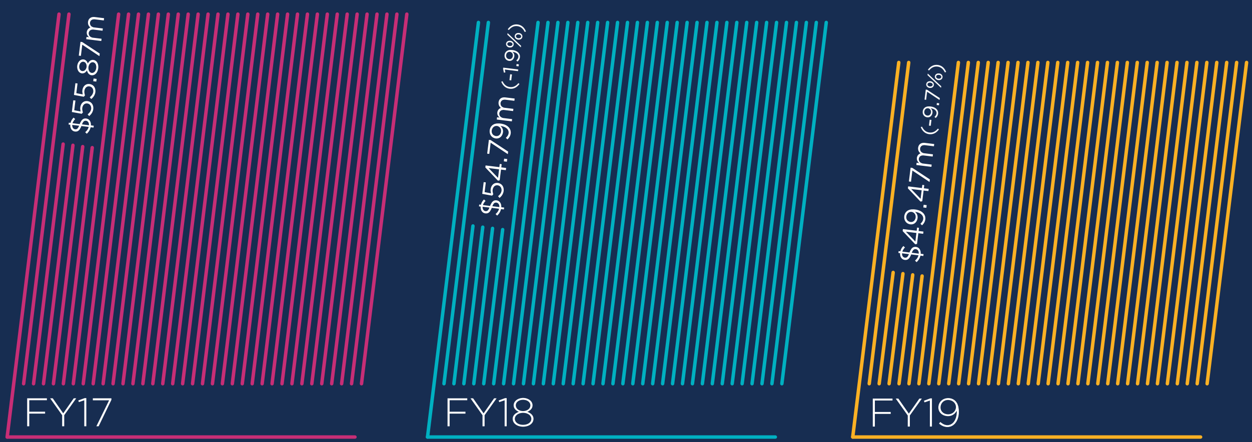
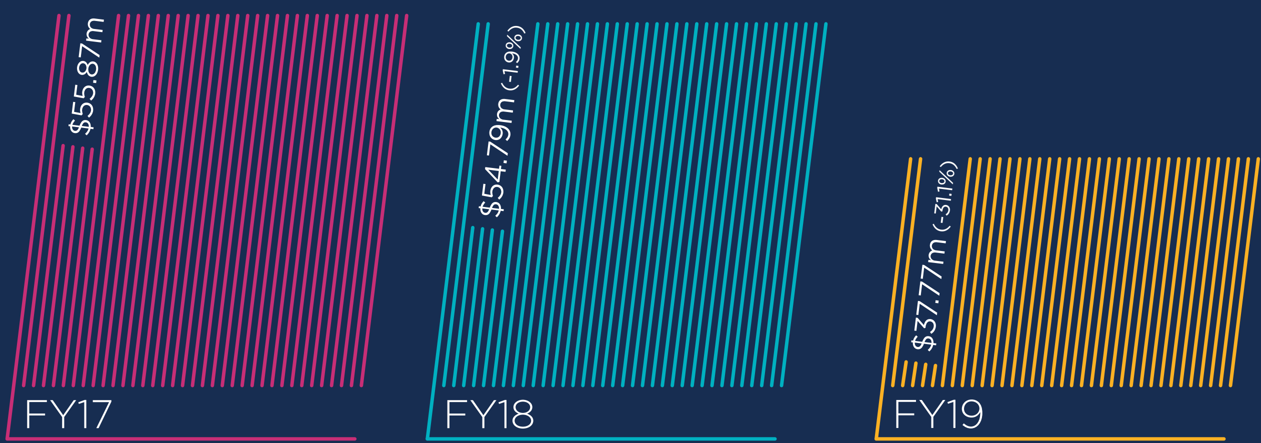
Annual Highlights

Members (Banking + Health)

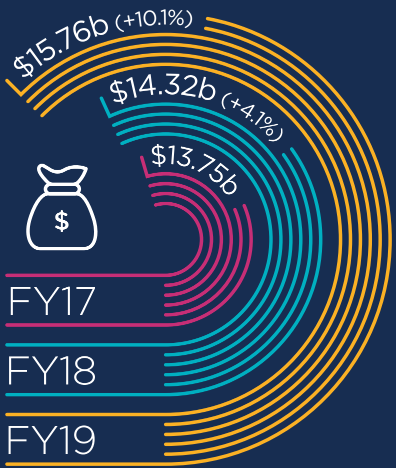
Cash Profit



Net Profit After Tax (NPAT)



Consolidated Assets



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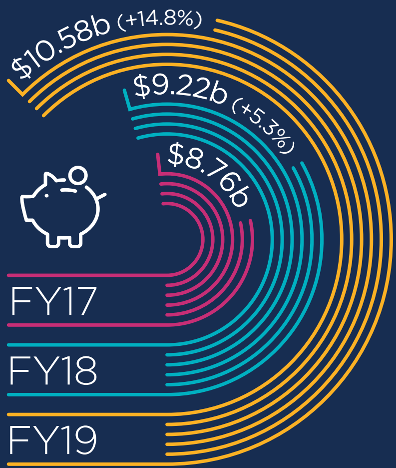
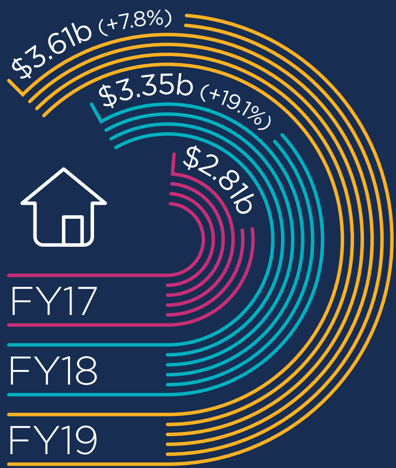


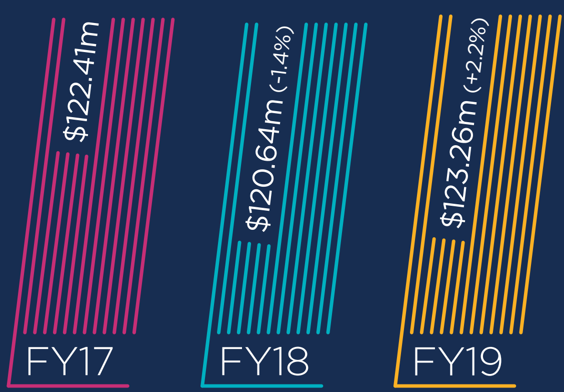
New Lending



CUA Health

Net Profit After Tax (NPAT)

Benefits Paid for Members



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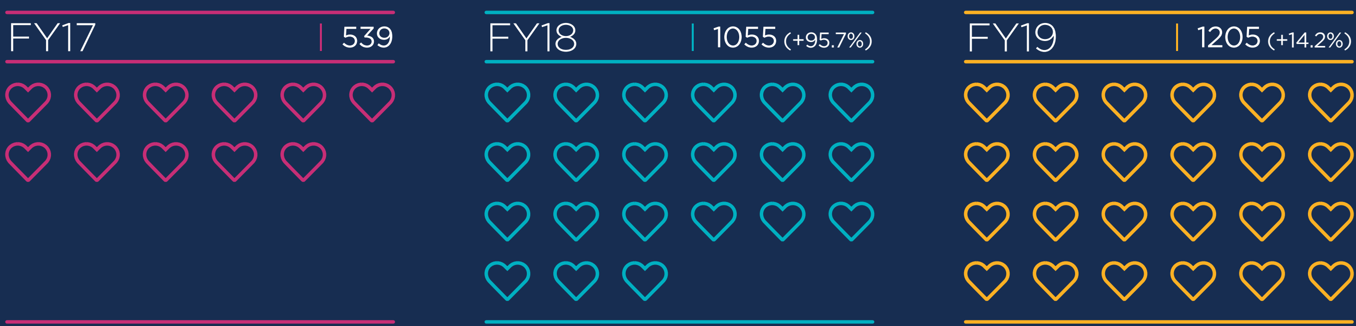

For more information about what CUA delivered for members in FY19, visit cua.com.au/2019

A Message from our CEO & Chairman

It is a privilege to reflect on the continuation of CUA's mutual journey in 2019. A clear focus on our members' interests has seen us pursue exciting new initiatives, including our continued investment in digital channels and streamlining processes to ensure we remain relevant to members today and into the future.

As we have done for the past 73 years, we also navigated opportunities and challenges by placing members at the heart of our decisions, including facing into the headwinds being felt across the financial services sector.

Financial performance

Over the past year, a record number of new members joined CUA with a net increase of 33,829 members across banking and health — more than twice as many new members as the previous year.

Strong balance-sheet growth for the year saw CUA exceed our FY18 results across consolidated assets (up 10.1 per cent to $15.76 billion); loans under management (up 9.3 per cent to $13.44 billion); and retail deposits (up 14.8 per cent to a record $10.58 billion).

CUA Group posted a Net Profit After Tax (NPAT) of $37.77 million (down 31.1 per cent on FY18), reflecting the $11.7 million post-tax impact of the non-recurring items, linked to legacy issues.

The first of these non-recurring items related to the financial planning business we sold in 2014. Where clients had paid fees for ongoing advice during the period we owned the business, investigations were unable to clearly establish whether financial planning advice had been provided in all instances. Where there was uncertainty about whether the financial planning advice had been provided, CUA decided to act in the best interests of the impacted members and repay the fees. This remediation had a post-tax financial impact of $7.4 million on the FY19 result.

Secondly, CUA is decommissioning some components of our current lending systems, resulting in a $4.3 million post-tax impact.

Our FY19 NPAT result was also impacted by economic conditions which have been challenging not just for CUA, but also for our competitors. Volatile investment markets, a subdued property market and low levels of consumer confidence have driven these conditions. Elevated wholesale funding costs early in FY19 and a record low Reserve Bank of Australia (RBA) cash rate placed pressure on CUA's already tight margins, which impacted profitability. However, even against this economic background, we kept our current and future members' needs front-of-mind, ensuring our lending and deposit rates remained competitive and with our continued investment in digital channels and service improvements.

CUA Health made a positive contribution to the group result, recording $7.88 million in NPAT for the year. The insurer defied industry challenges and falling health insurance participation rates nationally to issue more than 7,000 new policies, a 71.5 per cent uplift on the previous year. A total of $123.26 million in claims were paid, up $2.62 million from FY18. More than $3 million was returned in savings to members through the 4 per cent discount for those with both CUA banking and health insurance.

Delivering more for our members

Our continued investment in digital channels and service improvements delivered value to members across a range of channels.

CUA has invested $58.5 million in technology systems and software since 2016 to improve member experience, while delivering simple, competitive and effortless products and services. This investment will allow CUA to change direction and move forward with investing in enhanced lending origination capabilities to transform our end-to-end lending process. The result will be a better experience to meet the changing needs of our members, while supporting future home loan growth.

More than 16,000 members began chatting to their own personal banker using our Australian-first iM CUA app, with the innovation earning CUA the title of 'Most Innovative Mutual' at the RFi Group Australian Banking Innovation Awards.

Member onboarding has been simplified and we increased self-service capabilities in Mobile and Online Banking. This included integrating real time payments capabilities into our Mobile Banking app. Around 350,000 transactions per month are now being facilitated in real time via the New Payments Platform.

We also invested in our physical channels, including our second Community Hub branch at North Lakes in Queensland.

A total of $2.2 million — or 3 per cent of our pre-tax profit — was dedicated to our community investment program over the year, as we strengthened our focus on the financial wellbeing of our members. This program included partnering with BuyAssist to help essential workers overcome housing affordability barriers and buy their first home. We also signed up to work with new partners including Good Shepherd Microfinance and Thriving Communities Partnership to tackle barriers to financial inclusion.

Our people

Culture remains a core strength for CUA, reflecting the transformation of our business in the past few years to implement the right capabilities and organisational culture.

Team member culture and engagement scores continued to improve this year against a backdrop of falling engagement levels across the broader financial services sector. This member-focused culture also drove increased member advocacy, with CUA narrowing the gap to the market leader for Net Promoter Score and ending the year ranked third on this measure of how likely our members are to recommend CUA.

Chief Technology Officer Steven Willson and Chief Marketing Officer Megan Keleher joined the executive team this year, bringing a depth of experience that will help CUA deploy integrated technology, and brand and marketing strategies to deliver on our digital growth aspirations.

Accelerating our mutual journey

Looking ahead, we will continue to focus on our five-year strategy and our vision to be Australia's mutual leader in growing the financial wellbeing of our members.

A key aspect of this is future-proofing our business by ensuring our readiness to issue capital, if an opportunity emerges. Legislation passed by the Australian Government in April this year, in response to the Hammond Review into mutuals, was a major win for our sector and opened the door to raise capital in the future. Access to capital will better equip CUA to invest, grow, innovate and compete, while remaining committed to our future as a mutual – a strong organisation owned by members for the benefit of members. A key step on our capital journey will be to seek members' support at our 2019 AGM to update our CUA Constitution to align to the new legislation. Information on these proposed changes are included in the Notice of Meeting materials available at **www.cua.com.au/agm**. We urge you to help CUA prepare for the future by supporting the proposed Constitutional changes.

A word from the Chairman

It would be remiss to wrap up without acknowledging Rob Goudswaard's contribution in leading CUA over the past five years and wish him well as he embarks on a new chapter in his career. He has brought a passion for mutuality, challenging our team members to redefine CUA's purpose and bring it to life every day. Rob has been a passionate advocate for our sector with government and industry. He also encouraged our organisation to be brave in striving to be a digital leader. His leadership earned him industry-wide respect and recognition as CEO Magazine's 'Financial Services Executive of the Year' in 2018.

From 1 November 2019, Paul Lewis will step into the role as CUA's new CEO. Paul has been with CUA as our Chief Sales Officer since February 2018. His strong experience in retail banking and his values-based approach to leadership make him an exceptional choice to steer CUA through the next phase of our growth.

I am confident the strong executive leadership team and culture that Rob has helped to build, and which Paul will continue to strengthen, will allow us to seize the opportunities and embrace the challenges we face in 2020 and beyond. We look forward to you joining us for another year on our mutual journey.

Head to our Annual Report website **www.cua.com.au/2019** to read more about our four strategic pillars: Scalable Solutions, Great Experiences, Reaching More Members and An Adaptable Organisation.

Nigel Ampherlaw
CUA Chairman

Rob Goudswaard
CEO

CUA Awards

We are proud to have won several prestigious awards from various respected industry organisations and we thank all our members for their support.

Mozo Experts Choice Awards - June 2019
- Australia's Best Credit Union

Australasian Reporting Awards - June 2019
- Silver Award – Annual Report general category

RFi Group Australian Banking Innovation Awards – May 2019
- Most Innovative Mutual for iM CUA

Workplace Gender Equality Agency (WGEA) – February 2019
- Employer of Choice for Gender Equality citation

CEO of the Year Awards – November 2018
- Financial Services Executive of the Year – Rob Goudswaard

Finder.com.au Awards (Sept 2018)
- iM CUA - Best Online Customer Service

CANSTAR Awards – 2018
- Customer Owned Institution of The Year - Savings Award
- 5 Stars for Junior Saver Profile
- 5 Stars for the Youth eSaver Product

Mortgage Choice Lender of the Year Award – Tier 1

Corporate Governance

CUA is a member-owned organisation. In the interests of good governance, CUA adopts the ASX Corporate Governance Principles and Guidelines, meaning our members can have full confidence in the governance of their credit union.

Key areas of focus for the Board and its committees include:

- Lay solid foundations for management, oversight and guidance to leaders of the organisation
- Structure the Board to add value
- Act ethically and responsibly
- Respect the rights of members
- Safeguard integrity in corporate reporting and make timely and balanced disclosures
- Recognise and manage risk
- Remunerate fairly and responsibly

Board Audit Committee

- Review effectiveness of financial reporting and professional accounting requirements
- Review and endorse for Board approval the annual financial statements of CUA
- Oversee the internal and external audit functions
- Monitor compliance with statutory reporting, other legislative requirements (including APRA & ASIC) and internal company policy

Board Risk Committee

- Advise on current and future risk appetite and risk management strategy
- Oversee and align current and future risks relative to risk appetite and capital management
- Ensure prudential and statutory requirements for risk are met
- Ensure an objective view on the internal control environment of the CUA Group
- Oversee the appointment, removal, performance and objectives of the Chief Risk Officer (CRO)

CUA Board

Board Remuneration Committee

- Assist the Board in discharging its responsibilities in relation to remuneration matters
- Advise on CUA's Remuneration Framework for non-executive directors
- Advise on CUA's Remuneration Policy and performance-based incentive framework
- Advise on strategic human resources and workplace health and safety policies
- Advise on succession planning
- Assess all persons as to their fitness and propriety in line with the CUA Constitution and the relevant Policy

Board Strategy & Innovation Committee

- Monitor and provide guidance to management on major strategic issues, opportunities and initiatives
- Evaluate and provide recommendations to the Board on major strategic issues or proposals
- Guide management on transformation, innovation or technologically-related strategies and major projects

Directors' report and financial statements

BANKING | INSURANCE

CREDIT UNION AUSTRALIA LTD

ABN 44 087 650 959

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Contents

Directors' report

The Directors have pleasure in presenting their report together with the financial statements of Credit Union Australia Ltd (the Credit Union) and of the Group, being the Credit Union and its controlled entities, for the year ended 30 June 2019 and the auditor's report thereon.

Directors and Company Secretaries

Directors

The names and details of the Directors of the Credit Union in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Nigel Ampherlaw
Paul Bedbrook
Kyle Loades
Louise McCann
Deborah O'Toole
Andrew Reeves
Wayne Stevenson

Nigel Ampherlaw
B.Com., FCA, MAICD
Chairman and Independent Non-Executive Director

Nigel joined the Board in March 2011 and has been Chairman since 15 November 2017. He is Chair of the Board Growth Opportunities Committee and a member of the Board Remuneration and Board Strategy Committees.

Nigel has extensive experience in risk management, technology, consulting and auditing for financial services institutions in Australia and the Asia-Pacific region. He is a chartered accountant by profession. He was a Partner of PricewaterhouseCoopers for 22 years where he held a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. He also held a number of senior client Lead Partner roles.

Nigel is a Director of the Australian Red Cross Blood Service and Elanor Investors Group.

Paul Bedbrook
B.Sc., FSIA, F Fin
Independent Non-Executive Director

Paul joined the Board in July 2011. He is Chairman of the Board Remuneration Committee, Chairman of CUA Health Limited and a member of the CUA Health Board Audit and Risk Committees as well as Chairman of Credicorp Insurance Pty Ltd and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

Paul has over 40 years' experience in financial services, specifically across the areas of banking, insurance and investment management. He is a former long term senior executive with ING (the Dutch global banking, insurance and investment group) and held CEO positions in ING DIRECT Canada, ING Australia and ING Asia Pacific.

Paul is also Chairman of Zürich Financial Services Australia and Elanor Investors Group. He is also a Director of the National Blood Authority.

Kyle Loades
MBA, FAICD, FTL
Independent Non-Executive Director

Kyle joined the Board on 1 December 2017. He is a member of the Board Risk Committee and Board Strategy Committee (from 1 August 2018), a Director of CUA Health Limited and member of the CUA Health Board Audit and Board Risk Committees as well as a Director of Credicorp Insurance Pty Ltd and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

Kyle is a Chairman, Non-Executive Director and Advisor with more than two decades of experience across the commercial, community and public sectors. He has a particular interest and experience in the transformation of business facing disruption.

Directors and Company Secretaries (continued)

Kyle is currently Chair of Drive Yello, Hunter Medical Research Institute and the Australian Transformation and Turnaround Association. He is a Conjoint Professor in the Faculty of Business and Law at University of Newcastle. He is also a consultant for Slingshot Accelerator Pty Ltd, Small World Social and other organisations. Kyle completed a three-and-a-half-year term as Chairman of the NRMA where he directed a period of significant cultural and operational change requiring considerable strategy and risk expertise.

In an executive capacity he established, grew and managed an independent car broking business that disrupted the motor vehicle retail industry. The company was purchased by ASX listed A.P Eagers. Kyle is a Fellow of the AICD and AUSTTA, has completed an MBA at University of Newcastle, a Harvard Business School Certificate in Disruptive Strategy and a Transformation Leadership Program at ANU.

Louise McCann
MM MGSM, FAICD, FAIM, FRSA
Independent Non-Executive Director

Louise joined the Board in November 2015 and is Chairman of the Board Strategy Committee and a member of the Board Remuneration Committee.

Louise has a diverse portfolio including technology, media, health, education, personal transport, accounting and professional services. Louise's executive career was as a CEO and senior executive in the media, commercial market research, brand and communications sectors in Australia, New Zealand and across Asia. From April 2011 until August 2015 Louise was a Non-Executive Director with iiNet Limited and chaired the Remuneration and Nominations Committee. iiNet was sold to TPG to form Australia's second largest telecommunications company in August 2015.

Louise's current Non-Executive Director portfolio comprises Macquarie Media Network, Grant Thornton Australia Limited, University of Notre Dame and A2B Limited (*formerly Cabcharge Australia Ltd*).

Deborah O'Toole
LLB, MAICD
Independent Non-Executive Director

Deb joined the Board in March 2014. She is Chairman of the Board Risk Committee and a member of the Board Audit Committee and the Board Growth Opportunities Committee.

Deb is a qualified lawyer and has more than 30 years' experience in mining, resources and rail freight industries, many of which have been focused in the finance function including as CFO at Aurizon, Queensland Cotton and MIM Holdings. She served as Chairman of the Audit Committee for CSIRO and the Norfolk Group and also on Boards of the MIM Group and the QR National/Aurizon Group. In 2013 she served as an Advisory Board Member at Pacific Aluminium. Deb was also a member of the former Workers' Compensation Board of Queensland and a former Board member of the Queensland Country Health Society.

Deb is a Director of Sims Metal Management Limited, Asciano Group and Alumina Limited. She is a member of the NSW Treasury Audit and Risk Committee and is also a member of the Queensland University of Technology Banking & Finance School Advisory Board.

Andrew Reeves
BA (Economics), AMP
Independent Non-Executive Director

Andrew joined the Board on 1 September 2017 and is a member of the Board Growth Opportunities Committee and the Board Audit and Board Risk Committees.

Andrew is an experienced consumer goods executive who has 40 years' experience with major Australian consumer brands. His career included a variety of marketing and product development roles, before moving into a variety of managing director and CEO roles over the past 20 years. Andrew took on his first Managing Director role at The Smith's Snackfood Company in 1993. He subsequently held Managing Director roles with Coca-Cola Amatil and Lion Nathan's Australian brewing business and dairy and drinks business. Most recently, Andrew was the CEO of George Weston Foods for six years.

Andrew is also currently the independent Chairman of Netget Limited and a director of Keytone Dairy Corporation Ltd and Inghams Group Limited.

Directors' report

Directors and Company Secretaries (continued)

Wayne Stevenson
B.Com., CA, FAICD
Independent Non-Executive Director

Wayne joined the Board in February 2014. He is Chairman of the Board Audit Committee and a member of the Board Risk Committee.

Wayne's executive background was largely in banking and financial services with ANZ where he held several senior positions across Australia, New Zealand and Asia. Wayne brings strong expertise of the financial services industry including 15 years in CFO roles at ANZ involving a broad range of disciplines including the undertaking of significant acquisitions, restructures and divestments. His roles included Group General Manager, Group Strategy, and prior to that held the role of CFO Asia Pacific, Europe and America.

More recently Wayne has developed a career as a professional Director. He is Chairman of QMS Media Ltd and an independent Non-Executive Director of BigTinCan Holdings Ltd – both ASX listed. He is also an independent Non-Executive Director of ANZ Lenders Mortgage Insurance Ltd.

Company Secretaries

The names and details of the Company Secretaries of the Credit Union during the financial year and until the date of this report are as follows. The Company Secretaries were in office for this entire period unless otherwise stated.

Nicole Pedwell
Alexander Ong

Nicole Pedwell
B.IntBus., FGIA, FCIS, GAICD
Company Secretary

Nicole joined Credit Union Australia in November 2014 and was appointed Company Secretary of the Credit Union in December 2014. She is also Company Secretary to CUA Health Limited, Credicorp Insurance Pty Ltd, CUA Management Pty Ltd and Credicorp Finance Pty Ltd.

Nicole is a qualified Company Secretary, corporate governance and communications professional. Nicole has over 20 years' investor and stakeholder relations experience in both global and domestic financial services entities. Nicole holds a Bachelor of International Business from Griffith University, a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia and is a graduate of the Australian Institute of Company Directors.

Alexander Ong
LL.B(Hons), B.Com.
General Counsel and Company Secretary

Alex joined Credit Union Australia in March 2013 as General Counsel and Company Secretary. He is also Company Secretary to CUA Health Limited, Credicorp Insurance Pty Ltd, and Credicorp Finance Pty Ltd.

Alex is a financial services lawyer and compliance professional. His experience spans roles as a government regulator, in-house counsel and a private practitioner. Prior to Credit Union Australia, Alex held senior roles leading the legal, compliance and risk management departments of leading financial services organisations, focused on developing and implementing legal and compliance strategy, driving the development of a culture of compliance and overseeing strategies to reduce and manage enterprise risk. He has extensive company secretarial experience and regularly advises on general corporate law, Directors' duties and corporate governance. Alex holds a Bachelor of Laws (Hons) and Bachelor of Commerce (in accounting and finance) from the University of Sydney.

Directors' report

Directors' meetings

The number of meetings of Directors and meetings of Board Committees held during the year and the number of meetings attended by each Director was as follows:

A = Number of meetings eligible to attend.
B = Number of meetings attended.

	Board Meetings		Board Audit Committee		Board Risk Committee		Board Remuneration Committee		Combined Board Remuneration & Risk Committee Meeting[1]		Board Strategy Committee		Board Growth Opportunities Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
N. Ampherlaw	13	13					5	5	2	2	6	5	3	3
P. Bedbrook	13	11					5	5	2	2				
K. Loades	13	12			5	3			2	1	6	6		
L. McCann	13	13					5	4	2	1	6	6		
D. O'Toole	13	12	4	4	5	5			2	2			3	3
A. Reeves	13	13	4	4	5	5			2	1			3	3
W. Stevenson	13	13	4	4	5	5			2	2				

[1] The Board Remuneration Committee and the Board Risk Committee held two combined meetings during the year to consider key risks relating specifically to remuneration issues

The above table relates to the Credit Union's Directors' meetings. The subsidiaries have their own Boards and Board Committee meetings attended by the respective subsidiary Board members.

Directors' benefits

During, or since the end of the financial year, no Director has received, or become entitled to receive, a benefit by reason of a contract entered into by the Credit Union, or its controlled entities, with the Director, a firm of which the Director is a member, or an entity in which the Director has a substantial financial interest, other than a benefit to which the Director is entitled as a member of the Credit Union. All transactions with entities associated with Directors are at arm's length and on commercial terms.

Indemnification of directors and officers

During the financial year, the Credit Union paid an insurance premium in respect of an insurance policy for the benefit of directors, secretaries, executive officers and employees of the Credit Union and related entities. The insurance policy grants indemnification in respect of certain liabilities for which the Corporations Act 2001 allows indemnification. The insurance policy does not permit the disclosure of the nature of the liabilities insured nor the amount of the premium. No insurance cover has been provided for the benefit of the auditor of the Credit Union.

Financial performance disclosures

Principal activities

The principal activities of the Credit Union during the financial year comprised the raising of funds by deposit and the provision of loans and associated services to members. Through its controlled entities, the Group was also involved in private health insurance, general insurance and securitisation activities.

Significant changes in the state of affairs

There was no significant change in the state of affairs of the Group during the year ended 30 June 2019 not otherwise contained in the director's report or the financial statements.

Dividends

The Constitution of the Credit Union does not allow for the payment of dividends on any member shares currently on issue.

Directors' report

Financial performance disclosures (continued)

Review of operations

The Group reported a net profit after tax for the financial year ended 30 June 2019 of $37.8 million (2018: $54.8 million). The decrease of $17.0 million (31.1%) was driven by lower margins, increased operating expenses and the following non-recurring charges:

- During the year, the Group identified a legacy issue relating to its former financial planning business, which was sold in 2014. Investigations were unable to clearly establish whether financial planning advice had been provided in all instances where clients had paid fees for ongoing advice. The issue was self-reported to the regulator, Australian Securities and Investments Commission (ASIC). A financial planning remediation program commenced during the financial year to make amends quickly, fairly and transparently. Where there was uncertainty about whether the financial planning advice was provided, the Group made a decision to act in the best interests of the impacted clients and repay the fees, as well as compound interest. As a result, expenses of $10.6 million have been provided or incurred for the remediation program. These are disclosed in the Income Statements as a loss from discontinued operation.
- Software impairment expenses of $6.1 million relating to various components of an existing lending origination system that will not be required under the Credit Union's Home Loan Transformation Program and will be decommissioned.

Adjusting for these non-recurring items resulted in a Cash profit for the year of $49.5 million, a decrease of 9.7% against the previous year result of $54.8 million. A reconciliation of this result against the statutory profit result is shown in the Non-International Financial Reporting Standard (IFRS) Information below.

While we have seen significant growth in gross loans and advances of 9.3% year on year to $13.4 billion (2018: $12.3 billion) accompanied by a successful strategy of growing deposits for the year by 14.8% to $10.6 billion (2018: $9.2 billion), continued sustained pressure on margins has seen net interest income grow at a slower 2.9% to $259.5 million (2018: $252.2 million). The decline has been driven by higher wholesale funding costs and a greater reliance on high cost term deposit funding, with an increasingly competitive market seeing aggressive mortgage re-pricing activity.

Other operating income increased by $2.6 million to $9.0 million for the year ended 30 June 2019. Following an internal review of products and services provided to members in an environment of increasing third party costs, the Group has sought to increase its recovery of these costs resulting in an increase in net fee and commission income of $3.6 million.

Net insurance income for the year ended 30 June 2019 decreased by $3.5 million to $27.4 million (2018: $30.9 million). The low growth in Health premium revenue of $1.0 million reflects both nil growth in the total number of people insured overall and a reduction in the proportion of the population covered by private health insurance. This was further impacted by healthcare costs and growth in the use of healthcare services, contributing to an increase in claims and benefits of $4.4 million.

Underlying expenses for the Group (i.e. excluding the non-recurring software impairment expenses of $6.1 million) have increased by 7.0% over the course of the year, reflecting our transformation towards a digital first culture and increasing regulatory and compliance costs.

The investment in digital infrastructure has been reflected in Personnel and Information technology costs and also in the Amortisation of intangible assets (systems and software) as the Group has further invested in innovation and member initiatives to drive improved member experience.

The Group continues to invest heavily in technology to deliver an improved banking experience for members focused on delivering simple, competitive and effortless products and services. Over the past four years, the Group has invested $58.5 million in intangible assets such as technology systems and software. This increase in investment is due to digital initiatives such as iM CUA, the New Payments Platform, the new mobile banking application (app), enhanced data and analytics capability and expansion of Google Pay and Apple Pay to include EFTPOS.

Financial performance disclosures (continued)

This continued investment is evident in the build-up of the intangible asset assets held on the Group's balance sheet and also the associated amortisation charge of $16.5 million that is reflected in the Group's Net profit after tax.

	Group			
	2019 $'000	2018 $'000	2017 $'000	2016 $'000
Additions to systems and software[1]	13,068	15,570	10,231	21,780
Net movement in capital work in progress	(4,033)	2,003	3,309	(3,410)
Capitalised investment spend – systems and software	**9,035**	**17,573**	**13,540**	**18,370**
Systems and software assets	59,588	73,194	68,355	65,654
Annual amortisation charge	(16,466)	(12,734)	(10,839)	(7,196)

The increase in Other expenses has been driven largely by professional services costs incurred to meet increasing regulatory and compliance requirements. Other expenses increased by $2.4 million to $13.0 million (2018: $10.7 million).

Asset quality remains strong, with a decrease in the Impairment of loans and advances charge from $8.8 million (2018) to $8.7 million for the year ended 30 June 2019. This has occurred despite the significant growth in loans and advances and reflects the Group's continuing investment into risk management and lending practices. While impairment in relation to personal loans for the Group was higher than in previous years, this was mainly driven by growth in the portfolio with the level of impairment for these loans remaining well below industry averages.

Notwithstanding the decline in net profit after tax for the year, the Banking Group remains well capitalised with a total capital ratio of 14.30% (2018: 14.25%).

Non-International Financial Reporting Standard (IFRS) Information[2]

Cash profit

Statutory profit is prepared in accordance with recognition and measurement requirements of Australian Accounting Standards, which comply with *International Financial Reporting Standards (IFRS)*.

Cash Profit, a non-IFRS measure, represents the Group's preferred measure of reporting underlying results to readers as it allows meaningful assessment of underlying performance against prior periods and other financial institutions.

A reconciliation showing the differences between Statutory Profit and Cash Profit is provided in the following table:

	Group	
	2019 $'000	2018 $'000
Statutory profit after tax for the year	**37,766**	54,791
Adjustment for specific items:		
Remediation costs		
Discontinued operation (tax effected)	**7,397**	-
Software impairment (tax effected)	**4,306**	-
Cash net profit after tax	**49,469**	**54,791**

Remediation costs: During the year the Group incurred remediation expenses of $10.6 million relating to the former financial planning business, where investigations were unable to clearly establish whether financial planning advice had been provided in all instances where clients had paid fees for ongoing advice. The issue related to a period prior to the sale of the business in 2014.

[1] Systems and software investment form part of intangible assets. These assets are amortised using the straight-line method over their expected useful life to the Group. The estimated useful lives range from 3-10 years.

[2] The Non IFRS Information section has not been audited nor reviewed in accordance with Australian Accounting Standards.

Financial performance disclosures (continued)

Software impairment – Loan origination system: The Group's Home Loan Transformation Program will necessitate the decommissioning of various components of the current lending system. The carrying values of the components identified for impairment total $6.1 million and will reduce the carrying value of the existing lending origination platform from $18.5 million to $12.4 million as at 30 June 2019.

Risk management

The Group's strategic and operational outcomes are underpinned by the effective management of key risks through the three lines of defence model. This model articulates the key layers of risk management including roles, accountability and responsibilities of each layer.

During the year, the Group continually evaluated and responded to emerging risks in accordance with our defined Risk Management Strategy. This, along with the supporting policies and standards, has helped management to deliver on our business strategy within a comprehensive framework for managing risk. Our enterprise wide risk management activities enable us to aggregate the individual classes of material risk to form Group wide view of risks and to support better, more member focused decision making.

Management continues to invest in improvements to our risk management processes, people and systems. Notably, this year that investment has been supported by the implementation of the Banking Executive Accountability Regime which has helped to make accountability clear and effective.

Other matters

Capital and Remuneration Prudential Disclosures

For Australian Prudential Regulation Authority's (APRA) Authorised Deposit-taking Institution (ADI) Prudential Standard APS 330 *Public Disclosure*, refer to the Prudential Disclosures section of the Credit Union's website (http://www.cua.com.au/about-us/corporate-governance/prudential-disclosures).

Events subsequent to balance date

Since 30 June 2019 there have been no matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

Likely developments

There are no material likely developments that are expected to impact the results of operations of the Group as at the date of this report. The Group expects to continue operating profitably during the next financial year whilst continuing to undertake its principal activities.

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

Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board believes that the Group is not aware of any breach of environmental requirements as they apply to the Group.

Rounding

Except where indicated, the amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars in accordance with ASIC Corporations Instrument 2016/191.

Auditor's independence

The Directors have obtained a copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001*, refer to page 21.

Directors' report

Authorisation by Directors

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

Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
28 August 2019

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

To the Directors of Credit Union Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Credit Union Australia Limited for the financial year ended 30 June 2019 there have been:

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

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Martin Wardle

Partner

Brisbane

28 August 2019

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Income statements

For the year ended 30 June 2019

	Note	Group 2019[1] $'000	Group 2018 $'000	Credit Union 2019[1] $'000	Credit Union 2018 $'000
Net interest income					
Interest income	2.1	**569,982**	515,111	**569,982**	515,111
Interest expense	2.1	**(310,419)**	(262,929)	**(310,634)**	(263,167)
Total net interest income		**259,563**	252,182	**259,348**	251,944
Other net operating income	2.1	**8,947**	6,374	**24,310**	21,575
Net insurance income	4.1	**27,408**	30,945	**-**	-
Share of net loss of a joint venture		**(2,242)**	(2,031)	**(2,242)**	(2,031)
Total net operating income		**293,676**	287,470	**281,416**	271,488
Expenses					
Personnel		**(113,425)**	(110,440)	**(107,532)**	(104,960)
Occupancy		**(18,576)**	(19,145)	**(18,576)**	(19,145)
Depreciation of property, plant and equipment		**(5,656)**	(6,356)	**(5,652)**	(6,352)
Amortisation of intangible assets	2.2	**(16,466)**	(12,734)	**(16,337)**	(12,633)
Information technology		**(15,029)**	(12,060)	**(14,889)**	(11,991)
General administrative expenses	2.2	**(25,591)**	(25,533)	**(24,272)**	(23,853)
Other expenses	2.2	**(21,164)**	(15,458)	**(19,486)**	(14,236)
Total operating expenses		**(215,907)**	(201,726)	**(206,744)**	(193,170)
Profit before impairment and income tax		**77,769**	85,744	**74,672**	78,318
Software asset impairment	5.2	**(6,151)**	-	**(6,151)**	-
Impairment of loans and advances	3.4	**(8,676)**	(8,849)	**(8,676)**	(8,849)
Profit before income tax		**62,942**	76,895	**59,845**	69,469
Income tax expense	2.3(a)	**(17,779)**	(22,104)	**(13,802)**	(17,304)
Profit from continuing operations		**45,163**	54,791	**46,043**	52,165
Loss from discontinued operation	5.14	**(7,397)**	-	**(6,948)**	-
Profit for the year		**37,766**	54,791	**39,095**	52,165
Profit for the year is attributable to:					
Members of the Credit Union		**37,766**	54,791	**39,095**	52,165

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

The income statements should be read in conjunction with the accompanying notes.

Statements of comprehensive income

For the year ended 30 June 2019

	Note	Group 2019[1] $'000	Group 2018 $'000	Credit Union 2019[1] $'000	Credit Union 2018 $'000
Profit for the year		**37,766**	54,791	**39,095**	52,165
Other comprehensive income					
Items that may be reclassified to profit or loss					
Cash flow hedges:					
Net gain/(loss) taken to members' funds		**(14,532)**	2,774	**(14,532)**	2,774
Net gain/(loss) reclassified through profit and loss		**(466)**	61	**(466)**	61
Net fair value gain/(loss) on debt instruments - fair value through other comprehensive income		**-**	-	**(117)**	-
		(14,998)	2,835	**(15,115)**	2,835
Income tax on other comprehensive income	2.3(d)	**4,500**	(850)	**4,535**	(850)
Other comprehensive income after tax		**(10,498)**	1,985	**(10,580)**	1,985
Total comprehensive income		**27,268**	56,776	**28,515**	54,150
Total comprehensive income for the period is attributable to:					
Members of the Credit Union		**27,268**	56,776	**28,515**	54,150
Total comprehensive income for the period attributable to members of the Credit Union arises from:					
Continuing operations		**34,665**	56,776	**35,463**	54,150
Discontinued operation	5.14	**(7,397)**	-	**(6,948)**	-
		27,268	56,776	**28,515**	54,150

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

The statements of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheets

As at 30 June 2019

	Note	Group 2019[1] $'000	Group 2018 $'000	Credit Union 2019[1] $'000	Credit Union 2018 $'000
Assets					
Cash and cash equivalents	3.1	**220,476**	307,833	**209,148**	297,080
Financial assets - fair value through profit or loss	3.2	**84,803**	82,492	**-**	-
Financial assets - amortised cost	3.2	**1,871,207**	-	**3,642,420**	-
Financial assets - held to maturity	3.2	**-**	1,481,788	**-**	2,876,977
Derivative financial instruments	3.9(a)	**1,326**	947	**1,326**	947
Loans and advances	3.3	**13,436,463**	12,300,234	**13,436,463**	12,300,234
Financial assets - fair value through other comprehensive income	3.2	**42,890**	-	**51,776**	-
Financial assets - available for sale	3.2	**-**	42,890	**-**	42,890
Other assets	5.3	**16,482**	17,911	**7,905**	10,088
Investments in controlled entities	5.8(b)	**-**	-	**1,500**	800
Investments in a joint venture	5.9	**1,805**	1,612	**1,805**	1,612
Deferred tax asset	2.3(c)	**9,035**	-	**10,107**	-
Property, plant and equipment	5.1	**13,519**	14,316	**13,501**	14,307
Intangible assets	5.2	**59,588**	73,194	**59,260**	72,998
Total assets		**15,757,594**	14,323,217	**17,435,211**	15,617,933
Liabilities					
Deposits	3.5	**10,580,846**	9,219,824	**10,587,500**	9,231,009
Derivative financial instruments	3.9(a)	**17,144**	902	**17,144**	902
Borrowings	3.6	**4,001,175**	3,972,060	**5,782,358**	5,369,385
Deferred tax liability	2.3(c)	**-**	4,954	**-**	4,635
Other liabilities	5.4	**68,030**	67,705	**42,119**	29,952
Provisions	5.5	**32,931**	20,643	**23,006**	20,643
Total liabilities		**14,700,126**	13,286,088	**16,452,127**	14,656,526
Net assets		**1,057,468**	1,037,129	**983,084**	961,407
Members' funds					
Reserves	5.6	**30,824**	46,097	**30,778**	46,097
Retained earnings		**1,026,644**	991,032	**952,306**	915,310
Total members' funds		**1,057,468**	1,037,129	**983,084**	961,407

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

The balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in members' funds

For the year ended 30 June 2019

	Group			Credit Union		
	Reserves[2]	Retained earnings	Total members' funds	Reserves[2]	Retained earnings	Total members' funds
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2017	44,026	936,327	980,353	44,026	863,231	907,257
Profit for the year after tax	-	54,791	54,791	-	52,165	52,165
Other comprehensive income after tax:						
Cash flow hedges:						
Net gain/(loss) taken to members' funds	1,942	-	1,942	1,942	-	1,942
Net gain/(loss) reclassified through profit or loss	43	-	43	43	-	43
Total comprehensive income for the period	1,985	54,791	56,776	1,985	52,165	54,150
Movement in redeemed member share reserve	86	(86)	-	86	(86)	-
Balance at 30 June 2018	46,097	991,032	1,037,129	46,097	915,310	961,407
Balance at 1 July 2018	**46,097**	**991,032**	**1,037,129**	**46,097**	**915,310**	**961,407**
Changes on adoption of new accounting standards[1]	**(5,517)**	**(1,412)**	**(6,928)**	**(5,481)**	**(1,357)**	**(6,838)**
Restated balance as at 1 July 2018	**40,580**	**989,620**	**1,030,200**	**40,616**	**913,953**	**954,569**
Profit for the year after tax	**-**	**37,766**	**37,766**	**-**	**39,095**	**39,095**
Other comprehensive income after tax:						
Cash flow hedges:						
Net gain/(loss) taken to members' funds	**(10,171)**	**-**	**(10,171)**	**(10,171)**	**-**	**(10,171)**
Net gain/(loss) reclassified through profit or loss	**(327)**	**-**	**(327)**	**(327)**	**-**	**(327)**
Movement in fair value through other comprehensive income reserve	**-**	**-**	**-**	**(82)**	**-**	**(82)**
Total comprehensive income for the period	**(10,498)**	**37,766**	**27,268**	**(10,580)**	**39,095**	**28,515**
Movement in redeemed member share reserve	**83**	**(83)**	**-**	**83**	**(83)**	**-**
Movement in general reserve for credit losses	**659**	**(659)**	**-**	**659**	**(659)**	**-**
Balance at 30 June 2019	**30,824**	**1,026,644**	**1,057,468**	**30,778**	**952,306**	**983,084**

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*, refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.
[2] The nature of the reserves is disclosed in Note 5.6.

The statements of changes in members' funds should be read in conjunction with the accompanying notes.

Statements of cash flows

For the year ended 30 June 2019

	Note	Group 2019[1] $'000	Group 2018 $'000	Credit Union 2019[1] $'000	Credit Union 2018 $'000
Cash flows from operating activities					
Interest received		**580,085**	525,035	**576,884**	520,587
Interest paid		**(307,858)**	(261,865)	**(308,073)**	(262,103)
Fees and commissions received		**31,051**	28,367	**32,429**	29,758
Fees and commissions paid		**(25,168)**	(24,606)	**(23,218)**	(23,522)
Contributions/premiums received		**147,408**	146,970	**-**	-
Benefits/claims paid		**(121,207)**	(122,237)	**-**	-
Dividends received		**690**	1,394	**11,140**	10,181
Other non-interest income received		**3,062**	2,681	**6,761**	5,604
Payments to suppliers and employees		**(192,413)**	(190,272)	**(183,049)**	(183,244)
Income tax paid		**(27,128)**	(26,722)	**(21,021)**	(22,283)
Change in loans and advances		**(1,162,773)**	(786,906)	**(1,162,773)**	(786,906)
Change in financial assets		**(387,718)**	260,049	**(386,402)**	262,026
Change in deposits		**1,361,022**	459,713	**1,356,491**	470,780
Net cash provided by/(used in) operating activities	3.1(a)	**(100,947)**	11,601	**(100,831)**	20,878
Cash flows from investing activities					
Payments for plant, equipment and intangible assets		**(13,405)**	(20,572)	**(13,133)**	(20,574)
Proceeds from sale of property, plant and equipment		**16**	47	**16**	47
Net cash provided by/(used in) investing activities		**(13,389)**	(20,525)	**(13,117)**	(20,527)
Cash flows from financing activities					
Net proceeds from/(repayments to) borrowings		**26,979**	69,694	**26,016**	65,615
Net cash provided by/(used in) financing activities	3.1(b)	**26,979**	69,694	**26,016**	65,615
Change in cash and cash equivalents		**(87,357)**	60,770	**(87,932)**	65,966
Cash at the beginning of the year		**307,833**	247,063	**297,080**	231,114
Cash at the end of the year	3.1	**220,476**	307,833	**209,148**	297,080

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

The statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2019

Notes to the financial statements

For the year ended 30 June 2019

1. Basis of preparation

1.1 Corporate information

The financial report of Credit Union Australia Ltd (the Credit Union) as an individual entity, and Credit Union Australia Ltd and its subsidiaries as a Group for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the Directors on 28 August 2019.

Credit Union Australia Ltd is a for-profit company incorporated and domiciled in Australia.

The controlling entity in the Group is Credit Union Australia Ltd. The registered office and principal place of business is:

Credit Union Australia Ltd
Level 23
145 Ann Street
Brisbane QLD 4000

1.2 Basis of accounting

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001.

The financial report has been prepared on an historical cost basis, except for derivative financial instruments, freehold land and buildings and financial assets classified as fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI).

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Credit Union under ASIC Corporations Instrument 2016/191. The Credit Union is an entity to which the Corporations Instrument applies.

(b) Statement of compliance

The financial report complies with International Financial Reporting Standards (IFRS) which are applicable to the Group as issued by the International Accounting Standards Board.

1.3 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates has been applied to the following areas. Refer to the respective notes for additional details.

	Reference
Expected credit losses and impairment of loans and advances	Note 3.2, Note 3.4 and Note 3.8
Fair value of financial instruments	Note 5.7
Outstanding insurance claims liabilities	Note 4.1 and Note 4.2
Provision for remediation costs	Note 5.5 and 5.14
Impairment of intangible assets	Note 5.2

Notes to the financial statements
For the year ended 30 June 2019

2. Financial performance

2.1 Income

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Net interest income				
Interest income calculated using the effective interest method				
Loans and advances to members	**520,443**	473,593	**520,443**	473,593
Other financial assets	**49,539**	41,518	**49,539**	41,518
	569,982	515,111	**569,982**	515,111
Interest expense				
Deposits from members	**(175,608)**	(156,515)	**(175,608)**	(156,515)
Borrowings	**(72,885)**	(57,244)	**(72,885)**	(57,244)
Debt securities	**(40,608)**	(31,183)	**(40,608)**	(31,183)
Wholesale funding	**(19,963)**	(13,670)	**(20,007)**	(13,719)
Other	**(1,355)**	(4,317)	**(1,526)**	(4,506)
	(310,419)	(262,929)	**(310,634)**	(263,167)
Total net interest income	**259,563**	252,182	**259,348**	251,944
Other operating income				
Fees, brokerage and commissions from contracts with customers				
Commissions	**13,999**	13,902	**15,390**	15,277
Account services	**9,618**	7,129	**9,618**	7,129
Transactional	**3,341**	4,034	**3,341**	4,034
Other	**3,964**	3,410	**3,964**	3,410
	30,922	28,475	**32,313**	29,850
Fee, brokerage and commission expense				
Brokerage	**(19,631)**	(20,129)	**(19,508)**	(19,995)
Commissions	**(2,789)**	(3,735)	**(2,092)**	(2,226)
Other	**(1,618)**	(1,301)	**(1,618)**	(1,301)
	(24,038)	(25,165)	**(23,218)**	(23,522)
Total net fee and commission income	**6,884**	3,310	**9,095**	6,328
Dividends revenue	**690**	1,394	**11,140**	10,181
Net gain/(loss) on derivative financial instruments	**(466)**	61	**(466)**	61
Net gain/(loss) on financial assets designated at fair value through profit or loss	**999**	42	**-**	-
Net gain/(loss) on financial assets designated at amortised cost	**(94)**	-	**(94)**	-
Other	**934**	1,567	**4,635**	5,005
Total net other operating income	**8,947**	6,374	**24,310**	21,575

2.1 Income (continued)

Recognition and measurement

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and expense

Interest income and expense is recognised as interest accrues using the effective interest method. The effective interest method is a method of calculating amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments over the expected life of the financial assets or financial liabilities to which they relate. Within net interest income, there are no amounts that relate to assets or liabilities held at fair value through profit or loss. When an asset is assessed as credit impaired a lifetime expected credit loss (ECL) provision is recognised and Interest revenue is calculated on a net basis (gross carry amount less provision).

Fee, brokerage and commission revenue and expense

Fee, brokerage and commission revenue is brought to account on an accruals basis over the period that they cover once a right to receive consideration has been attained and the performance obligation in respect of this income is considered to be met. Financial service fees are recognised as and when the service is provided and the performance obligation in respect of this income is considered to be met.

The Group's revenue from contracts with customers is primarily in the nature of fees and commission income as presented in the income statement.

Other fee and commission revenue and expenses

Other fee and commission income includes fees earned on a range of products and services platforms and is brought to account on an accruals basis over the period that they cover once a right to receive consideration has been attained and the performance obligation in respect of this income is considered to be met. Other fee and commission expense includes ATM, card and transaction fees.

Losses arising from derecognition of financial assets measured at amortised cost

During the year ended 30 June 2019, the Credit Union sold corporate investment securities measured at amortised cost. These sales were made because the financial assets no longer meet the risk criteria in the Credit Union's Financial Risk policy due to reduced credit limits imposed during the financial year. The carrying amounts of the financial assets sold were $91.1 million (2018: $15.7 million) and the losses arising from derecognition was $0.1 million (2018: nil).

Notes to the financial statements
For the year ended 30 June 2019

2.2 Expenses

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Amortisation of intangible assets				
Amortisation of major banking infrastructure software	**(5,836)**	(5,695)	**(5,836)**	(5,695)
Amortisation of loan origination system software	**(3,059)**	(2,750)	**(3,059)**	(2,750)
Amortisation of other computer software	**(7,571)**	(4,289)	**(7,442)**	(4,188)
	(16,466)	(12,734)	**(16,337)**	(12,633)
General administrative expenses				
Administrative expenses	**(23,409)**	(23,103)	**(22,090)**	(21,423)
Community	**(2,182)**	(2,430)	**(2,182)**	(2,430)
	(25,591)	(25,533)	**(24,272)**	(23,853)
Other expenses				
Advertising	**(7,727)**	(4,797)	**(6,950)**	(4,245)
Professional services	**(13,030)**	(10,661)	**(12,129)**	(9,991)
Member remediation costs[1]	**(407)**	-	**(407)**	-
	(21,164)	(15,458)	**(19,486)**	(14,236)

[1] Refer to Note 5.5 details relating to member remediation costs.

2.3 Income tax

(a) Amounts recognised in income statements

The components of income tax expense are:

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Income tax expense is attributable to:				
Profit from continuing operations	**17,779**	22,104	**13,802**	17,304
Loss from discontinued operation[1]	**(3,171)**	-	**(2,977)**	-
	14,608	22,104	**10,825**	17,304
Current tax				
Current income tax	**23,629**	26,081	**20,491**	21,485
Adjustments in respect of current income tax of previous year	**(2,419)**	(1,763)	**(2,331)**	(2,096)
Deferred tax				
Relating to origination and reversal of temporary differences	**(8,085)**	(3,339)	**(8,818)**	(3,607)
Adjustments in respect of deferred income tax of previous year	**1,483**	1,125	**1,483**	1,522
	14,608	22,104	**10,825**	17,304

[1] Refer to Note 5.14 for details relating to discontinued operation.

2.3 Income tax (continued)

(b) Reconciliation of tax expense

A reconciliation between the tax expense and the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Accounting profit before tax from continuing operations	**62,942**	76,895	**59,845**	69,469
Accounting loss before tax from discontinued operation[1]	**(10,568)**	-	**(9,925)**	-
Accounting profit before income tax	**52,374**	76,895	**49,920**	69,469
At Australia's statutory income tax rate of 30% (2018: 30%)	**15,712**	23,069	**14,976**	20,841
Adjust for tax effect of:				
Non-deductible expenses	**40**	91	**40**	91
Fully franked dividends received	**(207)**	(418)	**(3,342)**	(3,054)
Under/(over) provision in prior year	**(937)**	(638)	**(849)**	(574)
Income tax expense	**14,608**	22,104	**10,825**	17,304

[1] Refer to Note 5.14 for details relating to discontinued operations.

(c) Deferred tax balances

Deferred income tax recorded on the balance sheets relates to the following:

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Deferred tax assets comprise temporary differences attributable to:				
Derivative financial instruments	**4,619**	(13)	**4,619**	(13)
Deferred acquisition costs	**(33)**	420	**-**	-
Provision for impairment of loans and advances	**5,855**	2,905	**5,855**	2,905
Employee benefits	**5,129**	4,725	**5,129**	4,725
Provisions and accruals	**5,626**	5,062	**8,378**	4,851
Financial planning remediation costs[1]	**2,977**	-	**-**	-
Other	**215**	118	**215**	118
Total deferred tax assets	**24,388**	13,217	**24,196**	12,586
Deferred tax liabilities comprise temporary differences attributable to:				
Plant and equipment and intangible assets[2]	**7,569**	10,695	**7,587**	10,700
Financial assets - fair value through profit or loss	**775**	363	**-**	-
Financial assets - fair value through other comprehensive income	**6,521**	6,521	**6,502**	6,521
Receivables and other assets	**488**	592	**-**	-
Total deferred tax liabilities	**15,353**	18,171	**14,089**	17,221
Net deferred tax assets (liabilities)	**9,035**	(4,954)	**10,107**	(4,635)

[1] Relates to the tax effect of the provision for financial planning remediation costs, refer to Note 5.5 and 5.14 for more details.

[2] Includes the reversal of deferred tax liabilities relating to software asset impairment, refer to Note 5.2 for details.

2.3 Income tax (continued)

(d) Movement in deferred tax

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Increase in deferred tax on adoption of new accounting standards[1]	**2,887**	-	**2,872**	-
Deferred income tax credit included in income tax expense comprises:				
(Decrease)/increase in deferred tax assets	**3,792**	356	**4,221**	141
Decrease/(increase) in deferred tax liabilities	**2,810**	1,857	**3,114**	1,944
	6,602	2,213	**7,335**	2,085
Deferred income tax related to items charged or credited to other comprehensive income during the year is as follows:				
Net (gain)/loss on cash flow hedges	**4,500**	(850)	**4,500**	(850)
Net (gain)/loss on fair value through other comprehensive income	**-**	-	**35**	-
	4,500	(850)	**4,535**	(850)
Total deferred tax movement	**13,989**	1,363	**14,742**	1,235

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

(e) Unused tax losses and franking account

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Unused tax losses for which no deferred tax asset has been recognised	**906**	906	**-**	-
Potential tax benefit @ 30%	**272**	272	**-**	-

All unused tax losses were incurred by Credicorp Finance Pty Ltd, an Australian entity that is not part of a tax consolidated group.

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Franking account balance	**313,875**	289,251	**307,035**	284,193

The ability to use these franking credits is restricted by the Constitution of the Credit Union which does not permit the payment of dividends on any member shares currently on issue.

Notes to the financial statements
For the year ended 30 June 2019

2.3 Income tax (continued)

Recognition and measurement

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in members' funds or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Notes to the financial statements

For the year ended 30 June 2019

3. Balance sheet and risk management

3.1 Cash and cash equivalents

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Cash on hand	**3,327**	3,751	**3,327**	3,751
Deposits on call	**217,149**	304,082	**205,821**	293,329
	220,476	307,833	**209,148**	297,080

Cash and cash equivalents include restricted balances of $124.6 million (2018: $136.3 million) in the Credit Union which represents deposits held in securitisation trust collection accounts which are not available to the Group.

Recognition and measurement

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Reserve Bank of Australia (RBA) and cash on deposits and call accounts with other Authorised Deposit-taking Institutions (ADIs) and Approved Deposit Funds (ADFs).

Cash and cash equivalents are carried at amortised cost in the balance sheet. Interest is brought to account using the effective interest method.

Notes to the statements of cash flows

(a) Reconciliation of profit for the year to net cash provided by/(used in) operating activities:

	Group		Credit Union	
	2019[1]	2018	**2019[1]**	2018
	$'000	$'000	**$'000**	$'000
Profit after tax for the year	**37,766**	54,791	**39,095**	52,165
Adjustments for:				
Depreciation and amortisation	**22,122**	19,090	**21,989**	18,985
Impairment of loans and advances	**9,629**	9,640	**9,629**	9,640
Net interest on loans and advances	**12,212**	9,235	**12,212**	9,235
Net gain on financial assets - fair value through profit or loss	**(999)**	(42)	**-**	-
Derivative financial instruments (unrealised)	**5,365**	(1,784)	**5,365**	(1,784)
Software asset impairment[2]	**6,151**	-	**6,151**	-
Other non-cash items	**(30)**	(279)	**(30)**	(279)
Change in loans and advances	**(1,162,773)**	(786,906)	**(1,162,773)**	(786,906)
Change in financial assets	**(387,718)**	260,049	**(386,402)**	262,026
Change in deferred tax	**(13,989)**	(1,362)	**(14,742)**	(1,234)
Change in other assets	**(1,663)**	734	**(1,691)**	(1,124)
Change in deposits	**1,361,022**	459,713	**1,356,491**	470,780
Change in insurance policy liabilities	**1,488**	(2,980)	**-**	-
Change in current income tax	**(3,043)**	(2,405)	**35**	(2,894)
Change in provisions	**10,770**	(301)	**845**	(301)
Change in other liabilities	**2,743**	(5,592)	**12,995**	(7,431)
Net cash provided by/(used in) operating activities	**(100,947)**	11,601	**(100,831)**	20,878

[1]June 2019 results reflect the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

[2] Refer to Note 5.2 for details relating to software asset impairment

Notes to the financial statements

For the year ended 30 June 2019

3.1 Cash and cash equivalents (continued)

Notes to the statements of cash flows (continued)

(b) Reconciliation of cash flows from financing activities:

Group	1 July 2018 $'000	Cash flows $'000	Non-cash changes: Changes in fair value $'000	Non-cash changes: Other $'000	30 June 2019 $'000
Liabilities					
Borrowings	**3,972,060**	**26,979**	**-**	**2,136**	**4,001,175**
Total liabilities from financing activities	**3,972,060**	**26,979**	**-**	**2,136**	**4,001,175**

Credit Union	1 July 2018 $'000	Cash flows $'000	Non-cash changes: Changes in fair value $'000	Non-cash changes: Other $'000	30 June 2019 $'000
Liabilities					
Borrowings	**5,369,385**	**26,016**	**-**	**386,957**	**5,782,358**
Total liabilities from financing activities	**5,369,385**	**26,016**	**-**	**386,957**	**5,782,358**

Group	1 July 2017 $'000	Cash flows $'000	Non-cash changes: Changes in fair value $'000	Non-cash changes: Other $'000	30 June 2018 $'000
Liabilities					
Borrowings	3,900,522	69,694	-	1,844	3,972,060
Total liabilities from financing activities	3,900,522	69,694	-	1,844	3,972,060

Credit Union	1 July 2017 $'000	Cash flows $'000	Non-cash changes: Changes in fair value $'000	Non-cash changes: Other $'000	30 June 2018 $'000
Liabilities					
Borrowings	4,584,487	65,615	-	719,283	5,369,385
Total liabilities from financing activities	4,584,487	65,615	-	719,283	5,369,385

Notes to the financial statements

For the year ended 30 June 2019

3.2 Financial assets

	Group		Credit Union	
	2019[1]	2018	**2019[1]**	2018
	$'000	$'000	**$'000**	$'000
Fair value through profit or loss				
Term deposits	**11,534**	12,277	**-**	-
Mortgage-backed securities	**1,843**	2,292	**-**	-
Australian listed equities	**6,113**	5,936	**-**	-
Investment in unlisted unit trusts:				
Fixed interest and other debt securities	**54,118**	50,605	**-**	-
Property	**3,694**	3,602	**-**	-
International equities	**7,501**	7,780	**-**	-
	84,803	82,492	**-**	-
Amortised cost[2]				
Deposits	**674,648**	-	**674,648**	-
Fixed coupon bonds	**54,502**	-	**54,502**	-
Floating rate notes	**1,142,057**	-	**1,142,057**	-
Mortgage-backed securities	**-**	-	**1,771,213**	-
	1,871,207	-	**3,642,420**	-
Held to maturity				
Deposits	**-**	399,998	**-**	399,998
Floating rate notes	**-**	1,081,790	**-**	1,081,790
Mortgage-backed securities	**-**	-	**-**	1,395,189
	-	1,481,788	**-**	2,876,977
Fair value through other comprehensive income				
Debt instruments - mortgage-backed securities	**-**	-	**8,886**	-
Equity instruments - shares in an unlisted entity	**42,890**	-	**42,890**	-
	42,890	-	**51,776**	-
Available for sale				
Shares in an unlisted entity	**-**	42,890	**-**	42,890
	-	42,890	**-**	42,890

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

[2] Refer to Note 3.8(c) for consideration of asset credit quality and ECL.

Recognition and measurement

Applicable from 1 July 2018

Key changes include the removal of the AASB 139 *Financial Instruments*: Recognition and Measurement's held to maturity (HTM) and available for sale (AFS) asset categories and introduction of a new asset category, fair value through other comprehensive income. The new category applies to financial asset debt instruments with contractual cash flow characteristics that are solely payments of principal and interest which are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In addition, where investments in equity instruments are neither held for trading nor considered by the Group in a business combination to which AASB 3 *Business Combinations* applies, an irrevocable election may be made by management to measure these also at fair value through other comprehensive income on an instrument by instrument basis.

3.2 Financial assets (continued)

Recognition and measurement (continued)

Amortised cost

Financial assets are classified at amortised cost when they are held within a business model to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate.

Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired.

Fair value through profit or loss

Financial assets in this category relate to investments backing insurance liabilities (refer to Note 4.1 for further details). This group of financial assets is managed and its performance is evaluated on a fair value basis where related liabilities are also managed on this basis. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Fair value through other comprehensive income

Financial assets including debt instruments are classified at fair value through other comprehensive income when they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. In certain circumstances, on initial recognition including for specific equity investments, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or fair value through other comprehensive income as fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Debt instruments at fair value through other comprehensive income

Debt instruments at fair value through other comprehensive income includes changes in the fair value of investments in debt instruments. The changes recognised in reserve are transferred to profit or loss when the asset is derecognised or impaired.

Equity instruments at fair value through other comprehensive income

On removal of the available for sale category management have made an irrevocable election to measure the unlisted shares at fair value through other comprehensive income. These equity securities represent investments that the Group intends to hold for the long term. As permitted by AASB 9 *Financial Instruments*, the Group has designated these investments at the date of initial application as measured at fair value through other comprehensive income. Unlike AASB 139 *Financial Instruments*, the accumulated fair value reserve related to these investments will not be reclassified to profit or loss.

Amounts in the reserve are subsequently transferred to retained earnings, and not profit or loss, when the asset is derecognised. Dividends on such investments are recognised in profit or loss unless the dividend represents a recovery of part of the cost of the investment.

Applicable before 1 July 2018

Held to maturity

Financial assets classified as held to maturity represent selected notes and deposits with ADIs and mortgage-backed securities and are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate. Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired, as well as through the amortisation process.

3.2 Financial assets (continued)

Recognition and measurement (continued)

Available for sale

Financial assets classified as available for sale represent shares in non-controlled unlisted companies.

Gains and losses on available for sale investments are recognised in members' funds as an available for sale reserve until the investment is sold, or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in members' funds is included in the income statement.

available for sale investments are measured at fair value on initial recognition and subsequent measurement when they can be estimated reliably. The fair value of these assets are measured based on registered share sale transactions published by the company, subject to impairment testing.

Business model assessment

The Group will make an assessment of the objective of the business model at a portfolio level as this best reflects the way the business is managed and information is prepared and reported. The information includes:

- Stated policies and objectives for the portfolio and the operation of those policies in practice, strategy on earning contractual interest revenue, the interest rate profile, matching the duration of financial assets to the duration of financial liabilities that are funding the assets or realising cash flows through the sale of assets;
- How performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reason for such sales and expectation of future sales activity (as part of an overall assessment on how the Group's objective of managing financial assets is achieve and how cash flows are realised).

Contractual cash flows assessment

In assessing whether the cash flows are SPPI, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impairment of financial assets

AASB 9 *Financial Instruments* replaces the AASB 139 *Financial Instruments* incurred loss model with an expected loss model. The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, amounts receivable from contracts with customers as defined in AASB 15 *Revenue from Contracts with Customers,* loan commitments and financial guarantee contracts.

The new Accounting Standard requires entities to account for expected credit losses (ECLs) from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following assets, where they are measured as 12-month ECLs:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit rating is equivalent to the globally understood definition of "investment grade". The Group does not apply the low credit risk exemption to any other financial instruments.

3.2 Financial assets (continued)

Impairment of financial assets (continued)

The Group applies a three-stage approach in measuring ECLs based on changes in the financial assets' underlying credit risk and includes forward looking or macroeconomic conditions:
- Stage 1: Where credit risk has not increased significantly since initial recognition or the asset is not credit impaired upon origination, recognise a portion of the lifetime ECLs associated with the probability of default events occurring within the next 12 months.
- Stage 2: Where credit risk has increased significantly since initial recognition but not credit impaired (includes hardship), recognise lifetime ECLs.
- Stage 3: When a financial asset is assessed as credit impaired (includes exposures that are greater than 90 days past due), recognise lifetime ECLs. Interest revenue is calculated on a net basis (gross carrying amount less provision).

Lifetime ECLs are generally determined based on the contractual maturity or behavioural life of the financial asset. When measuring ECLs, the Credit Union takes into account the probability weighted outcome of cash shortfalls over the expected life of the asset discounted at its current effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group is expected to receive.

Model inputs

The ECL model takes into account the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD) discounted at the effective interest rate:
- PD: The ECL model uses probability of default taking into account the prior status of the loans.
- LGD: Dynamic LGDs are used in the personal lending segments with benchmarked LGDs used in the consumer home loan segments. The model and macro-economic forward-looking factors are reviewed semi-annually under the CUA model governance framework.

Forward looking information

Forward looking information used in the measurement of ECLs takes into account probability weighted scenarios and includes macroeconomic variables that influence credit losses such as RBA cash rates, gross domestic product (GDP) data, unemployment rates and changing house prices.

Significant increase in credit risk

The Credit Union will assess significant increase in credit risk (SICR) for financial assets by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In assessing whether there has been a SICR, the Credit Union will consider reasonable and supportable information that is relevant and available without undue cost or effort. The credit risk assessment will be carried out on an individual and collective basis. The Credit Union considers contractual payments that are 30 days past due or default events (e.g. 90 days past due) as primary indicators of SICR. The determination of SICR also takes into consideration various qualitative and quantitative factors.. The main factors considered in making this determination are relative and absolute changes in the probability of default since origination and other criteria such as past due arrears information, hardship and watch-list status.

Write-off

Loans and advances are written off (either partially or in full) when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-offs. This assessment is carried out at the individual asset level. Recoveries of amounts previously impaired are included in the impairment of loans and advances line in the Income Statement.

3.2 Financial assets (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons. If the terms of modification are substantial, the existing loan will have to be derecognised and the renegotiated loan recognised at a new effective interest rate. Where the modifications are not substantial and do not result in derecognition, the gross carrying amount of the loan is calculated by discounting the modified cash flows using the original effective interest rate.

Credit risk is assessed by comparing the remaining lifetime probability of default (PD) at the reporting date based on the modified terms with the remaining lifetime PD based on data on initial recognition and the original contractual terms.

3.3 Loans and advances

	Group		Credit Union	
	2019[1]	2018	**2019[1]**	2018
	$'000	$'000	**$'000**	$'000
Term loans	**13,303,806**	12,152,937	**13,303,806**	12,152,937
Credit cards and overdrafts	**130,160**	136,913	**130,160**	136,913
Gross loans and advances	**13,433,966**	12,289,850	**13,433,966**	12,289,850
ECL provision / impairment provision	**(20,343)**	(9,545)	**(20,343)**	(9,545)
Net deferred origination cost and fee revenue	**22,840**	19,929	**22,840**	19,929
Net loans and advances	**13,436,463**	12,300,234	**13,436,463**	12,300,234

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments* which includes a one-off opening balance adjustment through equity, refer to Note 3.4 and Note 6.2 for information on the adoption of these. Prior periods have not been restated.

Recognition and measurement

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, net of any credit impairment. Losses arising from credit impairments are recognised in the income statement in 'impairment of loans and advances'.

Notes to the financial statements

For the year ended 30 June 2019

3.4 Impairment of loans and advances

Group & Credit Union - 2019	Stage 1	Stage 2	Stage 3				
	Collective provision 12-month ECL not credit impaired	Collective provision lifetime ECL not credit impaired	Collective provision lifetime ECL credit impaired	Specific provision lifetime ECL credit impaired	Collective provision[1]	Specific provision	Total provision
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 30 June 2018	-	-	-	-	9,442	103	9,545
Changes on adoption of new accounting standards	12,001	4,100	3,310	103	(9,442)	(103)	9,969
Restated balance as at 1 July 2018	12,001	4,100	3,310	103	-	-	19,514
Changes due to financial assets recognised in the opening balance that have:							
Transferred from 12-month ECL not credit impaired	(506)	381	125	-	-	-	-
Transferred from Lifetime ECL not credit impaired	1,680	(2,224)	544	-	-	-	-
Transferred from Lifetime ECL credit impaired	652	204	(856)	-	-	-	-
Charge to income statement	(1,689)	1,571	1,050	8,697	-	-	9,629
Bad debts written off	-	-	-	(8,800)	-	-	(8,800)
Balance at 30 June 2019	12,138	4,032	4,173	-	-	-	20,343
Impairment charge	1,689	(1,571)	(1,050)	(8,697)	-	-	(9,629)
Bad debts recovered	-	-	-	953	-	-	953
Change to impairment of loans and advances	1,689	(1,571)	(1,050)	(7,744)	-	-	(8,676)

[1] Opening balance for collective provision of doubtful debts measured under AASB 139 *Financial Instruments* is now presented as 12-month and Lifetime expected credit losses following the adoption of AASB 9 *Financial Instruments*, with no restatement to prior period comparatives. Refer to Note 6.2 for information on the adoption of AASB 9 *Financial Instruments*.

Group & Credit Union - 2018	Collective provision	Specific provision	Total provision
	$'000	$'000	$'000
Balance at 1 July 2017	7,766	735	8,501
New provision charges	1,676	7,964	9,640
Bad debts written off	-	(8,596)	(8,596)
Balance at 30 June 2018	9,442	103	9,545
New provision charges	(1,676)	(7,964)	(9,640)
Bad debts recovered	-	791	791
Change to Income Statement	(1,676)	(7,173)	(8,849)

3.4 Impairment of loans and advances (continued)

Impact of movements in gross carrying amount on impairment of loans and advances

Provision for impairment of loans and advances reflects ECLs measured using the three-stage approach prescribed under AASB 9 *Financial Instruments* as further detailed in Note 3.2.

The following explains how significant changes in the gross carrying amount of loans and advances during the 2019 financial year have contributed to the changes in the impairment of loans and advances for the Group and the Credit Union under the ECL model.

Overall, the total impairment of loans and advances increased by $10.8 million (2018: $1.7 million) compared to the balance at 30 June 2018 which was restated ($10.0 million) under AASB 9 *Financial Instruments*. This net increase was driven by an increase in the collective provisioning.

Collective provisioning increased by $0.9 million compared to the restated balance at 30 June 2018, which comprised of:

Stage 1: 12 months ECL not credit impaired – increased $0.1 million:
- $2.3 million increase of collective provision attached to existing loans and advances which migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement; and
- Offset by $2.2 million decrease collective provision repaid, experienced movement in underlying loan balances or migrated from Stage 1 to Stage 2 or Stage 3 because of deterioration of credit quality.

Stage 2 Lifetime ECL not credit impaired – decreased $0.1 million:
- $2.2 million decrease during the year due to loans and advances that experienced movement in underlying loan balances or migrated to Stage 2 as a result of deterioration of credit quality from Stage 1 or improved credit quality from Stage 3; and
- Offset by $2.1 million increase of collective provision attached to existing loans and advances exiting Stage 2 and migrating to Stage 1 because of improved credit quality or migrating to Stage 3 as result of credit deterioration.

Stage 3: Lifetime ECL Credit impaired – increased by $0.9 million due to:
- $1.7 million increase during the year due to loans and advances that experienced movement in underlying loan balances or migrated to Stage 3 a result of deterioration of credit quality from Stage 1 and Stage 2; and
- Offset by $0.8 million of collective provision attached to existing loans and advances exiting Stage 3 and migrating to Stage 1 and Stage 2 because of improved credit quality.

Specific provision decreased $0.1 million due to:
- $8.7 million provision was raised during the year for specific loans and advances;
- $8.8 million of the specific provision raised was utilised by debts being written off.

Recognition and measurement

Refer to Note 3.2 Impairment of financial assets.

Use of judgements and estimates

The Group reviews individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. Judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors including forward-looking information available at the time. Actual results may differ, resulting in future changes to the allowance.

Notes to the financial statements

For the year ended 30 June 2019

3.5 Deposits

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Members' shares	**3,249**	3,332	**3,249**	3,332
Members' call deposits	**7,079,491**	6,145,066	**7,086,145**	6,156,251
Members' term deposits	**3,498,106**	3,071,426	**3,498,106**	3,071,426
	10,580,846	9,219,824	**10,587,500**	9,231,009

There is no concentration of customer or industry groups, which represent 10% or more of total liabilities.

Recognition and measurement

All deposits and borrowings are initially recognised at cost, being the fair value of the consideration received net of direct incremental issue costs associated with the borrowings. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method.

3.6 Borrowings

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Securitisation trust borrowings	**1,547,119**	1,218,153	**3,318,332**	2,582,848
Securitisation warehouse borrowings	**511,298**	888,523	**520,251**	919,016
Term borrowings	**1,942,758**	1,865,384	**1,943,775**	1,867,521
	4,001,175	3,972,060	**5,782,358**	5,369,385

For recognition and measurement details, refer to Note 3.5.

3.7 Standby borrowing facilities

In the normal course of business the Credit Union enters into various types of contracts which give rise to the following standby and overdraft facilities:

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
(i) Australia and New Zealand Banking Group				
Approved limit	**500,000**	500,000	**500,000**	500,000
Amount utilised	**102,655**	349,980	**102,655**	349,980
(ii) Deutsche Bank AG, Sydney Branch				
Approved limit	**-**	52,500	**-**	52,500
Amount utilised	**-**	35,496	**-**	35,496
(iii) Deutsche Capital Markets Australia Limited				
Approved limit	**52,500**	-	**52,500**	-
Amount utilised	**25,139**	-	**25,139**	-
(iv) National Australia Bank Limited				
Approved limit	**690,000**	-	**690,000**	-
Amount utilised	**375,349**	-	**375,349**	-
(v) Overdraft				
Approved limit	**10,000**	10,000	**10,000**	10,000
Amount utilised	**-**	-	**-**	-
(vi) RBA (internal securitisation) [1]				
Approved limit	**1,233,074**	964,168	**1,233,074**	964,168
Amount utilised	**-**	-	**-**	-
(vii) Westpac Banking Corporation				
Approved limit	**-**	690,000	**-**	690,000
Amount utilised	**-**	494,454	**-**	494,454

[1] Certain prior year amounts have been adjusted for consistency with the current year disclosures that reflect updated information.

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3.8 Risk management

Overview

The Group manages risk to fulfil its commitments to members whilst providing a positive member experience and delivering on strategic objectives. The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's Risk Management Framework. The Risk Management Framework is a key component of the Group's strategy for managing risk and is comprised of structures, policies and processes designed to enable the purpose of "members working together through life's changes for mutual good". The overarching principles for this framework applicable to the Group are outlined in the sections below.

The key pillars which are reviewed and approved annually by the Board and subsequently provided to APRA include:
- Risk Appetite Statement – outlines, through qualitative and quantitative terms, the degree of risk the Group is willing to take in order to meet strategic objectives; and
- Risk Management Strategy – provides the method for identifying and managing risk including approach, responsibilities, policies and systems.

The Group applies the Three Lines of Defence model that articulates the approach to managing risk across the business. The responsibilities for each line of defence are as follows:

Line of defence	Responsibilities
First	• Under the first line of defence, operational management (including each member of staff) is responsible for identifying and managing risks in a way that is consistent with the risk management framework and risk appetite set by the Board.
Second	• The second line of defence is the risk management function, headed by the Chief Risk Officer, which contributes toward the progressive development and monitoring of the implementation of the Group's risk management framework. The risk management function also maintains the regulatory compliance framework in line with regulator expectations.
Third	• Internal Audit forms the third line of defence and provides independent assurance over the performance of both first and second lines in managing risk.

In addition to the lines of defence within the Group, external audit provides an independent audit opinion of the organisation's financial reporting and compliance with regulatory requirements.

Risk management policies have been established to identify and analyse the risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. Training, management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Formal governance structures enable the management of risk at the Board and Executive level. Five key committees are in place to achieve this include: (i) the Board Risk Committee (BRC); (ii) the Board Audit Committee (BAC); (iii) the Board Strategy Committee (BSC); (iv) the Board Remuneration Committee (BRem); and (v) Board Growth Opportunities Committee (BGOC) each responsible for overseeing management of specific categories of risks for the Group. The BAC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

The Credit Union maintains five key management committees for monitoring and reporting risk across the Group: (i) Enterprise Risk Committee (ERCO), responsible for the Group's enterprise-wide risk management framework; (ii) Asset and Liability Committee (ALCO), responsible for balance sheet risk; (iii) Operational Risk and Compliance Committee (ORCC), responsible for the operational risk and compliance framework; (iv) Credit Risk Committee (CRC) responsible for providing credit risk oversight and; (v) Breach Committee (BreachCo) responsible for assessing regulatory incidents.

Notes to the financial statements

For the year ended 30 June 2019

3.8 Risk management (continued)

The Group's approach to managing interest rate, price, credit, liquidity and funding risk are further detailed below.

(a) Interest rate risk

Interest rate risk is the risk that changes in both market rates and prices result in losses for a financial institution due to changes in interest rates. The Group is exposed to the risk of interest rate fluctuations due to an underlying mismatch in the timing of interest rate repricing across all financial products.

Certain prior year amounts have been reclassified and adjusted for consistency with the current year presentation. A reclassification has been made to reflect commitments from variable to fixed interest rate maturing and an adjustment to non interest bearing for lease commitments.

The tables below show the value of each account grouped by interest rate repricing period:

Group - 2019	**At call/ variable**	**Fixed interest rate maturing**			**Non interest bearing**	**Total**
		Within 1 year	**1 to 5 years**	**Over 5 years**		
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash and cash equivalents	**217,149**	**-**	**-**	**-**	**3,327**	**220,476**
Financial assets - fair value through profit or loss	**1,843**	**11,534**	**-**	**-**	**-**	**13,377**
Financial assets - amortised cost	**1,232,796**	**638,411**	**-**	**-**	**-**	**1,871,207**
Derivative financial instruments	**-**	**557**	**769**	**-**	**-**	**1,326**
Loans and advances (Gross)	**8,999,802**	**996,233**	**3,258,289**	**179,642**	**-**	**13,433,966**
	10,451,590	**1,646,735**	**3,259,058**	**179,642**	**3,327**	**15,540,352**
Liabilities						
Deposits	**7,079,432**	**3,209,453**	**288,712**	**-**	**3,249**	**10,580,846**
Derivative financial instruments	**-**	**1,958**	**15,186**	**-**	**-**	**17,144**
Borrowings	**3,034,773**	**944,121**	**22,281**	**-**	**-**	**4,001,175**
Commitments (Note 5.10)	**426,598**	**2,349**	**18,447**	**-**	**46,109**	**493,503**
	10,540,803	**4,157,881**	**344,626**	**-**	**49,358**	**15,092,668**

Group - 2018	At call/ variable	Fixed interest rate maturing			Non interest bearing	Total
		Within 1 year	1 to 5 years	Over 5 years		
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	304,082	-	-	-	3,751	307,833
Financial assets - fair value through profit or loss	2,292	12,277	-	-	-	14,569
Financial assets - held to maturity	1,172,592	309,196	-	-	-	1,481,788
Derivative financial instruments	-	570	377	-	-	947
Loans and advances (Gross)	8,255,466	1,221,956	2,598,254	214,174	-	12,289,850
	9,734,432	1,543,999	2,598,631	214,174	3,751	14,094,987
Liabilities						
Deposits	6,145,016	2,872,225	199,251	-	3,332	9,219,824
Derivative financial instruments	-	384	518	-	-	902
Borrowings	2,708,506	1,225,473	38,081	-	-	3,972,060
Commitments (Note 5.10)	664,946	4,812	86,000	-	48,883	804,640
	9,518,468	4,102,894	323,850	-	52,215	13,997,426

3.8 Risk management (continued)

(a) Interest rate risk (continued)

Credit Union - 2019	At call/ variable	Fixed interest rate maturing Within 1 year	1 to 5 years	Over 5 years	Non interest bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	**205,821**	**-**	**-**	**-**	**3,327**	**209,148**
Financial assets - amortised cost	**3,004,009**	**638,411**	**-**	**-**	**-**	**3,642,420**
Derivative financial instruments	**-**	**557**	**769**	**-**	**-**	**1,326**
Loans and advances (Gross)	**8,999,802**	**996,233**	**3,258,289**	**179,642**	**-**	**13,433,966**
Financial assets - fair value through other comprehensive income	**8,887**	**-**	**-**	**-**	**-**	**8,887**
	12,218,519	**1,635,201**	**3,259,058**	**179,642**	**3,327**	**17,295,747**
Liabilities						
Deposits	**7,086,086**	**3,209,453**	**288,712**	**-**	**3,249**	**10,587,500**
Derivative financial instruments	**-**	**1,958**	**15,186**	**-**	**-**	**17,144**
Borrowings	**4,814,939**	**945,138**	**22,281**	**-**	**-**	**5,782,358**
Commitments (Note 5.10)	**426,598**	**2,349**	**18,447**	**-**	**46,109**	**493,503**
	12,327,623	**4,158,898**	**344,626**	**-**	**49,358**	**16,880,505**

Credit Union - 2018	At call/ variable	Fixed interest rate maturing Within 1 year	1 to 5 years	Over 5 years	Non interest bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	293,329	-	-	-	3,751	297,080
Financial assets - held to maturity	2,567,781	309,196	-	-	-	2,876,977
Derivative financial instruments	-	570	377	-	-	947
Loans and advances (Gross)	8,255,466	1,221,956	2,598,254	214,174	-	12,289,850
	11,116,576	1,531,722	2,598,631	214,174	3,751	15,464,854
Liabilities						
Deposits	6,156,201	2,872,225	199,251	-	3,332	9,231,009
Derivative financial instruments	-	384	518	-	-	902
Borrowings	4,103,695	1,227,609	38,081	-	-	5,369,385
Commitments (Note 5.10)	664,946	4,811	86,000	-	48,883	804,640
	10,924,842	4,105,029	323,850	-	52,215	15,405,936

The Credit Union's exposure to interest rates is through earnings and valuation risk. Earnings risk is measured through Net Interest Income Sensitivity (NIIS), while valuation risk is measured through Present Value Sensitivity (PVS) and Value at Risk (VaR). The Board has responsibility for ensuring compliance with these limits and is assisted by the monitoring activities implemented by management under the broader risk management process.

NIIS is used for determining the potential volatility in our net interest income over the short term. NIIS is reported based on a 1% movement in interest rates across the yield curve to determine the potential adverse change in net interest income in the ensuing 12-month period.

3.8 Risk management (continued)

(a) Interest rate risk (continued)

The below table represents the average, maximum and minimum potential adverse change in NIIS since implementation of the enhanced framework:

Net interest income sensitivity	2019 $'000	2018 $'000
Average exposure	**2,155**	1,670
Maximum exposure	**3,621**	3,169
Minimum exposure	**266**	249

VaR and PVS are used as complementary metrics for determining the potential volatility in longer term economic value. VaR measures historically observed interest rate changes, whilst PVS measures pre-defined rate movements across the yield curve.

The VaR methodology is a statistical technique used to measure and quantify the valuation risk over a specific holding period at a given confidence level. The Credit Union's approach is based on a historical interest rate simulation which uses a 1500-day observation period and consists of a 99% confidence level with a 20-day holding period.

The below table represents the average, maximum and minimum VaR as a percentage of equity as measured at the end of each month over the financial year:

	2019		2018	
Value at risk	**$'000**	**%**	$'000	%
Average	**4,803**	**0.50%**	5,193	0.57%
Maximum	**6,536**	**0.68%**	5,836	0.63%
Minimum	**3,541**	**0.39%**	4,271	0.47%

PVS measures the sensitivity of the present value of the balance sheet based on a 1% movement in interest rates across the yield curve. The following table represents the average, maximum and minimum potential change in PVS since implementation of the enhanced framework:

Present value sensitivity	2019 $'000	2018 $'000
Average exposure	**9,250**	8,955
Maximum exposure	**12,790**	10,713
Minimum exposure	**5,980**	6,228

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3.8 Risk management (continued)

(b) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risk on investments in Australian listed equities and from investments in unlisted unit trusts. These investments backing insurance liabilities are held by the wholly owned subsidiary, CUA Health Limited. To manage the risk of a decline in the value of the investments, the specialist asset manager is required to follow the investment guidelines as approved by the Board of CUA Health Limited. Additionally, the group is exposed to equity price risk on its investment in un-listed securities, see Note 3.2 and 5.7 for further detail.

Risk management techniques are used in the selection of investments, including derivatives, which are only acquired if they meet specified investment criteria. Daily monitoring of trade restrictions and derivative exposure against limits is undertaken with any breach of these restrictions reported to the Board of CUA Health Limited.

The following sensitivity analysis is based on the equity price risk exposures on average balances at balance date. It shows the effect on equity and profit after tax if market prices had moved, with all other variables held constant.

Group	**2019**		2018	
	+10%	**-10%**	+10%	-10%
Judgments of reasonably possible movements	**$'000**	**$'000**	$'000	$'000
Australian listed equities	**439**	**(439)**	430	(430)
Investment in unlisted unit trusts	**4,572**	**(4,572)**	4,339	(4,339)
Investment in unlisted securities	**3,002**	**(3,002)**	3,002	(3,002)
	8,013	**(8,013)**	7,771	(7,771)

(c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Credit Union. Credit risk arises from the Credit Union's lending activities, which includes residential mortgages, consumer loans, overdrafts and credit cards (Credit quality – lending portfolios) and from the financial instruments we hold for liquidity management purposes and to hedge interest rate risk (Credit quality - investment with counterparties).

The Group maintains a Credit Risk Management Framework that encompasses:
- Our risk appetite for lending;
- Our strategies, policies and governance for managing credit risk; and
- Our processes for continually monitoring credit quality for impairment and the adequacy of provisions.

Maximum credit exposure

Credit exposures are capped to the carrying value reported on the balance sheets for the related assets. The table below (refer to Credit quality – investment with counterparties) presents the Group's maximum credit exposure to the respective asset classes at the reporting dates. The amounts are presented gross of provisions for impairment and before taking account of any collateral held or other credit enhancement.

Credit quality – investment with counterparties

Counterparty concentration risk is monitored daily by Treasury and the Risk Management Division, and monthly by the ALCO. Management establishes counterparty limits based on maximum exposure limits set by the Board and our internal credit assessment of a counterparty. The maximum exposure is limited to the carrying amount in the balance sheet classified according to APRA's APS 112 *Capital Adequacy: Standardised Approach to Credit Risk (Attachment E, paragraph 13, Table 6)* which are broadly aligned to external credit rating agencies such as Standard & Poor's, Moody's and Fitch.

3.8 Risk management (continued)

(c) Credit risk (continued)

Credit quality – investment with counterparties (continued)

The following table summarises the counterparty concentration risk exposure by rating grades:

Group - 2019	**Credit rating Grade 1**	**Credit rating Grade 2**	**Credit rating Grade 3**	**Unrated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Assets					
Cash and cash equivalents	**165,387**	**45,476**	**-**	**9,613**	**220,476**
Financial assets - fair value through profit or loss	**4,953**	**2,848**	**5,576**	**-**	**13,377**
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	**893,540**	**529,688**	**447,979**	**-**	**1,871,207**
Derivative financial instruments	**1,326**	**-**	**-**	**-**	**1,326**
	1,065,206	**578,012**	**453,555**	**9,613**	**2,106,386**

Group - 2018	Credit rating Grade 1	Credit rating Grade 2	Credit rating Grade 3	Unrated	Total
	$'000	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	232,548	66,795	-	8,490	307,833
Financial assets - fair value through profit or loss	2,292	6,832	5,445	-	14,569
Financial assets - held to maturity	481,177	551,375	449,237	-	1,481,788
Derivative financial instruments	947	-	-	-	947
	716,964	625,002	454,683	8,490	1,805,138

Credit Union - 2019	**Credit rating Grade 1**	**Credit rating Grade 2**	**Credit rating Grade 3**	**Unrated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Assets					
Cash and cash equivalents	**163,287**	**42,529**	**-**	**3,332**	**209,148**
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	**2,553,630**	**529,688**	**447,979**	**111,123**	**3,642,420**
Financial assets - fair value through other comprehensive income					
Stage 1: 12-month ECL - not credit impaired	**-**	**-**	**-**	**8,887**	**8,887**
Derivative financial instruments	**1,326**	**-**	**-**	**-**	**1,326**
	2,718,243	**572,217**	**447,979**	**123,342**	**3,861,781**

Credit Union - 2018	Credit rating Grade 1	Credit rating Grade 2	Credit rating Grade 3	Unrated	Total
	$'000	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	229,426	63,909	-	3,745	297,080
Financial assets - held to maturity	1,778,818	549,983	448,970	99,206	2,876,977
Derivative financial instruments	947	-	-	-	947
	2,009,191	613,892	448,970	102,951	3,175,004

Refer to APRA's APS 112 *Capital Adequacy: Standardised Approach to Credit Risk (Attachment E, paragraph 13, Table 6* for credit rating grade definition.

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3.8 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. The Credit Union sets aside provisions for impairment of loans in accordance with its internal policies and procedures, which comply with AASB 9 *Financial Instruments: Recognition and Measurement* and APRA's APS 220 *Credit Quality*.

Certain prior year amounts have been reclassified for consistency with the current year presentation. An adjustment has been made to reclassify appropriate balances from personal lending to residential mortgages.

The following table sets out information about the overdue status of loans and advances to members in Stage 1, Stage 2 and Stage 3 as defined in Note 3.2.

The distribution of loans and advances by credit quality at the reporting date was:

Credit Union		**2019**			2018
Loans and advances (Gross)	**Stage 1 12-month ECL not credit impaired**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit Impaired**	**Total**	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Residential mortgages					
Current	**12,625,939**	**82,538**	**-**	**12,708,477**	11,589,321
Overdue less than or equal to 30 days	**150,421**	**18,404**	**-**	**168,825**	148,192
Overdue more than 30 days	**-**	**35,138**	**13,166**	**48,304**	36,663
	12,776,360	**136,080**	**13,166**	**12,925,606**	11,774,176
Commercial lending					
Current	**31,490**	**88**	**-**	**31,578**	32,285
Overdue less than or equal to 30 days	**23**	**-**	**-**	**23**	205
Overdue more than 30 days	**-**	**550**	**399**	**949**	517
	31,513	**638**	**399**	**32,550**	33,007
Personal lending					
Current	**443,008**	**3,510**	**-**	**446,518**	455,263
Overdue less than or equal to 30 days	**17,709**	**1,207**	**-**	**18,916**	16,772
Overdue more than 30 days	**-**	**5,652**	**4,724**	**10,377**	10,632
	460,717	**10,369**	**4,724**	**475,811**	482,667
Total Loans and Advances (Gross)	**13,268,590**	**147,087**	**18,289**	**13,433,966**	12,289,850
Total Loss Allowance	**12,138**	**4,032**	**4,173**	**20,343**	9,545

3.8 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios (continued)

Collateral held

The Credit Union holds collateral against certain classes of loans and advances to members in the form of mortgage interest over property, other registered securities over assets and guarantees. To mitigate credit risk, the Credit Union can take possession of the security held against the loans and advances as a result of default.

The following table sets out the principal types of the collateral held against different types of financial assets.

Credit Union	**Percentage of exposure that is subject to collateral requirements**		
Types of credit exposure	**2019**	2018	**Principal type of collateral held**
Financial assets - amortised cost	**-**	-	None
Derivative financial instruments	**-**	-	None
Loans and advances:			
Residential mortgages	**100**	100	Real estate property
Commercial lending	**100**	100	Real estate property
Personal lending	**31**	28	Motor vehicle
Financial assets - fair value through other comprehensive income	**-**	-	None

An estimate of the value of collateral held as security is assessed at the time of the borrowing and is generally not updated except when loans and advances are individually assessed as impaired. As at 30 June 2019 the fair value of collateral held against these loans and advances that have been individually assessed as Stage 3 credit impaired is $7.5 million (2018: $5.5 million). It has not been practicable to determine the fair value of the collateral held as security against Stage 1 and Stage 2 loans. During the year, the Credit Union took possession of properties valued at $0.5 million (2018: $2.9 million) which were securing loans of $0.5 million (2018: $2.1 million).

The following table shows the Credit Union's Loan to Value Ratios (LVR) on its residential mortgages. Valuation amounts used in these calculations are based on the security value taken at the time the loans were originated or subsequent revaluation.

Credit Union	**2019** **$'000**	2018 $'000
LVR 0% - 60%	**3,934,408**	3,502,199
LVR 60.01% - 80%	**6,631,325**	6,021,559
LVR 80.01% - 90%	**1,832,548**	1,743,108
LVR 90.01% - 100%	**515,428**	486,982
LVR > 100%	**11,897**	20,328
	12,925,606	11,774,176

3.8 Risk management (continued)

(c) Credit risk (continued)

Credit risk – geographical analysis (concentration risk)

The lending portfolio is heavily concentrated on residential mortgages in line with our core business and risk appetite. The concentration of exposures broadly aligns to our traditional branch network. Management undertakes periodic exercises including stress testing and geographic analysis to better understand the impact of concentration risk within the lending portfolio. Based on these exercises management is comfortable with the level of concentration risk. None of our retail lending exposures exceeds 2.5% of our regulatory capital base.

Credit Union	**2019**		2018	
	Residential mortgages	**Other loans**	Residential mortgages	Other loans
State	**$'000**	**$'000**	$'000	$'000
Queensland	**4,812,436**	**251,303**	4,483,479	252,656
New South Wales	**3,866,267**	**126,559**	3,530,927	131,678
Victoria	**2,932,032**	**94,818**	2,619,388	96,505
Western Australia	**859,207**	**22,006**	778,666	21,706
Australian Capital Territory	**193,328**	**6,247**	167,729	5,799
South Australia	**211,306**	**4,444**	150,143	4,108
Tasmania	**35,545**	**1,580**	28,785	1,531
Northern Territory	**15,485**	**1,403**	15,059	1,691
	12,925,606	**508,360**	11,774,176	515,674

3.8 Risk management (continued)

(d) Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is unable to meet its financial obligations as they fall due, caused by a mismatch in cash flows. The primary liquidity objective is to fund in a way that will facilitate growth in core business under a wide range of market conditions.

Liquidity risk is managed through matching of maturity profiles of assets and liabilities on a daily basis, maintenance of committed funding facilities, continuous forecasting of cash-flows, supplemented with liquidity scenario analysis. Funding risk is managed through a range of key metrics around diversification, duration and capacity.

Operational management of liquidity and funding is performed centrally within the Treasury Division, with oversight from the Risk Management Division, ALCO and Board. Policies are approved by the Board on the recommendation of the ALCO and are consistent with the requirements of APRA's regulatory standard APS 210 *Liquidity*. During the current and the previous year the Credit Union did not breach these requirements.

The following table shows the expected cash flow liquidity analysis for different monetary liabilities and assets held. In the case of borrowings, the table shows the period in which the principal outstanding will be repaid based on the remaining period to the repayment date. For term borrowings, the below dissection is based upon contractual conditions for each borrowing being strictly complied with and is subject to change in the event that current repayment conditions are varied.

Group - 2019	Carrying Amount $'000	Gross contractual inflow/(outflow) $'000	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3,249	3,249	3,249	-	-	-	-
Members' call deposits	7,079,491	7,079,491	7,079,491	-	-	-	-
Members' term deposits	3,498,106	3,540,164	459,238	694,923	2,086,245	299,758	-
Borrowings	4,001,175	4,173,439	278,624	399,055	1,202,001	1,520,893	772,866
Total non-derivative financial liabilities	14,582,021	14,796,343	7,820,602	1,093,978	3,288,246	1,820,651	772,866
Derivative financial liabilities							
Interest rate swaps[1]							
Outflow	34,216	34,216	2,000	3,674	14,969	13,573	-
Inflow	(17,072)	(17,072)	(1,451)	(2,222)	(7,339)	(6,060)	-
Total derivative financial liabilities	17,144	17,144	549	1,452	7,630	7,513	-
Financial asset by type[2]							
Non-derivative financial assets							
Cash and cash equivalents	220,476	220,476	220,476	-	-	-	-
Financial assets - fair value through profit or loss[3]	84,803	84,803	2,700	2,636	6,200	-	73,267
Financial assets - amortised cost	1,871,207	1,871,207	338,172	309,190	476,291	747,554	-
Loans and advances	13,436,463	13,436,463	26,598	86,235	236,161	1,380,378	11,707,091
Financials assets – fair value through other comprehensive income	42,890	42,890	-	-	-	-	42,890
Total non-derivative financial assets	15,655,839	15,655,839	587,946	398,061	718,652	2,127,932	11,823,248
Derivative financial assets							
Interest rate swaps[1]							
Outflow	(6,691)	(6,691)	(1,115)	(2,868)	(2,474)	(235)	-
Inflow	8,017	8,017	1,183	3,209	3,053	573	-
Total derivative financial assets	1,326	1,326	68	341	579	338	-

[1] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[2] The financial assets have been presented based on the remaining contractual maturities.
[3] For financial assets – fair value through profit or loss include investments in unlisted unit trusts that do not have contractual maturities. The Group intends to hold these investments with a long term view.

3.8 Risk management (continued)

(d) Liquidity and funding risk (continued)

Group - 2018	Carrying Amount $'000	Gross contractual inflow/(outflow) $'000	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3,332	3,332	3,332	-	-	-	-
Members' call deposits	6,145,066	6,145,066	6,145,066	-	-	-	-
Members' term deposits	3,071,426	3,138,643	347,691	682,232	1,913,020	195,700	-
Borrowings	3,972,060	4,202,034	260,785	378,638	1,369,010	1,461,294	732,307
Total non-derivative financial liabilities	13,191,884	13,489,075	6,756,874	1,060,870	3,282,030	1,656,994	732,307
Derivative financial liabilities							
Interest rate swaps[1]							
Outflow	22,785	22,785	1,392	2,584	9,001	9,808	-
Inflow	(21,883)	(21,883)	(1,252)	(2,492)	(8,318)	(9,821)	-
Total derivative financial liabilities	902	902	140	92	683	(13)	-
Financial asset by type[2]							
Non-derivative financial assets							
Cash and cash equivalents	307,833	307,833	307,833	-	-	-	-
Financial assets - fair value through profit or loss[3]	82,492	82,492	3,588	4,924	3,768	-	70,212
Financial assets - held to maturity	1,481,788	1,481,788	111,534	239,671	480,693	649,890	-
Loans and advances	12,300,234	12,300,234	21,867	81,271	216,480	1,284,992	10,695,624
Financials assets – available for sale	42,890	42,890	-	-	-	-	42,890
Total non-derivative financial assets	14,215,237	14,215,237	444,822	325,866	700,941	1,934,882	10,808,726
Derivative financial assets							
Interest rate swaps[1]							
Outflow	(22,097)	(22,097)	(1,132)	(2,119)	(12,821)	(6,025)	-
Inflow	23,044	23,044	1,231	2,137	13,332	6,344	-
Total derivative financial assets	947	947	99	18	511	319	-

[1] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[2] The financial assets have been presented based on the remaining contractual maturities.
[3] For financial assets – fair value through profit or loss include investments in unlisted unit trusts that do not have contractual maturities. The Group intends to hold these investments with a long term view.

3.8 Risk management (continued)

(d) Liquidity and funding risk (continued)

Credit Union - 2019	Carrying Amount $'000	Gross contractual inflow/(outflow) $'000	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3,249	3,249	3,249	-	-	-	-
Members' call deposits	7,086,145	7,086,145	7,086,145	-	-	-	-
Members' term deposits	3,498,106	3,540,164	459,238	694,923	2,086,245	299,758	-
Borrowings	5,782,358	6,088,785	318,791	471,776	1,493,860	2,460,239	1,344,119
Total non-derivative financial liabilities	16,369,858	16,718,343	7,867,423	1,166,699	3,580,105	2,759,997	1,344,119
Derivative financial liabilities							
Interest rate swaps[1]							
Outflow	34,216	34,216	2,000	3,674	14,969	13,573	-
Inflow	(17,072)	(17,072)	(1,451)	(2,222)	(7,339)	(6,060)	-
Total derivative financial liabilities	17,144	17,144	549	1,452	7,630	7,513	-
Financial asset by type[2]							
Non-derivative financial assets							
Cash and cash equivalents	209,148	209,148	209,148	-	-	-	-
Financial assets - amortised cost	3,642,420	3,642,420	340,645	309,190	476,291	747,554	1,768,740
Loans and advances	13,436,463	13,436,463	26,598	86,235	236,161	1,380,378	11,707,091
Financials assets – fair value through other comprehensive income	51,776	51,776	-	-	-	-	51,776
Total non-derivative financial assets	17,339,807	17,339,807	576,391	395,425	712,452	2,127,932	13,527,607
Derivative financial assets							
Interest rate swaps[1]							
Outflow	(6,691)	(6,691)	(1,115)	(2,868)	(2,474)	(234)	-
Inflow	8,017	8,017	1,183	3,209	3,053	572	-
Total derivative financial assets	1,326	1,326	68	341	579	338	-

[1] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[2] The financial assets have been presented based on the remaining contractual maturities.

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3.8 Risk management (continued)

(d) Liquidity and funding risk (continued)

Credit Union - 2018	Carrying Amount $'000	Gross contractual inflow/(outflow) $'000	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3,332	3,332	3,332	-	-	-	-
Members' call deposits	6,156,251	6,156,251	6,156,251	-	-	-	-
Members' term deposits	3,071,426	3,138,643	347,691	682,232	1,913,020	195,700	-
Borrowings	5,369,385	5,728,453	315,512	436,305	1,602,914	2,213,469	1,160,253
Total non-derivative financial liabilities	14,600,394	15,026,679	6,822,786	1,118,537	3,515,934	2,409,169	1,160,253
Derivative financial liabilities							
Interest rate swaps[1]							
Outflow	22,785	22,785	1,392	2,584	9,001	9,808	-
Inflow	(21,883)	(21,883)	(1,252)	(2,492)	(8,318)	(9,821)	-
Total derivative financial liabilities	902	902	140	92	683	(13)	-
Financial asset by type[2]							
Non-derivative financial assets							
Cash and cash equivalents	297,080	297,080	297,080	-	-	-	-
Financial assets - held to maturity	2,876,977	2,876,976	113,866	239,671	480,693	649,890	1,392,856
Loans and advances	12,300,234	12,300,234	21,867	81,271	216,480	1,284,992	10,695,624
Financials assets – available for sale	42,890	42,890	-	-	-	-	42,890
Total non-derivative financial assets	15,517,181	15,517,180	432,813	320,942	697,173	1,934,882	12,131,370
Derivative financial assets							
Interest rate swaps[1]							
Outflow	(22,097)	(22,097)	(1,132)	(2,119)	(12,821)	(6,025)	-
Inflow	23,044	23,044	1,231	2,137	13,332	6,344	-
Total derivative financial assets	947	947	99	18	511	319	-

[1] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[2] The financial assets have been presented based on the remaining contractual maturities.

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3.9 Derivative financial instruments

(a) Fair value of derivatives

The Credit Union is exposed to interest rate risk arising from changes in market interest rates. As part of its financial risk management, the Credit Union partakes in interest rate swaps to hedge the interest rate risk associated with offering longer term fixed rate loans funded by shorter term liabilities. In transacting the swaps, movements in the shorter term funding are offset with the floating leg of the swap. This is in line with the Financial Risk Policy.

By using interest rate swaps to hedge exposures to changes in interest rates, the Credit Union also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Credit Union minimises counterparty credit risk in derivative financial instruments by entering into transactions with high-quality counterparties whose credit rating is grade 1. Refer to Note 3.8(c) for grade definitions. Refer below for detail the Credit Union's accounting for derivatives.

The following table summarises the fair value and notional amounts of the Credit Union's commitments to derivative financial instruments at reporting date. Fair value in relation to derivative financial instruments is estimated using net present value techniques. The Credit Union held the following instruments to hedge exposures to changes in interest rates.

Credit Union	**Assets**	**Liabilities**	**Weighted average fixed interest rate**	**Notional amount**	**Maturity notional amounts 2019**		
					Within 1 year	**1 to 5 years**	**Over 5 years**
	2019	**2019**	**2019**	**2019**			
	$'000	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Derivatives used as cash flow hedges							
Interest rate swaps	**1,326**	**17,144**	**1.74%**	**1,914,640**	**1,046,000**	**868,640**	**-**

Credit Union	Assets	Liabilities	Weighted average fixed interest rate	Notional amount	Maturity notional amounts 2018		
					Within 1 year	1 to 5 years	Over 5 years
	2018	2018	2019	2018			
	$'000	$'000	%	$'000	$'000	$'000	$'000
Derivatives used as cash flow hedges							
Interest rate swaps	947	902	1.82%	2,150,140	1,520,500	629,640	-

(b) Accounting for derivatives

Recognition and measurement

Interest rate swaps are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value.

For interest rate swaps which do not qualify for hedge accounting, changes in fair value are recorded in net gain or loss on derivatives at fair value through profit or loss. Interest earned or incurred is accrued in interest income or expense respectively, according to the terms of the contract.

Cash flow hedges

For the purposes of hedge accounting, the Credit Union elected to continue to apply the hedge accounting requirements under AASB 139 *Financial Instruments: Recognition and Measurement* as permitted under AASB 9 *Financial Instruments*. Hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

3.9 Derivative financial instruments (continued)

(b) Accounting for derivatives (continued)

Cash flow hedges (continued)

The Credit Union determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Credit Union considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship.

The Credit Union evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate. The Credit Union further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the present value of the hedged item.

The Credit Union assesses hedge effectiveness using the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged transaction. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The hypothetical derivative and the actual derivative are regressed to establish the statistical significance of the hedge relationship. The Credit Union assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in cash flows of the hedged item (prospectively and retrospectively) using this regression analysis.

Hedging relationships are considered to be highly effective if all the following criteria are met:

- The regression co-efficient (R squared), which measures the correlation between variables in the regression, is at least 80%;
- The slope of regression is within a 80%-125% range; and
- The confidence level of the slope is at least 95%.

In these hedge relationships, the main sources of ineffectiveness are:

- The effect of the counterparty and the Credit Union's own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- Differences in maturities or timing of cash flows of the interest rate swaps and the hedged item.

There were no other sources of ineffectiveness in these hedge relationships. The Credit Unions' policy is to de-designate ineffective hedges.

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in members' funds in the 'cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve at that time remains in the reserve and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the cash flow hedge reserve is immediately transferred to the income statement.

The net gain/(loss) on interest rate swaps through the income statement during the year was as follows:

Credit Union	**2019 $'000**	2018 $'000
Net gain/(loss) on derivatives reclassified through profit or loss	**(448)**	54
Net gain/(loss) on ineffective hedges	**(18)**	7
Net gain/(loss) on derivatives at fair value through profit or loss	**(466)**	61

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3.10 Capital management

Regulatory capital

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of the Group's capital management strategies are to ensure that the Credit Union maintains sufficient capital resources to support the Group's business activities and operational requirements and to ensure continuous compliance with externally imposed capital ratios. The Credit Union uses capital to reinvest in the business to enhance products and services supplied to the members of the Credit Union.

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by APRA in supervising the Credit Union. During the current and previous years, the Banking Group has not breached any capital requirements.

The elements of capital are analysed as follows:

Qualifying capital	**Banking Group***	
	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Common equity tier 1 capital		
Retained profits, including current year profits	**956,415**	917,729
Reserves	**17,252**	27,714
Total common equity tier 1 capital	**973,667**	945,443
Regulatory adjustments		
Intangibles	**(59,296)**	(72,958)
Equity investments	**(47,494)**	(47,302)
Other deductions	**(29,142)**	(30,000)
Total regulatory adjustments	**(135,932)**	(150,260)
Net common equity tier 1 capital	**837,735**	795,183
Tier 2 capital		
General reserve for credit losses	**24,217**	21,865
Net tier 2 capital	**24,217**	21,865
Capital base	**861,952**	817,048
Risk weighted assets	**6,028,228**	5,733,147
Risk weighted capital ratios		
Tier 1	**13.90%**	13.87%
Tier 2	**0.40%**	0.38%
Total capital ratio	**14.30%**	14.25%

* The regulatory capital requirements are measured for the Credit Union and all of its banking subsidiaries (known as the Banking Group).

The Group's AASB 9 *Financial Instruments* transition adjustments on the ADI's capital adequacy, has taken into consideration APRA's approach and expectations around the regulatory treatment of AASB 9 *Financial Instruments* as set out in its industry letter released on 4 July 2017. The transition adjustments do not have a material impact to the banking group's minimum regulatory requirements.

4. Insurance business

4.1 Key financial information

The following table summarises the key financial information of the insurance businesses of CUA Health Limited (CHL) and Credicorp Insurance Pty Ltd (Credicorp) which contribute to the income statement and balance sheet of the Group.

	Insurance Business	
	2019	2018
	$'000	$'000
Income statement extract		
Net premium revenue	**155,979**	154,995
Claims expense	**(131,610)**	(127,207)
Interest income - fair value through profit or loss	**431**	616
Net investment income	**2,608**	2,541
Net insurance income	**27,408**	30,945
Balance sheet extract		
Assets		
Investments backing insurance liabilities	**84,803**	82,492
Deferred acquisition costs	**1,895**	768
Rebate receivable from health insurance commission	**3,238**	3,235
Receivable from risk equalisation trust fund	**1,626**	1,973
Liabilities		
Unearned premiums	**21,743**	22,696
Outstanding claims liabilities	**13,735**	12,187

The outstanding claims liabilities represent an actuarial and management estimate to achieve a probability of adequacy of at least 75% (2018: at least 75%) for both companies. During the year, CHL enhanced its financial statements disclosure to more explicitly report the risk margin associated with the outstanding claims liabilities that better aligns with the industry practice. This has been adopted due to the CHL's relative size and potential for volatility. The approach enables CHL to minimise risk factors through flexibility in the risk margin of the outstanding claims liabilities.

To ensure risk margins are presented on a comparable basis, the risk margin is 28% (2018: 18.8%) rather than the previously presented 8% in the financial statements for the year ended 30 June 2018. All actuarial assumptions within the outstanding claims liabilities have remained within the Company's accounting policy and objective of achieving at least 75% probability of adequacy (2018: at least 75%).

4.2 Key insurance accounting policies

Premium revenue

Premium revenue comprises amounts charged to policyholders and is inclusive of government rebates where applicable. Premium revenue is recognised from attachment date in accordance with the pattern of the incidence of risk expected over the term of the insurance contracts. The portion of premium received or receivable not earned at reporting date is recognised on the balance sheet as unearned premiums.

Claims expense

Claims expense represents the charge to the income statement for the period and represents the sum of claims settled and claims management expenses relating to claims incurred in the period and the movement in the outstanding claims liabilities over the period.

Net investment income

Net investment income relates to amounts received from investments held by the insurance business. Gains or losses arising from changes in the fair value of the financial assets recognised at fair value through profit or loss are presented in the income statement within net investment income in the period in which they arise.

4.2 Key insurance accounting policies (continued)

Net investment income (continued)

Trust distributions and dividend income derived from financial assets at fair value through profit or loss is recognised in the income statement within net investment income when the Group's right to receive payments is established. Interest income from these financial assets is recognised using the effective interest method.

Investments backing insurance liabilities

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Investment assets backing insurance liabilities are designated at fair value through profit or loss as required by AASB 1023 *General Insurance Contracts*.

Deferred acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Rebate receivable from health insurance commission

The Australian Government provides a rebate in respect of the premium paid for resident private health insurance. The rebate is paid directly by the government and is recognised as a receivable when the rebate is due but not yet received at balance date.

Net risk equalisation trust fund receivable (health insurance business)

Under private health insurance legislation, all private health insurers must participate in the Risk Equalisation Trust Fund. Through the Risk Equalisation Trust Fund, all private health insurers share the cost of proportions of the eligible claims of all persons aged 55 years and over and claims meeting the high cost claims criteria.

The amount payable to or receivable from the Risk Equalisation Trust Fund is determined by APRA after the end of each quarter. Estimated provisions for amounts payable or receivable are provided for periods of which determinations have not yet been made, including an estimate of risk equalisation for unpresented and outstanding claims.

Outstanding claims liabilities

The outstanding claims liabilities provide for the expected future payments in relation to claims reported but not yet paid or assessed and claims incurred but not yet reported with an allowance for claims handling expenses. The outstanding claims liabilities are measured as the central estimate of the expected future payments against claims incurred but not settled as at the reporting date under insurance contracts issued by the Group, with an additional risk margin to allow for inherent uncertainty in the central estimate.

Use of judgements and estimates

The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established.

4.2 Key insurance accounting policies (continued)

Unexpired risk liability

The liability adequacy test is required to be performed to determine whether the unearned premium liability (premiums in advance and unclosed premium liability) is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance contracts, plus additional risk margin to reflect the inherent uncertainty in the central estimate.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. Liability adequacy testing did not result in deficiency as at 30 June 2019 and 30 June 2018.

The Group applies a risk margin to achieve the same probability of adequacy for future claims as achieved by the estimate for the outstanding claims liabilities.

4.3 Insurance governance

CUA Health Limited

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 which is premised on the fundamental principal of community rating. Community rating is a form of mandatory cross-subsidy which requires that the premium paid for a person's chosen health insurance product, and the cover available under that product, are the same regardless of the health or demographic characteristics of the individual seeking coverage. Premiums are only allowed to vary by Risk Equalisation Jurisdiction (State) which is a scheme that seeks to share the risks among all registered health insurers by averaging out the cost of hospital treatment across the industry. Premiums can only be changed annually and require the approval of the Minister for Health and products must have minimum coverage requirements.

The inability to risk rate or quickly change premiums, and the highly regulated nature of private health insurance are all included in CHL's risk management strategy. This strategy has been implemented to mitigate CHL's exposure to insurance risk and includes key policies and controls such as the Risk Equalisation Trust Fund, actuarial models used to calculate and monitor claims patterns, Capital Management Policy, Pricing Philosophy and Risk Appetite Statement.

There is concentration of private health insurance risk in the areas where CHL has a higher than average policy holder base, for example in Queensland. As a result of the Community Rating Principle, CHL is unable to set different prices based on an individual's age or to reflect their previous claims history. As such, CHL is limited in its ability to directly mitigate these concentrations of insurance risks.

Credicorp Insurance Pty Ltd

General insurance contracts are defined as a contract under which Credicorp accepts significant insurance risk from another party by agreeing to compensate those insured from a specified uncertain event that adversely affects them.

The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect. A Risk Management Strategy has been implemented to mitigate insurance risk which includes the separation of duties, annual Risk Culture Assessment, Whistleblowing Program and education on risk accountability.

Credicorp's exposure to concentrations of insurance risk is mitigated by a portfolio of diversified insurance products (personal loan protection, home loan protection and car loan gap cover) across all states of Australia. Because of the small size of the claims, the financial impact of concentrations of risk is not material to the Group.

4.4 Capital management

CUA Health Limited

The CHL Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The CHL Board manages the capital by assessing the financial risks and adjusting its Capital Management Policy and Liquidity Management Plan in response to changes in these risks. The CHL Board also manages the size of dividends to the Credit Union.

CHL is required to comply with APRA's Solvency and Capital Adequacy Standards and submits audited returns at the end of each financial year. During the current and previous years, CHL has not breached any capital requirements.

	2019 **$'000**	2018 $'000
Capital Adequacy Standard		
Excess assets: Quantum of Assets Test	**61,837**	60,085
Solvency standard		
Excess qualifying assets: Solvency Test	**13,417**	17,459

Credicorp Insurance Pty Ltd

The Credicorp Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Credicorp Board manages the capital by assessing the financial and insurance risks and adjusting its target minimum capital levels in response to changes in these risks. The Credicorp Board also manages the size of dividends to the ordinary shareholder.

Under the Prudential Standards for General Insurers, the minimum Prescribed Capital Amount (PCA) that can apply for an insurer is $5.0 million. The PCA will increase with the size of the insurer's operations. In addition, Prudential Standard GPS 110 *Capital Adequacy* requires that insurers maintain a capital base in excess of its minimum capital requirement. During the current and previous years, Credicorp has not breached any capital requirements.

Credicorp has set out in its Internal Capital Adequacy Assessment Process (ICAAP), a targeted minimum capital amount equal to the greater of $6.0 million or 150% of the sum of the prudential risk charges, calculated in accordance with the Prudential Standards using the Prescribed Method as outlined under GPS 110 *Capital Adequacy*. Credicorp has maintained target capital levels during the past and the previous financial year. Capital levels and the PCA coverage ratio are calculated and reported to the Credicorp Board on a regular basis.

	2019 **$'000**	2018 $'000
PCA per APRA	**5,000**	5,000
Targeted minimum capital amount per ICAAP	**6,000**	6,000
Capital base	**8,182**	9,467

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5. Other notes

5.1 Property, plant and equipment

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
At cost/fair value	**65,951**	62,574	**65,895**	62,527
Accumulated depreciation	**(52,432)**	(48,258)	**(52,394)**	(48,220)
Total property, plant and equipment	**13,519**	14,316	**13,501**	14,307

All property, plant and equipment balances at 30 June 2019 and 30 June 2018 are non-current.

Recognition and measurement

Freehold land and buildings are measured at fair value less subsequent depreciation and impairment losses. The fair value measurement has been categorised as a Level 3 fair value.

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

All property, plant and equipment other than freehold land are depreciated using the straight-line method over their expected useful lives to the Group. Leasehold improvements are depreciated over the shorter of either their estimated useful life or the remaining term of the lease. The estimated useful lives have not changes for the prior year.

The estimated useful lives are as follows:

Buildings	40 years
Computer hardware	4 years
Office furniture and equipment	3-5 years
Leasehold improvements	3-10 years

5.2 Intangible assets

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
At cost	**119,225**	115,041	**118,579**	114,656
Accumulated amortisation	**(62,373)**	(49,795)	**(62,055)**	(49,606)
Intangible assets	**56,852**	65,246	**56,524**	65,050
Capital work in progress	**2,736**	7,948	**2,736**	7,948
Total intangible assets	**59,588**	73,194	**59,260**	72,998
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**73,194**	68,355	**72,998**	68,058
Additions	**13,068**	15,570	**12,807**	15,570
Disposals	**(24)**	-	**(24)**	-
Net movement in capital work in progress	**(4,033)**	2,003	**(4,033)**	2,003
Impairment	**(6,151)**	-	**(6,151)**	-
Amortisation	**(16,466)**	(12,734)	**(16,337)**	(12,633)
Carrying amount at end of financial year	**59,588**	73,194	**59,260**	72,998

All intangible asset balances at 30 June 2019 and 30 June 2018 are non-current.

5.2 Intangible assets (continued)

Recognition and measurement

Intangible assets include costs of acquired or internally generated software with a finite useful life. Software is amortised using the straight-line method over its expected useful life to the Group. The estimated useful lives are as follows:

Major banking infrastructure software	10 years
Loan origination system	3-10 years
Other computer software	3-7 years

Use of judgements and estimates

The Group estimates the useful life of its major banking infrastructure software to be at least 10 years based on the expected technical obsolescence of such assets and benchmark comparison of other similar platforms. However, the actual useful life may be shorter or longer than 10 years, depending on technical innovations and competitor actions. As at 30 June 2019, the carrying amount of this software was $25.6 million (2018: $30.2 million). If the useful life was only 7 years, the carrying amount would be $11.5 million as at 30 June 2019. If the useful life was estimated to be 12 years, the carrying amount would be $31.1 million as at 30 June 2019.

Impairment of loan origination system

The Credit Union achieved significant growth in its loans-under-management in the last few years and future growth was identified as a key part of the Credit Union's long term strategic plan. As a result, a Home Loan Transformation Program was established to define the future technology roadmap required to support future home loan product growth.

Through the assessment process, management identified that an upgrade to the existing loan origination system will be required to support the Credit Union's Home Loan Transformation Program.

During the financial year the Board approved the Home Loan Transformation Program. Management assessed the recoverable amount of the loan origination system related assets as at 30 June 2019 by applying the value-in-use basis. Management used a net present value cash flow model to assess the recoverability of those assets over the current remaining estimated useful life of six years. The cash flows in the model were discounted using a discount rate of 8.63% (surrogate cost-of-equity based on similar financial services entities).

The assessment indicated positive discounted cash flows which support the overall carrying values of the loan origination system related assets as at 30 June 2019, however, various components have been identified for decommissioning. The carrying values of the components identified for impairment amounted to $6.1 million, reducing the carrying amount of the existing lending origination platform from $18.5 million to $12.4 million as at 30 June 2019.

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For the year ended 30 June 2019

5.3 Other assets

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Deferred acquisition costs	**1,895**	768	**-**	-
Rebate receivable from health insurance commission	**3,238**	3,235	**-**	-
Receivable from risk equalisation trust fund	**1,626**	1,973	**-**	-
Sundry debtors	**4,499**	6,333	**2,884**	4,727
Prepayments	**5,224**	5,602	**5,021**	5,361
	16,482	17,911	**7,905**	10,088

Except for deferred acquisition costs, all other asset balances at 30 June 2019 and 30 June 2018 are current. The current and non-current balances in respect to the deferred acquisition costs are as follows: current deferred acquisition costs $1.0 million (2018: $0.4 million), non-current deferred acquisition costs $0.9 million (2018: $0.4 million).

5.4 Other liabilities

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Trade creditors and accruals	**23,119**	19,000	**22,298**	18,746
CUA Management Pty Ltd indemnity payable	**-**	-	**9,925**	-
Straight-line lease liability	**7,334**	8,680	**7,334**	8,680
Unearned insurance premiums	**21,743**	22,696	**-**	-
Outstanding insurance claims liabilities	**13,735**	12,187	**-**	-
Income tax payable	**2,099**	5,142	**2,562**	2,526
	68,030	67,705	**42,119**	29,952

Except for straight-line lease liability, all other liability balances at 30 June 2019 and 30 June 2018 are current. The current and non-current balances in respect to the lease liability are as follows: current lease liability $1.7 million (2018: $1.5 million), non-current lease liability $5.6 million (2018: $7.2 million).

CUA Management Pty Ltd indemnity payable

There is a deed of indemnity in place between the Credit Union and its subsidiary CUA Management Pty Ltd to indemnify CUA Management Pty Ltd against loss and damage as a result of remediation costs of the previously divested financial planning business. Please refer to Note 5.5 Provisions and Note 5.14 Discontinued operation for further details.

Notes to the financial statements

For the year ended 30 June 2019

5.5 Provisions

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Employee benefits	**17,097**	15,751	**17,097**	15,751
Make good provision	**4,994**	4,892	**4,994**	4,892
Member remediation costs	**915**	-	**915**	-
Financial planning remediation costs	**9,925**	-	**-**	-
	32,931	20,643	**23,006**	20,643
Current	**26,373**	14,856	**16,448**	14,856
Non-current	**6,558**	5,787	**6,558**	5,787
	32,931	20,643	**23,006**	20,643

Recognition and measurement

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions payable later than one year have been measured at the present value by discounting the expected future cash outflows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as financing costs.

Employee benefits

Employee provisions comprise liabilities for employee benefits arising from services rendered by employees to balance date. Employee benefits have maturities of both less than one year and greater than one year and have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Superannuation contributions are made by the Group to defined contribution superannuation funds and are charged as expenses when incurred.

Make good provision

The Credit Union is required to restore the leased premises of its branches and hub offices to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. The provision is assessed at each balance date for new, amended and expired leases. The estimate of the costs has been calculated using historical costs.

Remediation costs

These costs relate to refunds and compensation to past and existing members and clients impacted by remediation matters.

The bulk of the remediation costs ($9.9 million) relate to the former financial planning business, where investigations were unable to clearly establish whether financial planning advice had been provided in all instances where clients had paid fees for ongoing advice. The issue related to a period prior to the sale of the business in 2014. Please refer to Note 5.14 Discontinued operation for further details.

There are also other remediation costs ($0.9 million) relating to interest calculations on certain types of loan products affecting some members of the Credit Union. The costs that relate directly to remediating members totalled $0.4 million during the year, remainder are the associated project costs.

5.6 Reserves

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
General reserve for credit losses	**13,526**	18,383	**13,526**	18,383
Redeemed member share reserve	**2,999**	2,916	**2,999**	2,916
Fair value through other comprehensive income reserve	**15,216**	-	**15,170**	-
Available for sale reserve	**-**	15,216	**-**	15,216
Cash flow hedge reserve	**(10,507)**	(8)	**(10,507)**	(8)
Business combination reserve	**9,590**	9,590	**9,590**	9,590
	30,824	46,097	**30,778**	46,097

Nature and purpose of reserves

General reserve for credit losses

The Credit Union is required by APRA to maintain a general reserve for credit losses. The general reserve for credit losses and collective provision for impairment are aggregated for the purpose of reporting the general reserve for credit losses to APRA. The general reserve for credit losses is calculated in accordance with APRA's APS 220 *Credit Quality*, taking into consideration APRA's interim approach and expectations around the regulatory treatment of AASB 9 *Financial Instruments* as set out in its industry letter released on 4 July 2017. APRA has reaffirmed this approach in its draft APS 220 *Credit Quality* published in March 2019 for consultation purposes. The general reserve for credit losses represents an appropriation of retained profits to non-distributable reserves for the difference between the regulatory reserve and accounting provision.

Redeemed member share reserve

Under the Corporations Act 2001, redeemable preference shares (member shares) may only be redeemed out of the Credit Union's profit or through the new issue of shares for the purpose of the redemption. The Credit Union therefore has transferred the value of member shares redeemed since 1 July 1999 (the date that the Corporations Act 2001 applied to the Credit Union), from retained earnings to the redeemed member share reserve. The value of members' shares is disclosed as a liability in Note 3.5.

Applicable after 1 July 2018

Equity instruments at fair value through other comprehensive income

Comprises the cumulative net changes in fair value of investments in equity instruments. Amounts in the reserve are subsequently transferred to retained earnings, and not profit or loss, when the investment is derecognised.

Debt instruments at fair value through other comprehensive income

Comprises the cumulative net changes in fair value of investments in debt instruments. The changes recognised in the reserve are subsequently transferred to retained earnings, and not profit or loss when the assets are derecognised or impaired.

Cash flow hedge reserve

Comprises the portion of the cumulative net gain or loss on hedging instruments used in cash flow hedges that are determined to be an effective hedge.

Business combination reserve

This reserve is used to record mergers with other mutual entities. Identifiable assets and liabilities of the "acquired" mutual entities are recognised at their fair value at the date of the merger. The excess of the fair value of assets taken up over liabilities assumed is taken directly to members' funds as a business combination reserve.

Applicable before 1 July 2018

Available for sale reserve

Comprises cumulative net change in fair value of available for sale financial assets, until the assets are derecognised or impaired.

5.7 Fair value of financial instruments

The following tables provides the fair value measurement hierarchy of the Group's financial assets and liabilities at the reporting date.

Group - 2019[1]	**Fair value**				**Carrying amount**
	Level 1	**Level 2**	**Level 3**	**Total**	
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets measured at fair value					
Derivative financial instruments	**-**	**1,326**	**-**	**1,326**	**1,326**
Financial assets - fair value through profit or loss	**6,113**	**78,690**	**-**	**84,803**	**84,803**
Financial assets - fair value through other comprehensive income	**-**	**-**	**42,890**	**42,890**	**42,890**
Financial assets for which fair values are disclosed					
Loans and advances	**-**	**-**	**13,260,437**	**13,260,437**	**13,436,463**
Financial liabilities measured at fair value					
Derivative financial instruments	**-**	**17,144**	**-**	**17,144**	**17,144**
Financial liabilities for which fair values are disclosed					
Deposits	**-**	**10,563,178**	**-**	**10,563,178**	**10,580,846**

Group - 2018	Fair value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value					
Derivative financial instruments	-	947	-	947	947
Financial assets - fair value through profit or loss	5,936	76,556	-	82,492	82,492
Financial assets - available for sale	-	-	42,890	42,890	42,890
Financial assets for which fair values are disclosed					
Loans and advances	-	-	12,062,728	12,062,728	12,300,234
Financial liabilities measured at fair value					
Derivative financial instruments	-	902	-	902	902
Financial liabilities for which fair values are disclosed					
Deposits	-	9,193,539	-	9,193,539	9,219,824

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

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5.7 Fair value of financial instruments (continued)

Credit Union - 2019[1]	**Fair value**				**Carrying amount**
	Level 1	**Level 2**	**Level 3**	**Total**	
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets measured at fair value					
Derivative financial instruments	**-**	**1,326**	**-**	**1,326**	**1,326**
Financial assets - fair value through other comprehensive income	**-**	**8,886**	**42,890**	**51,776**	**51,776**
Financial assets for which fair values are disclosed					
Loans and advances	**-**	**-**	**13,260,437**	**13,260,437**	**13,436,463**
Financial liabilities measured at fair value					
Derivative financial instruments	**-**	**17,144**	**-**	**17,144**	**17,144**
Financial liabilities for which fair values are disclosed					
Deposits	**-**	**10,569,832**	**-**	**10,569,832**	**10,587,500**

Credit Union - 2018	Fair value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value					
Derivative financial instruments	-	947	-	947	947
Financial assets - available for sale	-	-	42,890	42,890	42,890
Financial assets for which fair values are disclosed					
Loans and advances	-	-	12,062,728	12,062,728	12,300,234
Financial liabilities measured at fair value					
Derivative financial instruments	-	902	-	902	902
Financial liabilities for which fair values are disclosed					
Deposits	-	9,204,724	-	9,204,724	9,231,009

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

There were no transfers between levels during the period.

Fair value

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

5.7 Fair value of financial instruments (continued)

Fair value (continued)

Applicable after 1 July 2018

Derivative financial instruments

The fair value for derivative financial instruments are from quoted closing market prices at balance date, discounted cash flow models or option pricing models as appropriate. Where there is no market value, the fair value is determined using valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly. The fair values of derivative financial instruments take into account both credit valuation adjustments (CVA) and debit valuation adjustments (DVA) when market participants take this into consideration in pricing the derivatives.

Financial assets – fair value through profit or loss

These assets are insurance assets backing insurance liabilities and are therefore designated at fair value through profit or loss to reduce the accounting mismatch between assets and related liabilities. These assets are valued based on quoted market prices; where these are not available the following alternative valuation techniques are used:
- Floating rate notes – indicative external broker valuations;
- Mortgage-backed securities - external broker valuations;
- Term deposits - the amortised cost is deemed to represent fair value, due to their short term nature (all mature within 1 to 3 months of year end) and the lack of fluctuations in the market interest rates or credit quality of the counterparties since their inception;
- Australian listed equities – are valued using quoted price (unadjusted current bid price) on the Australian Securities Exchange (ASX); and
- Investment in unlisted unit trusts – are valued at the redemption price quoted by the trust managers as at the reporting date.

The Group has an established control framework with respect to the measurement of fair values when third party information, such as external broker quotes or valuations are used to measure fair value, which include:
- Verification of observable pricing;
- Re-performance of the market values, for example Australian listed equities are agreed to closing market price listed on the ASX as at the reporting date; and
- Understanding how the fair value has been derived, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument.

Significant valuations issues are reported to the Board Audit Committee.

Financial assets – fair value through other comprehensive income

Equity instruments at fair value through other comprehensive income

The assets in this category relate to shares in an unlisted entity that has been reclassified as a result of application of AASB 9 *Financial Instruments*. This equity security represents investment that the Group intends to hold long term for strategic purposes. These assets are measured at fair value on initial recognition and subsequent measurement when they can be estimated reliably. Where their value cannot be measured reliably, the assets are measured at the carrying amount determined at the last date on which the fair value could be determined reliably.

Debt instruments at fair value through other comprehensive income

The assets in this category relate to Harvey Warehouse Trust No. 4 junior notes that have been reclassified as a result of application of AASB 9 *Financial Instruments*. The internally held Residential Mortgage Backed Securities are not quoted or traded on an active market and contain inputs that are not observable which have a significant effect on the instrument's valuation and accordingly are categorised at Level 2 in the fair value hierarchy. These assets are measured at fair value on initial recognition and subsequent measurement by means of discounted cash flows and other valuation techniques that are commonly used by market participants.

5.7 Fair value of financial instruments (continued)

Fair value (continued)

Financial assets – fair value through other comprehensive income (continued)

Level 3 fair value measurement

The financial assets designated as fair value through other comprehensive income as at 30 June 2019 consist of shares in an unlisted entity which are not actively traded. In the current financial year, the fair value of these assets has been estimated taking into consideration recently transacted prices for the shares, transaction and earning multiples of other similar entities and the net asset value per share of the underlying investment. The fair value through other comprehensive income investment is categorised at Level 3 in the fair value hierarchy given the lack of visibility of these valuation variables.

The following table shows a reconciliation from the opening balance to the closing balance for fair value measurement in Level 3 of fair value hierarchy.

Financial assets - available for sale	**Group and Credit Union**	
	2019[1]	2018
	$'000	$'000
Balance at beginning of financial year	**42,890**	42,890
Restated for adoption of new accounting standards	**(42,890)**	-
Balance at end of financial year	**-**	42,890

Financial assets - fair value through other comprehensive income	**Group and Credit Union**	
	2019[1]	2018
	$'000	$'000
Balance at beginning of financial year	**-**	-
Restated for adoption of new accounting standards	**42,890**	-
Balance at end of financial year	**42,890**	-

[1] June 2019 results reflect the adoption of AASB 9 *Financial Instruments,* refer to Note 6.2 for information on the adoption of these. Prior periods have not been restated.

Loans and advances

The carrying value of loans, advances and other receivables are net of provisions for impairment. The fair values are estimated using valuation models such as discounted cash flow techniques for current market rates as at balance date.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of the net fair value. The net fair value for fixed rate loans was calculated by utilising discounted cash flow models based on the maturity of the loans and creditworthiness of the customer. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at balance date.

Level 3 fair value measurement

Where observable market transactions are not available to estimate the fair value of loans and advances, fair value is estimated using valuation models such as discounted cash flow techniques.

Recognition and measurement

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific financial instruments.

All financial assets and liabilities are initially recognised on the settlement date.

5.7 Fair value of financial instruments (continued)

Fair value (continued)

Deposits

The net fair value for deposits was calculated by utilising discounted cash flow models based on the maturity of the deposits. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at balance date.

The net fair value of non-interest bearing, call and variable rate deposits repriced within twelve months is the carrying value as at balance date.

Financial instruments not measured at fair value – carrying amount approximates fair value

The carrying amount of the following financial assets and financial liabilities approximate their fair value as detailed below.

Cash and cash equivalents

The carrying amount approximates fair value as they are short term in nature or are receivable on demand.

Borrowings

The carrying values of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently. Borrowings are categorised at Level 2 in the fair value hierarchy.

Use of judgements and estimates

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using a variety of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available these assets are valued using valuation techniques based on non-observable data.

Applicable before 1 July 2018

Financial assets - held to maturity

Financial assets held to maturity are initially recognised at fair value and subsequently carried at amortised cost as these assets are intended to be held until maturity. The carrying value of financial assets held to maturity recognised by the Group included negotiable certificate of deposits (NCD) and floating rate notes (FRN). The Credit Union recognises NCDs, FRNs and internally held residential mortgage-backed securities (RMBS) of the Harvey Trust Series 2012-1R (A and B notes) and Harvey Warehouse Trust No.4 (B notes) as held to maturity. NCD and FRN assets approximate fair value as they are short term in nature or they reprice on a quarterly basis and are categorised at Level 2 in the fair value hierarchy. RMBS approximate fair value as they are floating rate securities with a fixed margin over BBSW which reprices on a monthly basis. The internally held RMBS are not quoted or traded on an active market and contain inputs that are not observable which have a significant effect on the instrument's valuation and accordingly are categorised at Level 3 in the fair value hierarchy.

Financial assets – available for sale

The assets in this category relate to shares in non-listed entities. These assets are measured at fair value on initial recognition and subsequent measurement when they can be estimated reliably.

5.7 Fair value of financial instruments (continued)

Fair value (continued)

Financial assets – available for sale (continued)

Where their value cannot be measured reliably, the assets are measured at the carrying amount determined at the last date on which the fair value could be determined reliably, subject to impairment testing.

Level 3 fair value measurement

The financial assets designated as available for sale at 30 June 2018 consist of shares in a non-listed entity which are not actively traded. In the current financial year, the fair value of these assets has been estimated taking into consideration recently transacted prices for the shares, transaction and earnings multiple of other similar entities and the net asset value per share of the underlying investment. The available for sale investment is categorised at Level 3 in the fair value hierarchy given the unobservability of these valuation variables.

5.8 Related parties

(a) Key management personnel (KMP)

Compensation of the Credit Union's Directors and other KMP

Compensation shown as short term benefits means (where applicable) salaries, paid annual leave and paid sick leave, bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements. The Credit Union's Directors and other KMP are only remunerated by the Credit Union.

	Directors		**Other KMP**	
	2019	2018	**2019**	2018
	$	$	**$**	$
The aggregate compensation of key management persons during the year comprising amount paid or payable or provided for was as follows:				
- Short term employee benefits	**1,009,388**	993,038	**4,180,568**	3,903,397
- Post employment benefits	**211,855**	233,476	**177,093**	196,281
- Other long term benefits	**-**	-	**358,084**	361,867
- Termination benefits	**-**	-	**32,746**	273,175
	1,221,243	1,226,514	**4,748,491**	4,734,720

Included in post employment benefits is compensation relating to the directors' defined benefit plan. The plan provides lump sum benefits based on years of service and the final average salary for the respective directors.

Financial instruments transactions with the Credit Union's Directors and other KMP

Loans to the Credit Union's Directors and other KMP

	2019	2018
	$	$
Aggregate of loans as at balance date	**5,322,935**	5,291,795
Total undrawn revolving credit facilities available at balance date	**88,095**	74,396
Interest charged on loans and overdraft facilities	**187,888**	166,311

The above table includes amounts for the Credit Union's Directors and other KMP in office or employed by the Credit Union at balance date and their related parties. Directors and other KMP who resigned during the 2019 financial year are excluded from the 2019 analysis, but are included in the 2018 comparative analysis.

5.8 Related parties (continued)

(a) Key management personnel (continued)

Financial instruments transactions with the Credit Union's Directors and other KMP (Continued)

The Credit Union's policy for lending to its Directors and other KMP is that all loans are approved under the same lending criteria applicable to members.

All loans to the Credit Union's Directors and other KMP are at lending terms and conditions applicable to members. KMP may receive concessional rates of interest on their loans and facilities that are available to all the Credit Union's employees.

No amounts have been written down or recorded as impaired during the year (2018: nil).

There are no benefits or concessional terms and conditions applicable to the family members of the Credit Union's Directors and other KMP (2018: nil). No loan balances with family or relatives of the Credit Union's Directors and other KMP have been written down or recorded as impaired during the year (2018: nil).

Other transactions with the Credit Union's Directors and other KMP

Other transactions with the Credit Union's Directors and other KMP and their related parties generally relate to deposits and private health insurance.

The Credit Union's policy for receiving deposits from other related parties and in respect of other related party transactions is that all transactions are approved and deposits accepted on the same terms and conditions that apply to members for each type of deposit. Interest has been paid on terms and conditions no more favorable than those available on similar transactions to members of the Credit Union. KMP may receive discounts on premiums for private health insurance that are available to all the Credit Union's employees.

(b) Controlled entities and other related parties

(i) Particulars in relation to controlled entities

The Group financial statements include the financial statements of the Credit Union and the subsidiaries listed in the following table:

	Equity interest (%)		**Investment ($'000)**	
Name of entity	**2019**	2018	**2019**	2018
CUA Health Limited	**100%**	100%	**-**	-
Credicorp Finance Pty Ltd	**100%**	100%	**1,500**	800
Credicorp Insurance Pty Ltd	**100%**	100%		
CUA Management Pty Ltd	**100%**	100%		
			1,500	800

Investments in controlled entities are carried at cost and eliminated on consolidation.

All entities are incorporated in Australia.

(ii) Securitisation

The following securitisation trusts are controlled by the Credit Union:

- Series 2012-1R Harvey Trust
- Series 2013-1 Harvey Trust
- Series 2015-1 Harvey Trust
- Series 2017-1 Harvey Trust
- Series 2018-1 Harvey Trust
- Harvey Warehouse Trust No. 4
- Harvey Warehouse Trust No. 5

As part of its operational activities, the Credit Union securitises loan assets, generally through the sale of these assets to Special Purpose Entities (SPEs) which issue securities to investors and borrow from lenders (for Warehouses).

Notes to the financial statements

For the year ended 30 June 2019

5.8 Related parties (continued)

(b) Controlled entities and other related parties (continued)

(ii) Securitisation (continued)

As the Credit Union remains exposed to the residual risk of the SPEs, the SPEs underlying loans, swaps, revenues and expenses have not been derecognised and are reported in the Credit Union's income statement and balance sheet.

Transfer of financial assets

The following table sets out the financial assets transferred to the Harvey Trusts and Harvey Warehouse Trusts that did not qualify for derecognition and associated liabilities from conducting the securitisation program.

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Transferred financial assets				
Loans and advances at amortised cost	**3,767,219**	3,403,049	**3,767,219**	3,403,049
Associated financial liabilities				
Securitisation liabilities - external investors	**2,058,417**	2,106,675	**2,058,417**	2,106,675
Amounts due to the Credit Union	**-**	-	**1,816,600**	1,419,110
	2,058,417	2,106,675	**3,875,017**	3,525,785
For those liabilities that have recourse only to transferred assets:				
Fair value of transferred assets	**3,757,102**	3,376,155	**3,757,102**	3,376,155
Fair value of associated liabilities	**(2,058,417)**	(2,106,675)	**(3,875,017)**	(3,525,785)
Net position	**1,698,685**	1,269,480	**(117,915)**	(149,630)

Collateral

The Credit Union has advanced $3.0 million (2018: $3.0 million) as cash collateral in relation to interest rate swaps for securitisation trusts. The funds are held in restricted interest earning accounts and will be returned at maturity of the interest rate swap contracts.

(iii) Significant restrictions

The regulatory frameworks within which the health and general insurance subsidiaries operate, require these subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with various ratio requirements. The significant restrictions imposed by the regulatory frameworks are the only restrictions on the Credit Union transferring the cash or other assets of the subsidiaries. The carrying amount of these subsidiaries' assets and liabilities are $95.1 million and $18.2 million respectively (2018: $100.4 million and $22.0 million respectively).

(iv) Particulars in relation to a joint venture entity

The Group has a 50% interest in Mutual Marketplace Pty Ltd (2018: 50%). For more details, refer to Note 5.9.

Notes to the financial statements
For the year ended 30 June 2019

5.8 Related parties (continued)

(b) Controlled entities and other related parties (continued)

(v) Transactions with controlled and joint venture entities

The following table provides the total amount of transactions that were entered into by the Credit Union with controlled and joint venture entities for the relevant financial year. These transactions were all carried out under normal commercial terms and where possible are benchmarked against industry averages.

Transactions with controlled and joint venture entities:

	Credit Union	
	2019	2018
	$	$
Dividend revenue	**10,450,000**	8,800,000
Commission revenue	**1,646,882**	1,770,269
Net management fees	**2,464,733**	2,854,277
Net interest income/(expense)	**(215,742)**	(238,618)
Net income/(expense) Mutual Marketplace Pty Ltd[1]	**(81,318,043)**	(84,428,146)
Operating lease revenue	**381,132**	314,627

[1] Spend in ordinary course of business that would otherwise flow through the Credit Union.

The net amounts receivable from/(payable to) controlled and joint venture entities as at 30 June were:

	Credit Union	
	2019	2018
	$	$
CUA Health Ltd	**(9,586,056)**	(13,635,170)
Credicorp Finance Pty Ltd	**(99,942)**	(100,950)
Credicorp Insurance Pty Ltd	**(1,479,225)**	(3,066,312)
CUA Management Pty Ltd	**(11,090,620)**	(475,874)
Mutual Marketplace Pty Ltd	**-**	-

(vi) Overdraft facility to a joint venture entity

The Credit Union has granted an overdraft facility of $1.5 million to Mutual Marketplace Pty Ltd which is intended for the joint venture's working capital requirements. Interest is charged at 7% per annum. During the year, there was no amount advanced on this facility (2018: nil).

5.9 Joint venture

The Credit Union has a 50% interest in a joint arrangement with Mutual Marketplace Pty Ltd which was set up to provide procurement services to the joint venture owners and extend those services to other Australian mutuals in the future.

The principal place of business of the joint operation is in Australia.

(a) Interest in joint venture

Set out below is a joint venture of the Group as at 30 June 2019. The entity listed below has share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also its place of business, and the proportion of ownership interest is the same proportion of the voting rights held.

Name of entity	**Place of business/country of incorporation**	**% Ownership interest**		**Nature of relationship**	**Measurement**	**Carrying amount**	
		2019	2018			**2019 $'000**	2018 $'000
Mutual Marketplace Pty Ltd	Australia	**50%**	50%	Joint venture	Equity method	**1,805**	1,612

(i) Commitments and contingent liabilities in respect of joint venture

	2019 $'000	2018 $'000
Commitments - joint venture	**47,743**	49,722
Commitment to provide funding for joint venture's capital commitment, if called	**1,500**	1,500
	49,243	51,222

The Group has commitments of $45.3 million (2018: $47.3 million) relating to non-cancellable operating lease contracts entered into by the Group's interest in the joint venture.

(ii) Summarised financial information for joint venture

The table below provides summarised financial information for the joint venture that is material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint venture and not the Credit Union's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Summarised income statement	**2019 $'000**	2018 $'000
Revenue	**135,649**	122,939
Cost of sales	**(130,372)**	(118,187)
Gross profit	**5,277**	4,752
Operating expenses	**(4,703)**	(3,953)
Profit before income tax	**574**	799
Income tax benefit / (expense)	**(188)**	(242)
Profit for the year	**386**	557

5.9 Joint venture (continued)

(a) Interest in joint venture (continued)

(ii) Summarised financial information for joint venture (continued)

Summarised balance sheet	2019 $'000	2018 $'000
Total assets	**9,338**	8,739
Total liabilities	**(5,728)**	(5,515)
Net assets	**3,610**	3,224
Reconciliation to carrying amounts:		
Opening net assets	**3,224**	2,667
Profit for the period	**386**	557
Closing net assets	**3,610**	3,224
Group's share in %	**50%**	50%
Group's share in $	**1,805**	1,612
Carrying amount	**1,805**	1,612

Recognition and measurement

The Group's investment in the joint venture is accounted under the equity method of accounting in the Group financial statements as it has joint control over all operational decisions and activities.

Under the equity method, the investment in the joint venture is initially recognised at cost and the carrying value is subsequently increased or decreased by the Group's share of the joint venture entity's profits or losses. The Group ceases to recognise its share of losses when its share of net assets and amounts due from the joint venture entity has been fully written off, unless it has incurred further obligations.

Unrealised gains or losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

Dividends received or receivable from the joint venture entity are recognised as a reduction to the carrying amount of the investment.

At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value.

Notes to the financial statements
For the year ended 30 June 2019

5.10 Commitments

(a) Operating lease commitments

The Credit Union has entered into operating leases on office and branch properties, with lease terms predominantly between three and ten years. The Credit Union has the option, under some of its leases, to lease the properties for additional terms of three to five years. In addition, the Credit Union has entered into three year operating leases for its motor vehicle fleet.

Future minimum lease payments under non-cancellable operating leases as at 30 June are as follows:

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Within one year	**16,609**	13,979	**16,609**	13,979
After one but not more than five years	**29,240**	34,531	**29,240**	34,531
More than five years	**260**	373	**260**	373
	46,109	48,883	**46,109**	48,883

The majority of the Credit Union's lease agreements have been novated to Mutual Marketplace Pty Ltd. Refer to Note 5.9 for compliance with the disclosure requirements set out by AASB 117 *Leases* paragraph 35(c) regarding the Group's commitments relating to non-cancellable operating lease contracts entered into by the Group's interest in the joint venture.

The Credit Union has a bank guarantee of $2.5 million (2018: $2.5 million) in respect of one of its leased properties.

(b) Outstanding loan commitments not provided for

Loan and credit facilities approved but not advanced or drawn at the end of the financial year are as follows:

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Loans approved not advanced	**191,888**	489,035	**191,888**	489,035
Undrawn overdrafts and credit facilities at call	**255,507**	266,722	**255,507**	266,722
	447,395	755,757	**447,395**	755,757

(c) Capital commitments

At 30 June 2019, the Group had a commitment of $0.2 million (2018: $0.3 million) predominantly relating to plant and equipment acquisitions.

(d) Superannuation commitments

The Credit Union contributes to a number of defined contribution superannuation funds, which provide benefits for employees on retirement, death or disability. Employees may contribute additional amounts of their gross income to their respective superannuation fund. The Credit Union has no financial interest in any of the funds and is not liable for their performance or their obligations.

5.11 Remuneration of auditor

The auditor of the Group is KPMG.

	Group		Credit Union	
	2019	2018	**2019**	2018
	$	$	**$**	$
Amounts received or due and receivable by KPMG for:				
Audit services				
Audit of financial statements	**520,476**	527,709	**439,976**	447,209
Other regulatory and audit services	**229,087**	154,000	**129,464**	79,000
Total audit services	**749,563**	681,709	**569,440**	526,209
Audit related services	**120,480**	134,300	**120,480**	134,300
Non-audit services				
Other services	**88,834**	41,827	**85,834**	41,827
Total non-audit services	**88,834**	41,827	**85,834**	41,827
Total auditor's remuneration	**958,877**	857,836	**775,754**	702,336

5.12 Economic dependency

The Credit Union has significant service contracts with Cuscal Limited. This entity provides the Credit Union with rights to the VISA and Mastercard card systems in Australia and provides settlement services with other financial institutions for ATM, VISA and Mastercard card transactions, BPay, New Payments Platform (NPP), cheque processing and direct entry transactions.

The Credit Union has an agreement with Tata Consulting Services Limited for the perpetual licence, maintenance and support of the Credit Union’s core banking platform TCS BaNCS.

5.13 Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year which have significantly affected the operations of the Group, the results of those operations, or the state of affairs of the Group.

5.14 Discontinued operation

	Group		Credit Union	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Financial planning remediation costs	**10,568**	-	**9,925**	-
Loss before income tax	**10,568**	-	**9,925**	-
Income tax	**(3,171)**	-	**(2,977)**	-
Loss from discontinued operation	**7,397**	-	**6,948**	-
Cash flow information				
Net cash (used in) operating activities	**(351)**	-	**-**	-
Net (decrease) in cash generated from discontinued operation	**(351)**	-	**-**	-

The loss from discontinued operation relates to client remediation including associated project costs relating to the financial planning business which the Credit Union sold in 2014.

The Credit Union initiated investigations to determine if remediation activities will be required to compensate affected clients of the financial planning business.

Client remediation costs of $0.7 million have been spent during the financial year by CUA Management Pty Ltd and as such are recorded in the Group accounts. An additional $9.9 million has been estimated based on the outcome of a preliminary investigation where it was unable to be clearly established whether financial planning advice had been provided in all instances where clients had paid fees for ongoing advice. This amount has been recorded in the Credit Union ($9.9 million total) and Group ($10.6 million total) accounts. The Credit Union is in the process of evaluating archived records and files to ensure that those records evidenced the advice provided, and if not, the fees were stopped and were appropriate refunded.

There may be additional provisions depending on the outcome of the detailed investigation as significant judgement is required in estimating the cost of settling these matters.

6. Accounting policies and new accounting standards

6.1 Accounting policies

(a) Basis of consolidation

The Group financial statements comprise the financial statements of Credit Union Australia Ltd and all of its controlled entities (the Group). Controlled entities are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Controlled entities are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group conducts an asset securitisation program through which it packages and sells asset-backed securities to investors and borrows from lenders (for Warehouses) through SPEs. The Group is entitled to any residual income of the SPE after all payments to investors and lenders and costs of the programs have been met. SPEs are consolidated by the Group where the Group has the power to govern directly or indirectly decision making in relation to financial and operating policies and receives the majority of the residual income or is exposed to the majority of the residual risk associated with the SPEs.

All inter-company balances and transactions between entities in the Group, including any unrealised profit or losses, have been eliminated on consolidation. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The financial statements of controlled entities are prepared for the same accounting period as the Credit Union.

Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(c) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(d) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses over the period of the lease on a straight-line basis unless another systematic basis is more representative of the time pattern of the benefits.

The accounting for an arrangement in the legal form of a lease must reflect the substance of the arrangement. All aspects and implications of the arrangement must be evaluated to determine its substance, with weight given to those aspects and implications that have an economic effect. All aspects of an arrangement that does not, in substance, involve a lease under AASB 117 *Leases* must be considered in determining the appropriate disclosures that are necessary to understand the arrangement and the accounting treatment adopted.

6.1 Accounting policies (continued)

(d) Leases (continued)

All lease incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

(e) Loyalty Program

The Credit Union participates in a Customer Loyalty Program operated by a third party. The program allows credit card holders to accumulate points when they transact with their Credit Union Australia Platinum credit card. The third party is paid for points redeemed by the credit card holders in exchange for rewards supplied.

The Credit Union has fulfilled its obligations to the credit card holders when the points are granted and recognises revenue from the points for fees arising from the card transactions.

Revenue is measured gross of the amount payable to the third party as the Credit Union is collecting the revenue on its own account. The amount payable to the third party is measured based on the fair value of the points and the redemption rate estimated.

Note: Certain accounting policies have been incorporated into relevant notes under the "Recognition and measurement" sections of those notes for ease of reference and to promote the usefulness of those disclosures.

6.2 New accounting standards

a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2018

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2018:

- AASB 9 *Financial Instruments*
- AASB 7 *Financial Instruments: Disclosures*
- AASB 2017-6 Amendments to Australian Accounting Standards: *Prepayment features with negative compensation* (early adoption by the Group)
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 *Financial instruments* with AASB 4 *Insurance Contracts*
- IFRS Interpretation Committee agenda item - Presentation of interest revenue for certain financial instruments
- AASB 15 *Revenue from contract with customers*
- AASB 2017-7 Amendments to Australian Accounting Standards: *Long term interests in associates and joint ventures*
- AASB 2017-1 Amendments to Australian Accounting Standards – *Transfer of investment property and annual improvements 2014 – 2016 cycle*
- AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4 *Insurance Contracts*

Other than AASB 9 *Financial Instruments* (and related amendments) and new AASB 7 *Financial Instruments: Disclosures* requirements, the application of these standards and amendments do not materially impact the annual consolidated financial statements.

Change on initial application of AASB 9

The Group has applied AASB 9 *Financial Instruments* on 1 July 2018 and early adopted the amendments to AASB 9 *Financial Instruments* (AASB 2017-6) on the same date. The amendment permits entities to measure certain financial assets at amortised costs or fair value through other comprehensive income when they would have been measured at fair value through profit or loss because the contractual cash flows do not meet SPPI test conditions as a result of a prepayment feature.

Notes to the financial statements

For the year ended 30 June 2019

6.2 New accounting standards (continued)

a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2018 (continued)

Change on initial application of AASB 9 (continued)

The Group has elected to continue applying the hedge accounting requirements of AASB 139 *Financial Instruments* on 1 July 2018. As an accounting policy choice on transition, the Group can subsequently decide to change its accounting policy and commence applying the hedge accounting requirement of AASB 9 *Financial Instruments* at the beginning of any reporting period subject to the other transition requirements of AASB 9 *Financial Instruments*.

Classification and measurement

The classification and measurement of financial assets is determined on the basis of the contractual cash flow characteristics and the objective of the business model associated with holding the asset.

Financial assets

Key changes include the removal of the AASB 139 *Financial Instruments*: Recognition and Measurement's held to maturity and available for sale asset categories. A new asset category measured at fair value through other comprehensive income is introduced. This applies to financial asset debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets held in a business model to solely collect contractual cash flows are classified at amortised cost. All financial assets not classified as measured at amortised costs or fair value through other comprehensive income are measured at fair value through profit or loss. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or fair value through other comprehensive income as fair value through profit or loss on the proviso that doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Details of the business model assessment and contractual cash flow assessment in determining the financial asset classifications have been included in Note 3.2.

Financial liabilities

AASB 9 *Financial Instruments* retains almost all of the existing requirements in AASB 139 *Financial Instruments* on subsequent measurement of financial liabilities with the exception of the treatment of own credit risk relating to financial liabilities designated at fair value through profit or loss which is generally presented in other comprehensive income.

Classification and measurement of financial liabilities will remain largely unchanged for the Group as the majority of its financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

Impairment

AASB 9 *Financial Instruments* introduces a new expected loss impairment model that will require more timely recognition of expected credit losses. The new impairment model applies to the following financial instruments that are not measured at fair value through profit or loss:

- Financial assets that are debt instruments;
- Lease receivables;
- Loan commitments and financial guarantees.

The new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Details of the three stage approach applied to measure the expected credit losses on debt instruments accounted for at amortised cost and fair value through other comprehensive income and the approach in determining a significant increase in credit risk have been included in Note 3.2.

Notes to the financial statements

For the year ended 30 June 2019

6.2 New accounting standards (continued)

a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2018 (continued)

Change on initial application of AASB 9 (continued)

AASB 7 Financial Instrument: Disclosures

AASB 7 *Financial Instrument: Disclosures* has been amended to include new qualitative and quantitative disclosures relating to AASB 9 *Financial Instruments*, such as new financial instrument classification categories, new disclosures requirements for the three stage ECL impairment model and new hedge accounting disclosure requirements. These requirements have been incorporated into the relevant notes in the financial statements.

Impact on regulatory capital

On 4 July 2017, the Australian Prudential Regulation Authority advised all authorised deposit taking institutions of their expectations of the regulatory treatment of the AASB 9 *Financial Instruments* expected credit loss provisions, and possible transition arrangements. The letter also set out APRA's interim approach on the regulatory treatment of accounting provisions. Management is in the process of assessing the impact of the interim approach on the Banking Group's capital, the General Reserve for Credit Losses in the financial statements and other disclosures that may be required on transition.

The impact on the Banking Group's regulatory capital arising from AASB 9 *Financial Instruments* transition adjustments do not have a material impact on its minimum regulatory capital requirement.

Transition

As permitted by AASB 9 *Financial Instruments*, the Group has not restated its comparative financial statements and has instead recorded a transition adjustment to its opening balance sheet, retained earnings and other comprehensive income at 1 July 2018 for the impact of the adoption of AASB 9 *Financial Instruments*.

The following tables summarise the presentation changes as well as changes to the carrying amounts in the Group's and the Credit Union's balance sheets as a result of adoption of AASB 9 *Financial Instruments* as at 1 July 2018. It includes a comparison of AASB 139 *Financial Instruments* measurement categories with AASB 9 *Financial Instruments* and the impact of the classification and measurement changes.

Notes to the financial statements

For the year ended 30 June 2019

6.2 New accounting standards (continued)

a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2018 (continued)

Change on initial application of AASB 9 (continued)

Group	Note	Original classification under AASB 139	New Classification under AASB 9	Original carrying amount under AASB 139 000's	As at 1 July 2018 carrying amount under AASB 9 000's
Financial assets					
Cash and cash equivalents	3.1	Amortised Cost	Amortised Cost	307,833	307,833
Fair value through profit or loss	3.2	FVTPL	FVTPL	82,492	82,492
Available for sale	3.2	AFS	FVOCI	42,890	42,890
Held to maturity	3.2				
Deposits		HTM	Amortised Cost	399,998	399,998
Floating rate notes		HTM	Amortised Cost	1,081,790	1,081,790
Loan and advances	3.3	Amortised Cost	Amortised Cost	12,300,234	12,290,264
Financial liabilities					
Deposits	3.5	Amortised Cost	Amortised Cost	9,219,824	9,219,824
Borrowings	3.6	Amortised Cost	Amortised Cost	3,972,060	3,972,060

Credit Union	Note	Original classification under AASB 139	New Classification under AASB 9	Original carrying amount under AASB 139 000's	As at 1 July 2018 carrying amount under AASB 9 000's
Financial assets					
Cash and cash equivalents	3.1	Amortised Cost	Amortised Cost	297,080	297,080
Available for sale	3.2	AFS	FVOCI	42,890	42,890
Held to maturity	3.2				
Deposits		HTM	Amortised Cost	399,998	399,998
Floating rate notes		HTM	Amortised Cost	1,081,790	1,081,790
Mortgage-backed securities		HTM	Amortised Cost	1,395,189	1,395,189
Mortgage-backed securities: Harvey Warehouse Trust no. 4 junior notes		HTM	FVOCI	30,493	30,545
Loan and advances	3.3	Amortised Cost	Amortised Cost	12,300,234	12,290,264
Financial liabilities					
Deposits	3.5	Amortised Cost	Amortised Cost	9,231,009	9,231,009
Borrowings	3.6	Amortised Cost	Amortised Cost	5,369,385	5,369,385

Notes to the financial statements
For the year ended 30 June 2019

6.2 New accounting standards (continued)

a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2018 (continued)

Change on initial application of AASB 9 (continued)

		AASB 9 Measurement and Classification					AASB 9 Impairment	
		Remeasurement	Reclassification					
Group	Carrying amount as at 30 June 2018	Mortgage-backed securities	Deposits	Shares in an un-listed entity	Floating rate notes	Mortgage-backed securities	Loans and advances	Carrying amount as at 1 July 2018
Assets	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets - available for sale	42,890	-	-	(42,890)	-	-	-	-
Financial assets - held to maturity	1,481,788	-	(399,998)	-	(1,081,790)	-	-	-
Financial assets - fair value through other comprehensive income	-	-	-	42,890	-	-	-	42,890
Financial assets - amortised cost	-	-	399,998	-	1,081,790	-	-	1,481,788
Loans and advances	12,300,234	-	-	-	-	-	(9,970)	12,290,264
Deferred tax asset	14,003	-	-	-	-	-	2,961	16,964
Other assets	17,911	-	-	-	-	-	244	18,155
Total assets	13,856,826	-	-	-	-	-	(6,765)	13,850,061
Liabilities								
Deferred tax liabilities	18,957	-	-	-	-	-	72	19,029
Total liabilities	18,957	-	-	-	-	-	72	19,029
Equity								
General reserve for credit losses	18,383	-	-	-	-	-	(5,517)	12,866
Retained earnings	991,033	-	-	-	-	-	(1,320)	989,713
Available for sale reserve	15,216	-	-	(15,216)	-	-	-	-
Fair value through other comprehensive income reserve	-	-	-	15,216	-	-	-	15,216
Total equity	1,024,632	-	-	-	-	-	(6,837)	1,017,795

Notes to the financial statements
For the year ended 30 June 2019

6.2 New accounting standards (continued)

a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2018 (continued)

Change on initial application of AASB 9 (continued)

		AASB 9 Measurement and Classification					AASB 9 Impairment	
		Remeasurement	Reclassification					
Credit Union	**Carrying amount as at 30 June 2018**	**Mortgage-backed securities**	**Deposits**	**Shares in an un-listed entity**	**Floating rate notes**	**Mortgage-backed securities**	**Loans and advances**	**Carrying amount as at 1 July 2018**
Assets	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets - available for sale	42,890	-	-	(42,890)	-	-	-	-
Financial assets - held to maturity	2,876,977	-	(399,998)	-	(1,081,790)	(1,395,189)	-	-
Financial assets - fair value through other comprehensive income	-	52	-	42,890	-	30,493	-	73,435
Financial assets - amortised cost	-	-	399,998	-	1,081,790	1,364,696	-	2,846,484
Loans and advances	12,300,234	-	-	-	-	-	(9,970)	12,290,264
Deferred tax asset	12,831	-	-	-	-	-	2,961	15,792
Other assets	10,088	-	-	-	-	-	244	10,332
Total assets	15,243,020	52	-	-	-	-	(6,765)	15,236,307
Liabilities								
Deferred tax liabilities	17,467	16	-	-	-	-	72	17,555
Total liabilities	17,467	16	-	-	-	-	72	17,555
Equity								
General reserve for credit losses	18,383	-	-	-	-	-	(5,517)	12,866
Retained earnings	915,311	-	-	-	-	-	(1,320)	913,991
Available for sale reserve	15,216	-	-	(15,216)	-	-	-	-
Fair value through other comprehensive income reserve	-	36	-	15,216	-	-	-	15,252
Total equity	948,910	36	-	-	-	-	(6,837)	942,109

Notes to the financial statements

For the year ended 30 June 2019

6.2 New accounting standards (continued)

a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2018 (continued)

Change on initial application of AASB 15

AABS 15 *Revenue from Contracts with Customers* requires identification of performance obligations within a customer contract and the associated transaction price allocated to these obligations. Revenue is recognised upon completion of these performance obligations when control of the goods or services are transferred to the customer.

The Group adopted AABS 15 *Revenue from Contracts with Customers*, on 1 July 2018. No material adjustment to opening retained earnings was recognised as the amendments to its accounting policies did not result in significant changes to the timing or amount of revenue recognised as at 30 June 2018.

b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet effective and have not been early adopted by the Group for the annual reporting period ended 30 June 2019 are outlined below. Based on preliminary assessments and other than as disclosed below, management does not expect significant impacts to arise from these standards and interpretations subject to the Group's further detailed analysis and assessment process.

<table>
<tr><td>Standard Reference: AASB Int 23 Uncertainty over tax treatments</td><td>Application Date : 1 January 2019 *
Application Date for the Group : 1 July 2019 *</td></tr>
<tr><td colspan="2">Nature of Change
• Issued in July 2017, the interpretation has an effective date of 1 January 2019 (applicable to the Credit Union on 1 July 2019). It clarifies how to apply the recognition and measurement requirements in AASB 112 when there is uncertainty over tax treatments i.e. whether those treatments will be accepted by the tax authority, in particular the timing and methods of recognition.
• AASB 2017-4 has also been issued to make amendments to AASB 1 in relation to AASB Int 23.
Impact to the Group
• No current and near term exposures or uncertainties have been currently identified.
• This interpretation will be applied to planned items that management are intending to submit to the ATO for a ruling in the future.</td></tr>
<tr><td>Standard Reference: AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures</td><td>Application Date : 1 January 2019 *
Application Date for the Group : 1 July 2019 *</td></tr>
<tr><td colspan="2">Nature of Change
• Amends AASB 128 to clarify that an entity is required to account for long term interests in an associate and joint venture using AASB 9 before applying the loss allocation and impairment requirements in AASB 128.
Impact to the Group
• An analysis will be carried out to assess the impact of the amendment on the Credit Union's equity investment in a joint venture (Mutual Marketplace). On a preliminary basis it is not expect to have a material impact.</td></tr>
</table>

* Designates the beginning of the applicable annual reporting period unless the Group opt for early adoption where permitted by the standard.

6.2 New accounting standards (continued)

b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective (continued)

Standard Reference: AASB 16 Leases	**Application Date :** 1 January 2019 * **Application Date for the Group :** 1 July 2019 *

AASB 16 Leases (AASB 16) replaces existing leases guidance, including AASB 117 Leases and AASB Interpretation 4 Determining whether an Arrangement contains a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019 (applicable to the Credit Union and its controlled entities (the Group) on 1 July 2019). While early adoption is permitted for entities that apply AASB 15 at or before the date of initial application of AASB 16, the Group will not do so.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply AASB 16 to all contracts which were entered into before 1 July 2019 and identified as leases in accordance with AASB 117 and AASB Interpretation 4.

As a lessee, the Group can apply the standard using either a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply AASB 16 initially on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 July 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right of use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The pattern of expense recognition will also change with higher costs in the earlier stages of the lease as a result of the interest expense being determined on a lease liability that amortises over the lease term.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment.

At reporting date, the Group has non-cancellable operating lease commitments of $46.1 million, refer to Note 5.10(a). From these lease commitments, the Group estimated the following range of impacts in respect of lease liabilities and related right of use assets depending on the practical expedients or recognition exemptions that will be applied:

- Right of use assets - $40 million to $43 million
- Lease liabilities - $42 million to $45 million

The opening retained earning earnings adjustment at transition is estimated to be $2 million to $4 million.

The recognition of right of use assets and the adjustment to opening retained earnings will also impact on the Credit Unions ADI's regulatory capital, however the impact is not expected to be material.

The following practical expedients or recognition exemptions have been applied in arriving at the initial assessment impacts disclosed above:

- Measuring the right of use assets at an amount equal to the lease liabilities (adjusted to include restoration costs, any prepaid or accrued lease payments or lease incentives)
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics
- Assess whether the leases are onerous as an alternative approach to the impairment assessment of right of use assets
- Exclude initial direct costs from the measurement of right of use assets on transition
- Apply hindsight in determining lease terms if the contract contains options to extend or terminate the lease.

The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 July 2019, the composition of the Group's lease portfolio at that date and the Group's latest assessment of whether it will exercise any lease renewal options.

* Designates the beginning of the applicable annual reporting period unless the Group opt for early adoption where permitted by the standard.

6.2 New accounting standards (continued)

b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective (continued)

Standard Reference: AASB 2018-1 Amendments to Australian Accounting – Annual Improvements 2015-2017 Cycle	**Application Date :** 1 January 2019 * **Application Date for the Group :** 1 July 2019 *

Nature of Change

Clarification amendments to a number of AASBs

- AASB 3 *Business Combinations:*
  To clarify that an entity remeasures its previously held interest in a joint operation when it obtains control of the business;
- AASB 11 *Joint Arrangements:*
  To clarify that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business;
- AASB 112 *Income Taxes:*
  To clarify that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits; and
- AASB 123 *Borrowing Costs:*

  To clarify that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale.

Impact to the Group

- The amendments are not expected to be material.

Standard Reference: AASB 2018-6 Amends the definition of a business in AASB 3 Business Combinations	**Application Date :** 1 January 2020 * **Application Date for the Group :** 30 June 2021 *

Nature of Change

- This amendment revises the definition of a business and provides clarity to assist entities determine whether a transaction should be accounted for as a business combination or an asset acquisition.

Impact to the Group

- At present, management are not expecting these amendments to have any material impacts on the Group and its subsidiaries except when adopted by the AASB and when the Group and its subsidiaries conduct business acquisition transactions.

Standard Reference: AASB 2018-7 Amends the definition of material	**Application Date :** 1 January 2020 * **Application Date for the Group :** 30 June 2021 *

Nature of Change

- Amendments made to AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors and consequential amendments to other AASBs which: i) use a consistent definition of materiality throughout AASBs, the Framework for Preparation of Financial Statements and AASB Practice Statement 2 Making Materiality Judgements ii) clarify when information is material; and iii) incorporate some of the guidance in AASB 101 about immaterial information.

Impact to the Group

- At present, management are not expecting these amendments to have any material impacts on the Group and its subsidiaries

* Designates the beginning of the applicable annual reporting period unless the Group opt for early adoption where permitted by the standard.

6.2 New accounting standards (continued)

b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective (continued)

Standard Reference: Revised Conceptual Framework for Financial Reporting	**Application Date :** 1 January 2020 * **Application Date for the Group :** 30 June 2021 *
Nature of Change • The AASB has issued a revised Conceptual Framework which introduces a new reporting entity concept, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. • The key areas in this Framework are - objective of financial reporting, qualitative characteristics of useful financial information, financial statements and the reporting entity, elements of financial statements, recognition and derecognition, measurement, presentation and disclosures and concepts of capital and capital maintenance. Impact to the Group • The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. • Management are assessing the revised framework but are not expecting the amendments to have a material impact on the Group.	
Standard Reference: AASB 17 Insurance Contracts	**Application Date :** 1 January 2021 * **Application Date for the Group :** 1 July 2021 *
Nature of Change • AASB 17 was released by the AASB on 20 July 2017. The new standard will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. • AASB 17 requires all insurance contracts to be measured using a current estimate of the present value of expected cash flows to fulfil the contractual obligations. The default measurement model is based on the building blocks approach (BBA) of discounted probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit to the contract. Short duration contracts (one year or less) can apply the simplified model using premium allocation approach (PAA). • In addition, acquisition costs may no longer be able to be effectively deferred beyond one year for most contracts, effectively reducing profits in the first year but increasing it in the subsequent years. • In June 2019, the IASB has issued exposure draft amendments to IFRS 17 *Insurance Contracts* proposing to delay the effective date of the standard by one year. Impact to the Group • Management will carry out an impact assessment of the new standard on the Group's insurance operations. The standard is expected to have a more significant impact on the Group's loan repayment insurance products as they are made up of multi-year insurance contracts compared to the health insurance products which are short duration contracts. • The Group currently defers acquisition costs over a period of up to seven years. Any changes that shorten this deferral period will require a reduction to capital on transition. As at June 2019, the Group had deferred $1.8 million of acquisition costs.	
Standard Reference: AASB 2014-10/ AASB 2017-5 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture/ Effective Date of Amendments to AASB 10 and AASB 128	**Application Date :** 1 January 2022 * **Application Date for the Group :** 1 July 2022 *
Nature of Change • Clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3. Any gain or loss that does not constitute a business is only recognised to the extent of unrelated investor's interests in the associate or joint venture. • AASB 2017-5 has deferred this amendment to reporting periods beginning 1 January 2022 pending IASB's decision to defer the amendment indefinitely. Impact to the Group • The amendments are not expected to be material.	

* Designates the beginning of the applicable annual reporting period unless the Group opt for early adoption where permitted by the standard.

Directors' declaration

In the opinion of the Directors of Credit Union Australia Ltd (the Credit Union):

(a) the financial statements and notes of the Credit Union and of the Group as set out on pages 22 to 95, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Credit Union's and the Group's financial position as at 30 June 2019 and of their performance for the financial year ended on that date; and

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

(b) there are reasonable grounds to believe that the Credit Union and the Group will be able to pay their debts as and when they become due and payable.

The Directors draw attention to Note 1.2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
28 August 2019

KPMG

Independent Auditor's Report

To the Members of Credit Union Australia Limited

Opinion

We have audited the ***Financial Report*** of Credit Union Australia Limited (the Company).

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

- giving a true and fair view of the ***Group*** and Company's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Balance Sheets as at 30 June 2019;
- Income statements, Statements of comprehensive income, Statements of changes in members' funds and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other

Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Martin Wardle
Partner
Brisbane
28 August 2019

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