cua
Life rich banking

Mutual Good: Members Working Together

ANNUAL REPORT 2017

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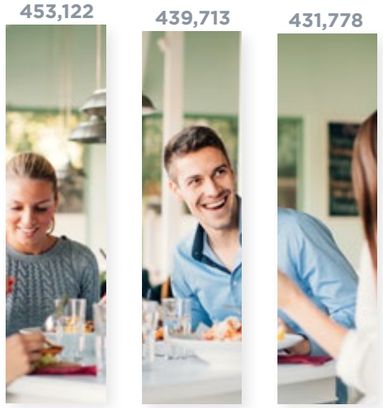
Annual **Highlights**

Member numbers (CUA banking business)

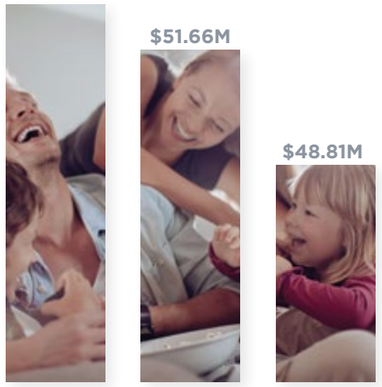
Increased by 3.0%



FY17	FY16	FY15
453,122	439,713	431,778

Reportable Net Profit after Tax (NPAT)

Increased by 8.1%



FY17	FY16	FY15
$55.87M	$51.66M	$48.81M

Consolidated assets

Increased by 6.6%

FY17	FY16	FY15
$13.75B	$12.90B	$11.98B

Deposits

Increased by 5.2%

FY17	FY16	FY15
$8.76B	$8.33B	$7.78B

We are proud to be recognised by respected industry organisations and we thank our members for their continued support.

Money Magazine Consumer Finance Awards 2017: Credit Union of the Year
Money Magazine Best of the Best Awards 2017: Best Everyday Account Non-Bank
CANSTAR Awards 2017: Outstanding Value - Variable Home Loan - Owner Occupier
CANSTAR Awards 2017: Outstanding Value – Fixed Home Loan – Owner Occupier
CANSTAR Awards 2017: Outstanding Value - Savings Account

Chairman's review

ALAN BEANLAND

Welcome to this, my eighth and final Chairman's Report for CUA before I retire at the conclusion of the 2017 Annual General Meeting.

As a leader, you always strive to leave the organisation in better shape than when you started. I am proud of what the CUA team has achieved over this time for our growing member base and I am confident that we are well placed to continue this progress into the future.

Last year, I commented that CUA was facing into an uncertain global environment, characterised by economic and political instability and record low interest rates. As expected, economic conditions have presented a challenge, prompting an increase in regulatory oversight of residential lending.

However, CUA has weathered these headwinds to produce a strong result, building on our performance in recent years. In particular, we have achieved some of the strongest CUA member growth of recent years. Net member growth for CUA's banking business of 13,409 was almost 70% higher than the previous 12 months, lifting our total members to 453,122.

Despite slower lending growth, CUA settled $2.81 billion in loans during the year, helping to lift consolidated assets to $13.75 billion (up from $12.90 billion last year). The retail deposits which our members hold with CUA were also up 5.2% to $8.76 billion (from $8.33 billion).

These outcomes helped CUA to post a strong full-year financial result, with a consolidated Net Profit after Tax (NPAT) of $55.87 million (up 8.1% from $51.66 million). This means CUA is well placed to continue to deliver benefits to members as a sustainable and growing mutual. Our position is supported by CUA's healthy capital reserves, with a capital adequacy ratio of 14.28% and $980 million in net assets.

It was also an outstanding year for CUA's subsidiaries, with the successful launch of CUA Health's new suite of hospital and extras insurance products in November 2016. CUA Health contributed $7.51 million to the CUA Group profit. CUA Health issued 5,873 new policies during the year and now insures 78,993 Australians. Credicorp Insurance issued 4,276 new policies during the year, meaning Credicorp now protects 13,704 CUA members.

Reflecting back to this time last year, I said that CUA's Mutual Good community strategy would become a key differentiator for CUA as we work towards an annual community investment of 3% of Net Profit before Tax and Community (NPBTC). Our NPBTC for this year was $80.22 million and in only the first year of our Mutual Good strategy, we committed $2.28 million to community, or 2.8% of NPBTC. I'm pleased to see how this investment is contributing towards initiatives that will have a positive social impact across issues like domestic and family violence, indigenous financial literacy and reducing sudden deaths of children and babies. This is just the beginning, as CUA scales up its Mutual Good initiatives in the coming year.

Finally, I talked about how CUA would focus on its digital agenda this year to enable members to engage with CUA through the channel of their choice. We've delivered on this commitment through rolling out digital wallets (Apple Pay, Android Pay and Samsung Pay) and enabling new-to-CUA members to open a transaction or deposit account via their mobile device. We've also entered into an exciting collaboration this year with Silicon Valley-based global banking innovator Pivotus Ventures as their exclusive Australia and New Zealand partner. We are taking a seat at the table with the world's largest building society, Nationwide in the United Kingdom, publicly listed US West Coast bank, Umpqua and the Netherlands' fourth largest bank, De Volksbank. At the same time, we are continuing work on developing our new CUA mobile banking app and preparing for real-time payments through the New Payments Platform.

OUR PEOPLE

Our CUA team members have driven our success this year and I'd like to make special mention of their contribution. In August 2016, CUA implemented a new organisational structure approved by the Board to better equip our organisation to deliver on our 5-year strategy and ensure we continue to increase the capability and skills of our team. This has helped us focus our efforts on key initiatives such as 'anywhere, anytime' and life changes, while also improving our overall business performance within banking and our subsidiaries.

CUA team members have embraced the CUA Purpose – '*Members working together through life's changes for mutual good*' – and I'm pleased to see how this lens is being applied by the CUA leadership and my Board colleagues as part of our decision-making.

The CUA team also embraced the first year of our Queensland Cricket and Brisbane Heat sponsorship. This increased CUA's brand profile and presence in the media, helping us to reach a new audience of potential members. Again, its success is testament to the way CUA team members across Australia – from Western Australia to Queensland - embraced and supported the initiative.

We continued to invest in developing our people and increasing CUA's capability through leadership programs, Agile training and our new CUA Lending Academy. Supporting diversity and inclusion remains a key focus and for the 3rd consecutive year, I was pleased to see CUA recognised by the Workplace Gender Equality Agency as an employer of choice for gender equality.

While on the subject of our people, I'd like to also acknowledge all the people I've met and worked with – both current and former CUA team members – over my eight years as Chairman. You are the heartbeat of CUA and the reason we continue to grow.

A NEW ERA

As we turn to the future, I can say with confidence that CUA is in a good position to continue driving innovation and building on our member-centric services. The incoming Chairman, Nigel Ampherlaw, is well placed to continue to lead the team with almost 40 years' experience in financial services, including the past 6 and a half years on CUA's Board.

In the year ahead, the Board will face continued challenges from the external political, economic and regulatory environment. As in previous years, these will require CUA to remain focused on its own strategic priorities, to provide the strength to withstand the uncertain environment, the rapid pace of technological change and emergence of new competitors.

The Board is keen to retain its focus on CUA's foundations and maintaining a high-performing business, to drive continued growth and allow CUA to continue investing in the future. This will include further investment in new technologies, innovations and collaboration opportunities, like our Pivotus Ventures collaboration. The initiatives we hope to develop and bring to market as a result of our collaborations, both domestically and internationally, have the potential to deliver an improved member experience, as well as potentially giving CUA a competitive edge in the market.

CUA will look to further scale up its Mutual Good community activities to maximise the impact of our investment and strengthen the connection with community. CUA will also continue to evolve the way in which it supports members through their various life changes.

In closing, I am proud of what CUA has achieved in my time as Chairman. It's been a privilege to have been part of that growth and success, particularly celebrating our 70 years of serving members. I look forward to seeing that trend continue under the guidance of my experienced Board colleagues and the CUA leadership team.

Q&A with **CEO**

ROB GOUDSWAARD

WHAT WERE THE HIGHLIGHTS FOR YOU IN TERMS OF CUA'S ACHIEVEMENTS IN FY17?

It's been a busy year for CUA and I'm particularly pleased with the progress on the four strategic priorities we endorsed in March 2016:

Anywhere, anytime:

We implemented Android Pay, Apple Pay and Samsung Pay in the past year, as well as the ability for new-to-CUA members to open our five most popular deposit products online or via mobile. In addition to digital initiatives, we're investing in new branches, opening the first CUA Community Hub in Toowoomba in May to provide a shared space for banking and community.

Life changes:

We rolled out our first 12-week 'design-thinking' process to experiment, design, develop and test our new suite of offers for new parents planning a family, expecting a baby or raising children. Since launching the pilot in April, we've had 494 conversations, attracted 194 new members and promoted member loyalty by supporting members through an emotive and challenging life stage.

Mutual Good:

We refined our approach to focus on shared value and partnerships, rather than a purely philanthropic approach. As a result we awarded $70,000 to community organisations in the first round of our Mutual Good Community Grants program, we piloted our CUAngels silent membership to empower victims of domestic and family violence and our team devoted 539 days to volunteering in the community.

Inorganic and partnership opportunities:

We streamlined procurement and accounts payable services by establishing a new company, Mutual Marketplace, through a joint venture with People's Choice Credit Union. This initiative will deliver scale benefits and efficiencies for both credit unions. We also leveraged innovation and collaboration opportunities with River City Labs in Queensland, nationally through Stone & Chalk and internationally through our collaboration agreement with global banking innovator Pivotus Ventures.

WHAT CAN YOU TELL US ABOUT THE CUA FINANCIAL RESULTS?

It has been a strong year for CUA, with asset growth of 6.6% and on the other side of the balance sheet, deposits are up 5.2%. We've seen record levels of personal loans, a standout CUA Health result of $7.51 million Net Profit after Tax (NPAT) and higher net interest income. CUA's strong performance this year enabled us to lift our commitment to community to $2.28 million, while also achieving a healthy 8.1% improvement on CUA Group NPAT to $55.87 million. This strong financial position means we can continue delivering the digital and member experience improvements we've started, and it enables CUA to help even more Australians to buy their own home in the year ahead. I'm also pleased to report that 8,404 members took out a CUA credit card this year, following its launch in June 2016.

CAN YOU EXPLAIN CUA'S 'ANYWHERE, ANYTIME' DIGITAL STRATEGY AND HOW THIS IS BENEFITING MEMBERS?

CUA is working on being available to members 'anywhere, anytime', through the channel of their choice. CUA's digital channels allow us to build a stronger connection with our members, who are increasingly migrating to them. By the end of June, we had 144,463 digitally engaged members using online or mobile banking and 10,156 CUA members using one of our digital wallets. CUA must be an early adopter of digital banking improvements so we remain relevant to our members. Collaborating with international banking peers via Pivotus Ventures enables CUA to be first to market in Australia with digital initiatives that will bring a more personalised element to our digital interactions with members. Personalised service through our branches remains at the heart of what we do but we must adapt as CUA members increasingly move away from cash. ATM transactions by our members are down 8% in the past year and down 25% over the past three years.

COLLABORATING AND PARTNERING WITH OTHER ORGANISATIONS WAS A REAL FOCUS FOR CUA THIS YEAR. WHAT OUTCOMES ARE THESE RELATIONSHIPS DELIVERING?

Partnering with other organisations is a key focus for CUA. While we are small enough to be agile and are not weighed down by legacy systems, we aren't big enough to do everything on our own. This is the benefit of our Mutual Marketplace joint venture, where we can gain greater efficiency and better outcomes through scale. Working with our payments provider Cuscal has enabled us to deliver members the benefits of a CUA credit card and our digital wallets, while we are also working with them to bring real-time payments to members through the New Payments Platform (NPP).

As the Principal Partner of the Brisbane Heat, we've lifted our profile and taken CUA to a new audience of potential members, as well as supporting grass-roots cricket initiatives run by the Queensland Cricket Association. In the community, our continuing support of organisations like Red Nose and the First Nations Foundation is a key part of how CUA is connecting with the community and contributing to positive social change.

CAN YOU EXPLAIN WHAT ACTIVITY CUA HAS BEEN UNDERTAKING WITH GOVERNMENT AND INDUSTRY AROUND IMPROVING ACCESS TO CAPITAL?

Access to capital is important to allow any business to continue to grow and to seize on emerging opportunities that may benefit members. But as a mutual, we rely on retained earnings for capital. Following on from the Senate Economics Committee Inquiry into Cooperatives, Mutuals and Member-Owned Firms in 2015, we've continued to work with our industry bodies such as the Business Council of Cooperatives and Mutuals (BCCM) and the Customer Owned Banking Association (COBA) during the past year to progress the case for regulatory and legislative change. CUA also participated in the independent review, led by Mr Greg Hammond. Securing improved access to capital will continue to be a priority for CUA.

WHAT WILL BE THE FOCUS FOR CUA DURING THE NEXT 12 MONTHS?

CUA has two key priorities for the year ahead.

Activation

A number of significant projects will be completed in the year ahead, including our new mobile banking app and the launch of real-time payments (NPP). We are working on improvements to our CUA credit cards and our online loan origination system. This year, we will also start to realise the benefits of our international collaboration with Pivotus Ventures and look forward to bringing these innovations to our members.

Education is one of seven key 'Co-operative Principles'. As a mutual, CUA must continue reaching out to members to educate them on the benefits of our digital offerings. We want our members to come with us on this digital journey. To support these activation activities, our Enterprise Data and Analytics Office, which we set up this year, will continue to bring the right focus and governance to our member data and further investment in privacy and security.

Culture

This is the way we do things around here. As an organisation, we must evolve how we work and be flexible enough to keep pace with the inevitable shift towards digital channels, while being guided by our CUA Purpose. We will keep investing in our people and lifting capability. This will give us the right skills and leadership within CUA to drive us forward, so we can leverage the digital opportunities and provide a quality member experience.

Improving the CUA **Member Journey**

CONTINUED INVESTMENT OVER THE PAST YEAR HAS DELIVERED MANY IMPROVEMENTS TO OUR CUA MEMBER EXPERIENCE.

Meet couple **Jane** (a CUA member with an iPhone and Apple Watch) and **Aaron** (new-to-CUA member with a Samsung Galaxy S8 phone).

They're expecting a baby at the end of the year.

*(*Characters are fictional.)*

The couple live in Toowoomba

2 children
aged 10 (**Alyssa**) and 8 (**Steven**)

1 pet
aged 5 (**Toki**)

ONLINE ACCOUNT OPENING FROM ANY DEVICE

A streamlined way for **Aaron** to join CUA and open an account digitally, including via his mobile device.

- ONLINE ACCOUNT OPENING FOR EVERYDAY ACCOUNTS LAUNCHED JULY 2016.
- ONLINE ACCOUNT OPENING FOR ESAVER BOOST, ESAVER REWARD, EVERYDAY 55+ AND TERM DEPOSIT LAUNCHED MAY 2017.

HOME LOAN SWITCH ONLINE

Jane's 3-year fixed rate home loan with CUA is about to expire. She can now choose which CUA home loan product to switch to, using a new self-service online tool.

(LAUNCHED DECEMBER 2016)

DIGITAL WALLETS

Jane and **Aaron** can now tap and pay for purchases with Jane's iPhone or Apple Watch or Aaron's Samsung phone.

- ANDROID PAY (LAUNCHED AUGUST 2016)
- APPLE PAY (LAUNCHED NOVEMBER 2016)
- SAMSUNG PAY (LAUNCHED JUNE 2017)

SPRIGGY

Alyssa and **Steven** use their Spriggy pre-paid card and app to manage, save and spend their pocket money. **Jane** and **Aaron** can top up the kids' cards using a virtual 'parent wallet'.

(CUA PILOT LAUNCHED NOVEMBER 2016)

TOOWOOMBA COMMUNITY HUB

Jane and **Aaron** joined in local activities to help shape the design of the new Toowoomba Community Hub. Jane now attends yoga classes at the Hub.

(OPENED MAY 2017)

HATCH

Jane and **Aaron** are planning ahead with CUA's baby budget and parental leave calculators.

They're also planning to:

- Review their health insurance
- Pause Jane's home loan repayments during her maternity leave
- Visit health and wellbeing coaches
- Open a Youth eSaver account for their baby.

(LAUNCHED APRIL 2017)

BANKING FOR COMMUNITY GROUPS

- **Aaron**'s local cricket club now has a CUA Everyday Account for Communities, with no monthly account fees or everyday transaction fees.

  (LAUNCHED FEBRUARY 2017)
- **Aaron**'s local cricket club was selected to participate in CUA's Community Champions Program. His club received $1000 to upgrade their cricket nets because Aaron and his team mates took out CUA Health insurance, a CUA home loan and CUA credit card.

  (LAUNCHED OCTOBER 2016)

VIEW THE INTERACTIVE VERSION
Visit cua.com.au/annualreport2017

Our Members and CUA's Rich History

Building on CUA's rich history of helping members

It has been a momentous year for CUA as we reflected back on our rich 70-year heritage and embarked on exciting opportunities for CUA's future.

In October 2016, we marked 70 years since the formation of the oldest credit union in the CUA family and the first credit union in Australia, the Catholic Thrift and Loan Co-operative. Our celebrations culminated in the launch in May of a history book -'*For Mutual Good: The Story of CUA*'. Written by Adam McNicol, it reflects on the 171 credit unions that make up modern-day CUA.

In addition to our banking heritage, CUA also marked a milestone 40 years of having our own health insurance subsidiary, with CUA Health now insuring more than 78,900 Australians.

The CUA Purpose adopted last year – *Members working together through life's changes for mutual good* - continued to shape CUA's journey this year. In Toowoomba, we worked together with around 140 CUA members who helped co-design our new CUA Community Hub – a unique shared space where 60% of the area is dedicated for community use. We relocated our Robina branch to a modern new store. We also launched a new suite of product offerings for parents planning, expecting or raising a family in our first 'life change' initiative.

Our continued investment in our 'anywhere, anytime' digital initiatives (see page 7) delivered a better experience for existing members, while helping to drive member growth of 13,409 members, our strongest increase in many years. We helped 9,785 members to buy or refinance a home or investment property this year. We also assisted 12,742 members with things like a new car, holiday or renovation, issuing a record $256.58 million in personal loans.

The Toowoomba Community Hub team with our mascot Jack, enjoying the CUA Family Day in June 2017 (left and bottom)

Members celebrating the launch of our history book in Brisbane in May 2017 (far right)

Maddison Saul, one of our littlest CUA Health members, with her family

CASE STUDY

Supporting members through life changes

Sophie Saul was only 23 weeks into her pregnancy when doctors told the Gladstone mum that she and her unborn baby could die within 30 hours unless they received specialist emergency care.

"I'd had two perfectly normal pregnancies and natural deliveries with our first two daughters - I didn't understand why this was happening to me," Sophie said.

After being rushed to Brisbane with the Royal Flying Doctor Service - and having her waters break mid-flight – the prognosis did not look good.

A week later, on 22 September 2016, baby Maddison was born at just 24 weeks in hospital in Brisbane - 15 weeks premature and weighing just over 500 grams.

"I was in the car when I found out Sophie was being flown to Brisbane. It was really scary not knowing what would happen to her or the baby," husband Ben Saul recalled.

Maddison spent 103 days in hospital, including nearly 3 months in the Neonatal Intensive Care Unit.

By the end of her stay, the hospital bill had exceeded $205,000, which was paid by CUA Health under the family's hospital cover.

"We hadn't even thought about how much the medical care was costing until we found out from CUA Health that they'd covered the lot," Ben said.

Maddison is now a bubbly, healthy one-year-old, getting plenty of cuddles from older sisters Indee, 2, and Ella, 6. Sophie explains that ongoing specialist medical appointments in Brisbane to check her eyesight, lungs and development are becoming less frequent.

"We are very lucky and Maddison has actually been a very happy and settled baby, even with what she's been through."

VIEW OUR VIDEO WITH SOPHIE AND BEN
Visit cua.com.au/annualreport2017

Mutual Good in Action

As part of CUA's Mutual Good community strategy, we've invested $2.28 million this year in shared value initiatives, philanthropy and partnering with community organisations. This is equivalent to 2.8% of our FY17 Net Profit before Tax and Community.

Mutual Good Community Grants:

We awarded $70,000 to grassroots, not-for-profit community organisations in our first round of the new Mutual Good Community Grants program. Seven CUA branches each awarded $10,000 to a project which is having a positive social impact in their local community.

Toowoomba Community Fund:

Ten community groups shared in $10,000 after a public vote decided how the funds would be divided. Blush Cancer Care Inc was voted the community favourite and received $2,325 to support breast cancer patients in Toowoomba.

Our CUA charity partners:

CUA extended our support of Red Nose until 2019. As Mission Partner, CUA is supporting them to raise funds and awareness to help reduce the number of sudden and unexpected deaths of babies and children to zero. We also signed a new three-year agreement to support First Nations Foundation to promote financial literacy and educate Indigenous Australians about managing money.

We embarked on new shared value initiatives, including working with Micah Projects in Brisbane to pilot a silent CUA membership to help victims of domestic and family violence to gain financial independence and providing $50,000 towards employing a financial counsellor. CUA pledged $100,000 to support the rollout of Queensland Women's Legal Service's new financial literacy app, Penda for victims of domestic and family violence.

Volunteering:

CUA tripled our commitment to volunteering, encouraging team members to take up to three days' leave for volunteering. Our team clocked up 539 days of volunteering for the year – seven times as many days as the previous 12 months. CUA also supported Brisbane-based peer-to-peer platform Help Me With It, which is connecting disadvantaged and vulnerable individuals with volunteers able to help with one-off tasks.

CUA team members volunteering on Red Nose Day

CASE STUDY

Radio broadcasts breaking down barriers

Reading the news and printed material is something many of us take for granted.

But for 250,000 Brisbane residents ranging from the visually impaired to the aged and those with low literacy levels, community radio station 4RPH provides a lifeline.

Volunteers read printed information and conduct on-air interviews for this audience. Providing the service seven days a week largely depends on the generosity of the public.

After winning $10,000 through CUA's Mutual Good Community Grants program, 4RPH is upgrading IT infrastructure. The new system will allow the station to automate overnight broadcasting, so local content can be played for an extra eight hours per day.

"We've been using some of our broadcast equipment since 4RPH started 30 years ago. The CUA grant means we can replace this with newer equipment that will make production easier and more enjoyable for our vision-impaired staff and volunteers," 4RPH President Graham Bailey said.

"Our listeners also benefit from the enhanced quality of our broadcast content."

VIEW OUR CUA IN THE COMMUNITY VIDEO
Visit cua.com.au/annualreport2017

The Australian Animal Protection Society in Melbourne received $10,000 from CUA's Mutual Good Community Grants program in 2017

Brisbane radio station 4RPH received $10,000 from CUA's Mutual Good Community Grants program in 2017

Collaborating and **Partnering**

CUA embarked on a number of exciting new collaborations during the past year. These relationships will help us achieve greater efficiency, raise awareness of CUA with new audiences and help us innovate faster, cheaper and at greater scale.

Mutual Marketplace:

CUA and People's Choice Credit Union established a joint venture company for procurement and accounts payable services. Mutual Marketplace commenced operations in April 2017, allowing us to streamline operations and achieve scale benefits.

Pivotus Ventures:

CUA was selected by international banking innovator Pivotus Ventures as their exclusive Australia and New Zealand collaborator. CUA will be able to tap into international banking and technology expertise to explore and develop new digital banking opportunities. This builds on CUA's continuing innovation collaborations in Queensland with River City Labs, which co-hosted CUA's first Hackathon in August 2016, and nationally via Stone & Chalk.

Queensland Cricket:

In July 2016, CUA teamed up with the Queensland Cricket Association. Our three-year agreement will see us support junior, women's and men's cricket and includes being the Principal Partner of the Brisbane Heat BBL team and Major Partner of the Brisbane Heat WBBL team.

CUA School Fun-Run:

The event, which reaches around 700 schools annually, has been relaunched as the CUA School Fun-Run, in CUA's ninth year of supporting the program.

CUA team members cheering on the Brisbane Heat

Australian Olympian Mack Horton cheering on CUA School Fun-Run participants from Mill Park Heights Primary School in Victoria in May 2017 (top and centre)

CUA team members taking part in our first CUA Hackathon, co-hosted with River City Labs in Brisbane in August 2016 (bottom)

CASE STUDY

Connecting schools and communities

Students at Mill Park Heights Primary School in Melbourne's northern suburbs have plenty to smile about after raising $11,000 towards a makeover of their school playground this year.

The school hosted a CUA School Fun-Run earlier in the year, raising four times their 2016 fundraising tally.

They were also lucky enough to have some special guests cheering them across the finish line – including Olympic 400m freestyle gold medallist Mack Horton and 'Jack', the CUA Jack Russell mascot named after CUA's founder Jack Harvey.

"Anything that promotes a healthy lifestyle for kids from an early age is great and means they can go on to live a healthy life," Mack said.

In CUA's ninth year of support, the event was relaunched in 2017 as the CUA School Fun-Run.

CUA Epping local area manager Shelly Medina applauded the Mill Park students for connecting with their local community to reach their personal fundraising goal.

"It's a great demonstration of what they can achieve individually, but also collectively as a school."

VIEW OUR VIDEO ON COLLABORATION INITIATIVES
Visit cua.com.au/annualreport2017

Our **People**

Building CUA's organisational capability and a renewed focus on supporting our strategy were key priorities during the past year. In August, CUA adopted a new organisational structure to strengthen our focus on delivering against our strategy. This focused on two streams - to 'Perform' (financial and operational focus) and 'Transform' (refocusing our products towards 'life's changes' and our 'anywhere, anytime' aspirations).

We also continued our commitment to supporting and upskilling our team members with the launch of Agile leadership training in March and specialised lending programs such as the CUA Lending Academy. We supported mutual-specific studies including enrolment of some CUA team members in a Masters course focused on co-operative organisations.

CUA was recognised by the Workplace Gender Equality Agency for the third consecutive year, becoming one of only 106 organisations nationally to receive the Employer of Choice for Gender Equality citation in November 2016.

We also negotiated a new three-year CUA Enterprise Agreement for our team members with modern and relevant terms and conditions of employment. The agreement, which has been submitted to the Fair Work Commission, contains new benefits including up to 10 days paid domestic and family violence leave, up to three days community leave and enhanced overtime provisions for part-time employees.

WGEA
Employer
of Choice for
Gender Equality

Celebrating the opening of our new Robina branch in Queensland

Philip Fraser, our 2017 Jack Harvey Annual Values Award winner

CASE STUDY

Living the CUA values

Collaboration is pivotal to Philip Fraser's dual responsibility as both the Chief Operating Officer for Subsidiaries, Partnerships and Alliances and as CEO of CUA's private health insurance subsidiary, CUA Health.

His engagement and collaboration more broadly, including within his team and as a Director of joint venture Mutual Marketplace, earned Philip CUA's most prestigious employee accolade for 2017, the Jack Harvey Annual Values Award.

The award, named in honour of CUA's founder, recognises a commitment to showcasing CUA's values to 'care, create and contribute'.

"I'm incredibly proud to be recognised by my colleagues, even though living by CUA's values and our Purpose seems like a natural part of my role as an executive," Philip said.

"I have been given so many opportunities to further my experience at CUA, and it's our people and culture that drive success for CUA."

CUA
Board of Directors

AS AT 30 JUNE 2017

ALAN BEANLAND

B.Sc., FAICD
Chairman and Independent Non-Executive Director
Retiring 14 November 2017

Alan's business experience spans four continents and exceeds four decades with wide experience as a Director on diverse boards. Alan held senior executive positions with Colonial Mutual for 16 years and has extensive experience spanning financial services, superannuation, life insurance, property and technology.

Alan joined the CUA Board in September 2009 and was elected Chairman in November 2009. He is also a Director of Colonial Foundation and Orygen, The National Centre of Excellence in Youth Mental Health.

NIGEL AMPHERLAW

B.Com., FCA, MAICD
Independent Non-Executive Director
Chairman from 15 November 2017

Nigel has extensive experience in risk management, technology, consulting and auditing for financial services institutions in Australia and the Asia-Pacific. He is a chartered accountant by profession and was a Partner of PricewaterhouseCoopers for 22 years.

Nigel joined the CUA Board in March 2011. Nigel is a Director of the Australian Red Cross Blood Service, Grameen Foundation Australia, Quickstep Holdings Limited and Elanor Investors Group.

PAUL BEDBROOK

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

Paul has over 30 years' experience in financial services, specifically across the areas of banking, insurance and investment management. His career included a number of senior executive positions with ING in Australia, Canada and the Asia-Pacific.

Paul joined the Board in July 2011 and is also Chairman of Zürich Financial Services Australia and Elanor Investors Group. He is also a Director of the National Blood Authority.

LOUISE MCCANN

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

Louise has diverse experience across technology, media, health, education, accounting and professional services. Her executive career has included CEO and senior executive positions in the media, commercial market research, brand and communications sectors in Australia, New Zealand and across Asia.

Louise joined the CUA Board in November 2015 and also currently holds Non-Executive Director roles with Macquarie Media Network, Grant Thornton Australia Limited, University of Notre Dame and Cabcharge Australia Ltd.

DEBORAH O'TOOLE

LLB, MAICD
Independent Non-Executive Director

Deb is a qualified lawyer with more than 30 years' experience in the mining, resources and rail freight industries, including 25 years in finance roles such as Chief Financial Officer at Aurizon, Queensland Cotton and MIM Holdings.

Deb joined the CUA Board in March 2014 and is also currently a Director of the Wesley Research Institute, Sims Metal Management Limited and Asciano Group. She is a member of the Queensland University of Technology Banking & Finance School Advisory Board.

MIKE PRATT AM

SF Fin, GradDip(Org Beh), FAICD, FAIM, FAHRI, AMP (Harvard) Independent Non-Executive Director
Resigned 31 August 2017

Michael has had an extensive career in banking and wealth management throughout Australia, New Zealand and Asia. He has held very senior positions at Standard Chartered Bank, Westpac, National Australia Bank and Bank of New Zealand, and was the Inaugural Joint President of Finsia.

Michael joined the CUA Board in January 2013. He is currently the Commissioner for Service in the NSW Government, Deputy Chair of Insurance & Care NSW, Secretary of The Treasury of NSW, and a Non-Executive Director of TAL Life Insurance.

WAYNE STEVENSON

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

Wayne has an executive background in banking and financial services. He has held several senior positions across Australia, New Zealand and Asia, including 15 years in Chief Financial Officer roles across a range of disciplines.

Wayne joined the CUA Board in February 2014. He is the Chairman of QMS Media Ltd. He is also a Director of Onepath Life Insurance Ltd, Onepath General Insurance Ltd, ANZ Lenders Mortgage Insurance Ltd and BigTinCan Holdings Ltd.

FOR MORE INFORMATION

Visit cua.com.au/annualreport2017

CUA Executive Committee

AS AT 30 JUNE 2017

ROB GOUDSWAARD

B.Ec, GradDip CorpFin, FFIN, FAICD
Chief Executive Officer

Rob joined CUA in February 2015 and has over 36 years' experience in the banking and financial sector. His experience includes roles as CEO and Director of the Rural Finance Corporation of Victoria, as well as a variety of senior positions at ANZ within Australia and overseas. Rob is a Director of Cuscal Ltd and a former Director of World Vision Australia.

STEVE CHUGG

MBA, B.Bus, GAICD
Chief Financial Officer

Steve joined CUA in April 2015 and has more than 20 years' experience in banking operations in Australia. His career has included a variety of executive and management roles with ANZ across multiple customer segments including General Manager, Esanda & ANZ Direct Sales, and Queensland State Manager of Regional Business Banking. Steve is a Director of Mutual Marketplace Pty Ltd.

SUE COULTER

GAICD
Chief Digital Officer

Sue joined CUA in May 2010 to lead a multi-year transformational change agenda which included a number of major strategic business and technology programs. She has over 30 years' experience in financial services across a broad range of senior management and executive positions in Australia and the UK, including HBOS and BankWest.

PHILIP FRASER

B.Acc, CIMA, CPA, GAICD
Chief Operating Officer – Subsidiaries, Partnerships & Alliances
Chief Executive Officer, CUA Health Ltd

Philip joined CUA in March 2011 and has held a number of senior roles within CUA across finance and CUA Health. Philip's previous experience has included senior finance positions both in Australia and at some of the UK's leading asset managers and general insurance providers. Philip is a Director of Mutual Marketplace.

JO KEARNEY

MBA, B.A., GAICD, CAHRI
Chief of Corporate Affairs & Community

Jo joined CUA in January 2016 and has more than 15 years' experience across a range of leadership, strategy, stakeholder management and project management roles within the finance, insurance, retail and government sectors. Jo's previous roles have included senior positions with Super Retail Group, Suncorp and the Queensland Government.

TRACEY LAKE

B.Bus (HRM), Grad Cert (Employee Relations), MAHRI
Chief People Officer

Tracey joined CUA in March 2017 and has 12 years' experience as a human resources executive, covering both strategic and operational initiatives. She has a breadth of human resources and leadership experience including roles at Allianz Global Assistance, Insurance Australia Group, CGU Insurance and The Consultancy Bureau.

Tracey Lake replaced Sonia La Penna, who held this position until December 2016.

BRIGID LEISHMAN

MBA (Dist.), GAICD
Chief Operations & Products Officer

Brigid joined CUA in August 2015 and has over 30 years' experience in financial services, including 20 years in operations strategy and execution. She has lived and worked in four countries and has significant experience in transformational change and business re-engineering. Brigid's experience has included senior roles with ANZ in Australia, New Zealand and Fiji, as well as roles with the Bank of New Zealand.

MEGAN READDY

LLB, B.Ec.
Chief Risk Officer

Megan joined CUA in February 2017 and has more than 20 years' experience across risk and finance roles, including a number of roles with Macquarie Group and Suncorp Bank. Since beginning her career in lending, she has subsequently worked across a variety of other roles in credit, finance, capital and risk.

Megan Readdy replaced Scott North, who held this position until February 2017.

ANDY RIGG

MAICD, DipLM
Chief Sales Officer

Andy joined CUA in July 2013 and has 30 years' experience in retail financial services, with the last 20 years in sales and service leadership roles. His career has included roles at a large UK mutual, Barclays (UK and South Africa) and leading a network of 150 branches and 50 lenders for a major Australian bank.

FOR MORE INFORMATION

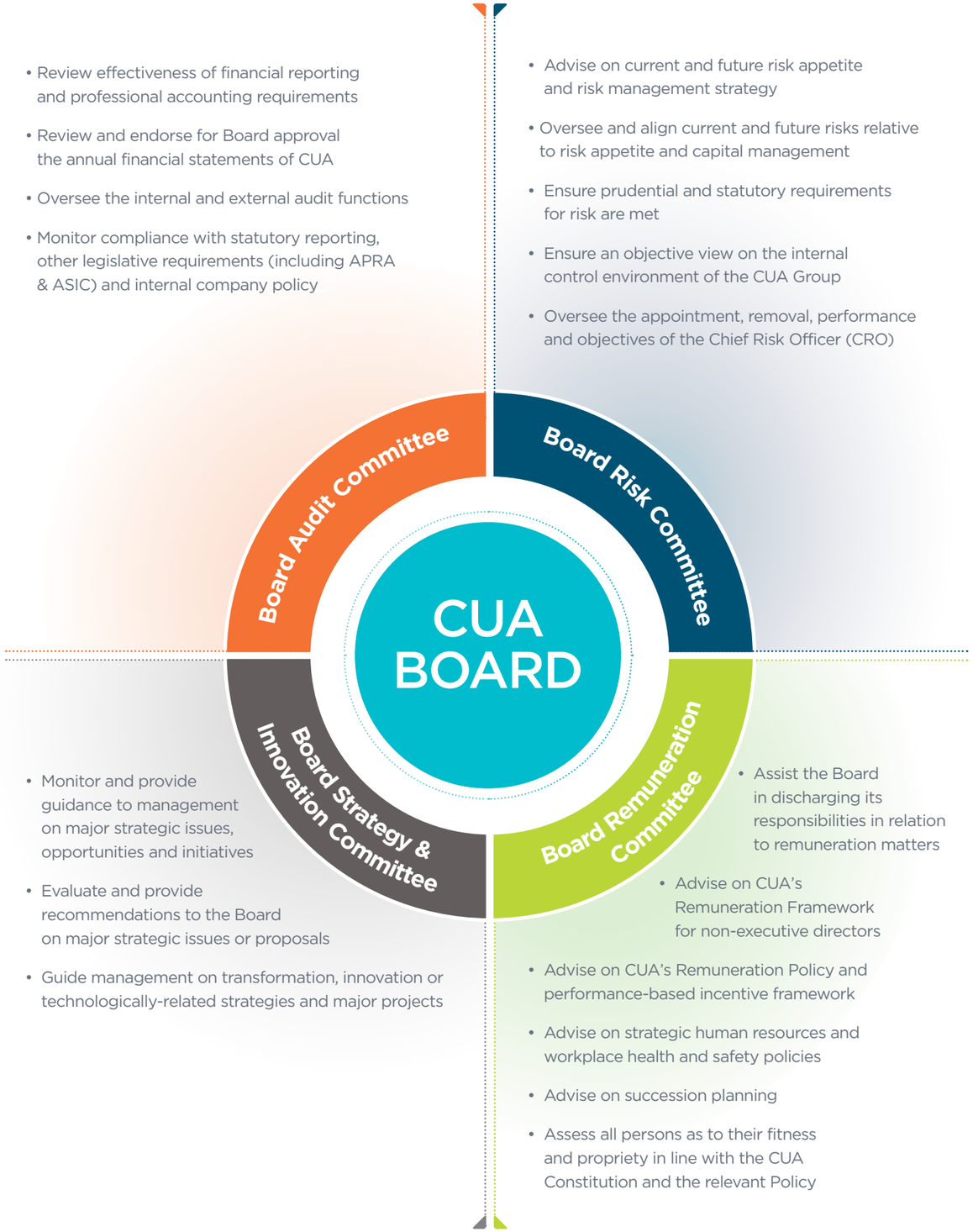
Visit cua.com.au/annualreport2017

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 BOARD 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



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CREDIT UNION AUSTRALIA LTD

ABN 44 087 650 959

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

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 2017 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.

Alan Beanland
Nigel Ampherlaw
Paul Bedbrook
Louise McCann
Deborah O'Toole
Michael Pratt
Wayne Stevenson

Alan Beanland
B.Sc., FAICD
Chairman and Independent Non-Executive Director (Retiring 14 November 2017)

Alan joined the Board in September 2009 and was elected Chairman in November 2009. In addition to his role as Chairman of the Board, Alan is Chairman of the Board Strategy & Innovation Committee and a member of the Board Risk and Board Remuneration Committees. He is also a Director of Credicorp Insurance Pty Ltd and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

Alan's business experience spans four continents and exceeds four decades with wide experience as a Director on diverse boards. Alan held senior executive positions with Colonial Mutual for 16 years. He has extensive experience in a number of industry sectors including financial services, superannuation, life insurance, property and technology. He served as the Chairman of Superpartners (2006 - 2012) and as a Director of Spotless Group Limited (2008 - 2012).

Alan is currently a Director of Colonial Foundation and, in August 2014, was appointed to the Board of Orygen, The National Centre of Excellence in Youth Mental Health.

Nigel Ampherlaw
B.Com., FCA, MAICD
Independent Non-Executive Director (Chairman from 15 November 2017)

Nigel joined the Board in March 2011. He is a member of the Board Strategy & Innovation Committee, Chairman of Credicorp Insurance Pty Ltd and a member of the Credicorp Insurance Board Audit and Board Risk 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, Grameen Foundation Australia, Quickstep Holdings Limited and Elanor Investors Group.

Directors' report

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, a Director of CUA Health Ltd and a member of the CUA Health Board Audit and Risk Committee.

Paul has over 30 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.

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

Louise joined the Board in November 2015 and is a member of the Board Audit, Board Remuneration and Board Strategy & Innovation Committees.

Louise has a diverse portfolio including technology, media, health, education, 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 Cabcharge Australia Ltd.

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

Deb joined the Board in March 2014. She is Chairman of CUA Health Ltd, a member of CUA Health Ltd Board Audit and Risk Committee as well as a director of Credicorp Insurance Pty Ltd and Chairman of the Credicorp Insurance Board Audit and Board Risk Committees.

Deb is a qualified lawyer and has more than 30 years' experience in mining, resources and rail freight industries, 25 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 member of the Queensland Country Health Society.

Deb is a Director of the Wesley Research Institute, Sims Metal Management Limited, Boart Longyear Ltd and Asciano Group, and is also a member of the Queensland University of Technology Banking & Finance School Advisory Board.

Michael Pratt AM
SF Fin, GradDip(Org Beh), FAICD, FAIM, FAHRI, AMP(Harvard)
Independent Non-Executive Director (Resigned effective 31 August 2017)

Michael joined the Board in January 2013. He is Chairman of the Board Risk Committee and is a member of the Board Audit Committee.

Michael has had an extensive career in banking and wealth management throughout Australia, New Zealand and Asia. He has held very senior positions at Standard Chartered Bank, Westpac, National Australia Bank and Bank of New Zealand. In all these roles he has driven major change, delivering strong financial results and much improved customer service across multiple channels. Michael is a former President of the Australian Institute of Banking & Finance and was the Inaugural Joint President of Finsia.

Michael is the Commissioner for Service in the NSW Government and Deputy Chair, Insurance & Care NSW. He is also Secretary of the Treasury in NSW and is a Non-Executive Director of TAL Life Insurance and Chairman of TAL's Risk Committee.

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 where he has 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 involving a broad range of disciplines as well as significant acquisitions, restructures and divestments. Most recently he was Group General Manager, Group Strategy, ANZ and prior to that held the role of CFO Asia Pacific, Europe and America, ANZ.

Wayne is Chairman of QMS Media Ltd. He is Director of Onepath Life Insurance Ltd, Onepath General Insurance Ltd, ANZ Lenders Mortgage Insurance Ltd and BigTinCan Holdings 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 Ltd, 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 Ltd, Credicorp Insurance Pty Ltd, CUA Management Pty Ltd (resigned 22 September 2016) 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, focussed 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		Board Strategy & Innovation Committee	
	A	B	A	B	A	B	A	B	A	B
A. Beanland	8	8	-	-	4	4	5	5	5	5
N. Ampherlaw	8	8	2	2	1	1	1	1	3	2
P. Bedbrook	8	7	-	-	-	-	4	4	2	2
L McCann	8	8	3	3	1	1	4	4	1	1
D. O'Toole	8	7	-	-	-	-	-	-	-	-
M. Pratt	8	8	5	5	4	3	-	-	2	2
W. Stevenson	8	8	5	5	4	4	1	1	-	-

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.

Directors' report

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.

Review of operations

The Group reported a net profit after income tax for the financial year ended 30 June 2017 of $55.9 million (2016: $51.7 million).

The year saw loans and advances (gross) grow by 3.0% year on year, to $11,524.3 million from $11,188.5 million. The Credit Union continued to increase its household deposits in a competitive environment with its deposits growing 5.2% year on year to $8,760.1 million from $8,327.2 million. As a result, net interest income increased 2.9% over the year to $239.5 million (2016: $232.8 million) in what proved to be a tough competitive environment.

Net insurance income for the year ended 30 June 2017 increased by $8.5 million to $25.9 million (2016: $17.4 million) driven by CUA Health Ltd's improved contribution. For the 2017 financial year, CUA Health Ltd was able to increase gross margins and benefitted from the positive impact of risk equalisation and in November 2016 launches a new suite of hospital and extras insurance products.

Group expenses rose by 3.3% to $193.2 million (2016: $187.0 million) largely as a result of the continued investment in the Digital and Distribution strategy. The Group continues to look for initiatives to better manage expenses and in April 2017 established a joint venture entity with People's Choice Credit Union. The joint venture, Mutual Marketplace Pty Ltd, was established to obtain efficiency and scale benefits in the areas of procurement and accounts payable.

Reflecting the Group's commitment to its Mutual Good community strategy, community related expenses increased from $1.5 million in 2016 to $2.3 million in 2017.

Dividends

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

Non-IFRS Information

The Group provides an additional measure of performance, Net profit before tax and community, which is prepared on a basis other than in accordance with International Financial Reporting Standards (IFRS). The Directors believe the non-IFRS information is useful for the users of this document as they reflect the Group's underlying Mutual Good Strategy.

From financial year 2017, the Group invests up to 3% of its Net profit before tax and community in community initiatives and use international standards to benchmark its impact and performance. A reconciliation of Net profit before tax and community is presented below. Net profit before tax and community is not audited; however, the adjustments made in arriving at Net profit before tax and community are included in Reportable net profit after tax which is subject to audit within the context of the Group audit opinion.

	Group	
	2017 $'000	2016 $'000
Reportable net profit after tax	**55,874**	51,664
Community	**2,276**	1,540
Income tax expense	**22,066**	20,816
Net profit before tax and community	**80,216**	74,020

Risk management

The Group's strategic and operational outcomes are underpinned by the effective management of key risks through the three lines of defence. During the year, the Group continually evaluated and responded to risks arising from both internal and external factors, in accordance with our defined Risk Management Strategy.

The Group's Risk Management Strategy supports the achievement of our business strategy by providing management with a clear understanding of the process of how risk is to be effectively managed. This allows the Group to achieve business growth, enhance financial performance, and protect our reputation through efficient and effective operational and management processes. During this period we have continued to invest in improvements to the three lines of defence through risk management processes, people and systems. This integrated approach brings together the individual classes of material risk to form an organisational wide view of risk and enables management to manage risks across the business.

Other matters

Capital and Remuneration Prudential Disclosures

For Australian Prudential Regulation Authority's (APRA) 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).

Significant changes in the state of affairs

On 11 November 2016, the Harvey Warehouse Trust No.4 was formed and it acquired loans from the Credit Union ($217.2 million). These loans were acquired by the issuance of floating rate notes.

On 11 April 2017, Series 2007-1 Harvey Trust sold loans and advances ($73.9 million) to the Credit Union. All securitisation borrowings in Series 2007-1 Harvey Trust were repaid to the investors.

On 21 June 2017, the Harvey Trust Series 2017-1 was formed and it acquired loans from the Credit Union ($506.8 million), Harvey Warehouse Trust No.1 ($202.6 million) and Harvey Warehouse Trust No.3 ($190.6 million). These loans were acquired by the issuance of floating rate notes.

In April 2017, the Credit Union established a new company, Mutual Marketplace Pty Ltd, through a joint venture with People's Choice Credit Union to deliver streamlined procurement and account payable services, scale benefits and efficiency for both member-owned organisations.

Effective 1 July 2017, the Credit Union entered into a Collaboration Agreement with Pivotus Ventures to work with an offshore fintech group in developing new technologies and banking solutions. This collaboration creates opportunities to deliver new banking propositions to enhance our members' experiences.

With effect from 30 June 2017, the name of a subsidiary of the Group has changed from CUA Financial Planning Pty Ltd to CUA Management Pty Ltd.

Events subsequent to balance date

Since 30 June 2017 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

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

(i) The operations of the Group;
(ii) The results of those operations; or
(iii) The state of affairs of the Group,

in the financial years subsequent to this financial year.

Directors' report

Other matters (continued)

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 10.

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:

Alan Beanland
Chairman

Wayne Stevenson
Director

Brisbane
30 August 2017

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

To the Members 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 2017 there have been:

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

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

KPMG.

KPMG

John Teer
Partner

Brisbane
30 August 2017

Income statements

For the year ended 30 June 2017

	Note	Group 2017 $'000	Group 2016 $'000	Credit Union 2017 $'000	Credit Union 2016 $'000
Net interest income					
Interest income	2.1	**509,658**	520,064	**509,658**	520,064
Interest expense	2.1	**(270,140)**	(287,295)	**(270,441)**	(287,621)
Total net interest income		**239,518**	232,769	**239,217**	232,443
Other operating income	2.1	**11,934**	12,760	**20,465**	25,112
Net insurance income	6.1	**25,892**	17,436	**-**	-
Share of net loss of a joint venture		**(612)**	-	**(612)**	-
Total net operating income		**276,732**	262,965	**259,070**	257,555
Expenses					
Personnel		**(101,953)**	(98,373)	**(97,203)**	(94,521)
Occupancy		**(19,172)**	(19,360)	**(19,172)**	(19,360)
Depreciation of property, plant and equipment		**(6,622)**	(7,781)	**(6,618)**	(7,778)
Amortisation of intangible assets	2.2	**(10,839)**	(7,196)	**(10,835)**	(7,193)
Information technology		**(12,728)**	(12,051)	**(12,728)**	(12,051)
General administrative expenses	2.2	**(25,232)**	(22,068)	**(23,810)**	(20,881)
Other expenses	2.2	**(16,650)**	(20,166)	**(15,237)**	(19,361)
Total operating expenses		**(193,196)**	(186,995)	**(185,603)**	(181,145)
Profit before impairment and income tax		**83,536**	75,970	**73,467**	76,410
Impairment of loans and advances	3.2	**(5,596)**	(3,490)	**(5,596)**	(3,490)
Profit before income tax		**77,940**	72,480	**67,871**	72,920
Income tax expense	2.3	**(22,066)**	(20,816)	**(18,221)**	(19,893)
Profit for the year		**55,874**	51,664	**49,650**	53,027
Profit for the year is attributable to:					
Members of the Credit Union		**55,874**	51,664	**49,650**	53,027

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

Statements of comprehensive income

For the year ended 30 June 2017

	Note	Group		Credit Union	
		2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Profit for the year		**55,874**	51,664	**49,650**	53,027
Other comprehensive income					
Items that may be reclassified to profit or loss					
Cash flow hedges:					
Net gain/(loss) taken to members' funds		**17,214**	9,336	**17,214**	9,336
Net gain/(loss) transferred to profit and loss		**3**	(67)	**3**	(67)
Net fair value gain/(loss) on available for sale financial assets		**2,283**	-	**2,283**	-
Income tax on other comprehensive income	2.3	**(5,850)**	(2,781)	**(5,850)**	(2,781)
Other comprehensive income after tax		**13,650**	6,488	**13,650**	6,488
Total comprehensive income		**69,524**	58,152	**63,300**	59,515
Total comprehensive income for the period is attributable to:					
Members of the Credit Union		**69,524**	58,152	**63,300**	59,515
Total comprehensive income for the period attributable to members of the Credit Union arises from:					
Continuing operations		**69,524**	58,152	**63,300**	59,515
		69,524	58,152	**63,300**	59,515

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

Balance Sheets

As at 30 June 2017

	Note	Group 2017 $'000	Group 2016 $'000	Credit Union 2017 $'000	Credit Union 2016 $'000
Assets					
Cash and cash equivalents	4.1	**247,063**	204,910	**231,114**	191,580
Financial assets - fair value through profit or loss	4.2	**80,468**	69,193	**-**	-
Financial assets - held to maturity	4.2	**1,743,196**	1,295,701	**2,419,648**	1,945,528
Derivative financial instruments	5.3	**714**	-	**714**	-
Loans and advances	3.1	**11,530,359**	11,193,075	**11,530,359**	11,193,075
Financial assets - available for sale	4.2	**42,890**	37,030	**42,890**	37,030
Other assets	7.3	**19,269**	11,587	**10,879**	3,932
Investments in controlled entities	7.8	**-**	-	**800**	800
Investments in a joint venture	7.9	**1,333**	-	**1,333**	-
Property, plant and equipment	7.1	**17,305**	19,130	**17,296**	19,118
Intangible assets	7.2	**68,355**	65,654	**68,058**	65,652
Total assets		**13,750,952**	12,896,280	**14,323,091**	13,456,715
Liabilities					
Deposits	4.3	**8,760,111**	8,327,205	**8,760,229**	8,327,180
Derivative financial instruments	5.3	**4,437**	21,281	**4,437**	21,281
Borrowings	4.4	**3,900,522**	3,541,870	**4,584,487**	4,204,987
Deferred tax liability	2.3	**6,317**	995	**5,870**	768
Other liabilities	7.4	**78,682**	75,099	**40,281**	39,541
Provisions	7.5	**20,530**	19,001	**20,530**	19,001
Total liabilities		**12,770,599**	11,985,451	**13,415,834**	12,612,758
Net assets		**980,353**	910,829	**907,257**	843,957
Members' funds					
Reserves	7.6	**44,026**	30,298	**44,026**	30,298
Retained earnings		**936,327**	880,531	**863,231**	813,659
Total members' funds		**980,353**	910,829	**907,257**	843,957

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

Statements of changes in members' funds

For the year ended 30 June 2017

	Group			Credit Union		
	Reserves $'000	Retained earnings $'000	Total members' funds $'000	Reserves $'000	Retained earnings $'000	Total members' funds $'000
Balance at 1 July 2015	23,587	829,090	852,677	23,587	760,855	784,442
Profit for the year after tax	-	51,664	51,664	-	53,027	53,027
Other comprehensive income after tax:						
Cash flow hedges:						
Net gain/(loss) taken to members' funds	6,535	-	6,535	6,535	-	6,535
Net gain/(loss) transferred to profit and loss	(47)	-	(47)	(47)	-	(47)
Total comprehensive income for the period	6,488	51,664	58,152	6,488	53,027	59,515
Movement in general reserve for credit losses	138	(138)	-	138	(138)	-
Movement in redeemed member share reserve	85	(85)	-	85	(85)	-
Balance at 30 June 2016	30,298	880,531	910,829	30,298	813,659	843,957
Balance at 1 July 2016	**30,298**	**880,531**	**910,829**	**30,298**	**813,659**	**843,957**
Profit for the year after tax	**-**	**55,874**	**55,874**	**-**	**49,650**	**49,650**
Other comprehensive income after tax:						
Cash flow hedges:						
Net gain/(loss) taken to members' funds	**12,050**	**-**	**12,050**	**12,050**	**-**	**12,050**
Net gain/(loss) transferred to profit and loss	**2**	**-**	**2**	**2**	**-**	**2**
Movement in available for sale reserve	**1,598**	**-**	**1,598**	**1,598**	**-**	**1,598**
Total comprehensive income for the period	**13,650**	**55,874**	**69,524**	**13,650**	**49,650**	**63,300**
Movement in redeemed member share reserve	**78**	**(78)**	**-**	**78**	**(78)**	**-**
Balance at 30 June 2017	**44,026**	**936,327**	**980,353**	**44,026**	**863,231**	**907,257**

Note: The nature of the reserves is disclosed in Note 7.6.

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 2017

	Note	Group 2017 $'000	Group 2016 $'000	Credit Union 2017 $'000	Credit Union 2016 $'000
Cash flows from operating activities					
Interest received		**515,326**	526,258	**513,469**	523,491
Interest paid		**(269,062)**	(285,773)	**(269,364)**	(286,099)
Fees and commissions received		**30,043**	31,392	**32,326**	34,389
Fees and commissions paid		**(22,396)**	(22,152)	**(21,042)**	(20,334)
Contributions/premiums received		**152,184**	149,817	**-**	-
Benefits/claims paid		**(123,410)**	(125,486)	**-**	-
Dividends received		**2,171**	2,171	**5,021**	5,671
Other non-interest income received		**2,114**	2,852	**5,181**	5,790
Payments to suppliers and employees		**(187,661)**	(173,244)	**(175,347)**	(166,660)
Income tax paid		**(19,817)**	(16,419)	**(17,780)**	(14,666)
Net (increase)/decrease in loans and advances		**(348,901)**	(810,298)	**(348,901)**	(810,298)
Net (increase)/decrease in placements with and withdrawals from other financial institutions		**(455,694)**	(43,402)	**(472,580)**	(32,875)
Net increase/(decrease) in deposits		**432,906**	549,672	**433,049**	549,428
Net cash provided by/(used in) operating activities	4.1	**(292,197)**	(214,612)	**(315,968)**	(212,163)
Cash flows from investing activities					
Payments for plant, equipment and intangible assets		**(17,900)**	(23,831)	**(17,599)**	(23,821)
Proceeds from sale of property, plant and equipment		**12**	150	**12**	143
Net (increase)/decrease in available for sale securities		**(3,576)**	-	**(3,576)**	-
Payments for investments in a joint venture		**(1,500)**	-	**(1,500)**	-
Net cash provided by/(used in) investing activities		**(22,964)**	(23,681)	**(22,663)**	(23,678)
Cash flows from financing activities					
Net proceeds from/(repayments to) borrowings		**357,314**	298,422	**378,165**	290,956
Net cash provided by/(used in) financing activities		**357,314**	298,422	**378,165**	290,956
Net increase in cash and cash equivalents		**42,153**	60,129	**39,534**	55,115
Cash at the beginning of the year		**204,910**	144,781	**191,580**	136,465
Cash at the end of the year	4.1	**247,063**	204,910	**231,114**	191,580

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 2017

Notes to the financial statements

For the year ended 30 June 2017

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 2017 was authorised for issue in accordance with a resolution of the Directors on 30 August 2017.

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' and 'available for sale' which are carried at fair value through other comprehensive income.

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
Impairment of loans and advances, and other financial assets	Note 3.2 and Note 4.2
Outstanding insurance claims liabilities	Note 6.1 and Note 6.2
Useful life of major banking infrastructure software	Note 7.2
Fair value of financial instruments	Note 7.7

2. Financial performance

2.1 Income

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Net interest income				
Interest income				
Loans and advances	**470,243**	479,756	**470,243**	479,756
Other financial assets	**39,415**	40,308	**39,415**	40,308
	509,658	520,064	**509,658**	520,064
Interest expense				
Deposits	**(152,332)**	(164,719)	**(152,332)**	(164,719)
Borrowings	**(100,646)**	(104,576)	**(100,833)**	(104,851)
Other	**(17,162)**	(18,000)	**(17,276)**	(18,051)
	(270,140)	(287,295)	**(270,441)**	(287,621)
Total net interest income	**239,518**	232,769	**239,217**	232,443
Other operating income				
Fee and commission revenue	**29,414**	32,164	**31,716**	35,169
Fee and commission expense	**(22,871)**	(22,878)	**(21,042)**	(20,334)
Net fee and commission income	**6,543**	9,286	**10,674**	14,835
Dividends revenue	**2,171**	2,171	**5,021**	5,671
Net gain/(loss) on derivative financial instruments	**3**	(67)	**3**	(67)
Net gain/(loss) on financial assets designated at fair value through profit or loss	**1,517**	(370)	**-**	-
Other	**1,700**	1,740	**4,767**	4,673
Total other operating income	**11,934**	12,760	**20,465**	25,112

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.

Fee and commission revenue and expense

Fee and commission revenue are brought to account on an accrual basis over the period that they cover once a right to receive consideration has been attained. Financial service fees are recognised as and when the service is provided.

Fee and commission expense includes ATM fees, card and transaction fees.

2.2 Expenses

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Amortisation				
Amortisation of major banking infrastructure software	**(5,664)**	(5,607)	**(5,664)**	(5,607)
Amortisation of loan origination system software	**(2,182)**	(78)	**(2,182)**	(78)
Amortisation of other computer software	**(2,993)**	(1,511)	**(2,989)**	(1,508)
	(10,839)	(7,196)	**(10,835)**	(7,193)
General administrative expenses				
Administrative expenses	**(22,956)**	(20,528)	**(21,534)**	(19,341)
Community	**(2,276)**	(1,540)	**(2,276)**	(1,540)
	(25,232)	(22,068)	**(23,810)**	(20,881)
Other expenses				
Advertising	**(6,700)**	(7,855)	**(6,056)**	(7,438)
Professional services	**(9,950)**	(12,311)	**(9,181)**	(11,923)
	(16,650)	(20,166)	**(15,237)**	(19,361)

2.3 Income tax

(a) Amounts recognised in income statements

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Income tax expense is attributable to:				
Profit from continuing operations	**22,066**	20,816	**18,221**	19,893
	22,066	20,816	**18,221**	19,893
Current tax				
Current income tax	**24,519**	22,234	**21,022**	20,931
Adjustments in respect of current income tax of previous year	**(1,926)**	(2,200)	**(2,054)**	(1,027)
Deferred tax				
Relating to origination and reversal of temporary differences	**(1,638)**	(968)	**(2,002)**	(687)
Adjustments in respect of deferred income tax of previous year	**1,111**	1,750	**1,255**	676
	22,066	20,816	**18,221**	19,893
Deferred income tax expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets	**(1,260)**	(491)	**(617)**	(1,284)
(Decrease)/increase in deferred tax liabilities	**733**	1,273	**(130)**	1,273
	(527)	782	**(747)**	(11)

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	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Accounting profit before tax from continuing operations	**77,940**	72,480	**67,871**	72,920
Accounting profit before income tax	**77,940**	72,480	**67,871**	72,920
At Australia's statutory income tax rate of 30% (2016: 30%)	**23,382**	21,744	**20,361**	21,876
Adjust for tax effect of:				
Non-deductible expenses	**162**	73	**165**	68
Fully franked dividends received	**(663)**	(651)	**(1,506)**	(1,701)
Under/(over) provision in prior year	**(815)**	(350)	**(799)**	(350)
Income tax expense	**22,066**	20,816	**18,221**	19,893
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	**5,165**	2,781	**5,165**	2,781
Net gain/(loss) on financial assets available for sale	**685**	-	**685**	-
	5,850	2,781	**5,850**	2,781

(c) Deferred tax balances

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

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Deferred tax assets comprise temporary differences attributable to:				
Provision for impairment of loans and advances	**2,651**	2,357	**2,651**	2,357
Employee benefits	**4,798**	4,486	**4,798**	4,486
Provisions and accruals	**3,454**	3,158	**3,270**	2,999
Derivative financial instruments	**856**	6,023	**856**	6,023
Deferred acquisition costs	**213**	6	**-**	-
Other	**305**	152	**286**	544
Total deferred tax assets	**12,277**	16,182	**11,861**	16,409
Deferred tax liabilities comprise temporary differences attributable to:				
Plant and equipment and intangible assets	**11,210**	10,095	**11,210**	10,095
Financial assets - available for sale	**6,887**	5,836	**6,521**	5,836
Securitisation setup costs	**-**	1,246	**-**	1,246
Receivable and other assets	**497**	-	**-**	-
Total deferred tax liabilities	**18,594**	17,177	**17,731**	17,177
Net deferred tax liabilities	**(6,317)**	(995)	**(5,870)**	(768)

2.3 Income tax (continued)

(c) Deferred tax balances (continued)

During the year, the Credit Union undertook a detailed review of its deferred tax balances and is unable to justify a deferred tax asset balance of approximately $3.196 million previously recognised in 2010. The error has been corrected by writing down the deferred tax asset balance to prior period retained earnings.

(d) Unused tax losses and franking account

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Unused tax losses for which no deferred tax asset has been recognised	**905**	895	**-**	-
Potential tax benefit @ 30%	**272**	269	**-**	-

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	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Franking account balance	**261,930**	241,190	**257,540**	237,616

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.

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.

3. Loans and advances

3.1 Loans and advances

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Term loans	**11,383,133**	11,052,769	**11,383,133**	11,052,769
Credit cards and overdrafts	**141,140**	135,681	**141,140**	135,681
Gross loans and advances	**11,524,273**	11,188,450	**11,524,273**	11,188,450
Provision for impairment	**(8,501)**	(7,858)	**(8,501)**	(7,858)
Net deferred origination cost and fee revenue	**14,587**	12,483	**14,587**	12,483
Net loans and advances	**11,530,359**	11,193,075	**11,530,359**	11,193,075

Recognition and measurement

Loans and advances are financial assets with fixed or determinable payments and fixed maturities 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 rate method. Losses arising from impairment are recognised in the income statement in 'impairment of loans and advances'.

3.2 Impairment of loans and advances

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Specific provision				
Opening balance	**1,037**	548	**1,037**	538
Charge to income statement	**5,321**	4,226	**5,321**	4,226
Bad debts written off	**(5,623)**	(3,737)	**(5,623)**	(3,727)
Closing balance	**735**	1,037	**735**	1,037
Collective provision				
Opening balance	**6,821**	6,821	**6,821**	6,821
Charge to income statement	**945**	-	**945**	-
Closing balance	**7,766**	6,821	**7,766**	6,821
Total provision for impairment	**8,501**	7,858	**8,501**	7,858
Impairment charge	**(6,266)**	(4,226)	**(6,266)**	(4,226)
Bad debts recovered	**670**	736	**670**	736
Total impairment of loans and advances	**(5,596)**	(3,490)	**(5,596)**	(3,490)

3.2 Impairment of loans and advances (continued)

Recognition and measurement

All loans are subject to continuous management review to assess whether there is any objective evidence that any specific loan or group of loans is impaired.

Specific provisions for impairment losses are measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Short term balances are not discounted. Bad debts are written off when identified. If a specific provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses directly in the income statement.

The collective provision is calculated for the credit risk inherent within the loan portfolio. The collective provision applies a loss rate approach that uses historical loss experience to calculate incurred but not reported losses on the performing portfolio. The loss rates are based on the arrears severity of the loans, and other default indicators.

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 and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired, and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio such as credit quality, levels of arrears, historical performance and economic conditions.

4. Funding and liquidity

4.1 Cash and cash equivalents

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Cash on hand	**4,003**	4,170	**4,003**	4,170
Deposits on call	**243,060**	200,740	**227,111**	187,410
	247,063	204,910	**231,114**	191,580

Cash and cash equivalents include restricted balances of $116.341 million (2016: $80.817 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 and cash on deposits and call accounts with 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 rate method.

Notes to the statements of cash flows

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

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Profit after tax from continuing operations	**55,874**	51,664	**49,650**	53,027
Adjustments for:				
Depreciation and amortisation	**17,462**	14,977	**17,453**	14,971
Impairment of loans and advances	**6,266**	4,226	**6,266**	4,226
Net interest on loans and advances	**6,690**	5,082	**6,690**	5,083
Net gain on financial assets - fair value through profit or loss	**(1,517)**	370	**-**	-
Derivative financial instruments (unrealised)	**(5,508)**	(2,730)	**(5,508)**	(2,730)
Other non-cash items	**268**	(49)	**268**	(44)
Changes in:				
(Increase)/decrease loans and advances	**(348,901)**	(810,298)	**(348,901)**	(810,298)
(Increase)/decrease financial assets	**(455,694)**	(43,402)	**(472,580)**	(32,875)
(Increase)/decrease deferred tax assets	**4,639**	3,562	**4,418**	2,770
(Increase)/decrease other assets	**(9,240)**	(840)	**(8,486)**	(1,303)
Increase/(decrease) deposits	**432,906**	549,672	**433,049**	549,428
Increase/(decrease) insurance policy liabilities	**5,378**	9,637	**-**	-
Increase/(decrease) income tax payable	**2,777**	3,616	**1,190**	5,238
Increase/(decrease) provisions	**1,150**	279	**1,150**	279
Increase/(decrease) other liabilities	**(4,747)**	(378)	**(627)**	65
Net cash provided by/(used in) operating activities	**(292,197)**	(214,612)	**(315,968)**	(212,163)

4.2 Financial assets

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Fair value through profit or loss				
Term deposits	**12,445**	30,017	**-**	-
Floating rate notes	**-**	24,544	**-**	-
Mortgage-backed securities	**8,424**	14,632	**-**	-
Australian listed equities*	**4,883**	-	**-**	-
Investment in unlisted unit trusts:*				
Fixed interest and other debt securities	**45,163**	-	**-**	-
Property	**5,877**	-	**-**	-
International equities	**3,676**	-	**-**	-
	80,468	69,193	**-**	-
Held to maturity				
Deposits	**565,552**	442,192	**565,552**	442,192
Fixed coupon bonds	**7,204**	-	**7,204**	-
Floating rate notes	**1,170,440**	853,509	**1,170,440**	853,509
Mortgage-backed securities	**-**	-	**676,452**	649,827
	1,743,196	1,295,701	**2,419,648**	1,945,528
Available for sale				
Shares in unlisted entities	**42,890**	37,030	**42,890**	37,030

* During the year, the Group appointed an external Fund Manager under the terms of a Board approved investment mandate.

There have been no reclassification or derecognition of financial assets during the year.

Recognition and measurement

Fair value through profit or loss

Financial assets in this category relate to investments backing insurance liabilities (refer to Note 6 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.

Held to maturity

Financial assets classified as held to maturity (HTM) represent selected notes and deposits with ADIs and mortgage-backed securities and are measured at amortised cost using the effective interest rate 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.

Available for sale

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

Gains and losses on AFS 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.

4.2 Financial assets (continued)

Recognition and measurement (continued)

Available for sale (continued)

AFS investments 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, subject to impairment testing.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the counterparties or borrowers or a group of counterparties or borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flow arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

4.3 Deposits

	Group		**Credit Union**	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Members' shares	**3,418**	3,495	**3,418**	3,495
Members' call deposits	**5,426,088**	4,916,551	**5,426,206**	4,916,526
Members' term deposits	**3,330,605**	3,407,159	**3,330,605**	3,407,159
	8,760,111	8,327,205	**8,760,229**	8,327,180

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 rate method.

4.4 Borrowings

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Securitisation trust borrowings	**1,588,867**	991,606	**2,248,379**	1,641,434
Securitisation warehouse borrowings	**546,390**	855,602	**563,331**	855,602
Term borrowings	**1,765,265**	1,694,662	**1,772,777**	1,707,951
	3,900,522	3,541,870	**4,584,487**	4,204,987

For recognition and measurement details, refer to Note 4.3.

4.5 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	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
(i) Overdraft				
Approved limit	**10,000**	10,000	**10,000**	10,000
Amount utilised	**-**	-	**-**	-
(ii) Waratah Finance Pty Ltd				
Approved limit	**485,500**	561,600	**485,500**	561,600
Amount utilised	**107,922**	460,320	**107,922**	460,320
(iii) Westpac Banking Corporation				
Approved limit	**460,000**	400,000	**460,000**	400,000
Amount utilised	**242,648**	392,498	**242,648**	392,498
(iv) Australia and New Zealand Banking Group				
Approved limit	**500,000**	-	**500,000**	-
Amount utilised	**194,458**	-	**194,458**	-
(v) Reserve Bank of Australia (internal securitisation)				
Approved limit	**562,101**	553,384	**562,101**	553,384
Amount utilised	**-**	-	**-**	-

5. Risk and capital management

5.1 Risk management

The Credit Union's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, including setting the risk appetite for the Credit Union.

The Board has established four committees to help it perform its role of overseeing risk management for the Credit Union: (i) the Board Risk Committee (BRC); (ii) the Board Audit Committee (BAC); (iii) the Board Strategy and Innovation Committee (BSIC); and (iv) the Board Remuneration Committee (BRem), 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 has established four key management committees for monitoring risk across the Group and report material risks upwards to enable the Board to meet its responsibilities: (i) Enterprise Risk Committee (ERCO), responsible for the Group's enterprise-wide risk management framework; (ii) Assets and Liability Committee (ALCO), responsible for capital and balance sheet risk including treasury credit, liquidity and market risk (iii) Operational Risk and Compliance Committee (ORCC) responsible for monitoring and managing the operational risk, business continuity and compliance framework; and (iv) Credit Risk Committee (CRC) responsible for providing credit risk oversight.

The Credit Union applies the Three Lines of Defence (3LOD) model that articulates our key layers of risk management. The design of our model defines roles, accountabilities, and responsibilities for each layer. Under the first line of defence, operational management is responsible for identifying and managing risks directly. 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. Internal audit forms the third line of defence and provides independent assurance over the performance of both first and second lines in managing risk.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Details on the Group's approach to managing insurance risk are contained in Note 6.3. Details on the Group's approach to managing financial risks are outlined below.

5.1 Risk management (continued)

(a) Market risk

Interest rate risk

The Group is exposed to interest rate risk, which is the risk that changes in both market rates and prices result in profits and losses for a financial institution. Market risk management is based on the level and control of this risk aligned to the risk appetite of the Board in order to minimise within tolerance as outlined by policy.

The Group is exposed to the risk of interest rate fluctuations due to underlying mismatch in the timing and source of repricing of interest rates across all financial products.

Group **Repricing period at 30 June 2017**	**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	**243,060**	**-**	**-**	**-**	**4,003**	**247,063**
Financial assets - fair value through profit or loss	**8,424**	**12,445**	**-**	**-**	**59,599**	**80,468**
Financial assets - held to maturity	**1,735,992**	**7,204**	**-**	**-**	**-**	**1,743,196**
Derivative financial instruments	**-**	**-**	**714**	**-**	**-**	**714**
Loans and advances (Gross)	**7,759,547**	**1,151,852**	**2,439,441**	**173,433**	**-**	**11,524,273**
Financial assets - available for sale	**-**	**-**	**-**	**-**	**42,890**	**42,890**
	9,747,023	**1,171,501**	**2,440,155**	**173,433**	**106,492**	**13,638,604**
Liabilities						
Deposits	**5,429,506**	**3,074,075**	**256,530**	**-**	**-**	**8,760,111**
Derivative financial instruments	**-**	**2,860**	**1,577**	**-**	**-**	**4,437**
Borrowings	**2,135,257**	**1,765,265**	**-**	**-**	**-**	**3,900,522**
Commitments (Note 7.10)	**482,093**	**-**	**-**	**-**	**42,411**	**524,504**
	8,046,856	**4,842,200**	**258,107**	**-**	**42,411**	**13,189,574**

Group **Repricing period at 30 June 2016**	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	200,740	-	-	-	4,170	204,910
Financial assets - fair value through profit or loss	-	69,193	-	-	-	69,193
Financial assets - held to maturity	1,295,701	-	-	-	-	1,295,701
Loans and advances (Gross)	7,008,543	1,753,334	2,265,247	161,326	-	11,188,450
Financial assets - available for sale	-	-	-	-	37,030	37,030
	8,504,984	1,822,527	2,265,247	161,326	41,200	12,795,284
Liabilities						
Deposits	4,920,046	3,019,511	387,648	-	-	8,327,205
Derivative financial instruments	-	21,281	-	-	-	21,281
Borrowings	1,847,208	1,691,662	3,000	-	-	3,541,870
Commitments (Note 7.10)	523,716	-	-	-	62,913	586,629
	7,290,970	4,732,454	390,648	-	62,913	12,476,985

5.1 Risk management (continued)

(a) Market risk (continued)

Interest rate risk (continued)

Credit Union **Repricing period at 30 June 2017**	**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	**227,111**	**-**	**-**	**-**	**4,003**	**231,114**
Financial assets - held to maturity	**2,412,444**	**7,204**	**-**	**-**	**-**	**2,419,648**
Derivative financial instruments	**-**	**-**	**714**	**-**	**-**	**714**
Loans and advances (Gross)	**7,759,547**	**1,151,852**	**2,439,441**	**173,433**	**-**	**11,524,273**
Financial assets - available for sale	**-**	**-**	**-**	**-**	**42,890**	**42,890**
	10,399,102	**1,159,056**	**2,440,155**	**173,433**	**46,893**	**14,218,639**
Liabilities						
Deposits	**5,429,624**	**3,074,075**	**256,530**	**-**	**-**	**8,760,229**
Derivative financial instruments	**-**	**2,860**	**1,577**	**-**	**-**	**4,437**
Borrowings	**2,811,710**	**1,772,777**	**-**	**-**	**-**	**4,584,487**
Commitments (Note 7.10)	**482,093**	**-**	**-**	**-**	**42,411**	**524,504**
	8,723,427	**4,849,712**	**258,107**	**-**	**42,411**	**13,873,657**

Credit Union **Repricing period at 30 June 2016**	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	187,410	-	-	-	4,170	191,580
Financial assets - held to maturity	1,945,528	-	-	-	-	1,945,528
Loans and advances (Gross)	7,008,543	1,753,334	2,265,247	161,326	-	11,188,450
Financial assets - available for sale	-	-	-	-	37,030	37,030
	9,141,481	1,753,334	2,265,247	161,326	41,200	13,362,588
Liabilities						
Deposits	4,920,021	3,019,511	387,648	-	-	8,327,180
Derivative financial instruments	-	21,281	-	-	-	21,281
Borrowings	2,497,035	1,704,952	3,000	-	-	4,204,987
Commitments (Note 7.10)	523,716	-	-	-	62,913	586,629
	7,940,772	4,745,744	390,648	-	62,913	13,140,077

Value at Risk (VaR)

The Credit Union uses the Value at Risk (VaR) methodology to quantify interest rate risk in the banking book (IRRBB). VaR measures the theoretical loss in the economic value of the balance sheet based on historical movements in interest rates. VaR is calculated using a historical valuation approach over a 20-day time horizon at a 99% confidence level using 1,500 business days of historical data.

The policy of the Credit Union is to set a maximum VaR as a percentage of its equity that is acceptable to the Board given its risk appetite and objectives. Hedges assist in maintaining the VaR within acceptable limits as set by the Board. The VaR has remained within the Board limits through the year.

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. During the year Credit Union transitioned to a new

5.1 Risk management (continued)

(a) Market risk (continued)

Value at Risk (VaR) (continued)

methodology for calculating VaR that better aligns with industry practice. The previous methodology was based on total market value whereas the current methodology is based on funding centre value to isolate and measure the interest rate risk that Treasury manage.

	2017		2016	
	$'000	**%**	$'000	%
Average	**8,472**	**0.97%**	12,846	1.55%
Maximum	**12,382**	**1.40%**	13,925	1.69%
Minimum	**4,306**	**0.48%**	11,296	1.41%

Price risk

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 Ltd.

The specialist asset managers aim to manage the impact of price risks through the use of consistent and carefully considered investment guidelines as approved by the Board of CUA Health Ltd.

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 Ltd.

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 - 2017	**2017**		2016	
	+10%	**-10%**	+10%	-10%
Judgments of reasonably possible movements	**$'000**	**$'000**	$'000	$'000
Australian listed equities	**376**	**(376)**	-	-
Investment in unlisted unit trusts	**669**	**(669)**	-	-
	1,045	**(1,045)**	-	-

5.1 Risk management (continued)

(b) Credit risk

Credit risk arises from the Group's lending activities, which includes residential mortgages, consumer loans, overdrafts and credit cards. Credit risk also arises from the financial instruments we hold for liquidity management purposes and to hedge interest rate risk.

The Group maintains a Credit Risk Management Framework encompassing:

- Our Risk Appetite for credit risk arising from various asset classes;
- Our Risk Management Strategy which articulates the governance and risk management activities we employ with respect to credit risk;
- Credit Risk Policies and Guidance covering the various stages in the credit life cycle;
- Reporting and analysis provided to senior management and the Board;
- Stress testing to better understand the impact of severe but plausible stresses on our credit portfolios;
- Credit review processes to ensures loan assessment policies and other activities are being implemented effectively; and
- Continuous monitoring of credit quality to assess for impairment and the need to raise adequate provisions.

Maximum credit exposure

Credit exposures are capped to the carrying value reported on the balance sheet for the related assets. The table below 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.

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

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 2017 the fair value of collateral held against these loans and advances that have been individually assessed as impaired is $5.856 million (2016: $8.990 million). It has not been practicable to determine the fair value of the collateral held as security against 'Past due but not impaired loans' or 'Neither past due nor impaired loans'.

During the year, the Credit Union took possession of properties valued at $11.805 million (2016: $3.497 million) which were securing loans of $9.213 million (2016: $3.158 million).

Asset Quality

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 139 *Financial Instruments: Recognition and Measurement* and APRA's APS 220 *Credit Quality*.

The Credit Union manages the credit quality of financial assets using internal credit ratings. All loans and advances are reviewed and graded according to the anticipated level of credit risk and the following classifications have been adopted:

Neither past due nor impaired have been classed into the following categories: 'High grade' loans which are investment grade, 'Standard grade' loans represent performing loans and 'Sub-standard grade' loans which are non-performing.

'Restructured loans' are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members. These loans are classified as "neither past due nor impaired".

5.1 Risk management (continued)

(b) Credit risk (continued)

Asset Quality (continued)

'Past due but not impaired loans' are loans for which contractual interest or principal payments are past due but the Credit Union believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

'Impaired loans' are loans and advances where the full recovery of outstanding principal and interest is considered doubtful.

Credit Union 2017	**Past due but not impaired**			
	Less than 28 days	**28-90 days**	**More than 90 days**	**Total**
Class of asset	**$'000**	**$'000**	**$'000**	**$'000**
Loans held at amortised cost	**161,564**	**34,255**	**3,126**	**198,945**

Credit Union 2016	Past due but not impaired			
	Less than 28 days	28-90 days	More than 90 days	Total
Class of asset	$'000	$'000	$'000	$'000
Loans held at amortised cost	186,848	45,154	6,173	238,175

Group - 2017	**Neither past due nor impaired**			**Past due but not impaired**	**Impaired**	**Total**
	High grade	**Standard grade**	**Sub-standard grade**			
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash and cash equivalents	**247,063**	**-**	**-**	**-**	**-**	**247,063**
Financial assets - fair value through profit or loss	**75,585**	**-**	**-**	**-**	**-**	**75,585**
Financial assets - held to maturity	**1,743,196**	**-**	**-**	**-**	**-**	**1,743,196**
Derivative financial instruments	**714**	**-**	**-**	**-**	**-**	**714**
Loans and advances (Gross):						
Residential mortgages	**-**	**10,291,571**	**407,728**	**177,947**	**74,354**	**10,951,600**
Commercial lending	**-**	**33,358**	**504**	**39**	**395**	**34,296**
Personal lending	**-**	**462,100**	**48,899**	**20,959**	**6,419**	**538,377**
	2,066,558	**10,787,029**	**457,131**	**198,945**	**81,168**	**13,590,831**

Group - 2016	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Standard grade	Sub-standard grade			
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	204,910	-	-	-	-	204,910
Financial assets - fair value through profit or loss	69,193	-	-	-	-	69,193
Financial assets - held to maturity	1,295,701	-	-	-	-	1,295,701
Loans and advances (Gross):						
Residential mortgages	-	10,076,127	340,501	219,374	61,791	10,697,793
Commercial lending	-	32,010	501	533	436	33,480
Personal lending	-	414,683	20,720	18,268	3,506	457,177
	1,569,804	10,522,820	361,722	238,175	65,733	12,758,254

5.1 Risk management (continued)

(b) Credit risk (continued)

Asset Quality (continued)

Credit Union - 2017	**Neither past due nor impaired**			**Past due but not impaired**	**Impaired**	**Total**
	High grade	**Standard grade**	**Sub-standard grade**			
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash and cash equivalents	**231,114**	**-**	**-**	**-**	**-**	**231,114**
Financial assets - held to maturity	**2,419,648**	**-**	**-**	**-**	**-**	**2,419,648**
Derivative financial instruments	**714**	**-**	**-**	**-**	**-**	**714**
Loans and advances (Gross):						
Residential mortgages	**-**	**10,291,571**	**407,728**	**177,947**	**74,354**	**10,951,600**
Commercial lending	**-**	**33,358**	**504**	**39**	**395**	**34,296**
Personal lending	**-**	**462,100**	**48,899**	**20,959**	**6,419**	**538,377**
	2,651,476	**10,787,029**	**457,131**	**198,945**	**81,168**	**14,175,749**

Credit Union - 2016	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Standard grade	Sub-standard grade			
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	191,580	-	-	-	-	191,580
Financial assets - held to maturity	1,945,528	-	-	-	-	1,945,528
Loans and advances (Gross):						
Residential mortgages	-	10,076,127	340,501	219,374	61,791	10,697,793
Commercial lending	-	32,010	501	533	436	33,480
Personal lending	-	414,683	20,720	18,268	3,506	457,177
	2,137,108	10,522,820	361,722	238,175	65,733	13,325,558

Credit risk – loan portfolio

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

Credit Union	**2017**	2016
	$'000	$'000
LVR 0% - 60%	**3,120,521**	2,901,550
LVR 60.01% - 80%	**5,620,361**	5,504,189
LVR 80.01% - 90%	**1,626,036**	1,594,605
LVR 90.01% - 100%	**564,338**	681,150
LVR > 100%	**20,344**	16,299
	10,951,600	10,697,793

Credit risk – geographical analysis

The 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 through the eastern states. Management undertakes periodic exercises including stress testing and geographic analysis

5.1 Risk management (continued)

(b) Credit risk (continued)

Credit risk – geographical analysis (continued)

to better understand the impact of concentration risk within the 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	**2017**		2016	
	Housing loans	**Other loans**	Housing loans	Other loans
State	**$'000**	**$'000**	$'000	$'000
Queensland	**4,320,678**	**285,483**	4,364,235	250,569
New South Wales	**3,269,433**	**147,896**	3,156,150	130,249
Victoria	**2,430,845**	**101,060**	2,342,596	83,941
Western Australia	**633,839**	**23,503**	584,224	15,419
Australian Capital Territory	**151,278**	**6,063**	138,859	4,813
South Australia	**105,386**	**4,485**	78,251	2,363
Tasmania	**18,623**	**1,609**	15,938	1,054
Northern Territory	**15,162**	**1,508**	14,502	1,487
Other	**6,356**	**1,066**	3,038	762
	10,951,600	**572,673**	10,697,793	490,657

Credit risk – counterparty concentration

Counterparty concentration risk is monitored daily by Treasury and the Risk Management Division, and monthly by the Asset and Liability Committee. 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.

(c) Liquidity and funding risk

Liquidity 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.

The ALCO maintains oversight of asset and liability management including liquidity management. The Group's liquidity policies are approved by the Board on the recommendation of the ALCO. Policies and limits are consistent with the requirements of APRA's APS 210 *Liquidity*. During the past and the previous year the Credit Union did not breach these requirements.

Funding and liquidity management is performed centrally within the Treasury Department, with oversight from the Risk Division, ALCO and Board. Treasury manages liquidity on a daily basis and Risk provides daily information to the Chief Financial Officer and Chief Risk Officer, and monthly information to both ALCO and the Board. 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. The Group manages the funding risk through a range of key metrics around diversification, duration and capacity.

5.1 Risk management (continued)

(c) Liquidity and funding risk (continued)

The following table shows the expected cash flow liquidity analysis for different monetary liabilities 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 - 2017	Carrying Amount $'000	Gross nominal 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	3,418	3,418	3,418	-	-	-	-
Members' call deposits	5,426,088	5,426,088	5,426,088	-	-	-	-
Members' term deposits	3,330,605	3,406,869	399,618	548,408	2,202,945	255,898	-
Borrowings	3,900,522	4,198,655	222,502	570,584	1,036,388	1,726,891	642,290
Total non-derivative financial liabilities	12,660,633	13,035,030	6,051,626	1,118,992	3,239,333	1,982,789	642,290
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	38,469	38,469	3,617	4,643	14,823	15,386	-
Inflow	(34,032)	(34,032)	(2,086)	(3,507)	(12,395)	(16,044)	-
Total derivative financial liabilities	4,437	4,437	1,531	1,136	2,428	(658)	-
Financial asset by type[1]							
Non-derivative financial assets							
Cash and cash equivalents	247,063	247,063	247,063	-	-	-	-
Financial assets - fair value through profit or loss[3]	80,468	80,468	3,564	4,371	4,518	-	68,015
Financial assets - held to maturity	1,743,196	1,743,196	118,443	575,012	383,971	665,770	-
Loans and advances	11,530,359	11,530,359	203	24,148	9,700	282,531	11,213,777
Financials assets – available for sale	42,890	42,890	-	-	-	-	42,890
Total non-derivative financial assets	13,643,976	13,643,976	369,273	603,531	398,189	948,301	11,324,682
Derivative financial assets							
Interest rate swaps[2]							
Outflow	(15,029)	(15,029)	(498)	(1,245)	(5,776)	(7,510)	-
Inflow	15,743	15,743	512	1,181	5,633	8,417	-
Total derivative financial assets	714	714	14	(64)	(143)	907	-

[1] The financial assets have been presented based on the remaining contractual maturities.

[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

[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.

5.1 Risk management (continued)

(c) Liquidity and funding risk (continued)

Group - 2016	Carrying Amount $'000	Gross nominal 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	3,495	3,495	3,495	-	-	-	-
Members' call deposits	4,916,551	4,916,551	4,916,551	-	-	-	-
Members' term deposits	3,407,159	3,507,958	458,076	653,421	1,999,517	396,944	-
Borrowings	3,541,870	3,763,222	396,066	528,636	945,845	987,921	904,754
Total non-derivative financial liabilities	11,869,075	12,191,226	5,774,188	1,182,057	2,945,362	1,384,865	904,754
Derivative financial liabilities							
Interest rate swaps [2]							
Outflow	21,281	21,543	1,514	3,449	11,879	4,701	-
Total derivative financial liabilities	21,281	21,543	1,514	3,449	11,879	4,701	-
Financial asset by type [1]							
Non-derivative financial assets							
Cash and cash equivalents	204,910	204,910	204,910	-	-	-	-
Financial assets - fair value through profit or loss	69,193	69,193	6,298	11,772	12,952	23,413	14,758
Financial assets - held to maturity	1,295,701	1,295,701	133,594	407,966	199,909	554,232	-
Loans and advances	11,193,075	11,193,075	1,221	710	5,659	298,666	10,886,819
Financials assets – available for sale	37,030	37,030	-	-	-	-	37,030
Total non-derivative financial assets	12,799,909	12,799,909	346,023	420,448	218,520	876,311	10,938,607

[1] The financial assets have been presented based on the remaining contractual maturities.

[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

5.1 Risk management (continued)

(c) Liquidity and funding risk (continued)

Credit Union - 2017	Carrying Amount $'000	Gross nominal 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	3,418	3,418	3,418	-	-	-	-
Members' call deposits	5,426,206	5,426,206	5,426,206	-	-	-	-
Members' term deposits	3,330,605	3,406,869	399,618	548,408	2,202,945	255,898	-
Borrowings	4,584,487	4,950,540	243,491	598,114	1,143,670	2,068,672	896,593
Total non-derivative financial liabilities	13,344,716	13,787,033	6,072,733	1,146,522	3,346,615	2,324,570	896,593
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	38,469	38,469	3,617	4,643	14,823	15,386	-
Inflow	(34,032)	(34,032)	(2,086)	(3,507)	(12,395)	(16,044)	-
Total derivative financial liabilities	4,437	4,437	1,531	1,136	2,428	(658)	-
Financial asset by type[1]							
Non-derivative financial assets							
Cash and cash equivalents	231,114	231,114	231,114	-	-	-	-
Financial assets - held to maturity	2,419,648	2,419,648	119,478	575,012	383,971	665,770	675,417
Loans and advances	11,530,359	11,530,359	203	24,148	9,700	282,531	11,213,777
Financials assets – available for sale	42,890	42,890	-	-	-	-	42,890
Total non-derivative financial assets	14,224,011	14,224,011	350,795	599,160	393,671	948,301	11,932,084
Derivative financial assets							
Interest rate swaps[2]							
Outflow	(15,029)	(15,029)	(498)	(1,245)	(5,776)	(7,510)	-
Inflow	15,743	15,743	512	1,181	5,633	8,417	-
Total derivative financial assets	714	714	14	(64)	(143)	907	-

[1] The financial assets have been presented based on the remaining contractual maturities.

[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

5.1 Risk management (continued)

(c) Liquidity and funding risk (continued)

Credit Union – 2016	Carrying Amount $'000	Gross nominal 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	3,495	3,495	3,495	-	-	-	-
Members' call deposits	4,916,526	4,916,526	4,916,526	-	-	-	-
Members' term deposits	3,407,159	3,507,958	458,076	653,421	1,999,517	396,944	-
Borrowings	4,204,987	4,463,142	410,693	554,787	1,037,732	1,057,236	1,402,694
Total non-derivative financial liabilities	12,532,167	12,891,121	5,788,790	1,208,208	3,037,249	1,454,180	1,402,694
Derivative financial liabilities							
Interest rate swaps [2]							
Outflow	21,281	21,543	1,514	3,449	11,879	4,701	-
Total derivative financial liabilities	21,281	21,543	1,514	3,449	11,879	4,701	-
Financial asset by type [1]							
Non-derivative financial assets							
Cash and cash equivalents	191,580	191,580	191,580	-	-	-	-
Financial assets - held to maturity	1,945,528	1,945,528	134,565	407,858	199,856	554,084	649,165
Loans and advances	11,193,075	11,193,075	1,221	710	5,659	298,666	10,886,819
Financials assets – available for sale	37,030	37,030	-	-	-	-	37,030
Total non-derivative financial assets	13,367,213	13,367,213	327,366	408,568	205,515	852,750	11,573,014

[1] The financial assets have been presented based on the remaining contractual maturities.

[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

5.2 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 past year and the previous year, the Credit Union has complied in full with all its externally imposed capital requirements.

The elements of capital are analysed as follows:

Qualifying capital	**Banking Group***	
	As at 30 June 2017	As at 30 June 2016
	$'000	$'000
Common equity tier 1 capital		
Retained profits, including current year profits	**865,907**	817,175
Reserves	**25,643**	11,915
Total common equity tier 1 capital	**891,550**	829,090
Regulatory adjustments		
Intangibles	**(67,982)**	(65,956)
Equity investments	**(47,023)**	(39,830)
Other deductions	**(19,312)**	(3,018)
Total regulatory adjustments	**(134,317)**	(108,804)
Net common equity tier 1 capital	**757,233**	720,286
Tier 2 capital		
General reserve for credit losses	**20,477**	20,176
Net tier 2 capital	**20,477**	20,176
Capital base	**777,709**	740,462
Risk weighted assets	**5,447,937**	5,200,360
Risk weighted capital ratios		
Tier 1	**13.90%**	13.85%
Tier 2	**0.38%**	0.39%
Total capital ratio	**14.28%**	14.24%

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

5.3 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 pay fixed receive floating 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.

The following table summarises the notional and fair value 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 table below sets out the fair values of the derivative financial instruments.

Credit Union	**Assets 2017 $'000**	**Liabilities 2017 $'000**	**Notional amount 2017 $'000**	Assets 2016 $'000	Liabilities 2016 $'000	Notional amount 2016 $'000
Derivatives used as cash flow hedges						
Interest rate swaps	**714**	**4,437**	**1,461,500**	-	21,281	2,260,500

(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, 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.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

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.

5.3 Derivative financial instruments (continued)

(b) Accounting for derivatives (continued)

Cash flow hedges (continued)

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

Credit Union	**2017 $'000**	2016 $'000
Net gain/(loss) on derivatives reclassified through profit or loss	**10**	(65)
Net gain/(loss) on ineffective hedges	**(7)**	(2)
Net gain/(loss) on derivatives at fair value through profit or loss	**3**	(67)

6. Insurance business

6.1 Key financial information

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

	Group	
	2017 $'000	2016 $'000
Income statement extract		
Net premium revenue	**155,318**	145,056
Claims expense	**(131,302)**	(130,003)
Net investment income	**1,876**	2,383
Net insurance income	**25,892**	17,436
Balance sheet extract		
Assets		
Investments backing insurance liabilities	**80,468**	69,193
Deferred acquisition costs	**1,327**	1,802
Rebate receivable from health insurance commission	**3,471**	3,204
Receivable from Risk Equalisation Trust Fund	**1,662**	1,310
Liabilities		
Unearned premiums	**24,660**	19,595
Outstanding claims liabilities	**11,889**	13,176

The outstanding claims liabilities represent a combination of a central estimate, risk margin, allowance for claims handling expenses and a probability of adequacy of at least 75% (2016: 75%) for both companies. The risk margins are 7% (2016: 7%) and 8%-15% (2016: 8%-15%) respectively for CHL and CCI.

6.2 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 statement of profit and loss and other comprehensive income within net investment income in the period in which they arise.

Trust distributions and dividend income derived from financial assets at fair value through profit or loss is recognised in the statement of profit and loss and other comprehensive income 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 and is also included within net investment income.

6.2 Key insurance accounting policies (continued)

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 profit or loss 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 the provision of the 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.

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 2017 and 30 June 2016.

6.2 Key insurance accounting policies (continued)

Unexpired risk liability (continued)

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.

6.3 Insurance risk

CUA Health Ltd

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, 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 CCI 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.

CCI's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across three classes of business 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.

6.4 Capital management

CUA Health Ltd

The CHL's board 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. There has been no breach of externally imposed capital requirements during the year (2016: nil).

	2017 $'000	2016 $'000
Capital Adequacy Standard		
Excess assets: Quantum of Assets Test	**55,768**	48,198
Solvency standard		
Excess qualifying assets: Solvency Test	**11,696**	5,072

Credicorp Insurance Pty Ltd

The CCI's board 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 CCI 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 CCI 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 $5.000 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. CCI has not breached any externally imposed capital requirements during the year (2016: nil).

CCI has set out in its Internal Capital Adequacy Assessment Process (ICAAP), a targeted minimum capital amount equal to the greater of $6.000 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*. CCI 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 CCI Board on a regular basis.

	2017 $'000	2016 $'000
Prescribed Capital Amount per APRA	**5,000**	5,000
Targeted minimum capital amount per ICAAP	**6,683**	6,129
Capital base	**8,252**	7,538

7. Other notes

7.1 Property, plant and equipment

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
At cost/fair value	**60,839**	57,719	**60,797**	57,677
Accumulated depreciation	**(43,534)**	(38,589)	**(43,501)**	(38,559)
Total property, plant and equipment	**17,305**	19,130	**17,296**	19,118

All property, plant and equipment balances at 30 June 2017 and 30 June 2016 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 are as follows:

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

7.2 Intangible assets

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
At cost	**101,226**	90,995	**100,842**	90,910
Accumulated amortisation	**(38,816)**	(27,977)	**(38,729)**	(27,894)
Intangible assets	**62,410**	63,018	**62,113**	63,016
Capital work in progress	**5,945**	2,636	**5,945**	2,636
Total intangible assets	**68,355**	65,654	**68,058**	65,652
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**65,654**	54,480	**65,652**	54,475
Additions	**10,231**	21,780	**9,932**	21,780
Net movement in capital work in progress	**3,309**	(3,410)	**3,309**	(3,410)
Amortisation	**(10,839)**	(7,196)	**(10,835)**	(7,193)
Carrying amount at end of financial year	**68,355**	65,654	**68,058**	65,652

All intangible asset balances at 30 June 2017 and 30 June 2016 are non-current.

During the 2017 financial year, additional functionalities relating to the Group's loan origination system and other digital initiatives were finalised and launched. Amounts previously carried in capital work in progress have been transferred to intangible assets and amortised in accordance with the accounting policy below.

7.2 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 2017, the carrying amount of this software was $35.660 million (2016: $40.742 million). If the useful life was only seven years, the carrying amount would be $26.685 million as at 30 June 2017. If the useful life was estimated to be 12 years, the carrying amount would be $39.143 million as at 30 June 2017.

7.3 Other assets

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Deferred acquisition costs	**1,327**	1,802	**-**	-
Rebate receivable from health insurance commission	**3,471**	3,204	**-**	-
Receivable from Risk Equalisation Trust Fund	**1,662**	1,310	**-**	-
Sundry debtors	**8,437**	3,345	**6,667**	2,027
Prepayments	**4,372**	1,926	**4,212**	1,905
	19,269	11,587	**10,879**	3,932

All other asset balances at 30 June 2017 and 30 June 2016 are current.

7.4 Other liabilities

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Trade creditors and accruals	**25,070**	27,414	**25,345**	25,167
Straight-line lease liability	**9,516**	10,144	**9,516**	10,144
Unearned insurance premiums	**24,660**	19,595	**-**	-
Outstanding insurance claims liabilities	**11,889**	13,176	**-**	-
Income tax payable	**7,547**	4,770	**5,420**	4,230
	78,682	75,099	**40,281**	39,541

Except for straight-line lease liability, all other liability balances at 30 June 2017 and 30 June 2016 are current. The current and non-current balances in respect to the lease liability are as follows: current lease liability $0.852 million (2016: $0.777 million), non-current lease liability $8.664 million (2016: $9.367 million).

7.5 Provisions

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Employee benefits	**15,992**	14,952	**15,992**	14,952
Make good provision	**4,538**	4,049	**4,538**	4,049
	20,530	19,001	**20,530**	19,001
Current	**14,865**	13,526	**14,865**	13,526
Non-current	**5,665**	5,475	**5,665**	5,475
	20,530	19,001	**20,530**	19,001

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.

7.6 Reserves

	Group		Credit Union	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
General reserve for credit losses	**18,383**	18,383	**18,383**	18,383
Redeemed member share reserve	**2,830**	2,752	**2,830**	2,752
Available for sale reserve	**15,216**	13,618	**15,216**	13,618
Cash flow hedge reserve	**(1,993)**	(14,045)	**(1,993)**	(14,045)
Business combination reserve	**9,590**	9,590	**9,590**	9,590
	44,026	30,298	**44,026**	30,298

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 APS 220.

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 member shares for existing members is disclosed as a liability in Note 4.3.

Available for sale reserve

Comprises cumulative net change in fair value of available for sale financial assets, until 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.

7.7 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 - 2017	**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	**-**	**714**	**-**	**714**	**714**
Financial assets - fair value through profit or loss	**4,883**	**75,585**	**-**	**80,468**	**80,468**
Financial assets - available for sale	**-**	**-**	**42,890**	**42,890**	**42,890**
Financial assets for which fair values are disclosed					
Loans and advances	**-**	**-**	**11,306,130**	**11,306,130**	**11,530,359**
Financial liabilities measured at fair value					
Derivative financial instruments	**-**	**4,437**	**-**	**4,437**	**4,437**
Financial liabilities for which fair values are disclosed					
Deposits	**-**	**8,731,606**	**-**	**8,731,606**	**8,760,111**

Group - 2016	Fair value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value					
Financial assets - fair value through profit or loss	-	69,193	-	69,193	69,193
Financial assets - available for sale	-	-	37,030	37,030	37,030
Financial assets for which fair values are disclosed					
Loans and advances	-	-	11,072,104	11,072,104	11,193,075
Financial liabilities measured at fair value					
Derivative financial instruments	-	21,281	-	21,281	21,281
Financial liabilities for which fair values are disclosed					
Deposits	-	8,302,557	-	8,302,557	8,327,205

7.7 Fair value of financial instruments (continued)

Credit Union - 2017	**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	**-**	**714**	**-**	**714**	**714**
Financial assets - available for sale	**-**	**-**	**42,890**	**42,890**	**42,890**
Financial assets for which fair values are disclosed					
Loans and advances	**-**	**-**	**11,306,130**	**11,306,130**	**11,530,359**
Financial liabilities measured at fair value					
Derivative financial instruments	**-**	**4,437**	**-**	**4,437**	**4,437**
Financial liabilities for which fair values are disclosed					
Deposits	**-**	**8,731,724**	**-**	**8,731,724**	**8,760,229**

Credit Union - 2016	Fair value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value					
Financial assets - available for sale	-	-	37,030	37,030	37,030
Financial assets for which fair values are disclosed					
Loans and advances	-	-	11,072,104	11,072,104	11,193,075
Financial liabilities measured at fair value					
Derivative financial instruments	-	21,281	-	21,281	21,281
Financial liabilities for which fair values are disclosed					
Deposits	-	8,302,532	-	8,302,532	8,327,180

There were no transfers between levels in 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).
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.

7.7 Fair value of financial instruments (continued)

Fair value (continued)

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 general insurance assets backing general 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 priced (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, these 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;
- Understanding how the fair value has been arrived at, 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 Risk Committee.

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. 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 AFS at 30 June 2017 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 AFS investment is categorised at Level 3 in the fair value hierarchy given the unobservability of these valuation variables.

7.7 Fair value of financial instruments (continued)

Fair value (continued)

Financial assets - available for sale (continued)

Level 3 fair value measurement (continued)

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.

	Group and Credit Union	
	2017	2016
	$'000	$'000
Balance at 1 July	**37,030**	37,030
Purchases	**3,577**	-
Remeasurement recognised in OCI	**2,283**	-
Balance at 30 June	**42,890**	37,030

Loans and advances

The carrying value of loans, advances and other receivables is net of provisions for impairment. The fair value is 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.

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.

7.7 Fair value of financial instruments (continued)

Fair value (continued)

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.

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 at 30 June 2017 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.

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.

7.8 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	
	2017	2016	**2017**	2016
	$	$	**$**	$
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	**990,111**	818,725	**3,533,812**	4,004,933
- Post employment benefits	**242,168**	235,994	**162,149**	219,619
- Other long term benefits	**-**	-	**278,840**	373,625
- Termination benefits	**-**	-	**101,650**	426,238
	1,232,279	1,054,719	**4,076,451**	5,024,415

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

	2017	2016
	$	$
Aggregate of loans as at balance date	**6,233,662**	5,436,768
Total undrawn revolving credit facilities available at balance date	**129,381**	133,057
Interest charged on loans and overdraft facilities	**225,696**	116,660

The above table includes amounts for the Credit Union's Directors and other KMP in office or employed by the Credit Union's at balance date and their related parties. Directors and other KMP who resigned during the 2017 financial year are excluded from the 2017 analysis, but are included in the 2016 comparative analysis.

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 (2016: nil).

There are no benefits or concessional terms and conditions applicable to the family members of the Credit Union's Directors and other KMP (2016: 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 (2016: 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.

7.8 Related parties (continued)

(a) Key management personnel (continued)

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

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	**2017**	2016	**2017**	2016
CUA Health Ltd	**100%**	100%	**-**	-
Credicorp Finance Pty Ltd	**100%**	100%	**800**	800
Credicorp Insurance Pty Ltd	**100%**	100%		
CUA Management Pty Ltd*	**100%**	100%		
			800	800

* On 30 June 2017, CUA Financial Planning Pty Ltd changed its name to CUA Management Pty Ltd effective 30 June 2017.

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 2007-1 Harvey Trust (closed on 11 April 2017)
- Series 2012-1R Harvey Trust
- Series 2013-1 Harvey Trust
- Series 2015-1 Harvey Trust
- Series 2017-1 Harvey Trust (established on 21 June 2017)
- Harvey Warehouse Trust No.1
- Harvey Warehouse Trust No.3
- Harvey Warehouse Trust No. 4 (established on 11 November 2016)

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). 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.

7.8 Related parties (continued)

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

(ii) Securitisation (continued)

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	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Transferred financial assets				
Loans and advances at amortised cost	**2,720,096**	2,444,494	**2,720,096**	2,444,494
Associated financial liabilities				
Securitisation liabilities - external investors	**2,135,257**	1,847,208	**2,135,257**	1,847,208
Amounts due to the Credit Union	**-**	-	**686,653**	670,769
	2,135,257	1,847,208	**2,821,910**	2,517,977
For those liabilities that have recourse only to transferred assets:				
Fair value of transferred assets	**2,700,940**	2,427,782	**2,700,940**	2,427,782
Fair value of associated liabilities	**(2,135,257)**	(1,847,208)	**(2,821,910)**	(2,517,977)
Net position	**565,683**	580,574	**(120,970)**	(90,195)

Collateral

The Credit Union has advanced $4.000 million (2016: $4.000 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 $100.854 million and $31.533 million respectively (2016: $96.660 million and $27.600 million respectively).

(iv) Particulars in relation to a joint venture entity

The Group has a 50% interest in Mutual Marketplace Pty Ltd (MMP) (2016: Nil). For more details, refer to Note 7.9.

7.8 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	
	2017	2016
	$	$
Dividend revenue	**2,850,000**	3,500,000
Commission revenue	**2,820,853**	3,553,725
Net management fees	**2,718,082**	2,610,430
Net interest income/(expense)	**(301,460)**	(321,789)
Net income/(expense) Mutual Marketplace Pty Ltd[1]	**(15,807,964)**	-
Operating lease revenue	**308,457**	300,015

[1] The Credit Union entered into a joint arrangement to establish a procurement and accounts payable entity Mutual Marketplace Pty Ltd which commenced operations on 3 April 2017.

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

	Credit Union	
	2017	2016
	$	$
CUA Health Ltd	**(10,473,014)**	(11,099,310)
Credicorp Finance Pty Ltd	**(101,848)**	(102,270)
Credicorp Insurance Pty Ltd	**(2,218,738)**	(2,177,399)
CUA Management Pty Ltd[1]	**(592,388)**	(1,455,343)
Mutual Marketplace Pty Ltd[2]	**148,823**	-

[1] On 30 June 2017, CUA Financial Planning Pty Ltd changed its name to CUA Management Pty Ltd effective 30 June 2017.

[2] The Credit Union entered into a joint arrangement to establish a procurement and accounts payable entity Mutual Marketplace Pty Ltd which commenced operations on 3 April 2017.

(vi) Overdraft facility to a joint venture entity

The Credit Union has granted an overdraft facility of $1.500 million to Mutual Marketplace Pty Ltd which is intended for the joint venture's working capital requirements. Interest is charged at 7% per annum.

7.9 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 principle 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 2017. 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 their 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 2017	Nature of relationship	Measurement	Carrying amount 2017 $'000
Mutual Marketplace Pty Ltd	Australia	**50%**	Joint Venture	Equity Method	**1,333**

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

	2017 $'000
Commitments - joint venture	**15,497**
Commitment to provide funding for joint venture's capital commitment, if called	**1,500**
	16,997

The Group has commitments of $15.068 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	2017 $'000
Revenue	**23,140**
Cost of Sales	**(22,250)**
Gross profit	**890**
Operating Expenses	**(1,366)**
Loss before income tax	**(476)**
Income tax benefit	**143**
Loss for the year	**(333)**

7.9 Joint venture (continued)

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

Summarised balance sheet	2017 $'000
Total assets	**6,655**
Total liabilities	**(3,988)**
Net assets	**2,667**
Reconciliation to carrying amounts:	
Opening net assets 3 April 2017	**3,000**
Profit/(loss) for the period	**(333)**
Closing net assets	**2,667**
Group's Share in %	**50%**
Group's Share in $	**1,333**
Carrying Amount	**1,333**

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 joint venture is initially recognised at the 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.

7.10 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	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Within one year	**9,584**	14,647	**9,584**	14,647
After one but not more than five years	**30,637**	37,940	**30,637**	37,940
More than five years	**2,190**	10,326	**2,190**	10,326
	42,411	62,913	**42,411**	62,913

Some of the Credit Union's lease agreements are in the process of being assigned or novated to Mutual Marketplace Pty Ltd. Refer to Note 7.9 for disclosure regarding the Group's commitments relating to non-cancellable operating lease contracts entered into by the Group's interest in the joint venture.

(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	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Loans approved not advanced	**229,117**	298,462	**229,117**	298,462
Undrawn overdrafts and credit facilities at call	**252,976**	225,254	**252,976**	225,254
	482,093	523,716	**482,093**	523,716

(c) Capital commitments

At 30 June 2017, the Group had a commitment of $1.693 million (2016: $0.861 million) predominantly relating to IT related projects and branch fitouts.

(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.

7.11 Remuneration of auditors

The auditor of the Credit Union is KPMG.

	Group		Credit Union	
	2017	2016	**2017**	2016
	$	$	**$**	$
Amounts received or due and receivable by KPMG for:				
Audit services				
Audit of financial statements	**510,500**	384,500	**432,500**	318,500
Other regulatory and audit services	**152,500**	218,000	**82,500**	138,500
Total audit services	**663,000**	602,500	**515,000**	457,000
Audit related services	**141,500**	267,300	**141,500**	267,300
Non-audit services				
Tax compliance services	**-**	7,500	**-**	-
Other services	**48,673**	146,000	**48,673**	146,000
Total non-audit services	**48,673**	153,500	**48,673**	146,000
Total auditor's remuneration	**853,173**	1,023,300	**705,173**	870,300

7.12 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, 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.

7.13 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.

8. Accounting policies and new accounting standards

8.1 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.

8.1 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 CUA 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.

8.2 New accounting standards

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2016:

- AASB 2014-3 Amendments: Acquisition of interests in Joint Operations (AASB 1 & AASB 11)
- AASB 2014-9 Equity Method in separate financial statements
- AASB 2015-1 Annual Improvements to Australian Accounting Standards 2012–2014 Cycle
- AASB 2015-2 Disclosure Initiative: Amendments to AASB 101
- AASB 1057 Application of accounting standards as amended by AASB 2015-9

The application of these standards and amendments do not materially impact the annual consolidated financial statements.

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 2017 are outlined in the table below. Based on preliminary assessments and other than 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.

Reference	Title	Nature of change to accounting policy	Impact to the Group	Application date of standard *	Application date for Group *
AASB 2016-1	Amendments to AASB 112 Income Tax	These narrow scope amendments to AASB 112 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They do not change the underlying principles for the recognition of deferred tax assets.	The amendments are not expected to have a material impact on the Group.	1 January 2017	1 July 2017

8.2 New accounting standards (continued)

Reference	Title	Nature of change to accounting policy	Impact to the Group	Application date of standard *	Application date for Group *
AASB 2016-2	Amendments to AASB 107 Statement of Cash Flows	These narrow scope amendments to AASB 107 introduce additional disclosures that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments requires disclosures of changes arising from cash flows, such as draw down and repayments of borrowings and non-cash changes, such as acquisition, disposals and unrealised exchange differences.	The amendments are not expected to have a material impact on the Group as these amendments relate to additional disclosure requirements only.	1 January 2017	1 July 2017
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	Clarifies the scope of AASB 12 by specifying that the disclosure requirements apply to an entity's interest in other entities classified as held for sale or discontinued operations in accordance with AASB 5.	The amendments are not expected to have a material impact on the Group.	1 January 2017	1 July 2017
AASB 9	Financial Instruments	AASB 9 (December 2014) replaces AASB 139 and supersedes AASB 9 versions previously issued in December 2009 and December 2010. The new standard includes a model for classification and measurement, a single forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	The Group has carried out a preliminary impact assessment of the new standard. Please refer to the details of the impact assessment below.	1 January 2018	1 July 2018

8.2 New accounting standards (continued)

Reference	Title	Nature of change to accounting policy	Impact to the Group	Application date of standard *	Application date for Group *
AASB 15	Revenue from contracts with customers	AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. This standard replaces AASB 111 Construction Contracts, AASB 118 Revenue and related interpretations including AASB Interpretation 13 Customer Loyalty Programmes. AASB 2015-8 amended the AASB 15 effective date to commence on or after 1 January 2018. Early adoption is permitted. AASB 2014-15 incorporates the consequential amendments to a number of Australian Accounting Standards (including interpretations) arising from the issuance of AASB 15.	The Group is in the process of assessing the impact of the new standard but does not expect a significant impact as most of its revenues arise from the provision of financial, health insurance and general insurance services which are largely governed by other accounting standards.	1 January 2018	1 July 2018
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	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.	The amendments are not expected to have a material impact on the Group.	1 January 2018	1 July 2018
AASB 2016-6	Amendments to Australian Accounting Standards – Applying AASB 9 Financial instruments with AASB 4 Insurance Contracts	Amends AASB 4 to permit issuers of insurance contract to apply an overlay approach in applying AASB 9 and AASB 139 and temporarily exempt certain issuers from applying AASB 9. These amendments address concerns regarding the different effective dates of AASB 9 and AASB 17.	The amendments are not expected to have a material impact on the Group	1 January 2018	1 July 2018

8.2 New accounting standards (continued)

Reference	Title	Nature of change to accounting policy	Impact to the Group	Application date of standard *	Application date for Group *
AASB 16	Leases	AASB 16 was issued in February 2016. Early application is permitted for entities that apply AASB 15 Revenue from Contracts with Customers at or before the date of initial application of this standard. The key features of AASB 16 in respect of lessee accounting are as follows: • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • Assets and liabilities arising from a lease are initially measured on a present value basis taking into consideration the contractual lease period and likely optional periods. • A lessee subsequently measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.	The Group has previously carried out a preliminary impact assessment of the new standard based on its existing operating lease agreements resulting in the recognition of a new right of use asset and additional borrowings. In April 2017, the Credit Union entered into a joint arrangement to establish a procurement company (Mutual Marketplace Pty Ltd or MMP). The Credit Union's lease agreements are in the process of being assigned or novated to MMP. Management will reassess the impact of AASB 16 once the MMP novation process has been finalised.	1 January 2019	1 July 2019

8.2 New accounting standards (continued)

Reference	Title	Nature of change to accounting policy	Impact to the Group	Application date of standard *	Application date for Group *
AASB 17	Insurance Contracts	AASB 17 was released by the AASB on 20 July 2017 incorporating the recently published IFRS 17. The new standard will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. IFRS 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).	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.	1 January 2021	1 July 2021

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

AASB 9 Impact assessment

The Group has carried out a high level impact assessment of AASB 9 on the key areas and requirements of the standard as follows:

Classification and measurement

(i) Financial assets

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.

Key changes include the removal of the AASB 139 HTM and AFS asset categories. A new asset category measured at Fair Value through Other Comprehensive Income (FVOCI) is introduced. This applies to financial asset debt instruments with contractual cash flow characteristics that are solely payments of principle and interest and held in a model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Classification and measurement of financial assets will remain largely unchanged for the Credit Union with the HTM investments reclassified as amortised cost and FVOCI categories, and the AFS investment reclassified as FVOCI. There may be possible impacts that arise and this is dependent on the financial assets and liabilities at the date of transition.

8.2 New accounting standards (continued)

AASB 9 impact assessment (continued)

Classification and measurement (continued)

(ii) Financial liabilities

AASB 9 retains almost all of the existing requirements in AASB 139 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 (FVTPL) which is generally presented in other comprehensive income (OCI).

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.

Hedging

The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of groups of items as the hedged items based on closer alignment with risk management activities.

The new hedging requirements are not expected to impact materially on the Credit Union based on its existing interest rate swap contracts. There may be possible impacts that arise and this is dependent on the financial assets and liabilities at the date of transition.

Impairment

The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, 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.

The impact of the new impairment requirement is summarised below.

Preliminary assessment of impact on transition

The most significant impact associated with applying AASB 9 on the group financial statements is expected to arise from the impairment component of the standard. Based on the preliminary assessment carried out, there will be a decrease in net assets ranging from $2.352 million to $6.961 million depending on key risk parameters and assumptions applied in judgmental areas. The impact can be analysed as follows:

- an increase in collective provision by $3.359 million to $9.945 million
- an increase in deferred tax assets by $1.008 million to $2.983 million

Adjustments during the transition process will be recognised either in opening retained earnings or the general reserve for credit losses (GRCL).

It should be noted that the range of potential outcomes illustrated above are high level best estimates focused on material items at the time of calculation. Actual outcomes based on the size and credit characteristics of the portfolio prevailing on adoption of the standard may be higher or lower than these estimates.

On 4 July 2017, the Australian Prudential Regulation Authority (APRA) has issued a letter to all authorised deposit taking institutions (ADIs) setting out APRA's expectations around the regulatory treatment of the AASB 9 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 GRCL in the financial statements and other disclosures that may be required on transition.

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 11 to 70, 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 2017 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:

Alan Beanland
Chairman

Wayne Stevenson
Director

Brisbane
30 August 2017

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 or Credit Union).

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

- giving a true and fair view of the ***Group*** and Credit Union's financial position as at 30 June 2017 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 2017;
- 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
- Directors' Declaration.

The ***Group*** consists of the Credit Union 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 and the Credit Union 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 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 Credit Union's ability to continue as a going concern. 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 Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our 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 this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar7.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

John Teer
Partner

Brisbane
30 August 2017

Matthew McDonnell
Partner

Brisbane
30 August 2017

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