Keeping members at **our heart**

Personalising service you can trust

ANNUAL **REPORT 2018**

cua

BANKING | INSURANCE

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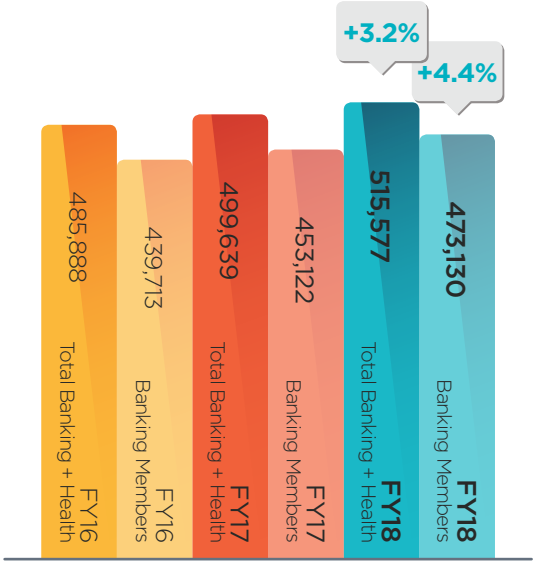

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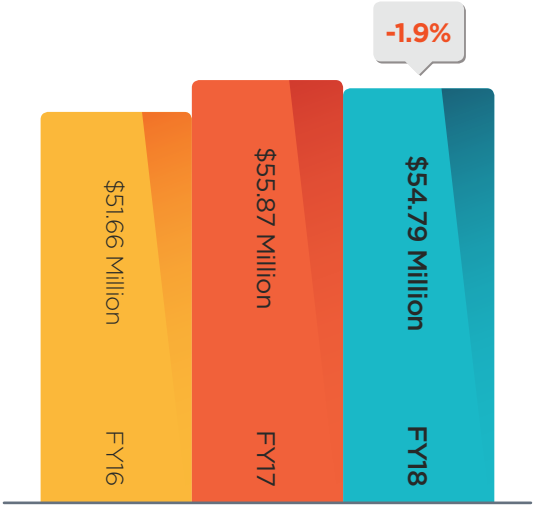

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A Message from our **Chairman & CEO**

The past financial year has been quite tumultuous for the financial services industry, both in terms of the challenging economic conditions and the revelations through the banking Royal Commission.

Much of the behaviour highlighted through the Royal Commission has been described as the result of a culture where the interests of shareholders are put ahead of the interests of consumers and the community.

As a member of CUA, you are both our customer and our owner, so we don't have the conflict of balancing competing interests. Rather, our culture is centered around using our profits to improve services for members and ensuring we can offer competitive prices.

Given this context, there is much to be proud of as we reflect on what CUA has achieved over the past year.

This year, we have continued to evolve our offering to members and invest in the innovations that will significantly improve the way you, our members, engage with CUA and manage your banking and health, motor and home insurance.

These are investments that will help future-proof CUA:

- In the past year, we rolled out our new CUA Mobile Banking app and gave our members the ability to use the New Payments Platform (NPP) to send and receive real-time payments via CUA Online Banking, ahead of many of our major competitors.
- In the year ahead, key initiatives will include transitioning our iM CUA app from a pilot to a full-scale rollout for Apple and Android devices. iM CUA provides the convenience of personalised digital banking with your own dedicated advisor - an Australian first - in the palm of your hand.

If there's one thing the Royal Commission has highlighted the importance of, it's the culture of an organisation. We've been working very hard on culture at CUA – or how we do things around here. We know that being credible and authentic in how we interact with members, and earning your trust, starts closer to home, with our team members. That's why we've worked with team members at all levels of CUA

to define six Key Cultural Attributes that will underpin how we behave and how we service you as members. We've made a lot of progress in culture already this year, with an improvement in our employee culture and engagement score. We've achieved that uplift at a time when sector-wide, declining culture and engagement scores have been the norm. You can read more about our culture in the section about 'An Adaptable Organisation' (pg. 22).

Our investment in better offerings to members and our culture is already showing results. In the past year, we've seen a significant improvement in our member advocacy measure (Net Promoter Score), which is independently tracked by surveying a sample of CUA members each month on their likelihood to recommend CUA to others. CUA now sits third overall in the industry on this measure, a tremendous achievement and one which keeps us accountable to members. We will continue to learn from your valuable feedback and strive to incorporate this into the experiences we offer.

The 2018 financial year has been a period of both growth and renewal for CUA. We are now contributing to the financial wellbeing of 515,577 Australians through our banking and health insurance products, with an increase of more than 20,000 banking members for the year. We are doing more to reward member loyalty with a 4 per cent health insurance discount for those who combine their banking and health insurance with CUA.

We've upheld our commitment to deliver 3 per cent of CUA Group's pre-tax profits into community initiatives, directly investing $2.43 million into community this year. And our team members rolled up their sleeves to devote over 1,000 days of company time to volunteering for charities and community groups.

On to our **financial performance** - our consolidated assets ended the financial year higher at $14.32 billion. We issued $3.35 billion in new loans, 19.2 per cent higher than in the previous year, taking our loan book past $12 billion for the first time in CUA's history. The Group also reached $1 billion in members' funds for the first time, an increase of $56.80 million for the year. However, record-low interest rates have continued, and competition for lending, particularly in the owner-occupied market, has been fierce. This has placed pressure on our margins, impacting our Net Interest Income and flowing through to profitability.

Notwithstanding these challenges, the Group recorded only a slight reduction in Net Profit after Tax (NPAT) to $54.79 million, down 1.9 per cent, which largely reflects our additional investment in digital innovation. These investments in technology, including joining international banking collaboration Pivotus Inc. and rolling out the pilot of our iM CUA messaging app, will help establish a point of difference for CUA. This forward focus is increasingly important, as disruption and change in financial services continues to gather pace.

Looking forward, we've also evolved our five-year strategy to reflect the changing dynamics of both the external landscape and member expectations, and our direction as a business. Our strategy has been refined to focus our activity around four strategic pillars – Great Experiences, More Members, Adaptable and Scalable. This is not a new strategy, but rather a sharpening of our focus to reflect the changes we've seen in the past year. You can read more on what we've achieved this year under each of those sections in the Annual Report.

To put this into context, our focus will be on delivering simple, competitive and effortless products and services, while maintaining the personalised service and care you've come to know and trust. This will ensure CUA continues to provide members with an authentic and genuine alternative in banking and insurance. Getting this right is no trivial exercise. Initially, we are working on delivering a seamless, streamlined end-to-end deposit process, which will be followed by simplification of our home loan process.

We're expanding our digital platforms and have every confidence that the iM CUA app will significantly improve member experience and satisfaction, based on the outcomes we've already seen from the trial. Furthermore, following this year's successful rollout of the NPP and PayID via CUA Online Banking, we will expand this capability to our Mobile Banking app. And of course, we'll be investing time into supporting and educating our new and existing members to help them benefit from our digital offerings.

We will continue our support of the Queensland Cricket Association, including as the Principal Partner of the Brisbane Heat Big Bash League (BBL) team. This was a huge success and delivered an uplift in CUA's brand awareness during the 2017-18 summer season, helping CUA to reach a broader audience. Off the back of this success, we will be stepping up our support of the Brisbane Heat women's team as their Principal Partner for this year, which will elevate our CUA logo to the front of the women's team shirts. And we've embarked on a new relationship as a Platinum Partner of the AFL's Carlton Football Club, as part of our focus on raising our profile and growing our business in Victoria.

We encourage you to read this year's **Annual Report**, which reflects two important themes for CUA. The first is a nod to our 72-year heritage and mutuality, and our absolute commitment to keeping members at the heart of our decision-making through our ethical, values-led and member-centric approach to how we do things. The second is a look ahead to the future and delivering even more personalised service and experience, building members' faith and trust in CUA as your banking, health and insurance provider, in a climate where we have seen too many headlines about the erosion of trust in the banking sector.

You'll also notice a shift in this year's Annual Report to more digital content and more opportunities to hear from our members via videos and case studies, as we start the transition to a fully digital report.

On the people side, we have welcomed new experience to both our Board and our executive team, in Nigel Ampherlaw's first year as CUA Chairman. Two new Board members – experienced consumer goods executive Andrew Reeves, who joined the CUA Board in September 2017, and former NRMA Chairman Kyle Loades, who joined in December 2017 - have brought new perspectives and expertise to the CUA Board, replacing outgoing directors Alan Beanland (the former Chairman) and Michael Pratt. On the executive team, Paul Lewis joined as our Chief Sales Officer in February 2018, Steven Willson has joined in FY19 as our Chief Technology Officer and we've created a new role for a Chief Marketing Officer.

We've achieved a lot during the past year and we have high expectations for the year ahead. This result is a credit to our 900+ CUA team members, from our frontline team members in branches to those in support and back-office roles in Brisbane, Sydney and Melbourne, as well as the tireless work of our executives and Board. We look forward to continuing to support our members in the year ahead.

Nigel Ampherlaw
CUA Chairman

Rob Goudswaard
CEO

Chapter 1 | Scalable Solutions

CUA has placed a significant focus on investing in innovation and seeking out collaboration and partnering opportunities in the past year.

Improving our digital capabilities and tapping into external expertise are both key to achieving the first of our refreshed strategic priorities – namely to deliver scalable solutions. This will allow CUA to grow our business by attracting new members and to respond to the changing preferences and expectations of our existing members in ways that are sustainable into the future.

Pivotus Inc. and iM CUA:
This year, we've put in place many of the foundations that will allow us to build deeper and more personalised relationships with our CUA members by bringing a human, interactive approach to digital banking, anywhere and anytime.

FY18 marked CUA's first year of being part of global banking collaboration Pivotus Inc. Through Pivotus Inc., CUA has tapped into the international banking and technology expertise of our partners including US West Coast bank Umpqua and Dutch banking giant de Volksbank. In November, CUA began trialling the Australian first messaging app iM CUA – the first innovation to come out of Pivotus Inc. The app has been well received by members and is now being made available more broadly to CUA members.

CUA also continued to partner with Australian innovation hubs and support the start-up community through River City Labs in Brisbane and Stone & Chalk in Sydney.

Artificial intelligence:
At the beginning of 2018, CUA and Sydney based artificial intelligence fintech Flamingo AI announced a new collaboration. The agreement will see CUA Health Insurance pilot the Flamingo 'chatbot' – or cognitive virtual assistant – on our website this year. The chatbot, named "SAM", won't be replacing our human sales or service team, but will complement it, assisting online visitors with general enquiries and quotes. New members can still choose to chat with a human when they want to, while delivering an easier and quicker way to purchase health insurance.

Australia Post and Digital iD:
CUA was the first Australian banking provider to sign up to trial Australia Post's new online identity verification service Digital iD™ in August 2017. Digital iD has been successfully rolled out to verify the identity of new applicants opening an eSaver Reward or eSaver Boost account online, with ID verification

rates of around 88 per cent. In FY19, CUA will be exploring opportunities to expand Digital iD to other account types.

Faster, simpler, smarter payments:
CUA continued to be an early adopter of payments technologies this year, delivering CUA members the benefits of a faster, simpler and smarter way to send and receive money using PayID and real time payments with the New Payments Platform (NPP). Through the support of our payments partner Cuscal, CUA was one of the first financial institutions in Australia to adopt the NPP, rolling it out to members in February 2018. More than 16,500 members registered a PayID within the first few months. CUA's digital wallet offering also continued to gain traction this year and by the end of June 2018, almost 26,000 CUA members had activated either Google Pay, Apple Pay or Samsung Pay.

New mortgage channels:
CUA expanded its choice of channels for home loan borrowers through two new partners, joining the uno Home Loans panel and online mortgage finance platform LoanDolphin in November 2017. Both channels will help expand CUA's digital reach and attract new members, complementing our existing branch network and mortgage broker relationships.

Case Study

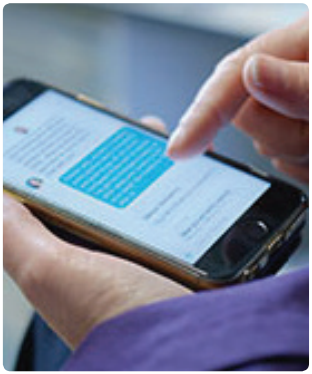
Professor Dianne Jolley

CUA takes personalised banking to Antarctica

As a researcher with the Australian Antarctic Science Program, Dianne Jolley's work takes her literally to the far reaches of the planet.

So, when it comes to managing her banking, speaking to a service consultant in an Australian call centre has it challenges.

Earlier this year, while on an expedition in Antarctica, the University of Wollongong scientist and CUA member was introduced to the iM CUA app. Dianne downloaded the app on her iPhone and selected her own dedicated advisor. Dianne could quickly verify her identity within the app and then engage directly with her new advisor via an SMS-style chat.



"On a recent expedition down to Casey Station in the Antarctic, I needed help with my personal banking," Dianne says.

"I reached out through the iM CUA app and received a response through my personal banker who managed to solve my problem very quickly. It's really great to be able to combine that personalised service with new technology."

The iM CUA app is the first member initiative to come out of CUA's international collaboration with Pivotus Inc., which focuses on innovations that bring a personalised, human touch to digital banking.

Dianne is one of around 2,000 CUA members participating in an iM CUA pilot that began in November 2017.

"I've been a member of CUA for almost 20 years and over that time with the changes in technology I've been delighted that I can still receive that personalised service. I can do my banking anywhere in the world via the iM CUA app," Dianne says.

Chapter 2 | Great Experiences

Delivering new products, services and improved digital experiences has been a strong focus again for CUA over the past year.

These initiatives have been aimed at one thing – finding new and improved ways to service you, our members, to provide a consistent and positive experience across all our member touch points.

Streamlined account opening:
Following the success of our 'Digi Deposits' online account opening form, the same digital experience was rolled out across our branch network in June 2018, enabling eligible applicants to join CUA in-branch in as little as five minutes. This year, in excess of 6,300 new members have joined CUA online via 'Digi Deposits' and in only its first month, almost 500 new members enjoyed the paperless and more seamless sign-up experience in-branch. We've also made it easier to switch to another CUA loan for members who are about to roll off their CUA fixed rate home loan. The Home Loan Switch Online tool received global recognition this year, with an award for process improvement at the 2018 Pex Network Awards in the USA.

Competitive new products:
CUA continued to evolve and refresh our product suite across banking and health insurance during the year. In August 2017, we launched our Advance Variable Home Loan, a variable rate home loan for owner-occupier borrowers available for a limited time, delivering a competitive rate, coupled with several features often only available on products with higher interest rates. This popular loan offer, and CUA's 'Good Move' home loan marketing campaign in Spring 2017, helped to drive an uplift in home lending for CUA in what was a highly competitive market and CUA ended the year to 30 June 2018 with $3.10 billion in new home loans, up 23 per cent on the previous year.

We also made improvements to our CUA Health product suite during the year. In November 2017, we launched three new hospital cover products to expand our range of low-cost covers. For the first time ever, we launched a hospital and extras package aimed especially at first time buyers and young people, which includes a bonus feature that tops up any gap on the first few claims every year.

Upgrading our CUA mobile apps:
CUA launched our new Mobile Banking app in April 2018, delivering a new and improved mobile banking experience with extra features to help make it easier for you to manage

your money on the go. As well as a brand new look and feel, the new app includes fingerprint login, easy payments, plus the ability to search and filter payees, billers, transactions and payments, with more than 100,000 active users already enjoying this range of features. We also launched our new CUA Health app during the year, making it easier for members to lodge claims and manage their policy on the go.

Voice of Member feedback program:

Voice of the Member feedback surveys were launched in our CUA Direct Call Centre in early 2017 to proactively seek member feedback on their interaction with CUA team members, both to measure satisfaction and identify improvement opportunities. As a member-based organisation, we're continually looking for ways to better understand what is working for our members and what needs to be improved. The program has been a huge success in identifying and resolving member issues and recognising outstanding service, and has since been rolled out across our branch network in March 2018.

Transforming our branches:

CUA's first community hub branch in Toowoomba celebrated its first birthday in June 2018 with some impressive results. The branch hosted almost 300 events in its first year and has had more than 48,000 people through the door, enabling CUA to build strong relationships with members and community groups in the local area. The success of this unique shared space for banking and community use is now being used to inspire the design of CUA's future branches.

Rewarding member loyalty:

We rolled out a new loyalty discount in February 2018 to reward members who have both banking and health insurance with CUA. The 4 per cent health insurance discount is available to any CUA Health policy holder who pays their insurance premium by direct debit from a CUA transaction account. Over 19,500 CUA members are already benefitting from this discount in its first year.

Case Study

Dr Neville Buch

Earning member trust through the tough times

In 14 years of being a CUA member, Brisbane history consultant Dr Neville Buch has been through his share of highs and lows.

Over the years, Neville and his wife Ruth bought and sold three different homes, moving interstate for work to Victoria and later returning to Queensland to follow their careers and be closer to their families.

But it was in his darkest weeks and months, following the sudden loss of his wife Ruth, 55, to a terminal illness, that Neville and his teenage daughter really needed the support of CUA.

"Ruth always managed our finances and then that all changed," he says.

"CUA has always been there through the most stressful times of our lives, with buying and selling houses, each with their own set of challenges, and then when Ruth lost her long battle with illness, CUA made the transfer of names from the mortgage and accounts very easy.

"When I started finding myself in financial difficulty, CUA helped get things back on track for me, by helping me better organise my finances to manage the bills, the direct debits and my bank accounts. That has helped free me up to focus more on my business and make it more sustainable moving forward.

"I think that's the real value for me as a member of CUA,

that there's been a wonderful discovery that they were there standing with me helping me through the financially difficult times, the tragic times in my life and doing what banks should be doing, that is investing in their members."

Dr Buch says he was "deeply grateful" and couldn't speak highly enough of the personalised and caring service he'd received from team members at CUA's Garden City and Brisbane CBD branches during difficult financial times over the past 18 months.

"It is a credit to CUA, and CUA is a credit to the banking industry," he says.

Dr Buch says that at a time when the broader banking sector's reputation had been damaged by dishonesty and allegations of misconduct, it was particularly comforting to know that CUA was a "place where trust for banking is highly valued".

Chapter 3 | Reaching More Members

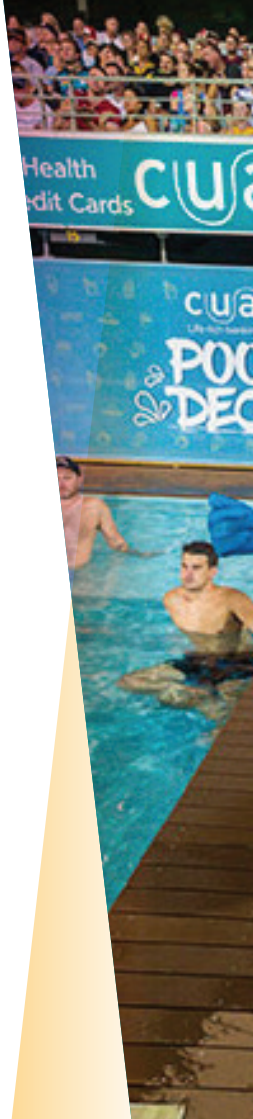
CUA has enjoyed continued member growth during the past year, despite strong competition in the financial services landscape.

By 30 June 2018, CUA had expanded our reach and we are now contributing to the financial wellbeing of 515,577 Australians through our banking and insurance products and services. This includes 473,130 banking members – an increase of more than 20,000 over the past year. CUA adopted a number of initiatives this year that have helped us reach even more new and potential members by positioning CUA as a leader in banking innovation, increasing the visibility of our brand through sporting sponsorships and making a difference through our involvement in local communities.

Innovation and digital banking:
CUA's investments into technology and innovation have continued to help us attract new members. In particular, CUA was one of the first financial institutions in the country to be active on all three digital wallet platforms (Apple Pay, Google Pay, Samsung Pay), a point of difference that has already attracted a number of new members. Our early adoption of real time payments via the New Payments Platform (NPP) and the convenience of PayID, as well as our pilot of the iM CUA messaging app, are also helping to position CUA to continue attracting members looking for convenient digital banking features alongside personalised service. There's more on these initiatives in the section on Scalable Solutions (pg. 8).

Queensland Cricket Association:
CUA's second year of partnering with the Queensland Cricket Association from grassroots to the Gabba has taken the CUA brand to even more potential members. A cumulative audience of more than 13.50 million people tuned in to watch Brisbane Heat Big Bash League (BBL) and Women's BBL (WBBL) games during season seven, an increase on the previous year's average broadcast reach of 1.13 million people per game.

CUA also expanded our support of charity The Ponting Foundation, pledging $500 for every 'six' hit by the BBL and WBBL players across all 24 games played during the 2017/18 regular season. In total, almost 200 sixes cleared the fence, contributing to a donation tally of $87,000, up from the $57,000 pledged in 2017, providing much needed support for the families of children with cancer.



Our support of Queensland Cricket has also extended to local clubs. We continued our CUA Community Champions program for a second year, offering funding support to local clubs, while also providing savings on CUA financial products for their members. To date, we have given more than $22,000 back to local clubs, helping to fund projects such as renovating practice net facilities, while the program has also generated in excess of $9 million in new business for CUA.

Carlton Football Club:

The success of our partnership with Queensland Cricket paved the way for new opportunities to build our brand in other markets and in March 2018, we announced a new sponsorship with the AFL's Carlton Football Club. The sponsorship demonstrates CUA's commitment to raising our profile and growing our business in Victoria. While the sponsorship is still in its infancy, CUA is already seeing commercial returns. The entire Carlton playing squad is switching their health insurance to CUA Health and close to $10 million in new business has been generated via the club's networks and 50,000 strong Carlton member base.

Mutual Good Community Grants:

CUA's significant investment in the community continued this year, as we brought our purpose to life through philanthropy, partnering with community organisations and developing shared value initiatives. Our commitment to invest 3 per cent of our Net Profit before Tax into community initiatives places us well ahead of the Australian

financial services industry average of 0.3 per cent (as reported by the London Benchmarking Group).

One of the ways we invested into community was through expanding our Mutual Good Community Grants program to benefit 19 regions across Australia. Local, grassroots not-for-profit organisations with big ideas for improving the quality of life of Australians were invited to apply for a share in almost $200,000 in grants. Across the two years of the Mutual Good Community Grants program, CUA has contributed around $260,000 to 26 grassroots organisations, with 300,000 members of the community directly impacted by the grants.

Grant recipients during 2018 have included A Brave Life, a peer support program for teenage mothers in Brisbane's north that is helping them to complete their high school education; The Shepherd Centre's ClassMate program, an initiative teaching young children living with hearing loss how to communicate with their peers in the mainstream schooling system in the Illawarra region of NSW; and OzHarvest WA's food rescue program, providing an additional 20,000 meals to people in need across the Perth metropolitan area.

Our community partners:

We continued to expand CUA's reach nationally through our community partners. In our 10th and final year of support for the School Fun Run, we helped empower schools across Australia to raise millions of dollars for important projects, while fostering an even deeper relationship within our local

community networks. Similarly, we were proud to continue our support of Red Nose as the organisation's official Mission Partner, enthusiastically engaging in Red Nose Day via our branch network and promoting our Hatch financial solutions for new parents at a series of baby expos. CUA also continued to support the Indigenous financial literacy organisation First Nations Foundation, which has delivered more than 200 training sessions over the past year around Australia and reunited Indigenous people with $3.70 million in lost superannuation.

Shared value initiatives:

Adapting our core products and services to help address social issues that prevent people from accessing safe and affordable banking has been a key focus this year. We've continued to support women to safely gain control over their finances in order to leave domestic and family violence situations through our CUAngels silent membership, in collaboration with Micah Projects in Brisbane. We've recently expanded the program, signing a new partner in Melbourne, McAuley Community Services for Women. We are also actively exploring opportunities to join a shared equity affordable housing program in the coming year.

Case Study

Tom Davis

A passion for purpose drives Tom to switch

After more than 20 years banking with the same financial institution he'd been with since his childhood, Melbourne teacher Tom Davis had finally had enough.

"A growing frustration with the 'Big 4' and a better understanding of how my money had been invested were the big drivers for me to start looking for alternatives," he says.

"I started some research to identify an alternative that provided a more sustainable future and held an ethically similar purpose to myself and that's what led me to CUA."

Tom says as a teacher he's been involved in countless 'people first' initiatives and that desire to help others saw him naturally gravitate towards a banking organisation with values closely aligned to his own.

"Giving back is important. It shows a real human connection to what my investment in CUA is doing, and therefore, CUA is investing in the community on my behalf to help change or better the lives of others."

As a millennial, technology also plays a critical role in Tom's day-to-day life and CUA's position as one of the first banking providers in Australia to offer the full digital wallet – Apple Pay, Google Pay and Samsung Pay - was another key factor in his decision to switch.

"I love my technology and I think it's obvious that online and digital is the way of the future, so making things simple, easy and accessible is really important to me as a member. I think it's a great thing my bank is a leader in this space."

Tom describes his first 18 months as a CUA member as "effortless" and encourages others to consider making the switch just like he has.

"The interactions I've had since I first joined have been so straightforward and I've felt a real personal connection which I haven't experienced in the past with my banking," he says.

"Don't be afraid of what you don't know. At the end of the day, credit unions like CUA were established for a reason. They're here to help you and have a genuine moral purpose to help others."

Chapter 4 | An Adaptable Organisation

Building an adaptable organisation is a key priority for CUA under our refreshed five year strategy.

Being much more agile as a team will equip us to respond to change more effectively, so we can focus on supporting and servicing members and remaining competitive in a changing market.

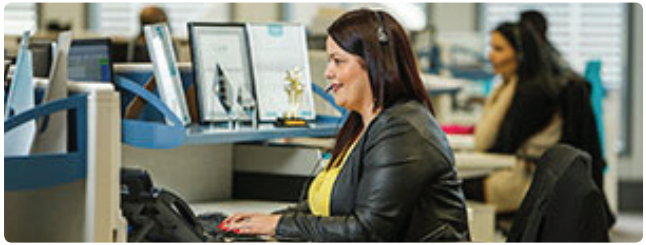
Creating an even stronger, more member-centric culture is one of the ways we are building this adaptable organisation. This year, we've engaged team members at all levels of CUA in designing and embedding six Key Cultural Attributes which will help our team to deliver even better and more consistent outcomes for you, our CUA members:

- **Members** – they are at the heart of everything we do
- **Growth** – CUA team members work proactively with others to innovate, adapt and grow
- **Deliver** – CUA team members deliver outcomes and impact
- **Challenge** – CUA team members constructively challenge themselves and their colleagues
- **Genuine** – CUA team members are genuine and inclusive
- **Action** – CUA team members are accountable for results and empowered to take action

Some of the other ways we've supported our team members this year include:

CUA Lending Academy:
More than 350 CUA team members have participated in the CUA Lending Academy this year. This program is upskilling our frontline sales teams, particularly around lending capability, managing risk, providing a better member experience and improving member outcomes.

Developing an innovation culture and Agile leaders:
This year, we've invested in training our team members in areas like design thinking, visual story-telling, lean start-up, pitching and Agile ways of working. We've promoted this innovation culture through our 'PowerUp' series of masterclasses and innovation challenges for team members. Around 20 senior leaders across CUA have also completed Agile leadership training, empowering them to lead others and ultimately, to positively impact member experience.



Diversity and inclusion:
CUA's continued focus on diversity and inclusion has continued throughout the year and was recognised in February 2018 when CUA received the Workplace Gender Equality Agency (WGEA) citation as an Employer of Choice for Gender Equality. This is the fourth year in a row that CUA has received this citation, recognising our commitment to best practice in this area.

Volunteering in the community:
CUA team members devoted 1,055 days to volunteering with a variety of community organisations in the 12 months to June 2018. CUA team members are encouraged to take up to three days of community leave each year and this year's contribution was almost twice as many days as the previous year. In particular, our team rolled up their sleeves to support our childhood health charity Red Nose, devoted around 450 hours to the Leukaemia Foundation and raised more than $400,000 for the Royal Flying Doctor Service.

Case Study

Virend Singh

Rewarding a history of exceptional service

Virend Singh certainly doesn't come to work for awards, but he admits to being humbled by the acknowledgement he's received this year.

As a Member Services Advisor in the CUA Direct Call Centre in Melbourne, Virend's ability to consistently deliver personalised service that is trusted by members was recognised with the 2018 Jack Harvey Annual Values Award, the highest honour bestowed upon a CUA team member each year.

Virend says it's an honour to have won an award named after CUA's founder, especially after being nominated by his colleagues.

"Wherever I have worked, I've always strived to do my best and be the best and that's what I've done with CUA now," he says.

"It's particularly special to know that my colleagues and management were responsible for this and that they recognise my input to the organisation."

With a reputation as one of the top performers in CUA Direct, Virend says there's no secret to his approach - it's simply about understanding where the member is coming from.

"I try to put myself in their shoes and understand the member first before I answer any questions.

"I take a personal approach to every call I receive and do my level best to get to the bottom of each member's challenges or needs in order to ensure we get the best possible outcome and address all of their concerns."

Virend has an impressive CV with a career in the banking industry spanning nearly four decades, working for four different banking organisations across three countries.

When it comes to what makes his role at CUA stand out though, he couldn't be clearer.

"The most rewarding thing about my job is the culture we have here at CUA, you can't compare it to anywhere else I've worked.

"It's our people that make all the difference. From the top down, they are experienced and genuine and we can always talk, be it about business or anything else. The relationships I've built here are one of the reasons I'm in the office early every day."

CUA **Board of Directors**

As at 30 June 2018 (Image from left to right)

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.

Louise McCann | MM MGSM, FAICD, FAIM, FRSA
Independent Non-Executive Director
Louise joined the Board in November 2015 and is Chairman of the Board Strategy & Innovation Committee and a member of the Board Remuneration Committee.

Paul Bedbrook | B.Sc., FSIA, F Fin
Independent Non-Executive Director
Paul joined the Board in July 2011. He is Chairman of the Board Remuneration Committee, Chairman of CUA Health Ltd and a member of the CUA Health Board Audit and Risk Committees. He is also Chairman of Credicorp Insurance Pty Ltd and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

Nigel Ampherlaw | B.Com., FCA, MAICD
Chairman and Independent Non-Executive Director
Nigel joined the Board in March 2011 and has been Chairman since 15 November 2017. He is a member of the Board Remuneration and Board Strategy & Innovation Committees.

Kyle Loades [1] | MBA, FAICD
Independent Non-Executive Director
Kyle joined the CUA Board on 1 December 2017. He is a member of the Board Risk Committee, a Director of CUA Health Limited and a member of the CUA Health Board Audit and Risk Committees. He is also a Director of Credicorp Insurance Pty Ltd and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

Deborah O'Toole | LLB, MAICD
Independent Non-Executive Director
Deb joined the Board in March 2014. She is Chairman of the Board Risk Committee and a member of the Board Audit Committee.

Andrew Reeves [2] | BA (Economics), AMP
Independent Non-Executive Director
Andrew joined the CUA Board on 1 September 2017 and is a member of the Board Audit and Board Risk Committees.

For biographies of CUA's Board of Directors, visit www.cua.com.au/Board

[1] Replaces Alan Beanland, who retired at the 2017 Annual General Meeting on 14 November 2017

[2] Replaces Michael Pratt, who resigned 31 August 2017

CUA **Executive Committee**

As at 30 June 2018

Rob Goudswaard | B.Ec, GradDip CorpFin, FFIN, FAICD
Chief Executive Officer

Steve Chugg | MBA, B.Bus, GAICD
Chief Financial Officer

Henk Dijkstra [1]
Acting Chief Technology Officer

Philip Fraser | B.Acc, CIMA, CPA, GAICD
Chief of Innovation & Strategic Partnerships;
CEO of CUA Health & Credicorp Insurance

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

Brigid Leishman | MBA (Dist.), GAICD
Chief Operating Officer

Paul Lewis [2] | BA, MBA
Chief Sales Officer

Megan Readdy | LLB, B.Ec, GAICD
Chief Risk Officer

Allison White [3]
Acting Chief Marketing Officer

For biographies of CUA's current executive team, visit www.cua.com.au/executive-team

[1] *Replaces Sue Coulter, who held the position of Chief Digital Officer until January 2018*

[2] *Replaces Andy Rigg, who held the position of Chief Sales Officer until December 2017*

[3] *Replaces Jo Kearney, who held the position of Chief of Corporate Affairs & Community until March 2018*

CUA **Awards**

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

Mozo experts choice - 2018

- Australia's Best Credit Union
- Excellent Customer Service
- Staff Friendliness
- Highly Trusted

Mozo experts choice - 2017

- Customer Satisfaction - Everyday Banking
- Staff Friendliness
- Highly Trusted

Workplace Gender Equality Agency - February 2018

- Employer of Choice for Gender Equality citation

Money Magazine Awards - 2017/18

- Credit Union of the Year
- Best Everyday Account (Non-Bank)
- Best DIY Super Savings Account (Non-Bank)

CANSTAR Awards

- Fresh Start Basic Variable Home Loan
  Outstanding Value - Construction Loan
- Fresh Start Basic Variable Home Loan
  Outstanding Value - Variable Home Loan - Owner Occupier
- Fixed Home Loan Owner Occupier
  Outstanding Value - Fixed Home Loan - Construction
- Fixed Home Loan Owner Occupier
  Outstanding Value - Premium Fixed
  Home Loan - Construction
- Fixed Home Loan Owner Occupier
  Outstanding Value - Fixed Home Loan
- Fixed Home Loan Owner Occupier
  Outstanding Value - Premium Fixed Home Loan

Corporate **Governance**

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

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

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

CUA Board

Board Audit Committee

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

Board Risk Committee

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

Board Remuneration Committee

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

Board Strategy & Innovation Committee

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

Summary **Financial Information**

For the year ended 30 June 2018

The summary financial information is not presented in accordance with the Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. The summary financial information summarises information contained in the directors' report and audited group financial statements, all of which is available to members on the internet at **www.cua.com.au**. The auditors' report in relation to the full financial statements was not qualified in any respect. The full financial statements were approved by the board of directors for issue on 22 August 2018.

Summary statement of comprehensive income (unaudited)	Group	
	2018 $'000	2017 $'000
Net operating income	**287,470**	276,732
Operating expenses	**(201,726)**	(193,196)
Impairment of loans and advances	**(8,849)**	(5,596)
Profit before income tax	**76,895**	77,940
Income tax expense	**(22,104)**	(22,066)
Profit for the year	**54,791**	55,874

**To be read in conjunction with the full financial statements all of which will be available on the internet at www.cua.com.au*

Summary balance sheet (unaudited)	Group	
	2018 $'000	2017 $'000
Assets		
Cash and cash equivalents	**307,833**	247,063
Financial assets	**1,609,729**	1,868,601
Loans and advances	**12,300,234**	11,530,359
Non-financial assets	**105,421**	104,929
Total assets	**14,323,217**	13,750,952
Liabilities		
Deposits	**9,219,824**	8,760,111
Financial liabilities	**902**	4,437
Borrowings	**3,972,060**	3,900,522
Non-financial liabilities	**93,302**	105,529
Total liabilities	**13,286,088**	12,770,599
Net assets	**1,037,129**	980,353
Members' funds		
Reserves	**46,097**	44,026
Retained earnings	**991,032**	936,327
Total members' funds	**1,037,129**	980,353

**To be read in conjunction with the full financial statements all of which will be available on the internet at www.cua.com.au*

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.

	Banking Group*	
Risk weighted capital ratios	**As at 30 June 2018 $'000**	As at 30 June 2017 $'000
Tier 1	**13.87%**	13.90%
Tier 2	**0.38%**	0.38%
Total capital ratio	**14.25%**	14.28%

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

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CUA ANNUAL REPORT 2018

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FINANCIAL REPORT 2018

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CREDIT UNION AUSTRALIA LTD

ABN 44 087 650 959

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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 2018 and the auditor's report thereon.

Directors and Company Secretaries

Directors

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

Nigel Ampherlaw
Alan Beanland (retired 14 November 2017)
Paul Bedbrook
Kyle Loades (appointed 1 December 2017)
Louise McCann
Deborah O'Toole
Michael Pratt (resigned 31 August 2017)
Andrew Reeves (appointed 1 September 2017)
Wayne Stevenson

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

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

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

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

Alan Beanland
B.Sc., FAICD
Chairman and Independent Non-Executive Director (retired 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 was Chairman of the Board Strategy & Innovation Committee and a member of the Board Risk and Board Remuneration Committees. He was 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 spanned four continents and exceeded four decades with wide experience as a Director on diverse boards. Alan held senior executive positions with Colonial Mutual for 16 years. He had 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).

At the time of his retirement, Alan held a number of Directorships including Colonial Foundation and, in August 2014, was appointed to the Board of Orygen, The National Centre of Excellence in Youth Mental Health.

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, Chairman of CUA Health Ltd and a member of the CUA Health Board Audit and Risk Committees as well as Chairman of Credicorp Insurance Pty Ltd and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

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

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

Kyle Loades
MBA, FAICD, FTL
Independent Non-Executive Director (appointed 1 December 2017)

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

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

Kyle is currently Chair of Drive Yello, Chair of Hunter Medical Research Institute, a Non-Executive Director of the Australian Transformation and Turnaround Association and a Conjoint Professor in the Faculty of Business and Law at University of Newcastle. Recently, Kyle completed a three-and-a-half-year term as Chairman of the NRMA where he directed a period of significant cultural and operational change requiring considerable strategy and risk expertise.

In an executive capacity he established, grew and managed an independent car broking business that disrupted the motor vehicle retail industry. The company was purchased by ASX listed A.P Eagers.

Kyle is a Fellow of the AICD and AUSTTA, has completed an MBA at University of Newcastle, a Harvard Business School Certificate in Disruptive Strategy and a Transformation Leadership Program at ANU.

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

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

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

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

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

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

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, Asciano Group and Alumina Limited. She was recently appointed to the NSW Treasury Audit and Risk Committee 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 31 August 2017)

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

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

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

Andrew Reeves
BA (Economics), AMP
Independent Non-Executive Director (appointed 1 September 2017)

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

Andrew is an experienced consumer goods executive who has 40 years' experience with major Australian consumer brands. His career included a variety of marketing and product development roles, before moving into a variety of managing director and CEO roles over the past 20 years.

Andrew took on his first Managing Director role at The Smith's Snackfood Company in 1993. He subsequently held Managing Director roles with Coca-Cola Amatil and Lion Nathan's Australian brewing business and dairy and drinks business. Most recently, Andrew was the CEO of George Weston Foods for six years.

Andrew is also currently the independent Chairman of The Healthy Grain Pty Ltd and Netget Limited and a Non-Executive Director on the Board of not-for-profit organisation Oz Harvest.

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

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

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

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

Directors' report

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, 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
N. Ampherlaw	11	11	-	-	-	-	5	5	10	9
A. Beanland	4	4	-	-	2	2	1	1	4	4
P. Bedbrook	11	11	-	-	-	-	6	6	-	-
K. Loades	7	7	-	-	1	1	-	-	-	-
L McCann	11	11	1	1	-	-	6	6	10	10
D. O'Toole	11	11	4	3	4	4	-	-	-	-
M. Pratt	1	1	1	-	-	-	-	-	-	-
W. Stevenson	11	11	4	4	4	4	-	-	-	-
A. Reeves	10	9	3	3	4	4	-	-	-	-

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 tax for the financial year ended 30 June 2018 of $54.8 million (2017: $55.9 million) and reached $1.0 billion in members' funds for the first time with members' funds increasing by $56.8 million to $1,037.1 million.

The year saw gross loans and advances grow by 6.6% year on year to $12,289.9 million (2017: $11,524.3 million) and deposits grow by 5.2% to $9,219.8 million (2017: $8,760.1 million). As a result, net interest income increased by 5.3% over the year to $252.2 million (2017: $239.5 million) in what continues to be a demanding competitive environment.

Other operating income decreased by $5.5 million to $6.4 million for the year ended 30 June 2018. The Group recorded lower levels of commission income from product cross sales and experienced higher costs as transactional volumes increased from prior period. The year also saw lower levels of dividend income and marked to market income from external investments.

Net insurance income for the year ended 30 June 2018 increased by $5.0 million to $30.9 million (2017: $25.9 million) driven by strong contributions from CUA Health Ltd and Credicorp Insurance Pty Ltd.

The Group's share of net loss in a joint venture for the year ended 30 June 2018 was $2.0 million (2017: loss of $0.6 million). The Group has a 50% ownership interest in Mutual Marketplace Pty Ltd which was established in the prior financial year (April 2017) and provides procurement services to the joint venture owners. This result reflects the Group's share of the joint ventures profit but also the elimination of the gains and losses resulting from transactions between the Group and joint venture. The benefits of the Group's ownership in the joint venture are reflected through expenses.

The Group continues to expand its digital platforms to significantly improve member experience and satisfaction. This investment in digital infrastructure is evident in expenses for the year increasing by 4.4% to $201.7 million (2017: $193.2 million). Personnel costs increased by $8.5 million to $110.4 million for the year ended 30 June 2018 as the Group invested in recruiting digital skillsets. The investment in recent years in digital platforms was also evident in the increase of the amortisation of intangible assets which increased by $1.9 million to $12.7 million at year end.

The increase in the impairment of loans and advances charge from $5.6 million (2017) to $8.8 million for the year ended 30 June 2018 reflects the recent strong growth in loans and advances over recent years as well as signs of stress in the Australian household debt market. While impairment in relation to personal loans for the Group was higher than in previous years, the level of impairment for these loans remain below industry averages.

Reflecting the Group's commitment to its Mutual Good community strategy, community related expenses for the year ended 30 June 2018 were $2.4 million (2017: $2.3 million) which amounted to 3.1% (2017: 3.0%) of the Group's profit before income tax.

Dividends

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

Directors' report

Risk management

The Group's strategic and operational outcomes are underpinned by the effective management of key risks through the three lines of defence model. This model articulates the key layers of risk management including roles, accountability and responsibilities of each layer. During the year, the Group continually evaluated and responded to emerging risks in accordance with our defined Risk Management Strategy.

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

Significant changes in the state of affairs

On 12 December 2017, Harvey Warehouse Trust No.1 transferred secured loans and advances ($93.1 million) to the Harvey Warehouse Trust No.3. The related facility for Harvey Warehouse Trust No.1 was repaid and closed.

On the 12 March 2018, the Harvey Warehouse Trust No.5 was formed and on 14 March 2018, the Harvey Warehouse Trust No.5 acquired loans from the Harvey Warehouse Trust No.3 ($284.9 million) and the Credit Union ($150.3 million). These loans were acquired by the issuance of floating rate notes.

On 30 April 2018, Harvey Warehouse Trust No. 3 sold remaining secured loans and advances ($7.1 million) to the Credit Union. The related facility for Harvey Warehouse Trust No.3 was repaid and closed.

Throughout the year, the Harvey Trust Series 2012-1R and the Harvey Warehouse Trust No.4 acquired loans from the Credit Union ($852.2 million and $218.6 million respectively). These loans were acquired through the issuance of floating rate notes.

Events subsequent to balance date

Since 30 June 2018 there have been no matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

Likely developments

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

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

Environmental regulation

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

Directors' report

Other matters (continued)

Rounding

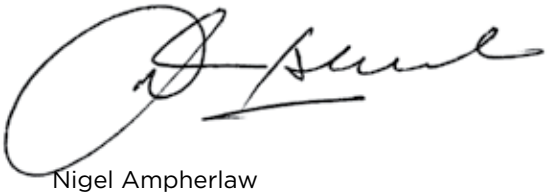
Except where indicated, the amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars in accordance with ASIC Corporations Instrument 2016/191.

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 12.

Authorisation by Directors

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



Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
22 August 2018

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

To the Directors of Credit Union Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Credit Union Australia Limited for the financial year ended 30 June 2018 there have been:

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

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

KPMG

Martin Wardle

Partner

Brisbane

22 August 2018

Income statements

For the year ended 30 June 2018

		Group		Credit Union	
		2018	2017	**2018**	2017
	Note	**$'000**	$'000	**$'000**	$'000
Net interest income					
Interest income	2.1	**515,111**	509,658	**515,111**	509,658
Interest expense	2.1	**(262,929)**	(270,140)	**(263,167)**	(270,441)
Total net interest income		**252,182**	239,518	**251,944**	239,217
Other operating income	2.1	**6,374**	11,934	**21,575**	20,465
Net insurance income	4.1	**30,945**	25,892	**-**	-
Share of net loss of a joint venture		**(2,031)**	(612)	**(2,031)**	(612)
Total net operating income		**287,470**	276,732	**271,488**	259,070
Expenses					
Personnel		**(110,440)**	(101,953)	**(104,960)**	(97,203)
Occupancy		**(19,145)**	(19,172)	**(19,145)**	(19,172)
Depreciation of property, plant and equipment		**(6,356)**	(6,622)	**(6,352)**	(6,618)
Amortisation of intangible assets	2.2	**(12,734)**	(10,839)	**(12,633)**	(10,835)
Information technology		**(12,060)**	(12,728)	**(11,991)**	(12,728)
General administrative expenses	2.2	**(25,533)**	(25,232)	**(23,853)**	(23,810)
Other expenses	2.2	**(15,458)**	(16,650)	**(14,236)**	(15,237)
Total operating expenses		**(201,726)**	(193,196)	**(193,170)**	(185,603)
Profit before impairment and income tax		**85,744**	83,536	**78,318**	73,467
Impairment of loans and advances	3.4	**(8,849)**	(5,596)	**(8,849)**	(5,596)
Profit before income tax		**76,895**	77,940	**69,469**	67,871
Income tax expense	2.3(a)	**(22,104)**	(22,066)	**(17,304)**	(18,221)
Profit for the year		**54,791**	55,874	**52,165**	49,650
Profit for the year is attributable to:					
Members of the Credit Union		**54,791**	55,874	**52,165**	49,650

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

Statements of comprehensive income

For the year ended 30 June 2018

	Note	Group 2018 $'000	Group 2017 $'000	Credit Union 2018 $'000	Credit Union 2017 $'000
Profit for the year		**54,791**	55,874	**52,165**	49,650
Other comprehensive income					
Items that may be reclassified to profit or loss					
Cash flow hedges:					
Net gain/(loss) taken to members' funds		**2,774**	17,214	**2,774**	17,214
Net gain/(loss) reclassified through profit and loss		**61**	3	**61**	3
Net fair value gain/(loss) on available for sale financial assets		**-**	2,283	**-**	2,283
Income tax on other comprehensive income	2.3(d)	**(850)**	(5,850)	**(850)**	(5,850)
Other comprehensive income after tax		**1,985**	13,650	**1,985**	13,650
Total comprehensive income		**56,776**	69,524	**54,150**	63,300
Total comprehensive income for the period is attributable to:					
Members of the Credit Union		**56,776**	69,524	**54,150**	63,300
Total comprehensive income for the period attributable to members of the Credit Union arises from:					
Continuing operations		**56,776**	69,524	**54,150**	63,300
		56,776	69,524	**54,150**	63,300

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

Balance sheets

As at 30 June 2018

		Group		Credit Union	
		2018	2017	**2018**	2017
	Note	**$'000**	$'000	**$'000**	$'000
Assets					
Cash and cash equivalents	3.1	**307,833**	247,063	**297,080**	231,114
Financial assets - fair value through profit or loss	3.2	**82,492**	80,468	**-**	-
Financial assets - held to maturity	3.2	**1,481,788**	1,743,196	**2,876,977**	2,419,648
Derivative financial instruments	3.9	**947**	714	**947**	714
Loans and advances	3.3	**12,300,234**	11,530,359	**12,300,234**	11,530,359
Financial assets - available for sale	3.2	**42,890**	42,890	**42,890**	42,890
Other assets	5.3	**17,911**	19,269	**10,088**	10,879
Investments in controlled entities	5.8	**-**	-	**800**	800
Investments in a joint venture	5.9	**1,612**	1,333	**1,612**	1,333
Property, plant and equipment	5.1	**14,316**	17,305	**14,307**	17,296
Intangible assets	5.2	**73,194**	68,355	**72,998**	68,058
Total assets		**14,323,217**	13,750,952	**15,617,933**	14,323,091
Liabilities					
Deposits	3.5	**9,219,824**	8,760,111	**9,231,009**	8,760,229
Derivative financial instruments	3.9	**902**	4,437	**902**	4,437
Borrowings	3.6	**3,972,060**	3,900,522	**5,369,385**	4,584,487
Deferred tax liability	2.3(c)	**4,954**	6,317	**4,635**	5,870
Other liabilities	5.4	**67,705**	78,682	**29,952**	40,281
Provisions	5.5	**20,643**	20,530	**20,643**	20,530
Total liabilities		**13,286,088**	12,770,599	**14,656,526**	13,415,834
Net assets		**1,037,129**	980,353	**961,407**	907,257
Members' funds					
Reserves	5.6	**46,097**	44,026	**46,097**	44,026
Retained earnings		**991,032**	936,327	**915,310**	863,231
Total members' funds		**1,037,129**	980,353	**961,407**	907,257

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

Statements of changes in members' funds

For the year ended 30 June 2018

	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 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) reclassified through 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
Balance at 1 July 2017	**44,026**	**936,327**	**980,353**	**44,026**	**863,231**	**907,257**
Profit for the year after tax	**-**	**54,791**	**54,791**	**-**	**52,165**	**52,165**
Other comprehensive income after tax:						
Cash flow hedges:						
Net gain/(loss) taken to members' funds	**1,942**	**-**	**1,942**	**1,942**	**-**	**1,942**
Net gain/(loss) reclassified through profit and loss	**43**	**-**	**43**	**43**	**-**	**43**
Movement in available for sale reserve	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**1,985**	**54,791**	**56,776**	**1,985**	**52,165**	**54,150**
Movement in redeemed member share reserve	**86**	**(86)**	**-**	**86**	**(86)**	**-**
Balance at 30 June 2018	**46,097**	**991,032**	**1,037,129**	**46,097**	**915,310**	**961,407**

Note: The nature of the reserves is disclosed in Note 5.6.

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

Statements of cash flows

For the year ended 30 June 2018

		Group		Credit Union	
		2018	2017	**2018**	2017
	Note	**$'000**	$'000	**$'000**	$'000
Cash flows from operating activities					
Interest received		**525,035**	515,326	**520,587**	513,469
Interest paid		**(261,865)**	(269,062)	**(262,103)**	(269,364)
Fees and commissions received		**28,367**	30,043	**29,758**	32,326
Fees and commissions paid		**(24,606)**	(22,396)	**(23,522)**	(21,042)
Contributions/premiums received		**146,970**	152,184	**-**	-
Benefits/claims paid		**(122,237)**	(123,410)	**-**	-
Dividends received		**1,394**	2,171	**10,181**	5,021
Other non-interest income received		**2,681**	2,114	**5,604**	5,181
Payments to suppliers and employees		**(190,272)**	(187,661)	**(183,244)**	(175,347)
Income tax paid		**(26,722)**	(19,817)	**(22,283)**	(17,780)
Net (increase)/decrease in loans and advances		**(786,906)**	(348,901)	**(786,906)**	(348,901)
Net (increase)/decrease in placements with and withdrawals from other financial institutions		**260,049**	(455,694)	**262,026**	(472,580)
Net increase/(decrease) in deposits		**459,713**	432,906	**470,780**	433,049
Net cash provided by/(used in) operating activities	3.1(a)	**11,601**	(292,197)	**20,878**	(315,968)
Cash flows from investing activities					
Payments for plant, equipment and intangible assets		**(20,572)**	(17,900)	**(20,574)**	(17,599)
Proceeds from sale of property, plant and equipment		**47**	12	**47**	12
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		**(20,525)**	(22,964)	**(20,527)**	(22,663)
Cash flows from financing activities					
Net proceeds from/(repayments to) borrowings		**69,694**	357,314	**65,615**	378,165
Net cash provided by/(used in) financing activities	3.1(b)	**69,694**	357,314	**65,615**	378,165
Net increase in cash and cash equivalents		**60,770**	42,153	**65,966**	39,534
Cash at the beginning of the year		**247,063**	204,910	**231,114**	191,580
Cash at the end of the year	3.1	**307,833**	247,063	**297,080**	231,114

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 2018

Notes to the financial statements

For the year ended 30 June 2018

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 2018 was authorised for issue in accordance with a resolution of the Directors on 22 August 2018.

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	Note 3.4
Fair value of financial instruments	Note 5.7
Outstanding insurance claims liabilities	Note 4.1 and Note 4.2
Useful life of major banking infrastructure software	Note 5.2

2. Financial performance

2.1 Income

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Net interest income				
Interest income				
Loans and advances	**473,593**	470,243	**473,593**	470,243
Other financial assets	**41,518**	39,415	**41,518**	39,415
	515,111	509,658	**515,111**	509,658
Interest expense				
Deposits	**(156,515)**	(152,332)	**(156,515)**	(152,332)
Borrowings	**(102,097)**	(100,646)	**(102,146)**	(100,833)
Other	**(4,317)**	(17,162)	**(4,506)**	(17,276)
	(262,929)	(270,140)	**(263,167)**	(270,441)
Total net interest income	**252,182**	239,518	**251,944**	239,217
Other operating income				
Fee and commission revenue	**28,475**	29,414	**29,850**	31,716
Fee and commission expense	**(25,165)**	(22,871)	**(23,522)**	(21,042)
Net fee and commission income	**3,310**	6,543	**6,328**	10,674
Dividends revenue	**1,394**	2,171	**10,181**	5,021
Net gain/(loss) on derivative financial instruments	**61**	3	**61**	3
Net gain/(loss) on financial assets designated at fair value through profit or loss	**42**	1,517	**-**	-
Other	**1,567**	1,700	**5,005**	4,767
Total other operating income	**6,374**	11,934	**21,575**	20,465

Recognition and measurement

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

Interest income and expense

Interest income and expense is recognised as interest accrues using the effective interest method. The effective interest method is a method of calculating amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments over the expected life of the financial assets or financial liabilities to which they relate. Within net interest income, there are no amounts that relate to assets or liabilities held at fair value through profit and loss.

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	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Amortisation of intangible assets				
Amortisation of major banking infrastructure software	**(5,695)**	(5,664)	**(5,695)**	(5,664)
Amortisation of loan origination system software	**(2,750)**	(2,182)	**(2,750)**	(2,182)
Amortisation of other computer software	**(4,289)**	(2,993)	**(4,188)**	(2,989)
	(12,734)	(10,839)	**(12,633)**	(10,835)
General administrative expenses				
Administrative expenses	**(23,103)**	(22,956)	**(21,423)**	(21,534)
Community	**(2,430)**	(2,276)	**(2,430)**	(2,276)
	(25,533)	(25,232)	**(23,853)**	(23,810)
Other expenses				
Advertising	**(4,797)**	(6,700)	**(4,245)**	(6,056)
Professional services	**(10,661)**	(9,950)	**(9,991)**	(9,181)
	(15,458)	(16,650)	**(14,236)**	(15,237)

2.3 Income tax

(a) Amounts recognised in income statements

The components of income tax expense are:

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Income tax expense is attributable to:				
Profit from continuing operations	**22,104**	22,066	**17,304**	18,221
	22,104	22,066	**17,304**	18,221
Current tax				
Current income tax	**26,081**	24,519	**21,485**	21,022
Adjustments in respect of current income tax of previous year	**(1,763)**	(1,926)	**(2,096)**	(2,054)
Deferred tax				
Relating to origination and reversal of temporary differences	**(3,339)**	(1,638)	**(3,607)**	(2,002)
Adjustments in respect of deferred income tax of previous year	**1,125**	1,111	**1,522**	1,255
	22,104	22,066	**17,304**	18,221

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	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Accounting profit before tax from continuing operations	**76,895**	77,940	**69,469**	67,871
Accounting profit before income tax	**76,895**	77,940	**69,469**	67,871
At Australia's statutory income tax rate of 30% (2017: 30%)	**23,069**	23,382	**20,841**	20,361
Adjust for tax effect of:				
Non-deductible expenses	**91**	162	**91**	165
Fully franked dividends received	**(418)**	(663)	**(3,054)**	(1,506)
Under/(over) provision in prior year	**(638)**	(815)	**(574)**	(799)
Income tax expense	**22,104**	22,066	**17,304**	18,221

(c) Deferred tax balances

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

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Deferred tax assets comprise temporary differences attributable to:				
Derivative financial instruments	**(13)**	856	**(13)**	856
Deferred acquisition costs	**420**	213	**-**	-
Provision for impairment of loans and advances	**2,905**	2,651	**2,905**	2,651
Employee benefits	**4,725**	4,798	**4,725**	4,798
Provisions and accruals	**5,062**	5,195	**4,851**	4,991
Other	**118**	-	**118**	-
Total deferred tax assets	**13,217**	13,713	**12,586**	13,296
Deferred tax liabilities comprise temporary differences attributable to:				
Plant and equipment and intangible assets	**10,695**	12,644	**10,700**	12,645
Financial assets - fair value through profit or loss	**363**	366	**-**	-
Financial assets - available for sale	**6,521**	6,521	**6,521**	6,521
Receivable and other assets	**592**	499	**-**	-
Total deferred tax liabilities	**18,171**	20,030	**17,221**	19,166
Net deferred tax liabilities	**(4,954)**	(6,317)	**(4,635)**	(5,870)

2.3 Income tax (continued)

(d) Movement in deferred tax

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Deferred income tax expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets	**356**	1,260	**141**	617
(Decrease)/increase in deferred tax liabilities	**1,857**	(733)	**1,944**	130
	2,213	527	**2,085**	747
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	**(850)**	(5,165)	**(850)**	(5,165)
Net gain/(loss) on financial assets available for sale	**-**	(685)	**-**	(685)
	(850)	(5,850)	**(850)**	(5,850)
Total deferred income tax	**1,363**	(5,323)	**1,235**	(5,103)

(e) Unused tax losses and franking account

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Unused tax losses for which no deferred tax asset has been recognised	**906**	905	**-**	-
Potential tax benefit @ 30%	**272**	272	**-**	-

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

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Franking account balance	**289,251**	261,930	**284,193**	257,540

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.

2.3 Income tax (continued)

Recognition and measurement

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

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

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

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

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

3. Balance sheet and risk management

3.1 Cash and cash equivalents

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Cash on hand	**3,751**	4,003	**3,751**	4,003
Deposits on call	**304,082**	243,060	**293,329**	227,111
	307,833	247,063	**297,080**	231,114

Cash and cash equivalents include restricted balances of $136.3 million (2017: $116.3 million) in the Credit Union which represents deposits held in securitisation trust collection accounts which are not available to the Group.

Recognition and measurement

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Reserve Bank of Australia (RBA) and cash on deposits and call accounts with 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

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

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Profit after tax from continuing operations	**54,791**	55,874	**52,165**	49,650
Adjustments for:				
Depreciation and amortisation	**19,090**	17,462	**18,985**	17,453
Impairment of loans and advances	**9,640**	6,266	**9,640**	6,266
Net interest on loans and advances	**9,235**	6,690	**9,235**	6,690
Net gain on financial assets - fair value through profit or loss	**(42)**	(1,517)	**-**	-
Derivative financial instruments (unrealised)	**(1,784)**	(5,508)	**(1,784)**	(5,508)
Other non-cash items	**(279)**	268	**(279)**	268
Changes in:				
(Increase)/decrease loans and advances	**(786,906)**	(348,901)	**(786,906)**	(348,901)
(Increase)/decrease financial assets	**260,049**	(455,694)	**262,026**	(472,580)
(Increase)/decrease deferred tax liability	**(1,362)**	4,639	**(1,234)**	4,418
(Increase)/decrease other assets	**734**	(9,240)	**(1,124)**	(8,486)
Increase/(decrease) deposits	**459,713**	432,906	**470,780**	433,049
Increase/(decrease) insurance policy liabilities	**(2,980)**	5,378	**-**	-
Increase/(decrease) income tax payable	**(2,405)**	2,777	**(2,894)**	1,190
Increase/(decrease) provisions	**(301)**	1,150	**(301)**	1,150
Increase/(decrease) other liabilities	**(5,592)**	(4,747)	**(7,431)**	(627)
Net cash provided by/(used in) operating activities	**11,601**	(292,197)	**20,878**	(315,968)

3.1 Cash and cash equivalents (continued)

Notes to the statements of cash flows (continued)

(b) Reconciliation of cash flows from financing activities:

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

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

The Group adopted the amendments to AASB 107 *Statement of Cash Flows* that were issued as part of the IASB's disclosure initiative. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. There is no financial impact arising from amendments to AASB 107.

On initial application of the amendment, entities are not required to provide comparative information for the preceding period.

3.2 Financial assets

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Fair value through profit or loss				
Term deposits	**12,277**	12,445	**-**	-
Mortgage-backed securities	**2,292**	8,424	**-**	-
Australian listed equities	**5,936**	4,883	**-**	-
Investment in unlisted unit trusts:				
Fixed interest and other debt securities	**50,605**	45,163	**-**	-
Property	**3,602**	5,877	**-**	-
International equities	**7,780**	3,676	**-**	-
	82,492	80,468	**-**	-
Held to maturity				
Deposits	**399,998**	565,552	**399,998**	565,552
Fixed coupon bonds	**-**	7,204	**-**	7,204
Floating rate notes	**1,081,790**	1,170,440	**1,081,790**	1,170,440
Mortgage-backed securities	**-**	-	**1,395,189**	676,452
	1,481,788	1,743,196	**2,876,977**	2,419,648
Available for sale				
Shares in unlisted entities	**42,890**	42,890	**42,890**	42,890

There has 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 4.1 for further details). This group of financial assets is managed and its performance is evaluated on a fair value basis where related liabilities are also managed on this basis. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

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.

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

3.2 Financial assets (continued)

Recognition and measurement (continued)

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 flows 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.

The Group has reviewed the preliminary impact of AASB 9 *Financial Instruments* on classification and measurement of financial assets. The assessment of these impacts is further detailed at Note 6.2.

3.3 Loans and advances

	Group		**Credit Union**	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Term loans	**12,152,937**	11,383,133	**12,152,937**	11,383,133
Credit cards and overdrafts	**136,913**	141,140	**136,913**	141,140
Gross loans and advances	**12,289,850**	11,524,273	**12,289,850**	11,524,273
Provision for impairment	**(9,545)**	(8,501)	**(9,545)**	(8,501)
Net deferred origination cost and fee revenue	**19,929**	14,587	**19,929**	14,587
Net loans and advances	**12,300,234**	11,530,359	**12,300,234**	11,530,359

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'.

3.4 Impairment of loans and advances

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Specific provision				
Opening balance	**735**	1,037	**735**	1,037
Charge to income statement	**7,964**	5,321	**7,964**	5,321
Bad debts written off	**(8,596)**	(5,623)	**(8,596)**	(5,623)
Closing balance	**103**	735	**103**	735
Collective provision				
Opening balance	**7,766**	6,821	**7,766**	6,821
Charge to income statement	**1,676**	945	**1,676**	945
Closing balance	**9,442**	7,766	**9,442**	7,766
Total provision for impairment	**9,545**	8,501	**9,545**	8,501
Impairment charge	**(9,640)**	(6,266)	**(9,640)**	(6,266)
Bad debts recovered	**791**	670	**791**	670
Change to impairment of loans and advances	**(8,849)**	(5,596)	**(8,849)**	(5,596)

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.

The Group has reviewed the preliminary impact of AASB 9 *Financial Instruments* on collective provisioning model for loans and advances. The assessment of these impacts is further detailed as at Note 6.2.

3.5 Deposits

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Members' shares	**3,332**	3,418	**3,332**	3,418
Members' call deposits	**6,145,066**	5,426,088	**6,156,251**	5,426,206
Members' term deposits	**3,071,426**	3,330,605	**3,071,426**	3,330,605
	9,219,824	8,760,111	**9,231,009**	8,760,229

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.

3.6 Borrowings

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Securitisation trust borrowings	**1,218,153**	1,588,867	**2,582,848**	2,248,379
Securitisation warehouse borrowings	**888,523**	546,390	**919,016**	563,331
Term borrowings	**1,865,384**	1,765,265	**1,867,521**	1,772,777
	3,972,060	3,900,522	**5,369,385**	4,584,487

For recognition and measurement details, refer to Note 3.5.

3.7 Standby borrowing facilities

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

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
(i) Australia and New Zealand Banking Group				
Approved limit	**500,000**	500,000	**500,000**	500,000
Amount utilised	**349,980**	194,458	**349,980**	194,458
(ii) Deutsche Bank				
Approved limit	**52,500**	-	**52,500**	-
Amount utilised	**35,496**	-	**35,496**	-
(iii) Waratah Finance Pty Ltd				
Approved limit	**-**	485,500	**-**	485,500
Amount utilised	**-**	107,922	**-**	107,922
(iv) Westpac Banking Corporation				
Approved limit	**690,000**	460,000	**690,000**	460,000
Amount utilised	**494,454**	242,648	**494,454**	242,648
(v) Overdraft				
Approved limit	**10,000**	10,000	**10,000**	10,000
Amount utilised	**-**	-	**-**	-
(vi) RBA (internal securitisation)				
Approved limit	**1,166,637**	562,101	**1,166,637**	562,101
Amount utilised	**-**	-	**-**	-

3.8 Risk management

Overview

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

The key pillars which are reviewed and approved annually by the Board and subsequently provided to APRA include:

- Risk Appetite Statement – outlines the degree of risk the Group is willing to take in order to meet strategic objectives; and
- Risk Management Strategy – provides the method for identifying and managing risk including approach, responsibilities, policies and systems.

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

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

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

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

Formal governance structures enable the management of risk at the Board and Executive level. Four key committees in place to achieve this include: (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 maintains four key management committees for monitoring risk across the Group and reporting 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 Group's approach to managing interest rate, price, credit, liquidity and funding risk are further detailed below.

3.8 Risk management (continued)

(a) Interest rate risk

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

Certain prior year amounts have been reclassified for consistency with the current year presentation. An adjustment has been made to reclassify balances between relevant categories.

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

Group **Repricing period at 30 June 2018**	**At call/ variable**	**Fixed interest rate maturing**			**Non interest bearing**	**Total**
		Within 1 year	**1 to 5 years**	**Over 5 years**		
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash and cash equivalents	**304,082**	**-**	**-**	**-**	**3,751**	**307,833**
Financial assets - fair value through profit or loss	**2,292**	**12,277**	**-**	**-**	**-**	**14,569**
Financial assets - held to maturity	**1,172,592**	**309,196**	**-**	**-**	**-**	**1,481,788**
Derivative financial instruments	**-**	**570**	**377**	**-**	**-**	**947**
Loans and advances (Gross)	**8,255,466**	**1,221,956**	**2,598,254**	**214,174**	**-**	**12,289,850**
	9,734,432	**1,543,999**	**2,598,631**	**214,174**	**3,751**	**14,094,987**
Liabilities						
Deposits	**6,148,348**	**2,872,225**	**199,251**	**-**	**-**	**9,219,824**
Derivative financial instruments	**-**	**384**	**518**	**-**	**-**	**902**
Borrowings	**2,708,506**	**1,225,473**	**38,081**	**-**	**-**	**3,972,060**
Commitments (Note 5.10)	**755,757**	**-**	**-**	**-**	**1,624**	**757,381**
	9,612,611	**4,098,082**	**237,850**	**-**	**1,624**	**13,950,167**

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	-	-	-	20,869
Financial assets - held to maturity	1,261,189	482,007	-	-	-	1,743,196
Derivative financial instruments	-	-	714	-	-	714
Loans and advances (Gross)	7,710,316	1,151,871	2,447,504	214,582	-	11,524,273
	9,222,989	1,646,323	2,448,218	214,582	4,003	13,536,115
Liabilities						
Deposits	5,429,506	3,074,075	256,530	-	-	8,760,111
Derivative financial instruments	-	2,860	1,577	-	-	4,437
Borrowings	2,796,644	1,103,878	-	-	-	3,900,522
Commitments (Note 5.10)	482,093	-	-	-	42,411	524,504
	8,708,243	4,180,813	258,107	-	42,411	13,189,574

3.8 Risk management (continued)

(a) Interest rate risk (continued)

Credit Union **Repricing period at 30 June 2018**	**At call/ variable**	**Fixed interest rate maturing**			**Non interest bearing**	**Total**
		Within 1 year	**1 to 5 years**	**Over 5 years**		
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash and cash equivalents	**293,329**	**-**	**-**	**-**	**3,751**	**297,080**
Financial assets - held to maturity	**2,567,781**	**309,196**	**-**	**-**	**-**	**2,876,977**
Derivative financial instruments	**-**	**570**	**377**	**-**	**-**	**947**
Loans and advances (Gross)	**8,255,466**	**1,221,956**	**2,598,254**	**214,174**	**-**	**12,289,850**
	11,116,576	**1,531,722**	**2,598,631**	**214,174**	**3,751**	**15,464,854**
Liabilities						
Deposits	**6,159,533**	**2,872,225**	**199,251**	**-**	**-**	**9,231,009**
Derivative financial instruments	**-**	**384**	**518**	**-**	**-**	**902**
Borrowings	**4,103,695**	**1,227,609**	**38,081**	**-**	**-**	**5,369,385**
Commitments (Note 5.10)	**755,757**	**-**	**-**	**-**	**1,624**	**757,381**
	11,018,985	**4,100,218**	**237,850**	**-**	**1,624**	**15,358,677**

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	1,937,641	482,007	-	-	-	2,419,648
Derivative financial instruments	-	-	714	-	-	714
Loans and advances (Gross)	7,710,316	1,151,871	2,447,504	214,582	-	11,524,273
	9,875,068	1,633,878	2,448,218	214,582	4,003	14,175,749
Liabilities						
Deposits	5,429,624	3,074,075	256,530	-	-	8,760,229
Derivative financial instruments	-	2,860	1,577	-	-	4,437
Borrowings	3,473,098	1,111,389	-	-	-	4,584,487
Commitments (Note 5.10)	482,093	-	-	-	42,411	524,504
	9,384,815	4,188,324	258,107	-	42,411	13,873,657

During the year the Credit Union enhanced its approach to measuring and managing interest rate risk. New metrics have been implemented to measure both earnings and valuation risk, representing an extension of interest rate risk management capabilities within the Credit Union. These are measured through Net Interest Income Sensitivity (NIIS) and Present Value Sensitivity (PVS) respectively. A new methodology has been applied to the Value at Risk (VaR) measure. All these metrics have remained within the Board limits throughout the year.

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

3.8 Risk management (continued)

(a) Interest rate risk (continued)

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

Net interest income sensitivity	2018 $'000
Average exposure	**1,670**
Maximum exposure	**3,169**
Minimum exposure	**249**

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

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

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

	2018		2017	
Value at risk	**$'000**	**%**	$'000	%
Average	**5,193**	**0.57%**	8,472	0.97%
Maximum	**5,836**	**0.63%**	12,382	1.40%
Minimum	**4,271**	**0.47%**	4,306	0.48%

[1] The results have not been restated for the new methodology.

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

Present value sensitivity	2018 $'000
Average exposure	**8,955**
Maximum exposure	**10,713**
Minimum exposure	**6,228**

3.8 Risk management (continued)

(b) Equity price risk

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

The Group is exposed to equity price risk on investments in Australian listed equities and from investments in unlisted unit trusts. These investments backing insurance liabilities are held by the wholly owned subsidiary, CUA Health Ltd. To manage the risk of a decline in the value of the investments, the specialist asset managers are required to follow the 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	**2018**		2017	
	+10%	**-10%**	+10%	-10%
Judgments of reasonably possible movements	**$'000**	**$'000**	$'000	$'000
Australian listed equities	**430**	**(430)**	376	(376)
Investment in unlisted unit trusts	**4,339**	**(4,339)**	3,830	(3,830)
Investment in unlisted securities	**3,002**	**(3,002)**	3,002	(3,002)
	7,771	**(7,771)**	7,208	(7,208)

(c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Credit Union. Credit risk arises from the 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 that encompasses:

- Our risk appetite for lending;
- Our strategies, policies and governance for managing credit risk; and
- Our processes for continually monitoring credit quality for impairment and the adequacy of provisions.

Maximum credit exposure

Credit exposures are capped to the carrying value reported on the balance 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 and before taking account of any collateral held or other credit enhancement.

3.8 Risk management (continued)

(c) Credit risk (continued)

Credit quality – investment with counterparties

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 classified according to APRA's APS 112 *Capital Adequacy: Standardised Approach to Credit Risk (Attachment E, paragraph 13, Table 6).* The following table summarises the counterparty concentration risk exposure by rating grades:

Group - 2018	**Credit Rating Grade 1**	**Credit Rating Grade 2**	**Credit Rating Grade 3**	**Unrated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Assets					
Cash and cash equivalents	**232,548**	**66,795**	**-**	**8,490**	**307,833**
Financial assets - fair value through profit or loss	**2,292**	**6,832**	**5,446**	**-**	**14,570**
Financial assets - held to maturity	**480,390**	**549,983**	**448,970**	**2,445**	**1,481,788**
Derivative financial instruments	**947**	**-**	**-**	**-**	**947**
	716,177	**623,610**	**454,416**	**10,935**	**1,805,138**

Group - 2017	Credit Rating Grade 1	Credit Rating Grade 2	Credit Rating Grade 3	Unrated	Total
	$'000	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	184,498	54,714	-	7,851	247,063
Financial assets - fair value through profit or loss	7,820	6,152	6,897	-	20,869
Financial assets - held to maturity	681,449	614,998	444,790	1,959	1,743,196
Derivative financial instruments	714	-	-	-	714
	874,481	675,864	451,687	9,810	2,011,842

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

Credit Union - 2017	Credit Rating Grade 1	Credit Rating Grade 2	Credit Rating Grade 3	Unrated	Total
	$'000	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	175,404	51,885	-	3,825	231,114
Financial assets - held to maturity	1,306,949	614,998	444,790	52,911	2,419,648
Derivative financial instruments	714	-	-	-	714
	1,483,067	666,883	444,790	56,736	2,651,476

3.8 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. The Credit Union sets aside provisions for impairment of loans in accordance with its internal policies and procedures, which comply with AASB 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 are considered to be performing loans.

Past due but not impaired 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.

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.

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

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

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

Credit Union - 2018	**Neither past due nor impaired**	**Past due but not impaired**			**Restructured**	**Impaired**	**Total**
		Less than 28 days	**28-90 days**	**More than 90 days**			
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Loans and advances (Gross):							
Residential mortgages	**11,464,700**	**124,242**	**30,561**	**3,962**	**70,782**	**5,353**	**11,699,600**
Commercial lending	**30,646**	**3**	**372**	**-**	**-**	**346**	**31,367**
Personal lending	**529,640**	**13,647**	**5,411**	**-**	**4,836**	**5,349**	**558,883**
	12,024,986	**137,892**	**36,344**	**3,962**	**75,618**	**11,048**	**12,289,850**

Credit Union - 2017	Neither past due nor impaired	Past due but not impaired			Restructured	Impaired	Total
		Less than 28 days	28-90 days	More than 90 days			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Loans and advances (Gross):							
Residential mortgages	10,704,722	145,054	29,766	3,127	67,150	7,204	10,957,023
Commercial lending	28,439	24	15	-	110	285	28,873
Personal lending	510,999	16,486	4,473	-	2,933	3,486	538,377
	11,244,160	161,564	34,254	3,127	70,193	10,975	11,524,273

3.8 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios (continued)

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

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 2018 the fair value of collateral held against these loans and advances that have been individually assessed as impaired is $5.5 million (2017: $5.9 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 $2.9 million (2017: $11.8 million) which were securing loans of $2.1 million (2017: $9.2 million).

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 or subsequent revaluation.

Credit Union	**2018**	2017
	$'000	$'000
LVR 0% - 60%	**3,480,016**	3,122,066
LVR 60.01% - 80%	**5,983,420**	5,623,145
LVR 80.01% - 90%	**1,732,067**	1,626,841
LVR 90.01% - 100%	**483,897**	564,617
LVR > 100%	**20,200**	20,354
	11,699,600	10,957,023

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. Management undertakes periodic exercises including stress testing and geographic analysis 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	**2018**		2017	
	Housing loans	**Other loans**	Housing loans	Other loans
State	**$'000**	**$'000**	$'000	$'000
Queensland	**4,455,082**	**290,889**	4,329,178	284,334
New South Wales	**3,508,563**	**150,343**	3,271,052	145,824
Victoria	**2,602,797**	**108,743**	2,432,048	99,996
Western Australia	**773,734**	**25,074**	634,153	23,431
Australian Capital Territory	**166,666**	**6,715**	151,353	6,063
South Australia	**149,192**	**4,756**	105,438	4,485
Tasmania	**28,602**	**1,772**	18,632	1,609
Northern Territory	**14,964**	**1,958**	15,169	1,508
	11,699,600	**590,250**	10,957,023	567,250

3.8 Risk management (continued)

(d) Liquidity and funding risk

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

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

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

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

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

[1] 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.

3.8 Risk management (continued)

(d) Liquidity and funding risk (continued)

Group - 2017	Carrying Amount $'000	Gross contractual inflow/(outflow) $'000	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3,418	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.

3.8 Risk management (continued)

(d) Liquidity and funding risk (continued)

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

[1] 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.

3.8 Risk management (continued)

(d) Liquidity and funding risk (continued)

Credit Union - 2017	Carrying Amount $'000	Gross contractual inflow/(outflow) $'000	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3,418	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.

3.9 Derivative financial instruments

(a) Fair value of derivatives

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

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.

Group and Credit Union	**Assets**	**Liabilities**	**Notional amount**	Assets	Liabilities	Notional amount
	2018	**2018**	**2018**	2017	2017	2017
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Derivatives used as cash flow hedges						
Interest rate swaps	**947**	**902**	**2,150,140**	714	4,437	1,461,500

(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.

3.9 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	**2018**	2017
	$'000	$'000
Net gain/(loss) on derivatives reclassified through profit or loss	**54**	10
Net gain/(loss) on ineffective hedges	**7**	(7)
Net gain/(loss) on derivatives at fair value through profit or loss	**61**	3

3.10 Capital management

Regulatory capital

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

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by APRA in supervising the Credit Union. During the 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 2018	As at 30 June 2017
	$'000	$'000
Common equity tier 1 capital		
Retained profits, including current year profits	**917,729**	865,907
Reserves	**27,714**	25,643
Total common equity tier 1 capital	**945,443**	891,550
Regulatory adjustments		
Intangibles	**(72,958)**	(67,982)
Equity investments	**(47,302)**	(47,023)
Other deductions	**(30,000)**	(19,312)
Total regulatory adjustments	**(150,260)**	(134,317)
Net common equity tier 1 capital	**795,183**	757,233
Tier 2 capital		
General reserve for credit losses	**21,865**	20,477
Net tier 2 capital	**21,865**	20,477
Capital base	**817,048**	777,710
Risk weighted assets	**5,733,147**	5,447,937
Risk weighted capital ratios		
Tier 1	**13.87%**	13.90%
Tier 2	**0.38%**	0.38%
Total capital ratio	**14.25%**	14.28%

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

The Group has reviewed the preliminary impact arising from AASB 9 *Financial Instruments* on the ADI's capital adequacy, taking into consideration APRA's interim approach and expectations around the regulatory treatment of AASB 9 *Financial Instruments* as set out in its industry letter released on 4 July 2017. Please refer to the assessment in Note 6.2.

4. Insurance business

4.1 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	
	2018	2017
	$'000	$'000
Income statement extract		
Net premium revenue	**154,995**	155,318
Claims expense	**(127,207)**	(131,302)
Interest income - fair value through profit or loss	**616**	1,481
Net investment income	**2,541**	395
Net insurance income	**30,945**	25,892
Balance sheet extract		
Assets		
Investments backing insurance liabilities	**82,492**	80,468
Deferred acquisition costs	**768**	1,327
Rebate receivable from health insurance commission	**3,235**	3,471
Receivable from Risk Equalisation Trust Fund	**1,973**	1,662
Liabilities		
Unearned premiums	**22,696**	24,660
Outstanding claims liabilities	**12,187**	11,889

The outstanding claims liabilities represent a combination of a central estimate, allowance for claims handling expenses, risk margin designed to achieve a probability of adequacy of at least 75% (2017: 75%) for both companies. The risk margins are 8% (2017: 7%) and 18% (2017: 13%) respectively for CHL and CCI.

4.2 Key insurance accounting policies

Premium revenue

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

Claims expense

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

Net investment income

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

4.2 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.

4.2 Key insurance accounting policies (continued)

Unexpired risk liability (continued)

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 2018 and 30 June 2017.

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

4.3 Insurance governance

CUA Health 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.

4.4 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 (2017: nil).

	2018	2017
	$'000	$'000
Capital Adequacy Standard		
Excess assets: Quantum of Assets Test	**60,085**	55,768
Solvency standard		
Excess qualifying assets: Solvency Test	**17,459**	11,696

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 $5.0 million. The PCA will increase with the size of the insurer's operations. In addition, Prudential Standard GPS 110 *Capital Adequacy* requires that insurers maintain a capital base in excess of its minimum capital requirement. CCI has not breached any externally imposed capital requirements during the year (2017: nil).

CCI has set out in its Internal Capital Adequacy Assessment Process (ICAAP), a targeted minimum capital amount equal to the greater of $6.0 million or 150% of the sum of the prudential risk charges, calculated in accordance with the Prudential Standards using the Prescribed Method as outlined under GPS 110 *Capital Adequacy*. 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.

	2018	2017
	$'000	$'000
Prescribed Capital Amount per APRA	**5,000**	5,000
Targeted minimum capital amount per ICAAP	**5,816**	6,683
Capital base	**9,467**	8,252

5. Other notes

5.1 Property, plant and equipment

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
At cost/fair value	**62,574**	60,839	**62,527**	60,797
Accumulated depreciation	**(48,258)**	(43,534)	**(48,220)**	(43,501)
Total property, plant and equipment	**14,316**	17,305	**14,307**	17,296

All property, plant and equipment balances at 30 June 2018 and 30 June 2017 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

5.2 Intangible assets

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
At cost	**115,041**	101,226	**114,656**	100,842
Accumulated amortisation	**(49,795)**	(38,816)	**(49,606)**	(38,729)
Intangible assets	**65,246**	62,410	**65,050**	62,113
Capital work in progress	**7,948**	5,945	**7,948**	5,945
Total intangible assets	**73,194**	68,355	**72,998**	68,058
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**68,355**	65,654	**68,058**	65,652
Additions	**15,570**	10,231	**15,570**	9,932
Net movement in capital work in progress	**2,003**	3,309	**2,003**	3,309
Amortisation	**(12,734)**	(10,839)	**(12,633)**	(10,835)
Carrying amount at end of financial year	**73,194**	68,355	**72,998**	68,058

All intangible asset balances at 30 June 2018 and 30 June 2017 are non-current.

5.2 Intangible assets (continued)

Recognition and measurement

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

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

Use of judgements and estimates

The Group estimates the useful life of its major banking infrastructure software to be at least 10 years based on the expected technical obsolescence of such assets and benchmark comparison of other similar platforms. However, the actual useful life may be shorter or longer than 10 years, depending on technical innovations and competitor actions. As at 30 June 2018, the carrying amount of this software was $30.2 million (2017: $35.7 million). If the useful life was only seven years, the carrying amount would be $18.7 million as at 30 June 2018. If the useful life was estimated to be 12 years, the carrying amount would be $34.6 million as at 30 June 2018.

5.3 Other assets

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Deferred acquisition costs	**768**	1,327	**-**	-
Rebate receivable from health insurance commission	**3,235**	3,471	**-**	-
Receivable from Risk Equalisation Trust Fund	**1,973**	1,662	**-**	-
Sundry debtors	**6,333**	8,437	**4,727**	6,667
Prepayments	**5,602**	4,372	**5,361**	4,212
	17,911	19,269	**10,088**	10,879

All other asset balances at 30 June 2018 and 30 June 2017 are current.

5.4 Other liabilities

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Trade creditors and accruals	**19,000**	25,070	**18,746**	25,345
Straight-line lease liability	**8,680**	9,516	**8,680**	9,516
Unearned insurance premiums	**22,696**	24,660	**-**	-
Outstanding insurance claims liabilities	**12,187**	11,889	**-**	-
Income tax payable	**5,142**	7,547	**2,526**	5,420
	67,705	78,682	**29,952**	40,281

Except for straight-line lease liability, all other liability balances at 30 June 2018 and 30 June 2017 are current. The current and non-current balances in respect to the lease liability are as follows: current lease liability $1.5 million (2017: $0.9 million), non-current lease liability $7.2 million (2017: $8.7 million).

5.5 Provisions

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Employee benefits	**15,751**	15,992	**15,751**	15,992
Make good provision	**4,892**	4,538	**4,892**	4,538
	20,643	20,530	**20,643**	20,530
Current	**14,856**	14,865	**14,856**	14,865
Non-current	**5,787**	5,665	**5,787**	5,665
	20,643	20,530	**20,643**	20,530

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.

5.6 Reserves

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
General reserve for credit losses	**18,383**	18,383	**18,383**	18,383
Redeemed member share reserve	**2,916**	2,830	**2,916**	2,830
Available for sale reserve	**15,216**	15,216	**15,216**	15,216
Cash flow hedge reserve	**(8)**	(1,993)	**(8)**	(1,993)
Business combination reserve	**9,590**	9,590	**9,590**	9,590
	46,097	44,026	**46,097**	44,026

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.

The Group has reviewed the preliminary impact arising from AASB 9 *Financial Instruments* on the ADI's capital adequacy, taking into consideration APRA's interim approach and expectations around the regulatory treatment of AASB 9 *Financial Instruments* as set out in its industry letter released on 4 July 2017. Please refer to the assessment in Note 6.2.

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 3.5.

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.

5.7 Fair value of financial instruments

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

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

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

5.7 Fair value of financial instruments (continued)

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

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

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.

5.7 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 price (unadjusted current bid price) on the Australian Securities Exchange (ASX); and
- Investment in unlisted unit trusts – are valued at the redemption price quoted by the trust managers as at the reporting date.

The Group has an established control framework with respect to the measurement of fair values when third party information, such as external broker quotes or valuations are used to measure fair value, 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; and
- Understanding how the fair value has been derived, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument.

Significant valuations issues are reported to the Board Audit Committee.

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

5.7 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	
	2018	2017
	$'000	$'000
Balance at beginning of financial year	**42,890**	37,030
Purchases	**-**	3,577
Remeasurement recognised in OCI	**-**	2,283
Balance at end of financial year	**42,890**	42,890

Loans and advances

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

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

Level 3 fair value measurement

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

Recognition and measurement

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

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

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

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.

5.7 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 2018 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.

The Group has reviewed the preliminary impact of AASB 9 *Financial Instruments* on classification and measurement of held to maturity investments. The assessment of these impacts is further detailed as at Note 6.2.

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.

5.8 Related parties

(a) Key management personnel (KMP)

Compensation of the Credit Union's Directors and other KMP

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

	Directors		Other KMP	
	2018	2017	**2018**	2017
	$	$	**$**	$
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	**993,038**	990,111	**3,903,397**	3,533,812
- Post employment benefits	**233,476**	242,168	**196,281**	162,149
- Other long term benefits	**-**	-	**361,867**	278,840
- Termination benefits	**-**	-	**273,175**	101,650
	1,226,514	1,232,279	**4,734,720**	4,076,451

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

	2018	2017
	$	$
Aggregate of loans as at balance date	**5,291,795**	6,233,662
Total undrawn revolving credit facilities available at balance date	**74,396**	129,381
Interest charged on loans and overdraft facilities	**166,311**	225,696

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 2018 financial year are excluded from the 2018 analysis, but are included in the 2017 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 (2017: nil).

There are no benefits or concessional terms and conditions applicable to the family members of the Credit Union's Directors and other KMP (2017: 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 (2017: 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.

5.8 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	**2018**	2017	**2018**	2017
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

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

All entities are incorporated in Australia.

(ii) Securitisation

The following securitisation trusts are controlled by the Credit Union:

- Series 2012-1R Harvey Trust
- Series 2013-1 Harvey Trust
- Series 2015-1 Harvey Trust
- Series 2017-1 Harvey Trust
- Harvey Warehouse Trust No.1 (closed on 12 December 2017)
- Harvey Warehouse Trust No.3 (closed on 30 April 2018)
- Harvey Warehouse Trust No. 4
- Harvey Warehouse Trust No. 5 (established on 12 March 2018)

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.

5.8 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	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Transferred financial assets				
Loans and advances at amortised cost	**3,403,049**	2,720,096	**3,403,049**	2,720,096
Associated financial liabilities				
Securitisation liabilities - external investors	**2,106,675**	2,135,257	**2,106,675**	2,135,257
Amounts due to the Credit Union	**-**	-	**1,419,110**	686,653
	2,106,675	2,135,257	**3,525,785**	2,821,910
For those liabilities that have recourse only to transferred assets:				
Fair value of transferred assets	**3,376,155**	2,700,940	**3,376,155**	2,700,940
Fair value of associated liabilities	**(2,106,675)**	(2,135,257)	**(3,525,785)**	(2,821,910)
Net position	**1,269,480**	565,683	**(149,630)**	(120,970)

Collateral

The Credit Union has advanced $3.0 million (2017: $4.0 million) as cash collateral in relation to interest rate swaps for securitisation trusts. The funds are held in restricted interest earning accounts and will be returned at maturity of the interest rate swap contracts.

(iii) Significant restrictions

The regulatory frameworks within which the health and general insurance subsidiaries operate, require these subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with various ratio requirements. The significant restrictions imposed by the regulatory frameworks are the only restrictions on the Credit Union transferring the cash or other assets of the subsidiaries. The carrying amount of these subsidiaries' assets and liabilities are $100.4 million and $22.0 million respectively (2017: $100.9 million and $31.5 million respectively).

(iv) Particulars in relation to a joint venture entity

The Group has a 50% interest in Mutual Marketplace Pty Ltd (MMP) (2017: 50%). For more details, refer to Note 5.9.

5.8 Related parties (continued)

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

(v) Transactions with controlled and joint venture entities

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

Transactions with controlled and joint venture entities:

	Credit Union	
	2018	2017
	$	$
Dividend revenue	**8,800,000**	2,850,000
Commission revenue	**1,770,269**	2,820,853
Net management fees	**2,854,277**	2,718,082
Net interest income/(expense)	**(238,618)**	(301,460)
Net income/(expense) Mutual Marketplace Pty Ltd[1]	**(84,428,146)**	(15,807,964)
Operating lease revenue	**314,627**	308,457

[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	
	2018	2017
	$	$
CUA Health Ltd	**(13,635,170)**	(10,473,014)
Credicorp Finance Pty Ltd	**(100,950)**	(101,848)
Credicorp Insurance Pty Ltd	**(3,066,312)**	(2,218,738)
CUA Management Pty Ltd	**(475,874)**	(592,388)
Mutual Marketplace Pty Ltd[1]	**-**	148,823

[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.

(vi) Overdraft facility to a joint venture entity

The Credit Union has granted an overdraft facility of $1.5 million to Mutual Marketplace Pty Ltd which is intended for the joint venture's working capital requirements. Interest is charged at 7% per annum.

5.9 Joint venture

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

The 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 2018. 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		Nature of relationship	Measurement	Carrying amount	
		2018	2017			**2018 $'000**	2017 $'000
Mutual Marketplace Pty Ltd	Australia	**50%**	50%	Joint Venture	Equity Method	**1,612**	1,333

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

	2018 $'000	2017 $'000
Commitments - joint venture	**49,722**	15,497
Commitment to provide funding for joint venture's capital commitment, if called	**1,500**	1,500
	51,222	16,997

The Group has commitments of $47.3 million (2017: $15.1 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	**2018 $'000**	2017 $'000
Revenue	**122,939**	23,140
Cost of sales	**(118,187)**	(22,250)
Gross profit	**4,752**	890
Operating expenses	**(3,953)**	(1,366)
Profit/(loss) before income tax	**799**	(476)
Income tax benefit / (expense)	**(242)**	143
Profit/(loss) for the year	**557**	(333)

5.9 Joint venture (continued)

(a) Interest in joint venture (continued)

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

Summarised balance sheet	2018 $'000	2017 $'000
Total assets	**8,739**	6,655
Total liabilities	**(5,515)**	(3,988)
Net assets	**3,224**	2,667
Reconciliation to carrying amounts:		
Opening net assets	**2,667**	3,000
Profit/(loss) for the period	**557**	(333)
Closing net assets	**3,224**	2,667
Group's share in %	**50%**	50%
Group's share in $	**1,612**	1,333
Carrying amount	**1,612**	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.

5.10 Commitments

(a) Operating lease commitments

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

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

	Group		Credit Union	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Within one year	**13,979**	9,584	**13,979**	9,584
After one but not more than five years	**34,531**	30,637	**34,531**	30,637
More than five years	**373**	2,190	**373**	2,190
	48,883	42,411	**48,883**	42,411

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

(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	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Loans approved not advanced	**489,035**	229,117	**489,035**	229,117
Undrawn overdrafts and credit facilities at call	**266,722**	252,976	**266,722**	252,976
	755,757	482,093	**755,757**	482,093

(c) Capital commitments

At 30 June 2018, the Group had a commitment of $0.3 million (2017: $1.7 million) predominantly relating to information technology 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.

5.11 Remuneration of auditor

The auditor of the Credit Union is KPMG.

	Group		Credit Union	
	2018	2017	**2018**	2017
	$	$	**$**	$
Amounts received or due and receivable by KPMG for:				
Audit services				
Audit of financial statements	**527,709**	510,500	**447,209**	432,500
Other regulatory and audit services	**154,000**	152,500	**79,000**	82,500
Total audit services	**681,709**	663,000	**526,209**	515,000
Audit related services	**134,300**	141,500	**134,300**	141,500
Non-audit services				
Other services	**41,827**	48,673	**41,827**	48,673
Total non-audit services	**41,827**	48,673	**41,827**	48,673
Total auditor's remuneration	**857,836**	853,173	**702,336**	705,173

5.12 Economic dependency

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

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

5.13 Events subsequent to balance date

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

6. Accounting policies and new accounting standards

6.1 Accounting policies

(a) Basis of consolidation

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

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

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

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

(b) Borrowing costs

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

(c) Impairment of non-financial assets

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

(d) Leases

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

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

6.1 Accounting policies (continued)

(d) Leases (continued)

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

(e) Loyalty Program

The Credit Union participates in a Customer Loyalty Program operated by a third party. The program allows credit card holders to accumulate points when they transact with their 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.

6.2 New accounting standards

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2017:

- AASB 2016-1 Amendments to AASB 112 *Income Tax*
- AASB 2016-2 Amendments to AASB 107 *Statement of Cash Flows*
- AASB 2017-2 Amendments to Australian *Accounting Standards – Further Annual Improvements 2014-2016 Cycle*

There are some minor changes which require disclosures of changes arising from cash flows however 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 2018 are outlined 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.

AASB 9 preliminary impact assessment

The Group will apply AASB 9 *Financial Instruments* issued in December 2014 initially on 1 July 2018 and will early adopt the amendments to AASB 9 *Financial Instruments* (AASB 2017-6) on the same date. Based on the assessment undertaken to date (using April 2018 balances), the total estimated adjustment (net of tax) of the adoption of AASB 9 *Financial Instruments* on the opening balance of the Group's members' funds at 1 July 2018 is as follows:

- An increase by approximately $6.0 million to $10.0 million related to impairment requirements (refer to (b) below).

- An increase by approximately $1.8 million to $3.0 million related to deferred tax impacts of the above changes.

6.2 New accounting standards (continued)

AASB 9 preliminary impact assessment (continued)

Impairment adjustments post transition will be recognised in profit or loss.

All transition work is substantially finalised however, the above assessment is preliminary. Although extensive testing runs were carried out on the second half of the 2018 financial year, the Group will continue to refine and finalise its model for expected credit losses (ECL) calculations including forecast economic scenarios on forward looking information, its systems, associated controls and processes.

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

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.

(a) 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 *Financial Instruments*: Recognition and Measurement's held- to-maturity (HTM) and available-for-sale (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 principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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

Business model assessment

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

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

Contractual cash flows assessment

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

6.2 New accounting standards (continued)

AASB 9 preliminary impact assessment (continued)

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 July 2018 as follows:

- Loans and advances that are measured at amortised cost under AASB 139 will continue to be measured at amortised cost under AASB 9.
- The majority of the Credit Union's held to maturity investments measured at amortised costs under AASB 139 will continue to be measured at amortised cost under AASB 9, except for certain mortgage-back securities which will be measured at FVOCI.
- Shares in unlisted entities that have been classified as available for sale under AASB 139 and are held for long term strategic purposes will be measured at FVOCI under AASB 9.

The classification and measurement requirements of the standard do not have a material impact on the Group's financial assets based on the preliminary assessment carried out.

(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.

(b) Impairment

AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. The new impairment model applies to financial instruments that not measured at FVTPL:

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

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

A three stage approach is applied to measure the ECL on debt instruments accounted for at amortised cost and FVOCI:

- Stage 1: Credit risk has not increased significantly since initial recognition or not credit impaired upon origination, recognise a portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months.
- Stage 2: Credit risk has increased significantly since initial recognition but not credit impaired, recognise lifetime ECL.
- Stage 3: Asset is assessed as credit impaired (using criteria currently included in AASB 139 for measuring specific provisions) – recognise lifetime ECL. Interest revenue is calculated on a net basis (gross carrying amount less provision).

The Group will assess at each reporting date whether there has been a significant increase in credit risk of financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In assessing whether there has been a significant increase in credit risk, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward looking information. Credit risk assessment will be carried out on an individual and collective basis.

6.2 New accounting standards (continued)

AASB 9 preliminary impact assessment (continued)

(b) Impairment (continued)

When measuring ECLs, the Group takes into account the probability weighted outcome of cash shortfalls over the expected life of the asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group is expected to receive.

Modified financial assets

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

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

(c) 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.

When initially applying AASB 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of AASB 139 instead of those under AASB 9. The Group has elected to continue to apply AASB 139 on 1 July 2018 but will provide the expanded disclosures on hedge accounting required by the amended AASB 7 in the 30 June 2019 group financial statements.

(d) Disclosures

AASB 9 will require extensive new disclosures, in particular those relating to hedge accounting, credit risk and ECLs.

(e) Impact on regulatory capital

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 General Reserve for Credit Losses (GRCL) in the financial statements and other disclosures that may be required on transition.

Based on APRA's existing guidance letter, the preliminary impact on the Banking Group's regulatory capital arising from the implementing AASB 9's impairment requirements is not expected to have a material impact on the Banking Group's minimum regulatory capital requirement.

(f) Transition

Changes in accounting policies resulting from the adoption of AASB 9 will generally be applied retrospectively. The Group has elected not to restate comparative information for prior periods relating to classification and measurement (including impairment) changes. Difference in the carrying amounts of financial assets and liabilities resulting from the adoption of AASB 9 will generally be recognised retained earnings and reserves as at 1 July 2018.

6.2 New accounting standards (continued)

Preliminary impact assessment on other new accounting standards

Standard Reference: AASB 15 Revenue from contracts with customers	**Application Date :** 1 January 2018 * **Application Date for the Group :** 1 July 2018 *
Nature of Change • 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. Impact to the Group • The Group has substantially completed its assessment of impact of the new standard and 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. • Revenue streams relating to certain fees and commissions are impacted but management's assessment of the impact on transition is that the Group and the Credit Union are not materially impacted by the new standard.	
Standard Reference: 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial instruments with AASB 4 Insurance Contracts	**Application Date :** 1 January 2018 * **Application Date for the Group :** 1 July 2018 *
Nature of Change • 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. Impact to the Group • The amendments are not expected to be material.	
Standard Reference: AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of investment property and annual improvements 2014 – 2016 cycle	**Application Date :** 1 January 2018 * **Application Date for the Group :** 1 July 2018 *
Nature of Change • The amendments explain the treatment for transfers to or from investment properties and also clarify minor points in various accounting standards, including AASB 1 First Time Adoption of Australian Accounting Standards and AASB 128 Investment in Associates and Joint Ventures. Impact to the Group • The amendments are not expected to be material.	
Standard Reference: AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4 Insurance Contracts	**Application Date :** 1 January 2018 * **Application Date for the Group :** 1 July 2018 *
Nature of Change • This amendment clarifies the interaction of AASB 4 Insurance Contracts with AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. Impact to the Group • The amendments are not expected to be material.	

6.2 New accounting standards (continued)

Standard Reference: AASB Int 23 Uncertainty over tax treatments	**Application Date :** 1 January 2019 * **Application Date for the Group :** 1 July 2019 *
Nature of Change • Issued in July 2017, the interpretation has an effective date of 1 January 2019 (applicable to CUA on 1 July 2019). It clarifies how to apply the recognition and measurement requirements in AASB 112 when there is uncertainty over tax treatments ie whether those treatments will be accepted by the tax authority, in particular the timing and methods of recognition. • AASB 2017-4 has also been issued to make amendments to AASB 1 in relation to AASB Int 23. Impact to the Group • An analysis has been carried to assess if the Group has any current and near term exposures or uncertainties. None has been currently identified. • This interpretation will be applied to planned items that management are intending to submit to ATO for ruling in the future.	
Standard Reference: AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	**Application Date :** 1 January 2019 * **Application Date for the Group :** 1 July 2019 *
Nature of Change • Amends AASB 128 to clarify that an entity is required to account for long term interests in an associate and joint venture using AASB 9 before applying the loss allocation and impairment requirements in AASB 128. Impact to the Group • An analysis will be carried out to assess the impact of the amendment on CUA's equity investment in a joint venture (Mutual Marketplace), on a preliminary basis it is not expect to have a material impact.	
Standard Reference: AASB 2018-1 Amendments to Australian Accounting – Annual Improvements 2015-2017 Cycle	**Application Date :** 1 January 2019 * **Application Date for the Group :** 1 July 2019 *
Nature of Change Clarification amendments to a number of AASBs • AASB 3 *Business Combinations:* To clarify that an entity remeasures its previously held interest in a joint operation when it obtains control of the business • AASB 11 *Joint Arrangements:* To clarify that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business; • AASB 112 *Income Taxes:* To clarify that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits; and • AASB 123 *Borrowing Costs:* To clarify that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale. Impact to the Group • The amendments are not expected to be material.	

6.2 New accounting standards (continued)

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

Nature of Change

- 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.
- APRA has released an industry letter to insurers on 31 May 2018 providing guidance on applying existing capital standards to the new right of use assets and lease liabilities impacting on certain key aspects of the capital calculation. In addition, for private health insurers, both the right of use assets and lease liabilities would be considered in determining the prudent liabilities and stress amount for the fund.
- APRA anticipates that relevant assets and liabilities would be treated consistently in determining the capital impact.
- In the industry letter, APRA has also attached a high level survey result of participating insurers regarding the impact of AASB 16 and AASB 17.

Impact to the Group

- The Group is in the process of carrying out an assessment of the new standard based on its existing operating lease agreements to assess the impact of recognising new right of use asset and additional borrowings.
- Other contracts will also be reviewed to assess if they are deemed to be leases under the new standard.
- As the implementation project is still in progress, it is not practicable to disclose the financial or capital impact of this new standard.

Standard Reference: AASB 17 Insurance Contracts	**Application Date :** 1 January 2021 * **Application Date for the Group :** 1 July 2021 *

Nature of Change

- AASB 17 was released by the AASB on 20 July 2017. The new standard will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts.
- AASB 17 requires all insurance contracts to be measured using a current estimate of the present value of expected cash flows to fulfil the contractual obligations. The default measurement model is based on the building blocks approach (BBA) of discounted probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit to the contract. Short duration contracts (one year or less) can apply the simplified model using premium allocation approach (PAA).
- In addition, acquisition costs can no longer be effectively deferred beyond one year for most contracts, effectively reducing profit in the first year but increasing it in subsequent years.

Impact to the Group

- Management will carry out an impact assessment of the new standard on the Group's insurance operations. The standard is expected to have a more significant impact on the Group's loan repayment insurance products as they are made up of multi-year insurance contracts compared to the health insurance products which are short duration contracts.

6.2 New accounting standards (continued)

Standard Reference: AASB 2014-10/ AASB 2017-5 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture/ Effective Date of Amendments to AASB 10 and AASB 128	**Application Date :** 1 January 2022 * **Application Date for the Group :** 1 July 2022 *
Nature of Change • Clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3. Any gain or loss that does not constitute a business is only recognised to the extent of unrelated investor's interests in the associate or joint venture. • AASB 2017-5 has deferred this amendment to reporting periods beginning 1 January 2022 pending IASB's decision to defer the amendment indefinitely. Impact to the Group • The amendments are not expected to be material.	

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

Directors' declaration

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

(a) the financial statements and notes of the Credit Union and of the Group as set out on pages 11 to 75, 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 2018 and of their performance for the financial year ended on that date; and

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

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

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

Signed in accordance with a resolution of the Directors:

Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
22 August 2018

KPMG

Independent Auditor's Report

To the Members of Credit Union Australia Limited

Opinion

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

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

- giving a true and fair view of the ***Group*** and Company's financial position as at 30 June 2018 and of their 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 2018
- 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 Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

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

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

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

Other Information

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

KPMG

Martin Wardle
Partner
Brisbane
22 August 2018

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