2016 Annual Report

people's choice
CREDIT UNION

Australian Central Credit Union Ltd (trading as People's Choice Credit Union)
and its Controlled Entities **YEAR ENDED 30 JUNE 2016**

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Cover photograph: People's Choice opened its new Flinders Street branch in Adelaide during 2015/16, featuring advanced technology such as an interactive LCD table screen to help guide members through products and services.

An outstanding year

In 2015/16, People's Choice made strong progress towards its vision to be acknowledged as the most trusted financial services provider in Australia, achieving strong member growth, record net profit after tax and strong growth across a range of products and services.

Steve Laidlaw, Chief Executive Officer and John Cossons, Chair.

As a credit union, our purpose is to act in the best interests of our members and to ensure every decision we make and every initiative we undertake has a clear focus and benefit to our members.

This focus on our members has sustained a long-term trend of member growth. We welcomed 23,457 new members to People's Choice during the year and achieved net member growth of 4,633 members. We have strong aspirations and a strategic focus to grow our membership further by continuing to attract new members and retain our existing members.

Our net profit after tax of $35.95 million was a very strong result during a continued period of economic volatility and record low interest rates.

Increased sales revenue and strong portfolio growth contributed to our growth in profitability in 2015/16. Member retail deposits increased by 10% to $4.936 billion and member loans and advances increased by 8.6% to $6.450 billion.

While we are not in the business of generating large profits for shareholders like the major banks, it is important that People's Choice develops the necessary profit each year to ensure our long-term sustainability, to invest prudently in improving and delivering products and services for members that enhance their financial wellbeing, and to make a difference to the communities in which we live and work.

People's Choice ended the financial year with total assets under management of $8.051 billion and funds under advice of $1.594 billion, taking our total funds under management and advice to a record $9.645 billion – a 7% increase on the previous financial year.

Our opportunity in a challenging environment

Economic volatility has become the new normal and Australia continues to experience mixed levels of consumer and business confidence.

While the economic outlook can appear uncertain, national property price growth remains solid. Auction clearance rates and buyer sentiment are also trending up despite repeated attempts to cool the market through adjustments to regulation and monetary policy.

People's Choice is well placed to operate effectively in these conditions, managing costs carefully and achieving strong growth as a brand that resonates in the marketplace as a genuine alternative to the big banks. Our continued success will come from building on our well-respected position by harnessing our strengths in member focus and service.

Our Vision to be acknowledged as the most trusted financial services provider in Australia has never been more relevant than today. The key word here is trust. In recent times, nothing has further underlined the importance of the mutual sector based on some of the behaviours we have seen by the big banks.

This highlights the strength and value of People's Choice and the broader mutual sector. Our owners are our customers. We have a purity of purpose which is to do the right thing by our members.

Not surprisingly, research has shown that once these differences are explained, two thirds of people prefer credit unions over traditional banks. So the many Australians who are disaffected with the big banks have a real alternative, and this is a message that we and our sector must unite behind and communicate broadly.

Reform still needed to provide a level playing field

Despite encouraging recommendations to promote competition and consumer choice in the 2014 Financial System Inquiry, regulations continue to heavily favour the major banks.

For example, major banks hold much less capital against home loans than other institutions which provides a significant advantage. The implicit Government guarantee enjoyed by the big banks must also be dealt with.

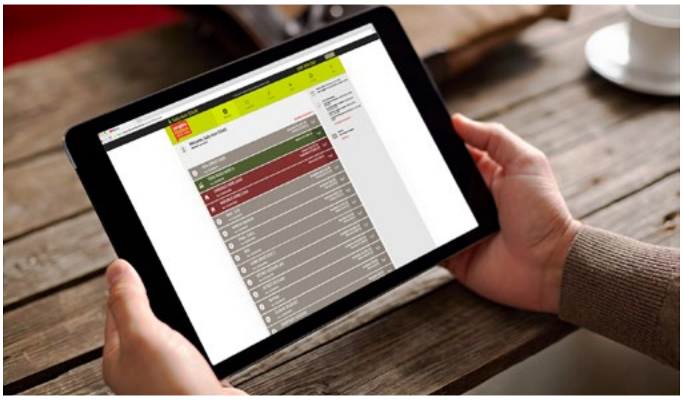
The Financial System Inquiry warned that the banking sector is concentrated and this could limit the benefits of competition in the future, yet most of its recommendations are yet to be implemented.

We continue to support our industry body, the Customer Owned Banking Association, in its efforts to urge the Government to prioritise competition and promote consumer choice by implementing the recommendations from the Financial System Inquiry and the Senate Inquiry into Co-operatives and Mutuals.

Activity based working at the new People's Choice head office.

Healthy competition drives the best outcomes for consumers, and a competitive retail banking market is vital for Australia's economy, for strengthening our financial sector and to provide real consumer choice.

A truly level playing field is required so that mutuals can compete fairly and more effectively with the big banks to reduce their market domination, return their focus to customers, and help bring them into line with what Australians expect.



People's Choice launched its new internet banking with enhancements based on member feedback.

Continuing to deliver on our strategy

We continued to pursue the growth of our business during 2015/16 through the implementation of our four Strategic Directions: to be the preferred banking alternative, to grow our membership, to build a stronger credit union and to make a difference in the community.

These four Strategic Directions are the broad priorities that have been tailored to drive the achievement of our Vision by forging a stronger and deeper relationship with all of our members. We are structuring our whole business around this concept through our Member-Centric Operating Model to ensure that every minute of every day is dedicated to achieving our Vision.

A major strategic focus has been our continued investment in improving the digital experience for our members. We launched a new internet banking platform with a number of enhancements based on member feedback. We also upgraded our mobile banking apps and increased online security with secure code verification, all to improve how our members transact and engage with us across various digital platforms.

A further highlight has been bringing together our staff from three separate locations into our new five-star green-rated head office on Flinders Street in Adelaide. The new activity-based working style and smaller footprint of our headquarters has reduced energy bills and maintenance costs, and the simple, modern design, technological innovation and functional efficiencies are giving us the agility and focus we need to ensure that everything we do is in the best interests of our members.

People's Choice was named CANSTAR's 2016 First Home Buyer Customer Owned Institution of the Year – SA, judged as having the strongest combination of products and services of any customer-owned financial institution for first home buyers in the state.

People's Choice also received double honours at Mozo's 2015 Expert's Awards in the New Car Loan and Used Car Loan categories, and double honours in Mozo's 2015 People's Choice Awards as one of Australia's Top 5 Credit Unions and for Savings Accounts. This growing collection of accolades demonstrates the quality of service and products we offer our members.

A Strategic Plan for 2016/17 is currently being implemented, including a number of multi-year programs and initiatives that will be a focus for the coming years. During 2016/17, a new five-year Strategic Plan to 2022 will also be shaped, which will guide us in bringing our Vision to life.

Board and our people

As discussed in our 2015 Annual Report, our former Chief Executive and Managing Director Peter Evers retired on 25 September 2015 after 27 years with the credit union and 15 years as Chief Executive.

Steve Laidlaw was appointed Chief Executive Officer in December 2015 and commenced this role in January 2016, with Darlene Mattiske-Wood appointed in January 2016 as Deputy Chief Executive. The Board congratulates Steve and Darlene on their appointments, and thanks Darlene for her service as Acting Chief Executive following Peter's retirement and Steve's appointment to Chief Executive Officer.

At our Annual General Meeting in October 2015, our members voted to re-elect Directors Terry McGuirk and Anne Skipper to the Board.

The Board has once again played an integral part in the success of People's Choice throughout the year. The Board's continued commitment and dedication to our members has once again enabled the credit union to advance as a leading banking organisation.

Finally, we would like to pay tribute to our Executive team and all of our staff who provide an outstanding level of service and professionalism. Our staff's passion, drive, capacity, capability and enthusiasm for our members is our greatest asset.

The strength of our culture and core focus on acting in the best interests of our members and the community means we are uniquely placed to embark on the next stage of our journey.

John Cossons
Chair

Steve Laidlaw
Chief Executive Officer

Growing our membership

People's Choice's most fundamental measures of success are how it supports members. In 2015/16, the credit union helped 9,191 members to buy their home and 14,707 members to buy a car, finance a renovation and finance a holiday. People's Choice protected 38,903 members with home and contents insurance, mortgage repayment protection and Mutual Aid.

Total member loans grew by 8.6% to $6.45 billion with residential loan balances increasing by 10% and personal loan balances decreasing slightly by 1%. Member retail deposits increased by 10% to $4.94 billion and general insurance sales were particularly strong with an 11% increase on the prior year.

Of the 23,457 new members People's Choice welcomed during 2015/16, 44% were under 30 years, demonstrating the credit union's ability to attract new generations through a compelling brand and the benefits of membership.

People's Choice engaged 1,766 members in an entirely new way in 2015/16 through an online community created to gain valuable member feedback and insights called The Green Room.

Being the preferred banking alternative

People's Choice's branch refurbishment program continued through the year with the opening of the flagship branch at the credit union's new head office in Flinders Street, Adelaide, and a full renovation of the Mount Barker branch in rural South Australia. People's Choice also replaced or upgraded 130 rediATMs across Australia to improve access and functionality for members.

Averaging around 2.8 million online banking logins each month, members are completing more than 880,000 online transactions each month. With internet banking and apps fast becoming the credit union's dominant transaction channels, investment in People's Choice's digital platforms and channels grew in 2015/16.

Following the trial introduction of a new internet banking platform in March 2015, and a full year of development and enhancement based on member feedback, the credit union made the switch to its new platform with improved security, personalisation and new services in March 2016. With its responsive design, enhanced flexibility and new features such as uncleared transactions, People's Choice is looking ahead to further improvements to continue to develop internet banking for the benefit and convenience of members.

People's Choice continued to invest significantly in mobile digital and payment technologies in 2015/16, launching a native Android app and being first credit union in Australia to introduce biometric security to its iPhone app with fingerprint ID technology.

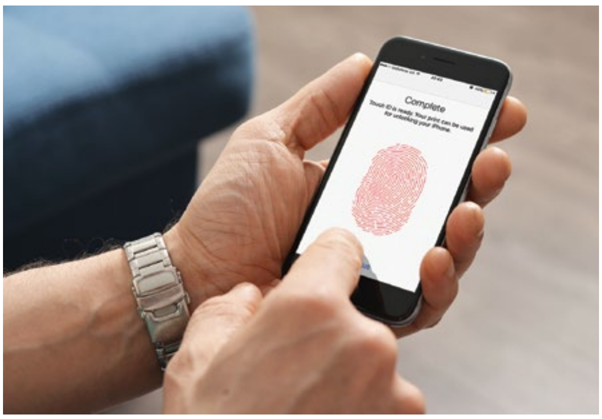
Building a stronger credit union

The sustained engagement of staff is demonstrated by the results of the Values & Engagement Survey, which places People's Choice among the top employers, with 88% staff engagement and 91% of its people agreeing the credit union is living up to its values. These results, which outperform industry and corporate benchmarks, demonstrate continued efforts across the business to build a strong values-based culture.

People's Choice furthered the investment in its people and the service provided to its members during the year, providing 29,313 hours of training and development, which included 1,113 hours of leadership development programs.

In 2015/16, People's Choice launched its inaugural Financial Planning Internship and Graduate Program. Targeting second-year commerce, financial planning, economics and accounting students, the program will transition a candidate through four stages of professional development over three years – from an undergraduate through to a qualified financial planner.

People's Choice has proudly committed to White Ribbon's Workplace Accreditation Program, joining the world's largest male-led movement to end men's violence against women. In support of this commitment, the credit union is undertaking a thorough review of policies, procedures, training and communications to identify opportunities to empower and support staff to prevent and respond to the issue of violence against women. People's Choice has also taken a leadership role in raising awareness of economic abuse as one of the lesser known but highly prevalent forms of domestic abuse through a widespread media campaign.



People's Choice was the first credit union in Australia to introduce fingerprint security to its iPhone app.

People's Choice senior leaders raised funds for HeartKids through SuperBoss Day.

Making a difference in the community

People's Choice remains firmly committed to supporting the economic and social wellbeing of members and the community. The credit union contributed 3.1% of pre-tax profit to corporate community investment during 2015/16, five times the 0.61% average contribution made by major Australian and New Zealand companies (source: LBG Australia).

Including funds raised through the Community Lottery and other programs, People's Choice generated $3.4 million for the community during the year and made a difference to close to one million Australians.

The 2015 People's Choice Community Lottery rewrote the record books, helping 1,101 charities, sporting clubs, schools and community groups across Australia, and returning a record $1,607,814 to the community.

The impact of the People's Choice Undies Run continues to gain momentum, with a record 1,554 runners raising $165,472 in the fight against bowel cancer at the January 2016 event. The Undies Run has now raised over $600,000 for Cancer Council SA since its inception in 2013.

People's Choice continued to provide significant support to HeartKids, generating more than $50,000 in 2015/16 through corporate donations, the People's Choice PJs Run in Melbourne and through the participation of 20 People's Choice South Australian and Victorian senior leaders in SuperBoss Day, which raised $18,000 to support children with paediatric heart conditions and their families.

A further highlight for the year was the introduction by People's Choice of RDA Race Day, which raised more than $30,000 for Riding for the Disabled on Melbourne Cup Day. This was augmented by continued corporate support and the sale of Pony Banks in People's Choice branches, benefitting riding centres across the country.

People's Choice continued to be one of the largest supporters nationally of The Big Issue's Women's Subscription Enterprise, funding the safe employment of two disadvantaged women in Victoria and two in South Australia through 400 monthly subscriptions to the publication.

The credit union's partnership with Life Without Barriers to help young South Australians in foster care transition into adulthood continued to achieve life-changing results in 2015/16.

People's Choice staff contributions to the community continued to be significant, with a 180% increase in participation year on year. Some 656 volunteers contributed 2,360 hours for 23 charities and community partner organisations.

Ensuring that the credit union continues to make a positive difference in its communities, People's Choice renewed key sponsorships of the People's Choice BASSINTHEGRASS music festival in Darwin, the People's Choice Classic as part of the Santos Tour Down Under UCI WorldTour cycling event in Adelaide, and the Credit Union Christmas Pageant in Adelaide – all for a further three years to 2018.

People's Choice renewed its sponsorship of the Credit Union Christmas Pageant.

The People's Choice Undies Run for Bowel Cancer has raised over $600,000.

Directors' Report

The Directors present their report together with the financial report of Australian Central Credit Union Ltd (trading as People's Choice Credit Union) (the "Credit Union"), and its controlled entities (together referred to as the "Group"), for the year ended 30 June 2016 and the Auditor's Report thereon.

DIRECTORS

The Directors of the Credit Union at any time during or since the end of the financial year were:

John Leonard Cossons
Non-Executive Chair
FAMI, MAICD

Peter Hans Torsten Evers
Managing Director (Retired from the Board effective 25 September 2015)
BA (Acc), FCPA, FAICD

Dr Rosemary Helen Simon Brooks
Non-Executive Director
PhD, MBA, MA, BA (Hons), LLB (Hons), GDLP, FAICD, JP

Stephen Mark Day
Non-Executive Director
B.Bus, Grad Dip (Applied Finance and Investment), FAICD, SA Fin

Edward Terrence McGuirk
Non-Executive Director
BA (Hons), FAICD, FAMI, SA Fin

Jan McMahon
Non-Executive Director
BA (Hons), FAICD, FAIST

Kathryn Anne Skipper AM
Non-Executive Director
Dip. Nursing, FAICD

Virginia Sue Hickey
Non-Executive Director
BA, LLB, FAICD

Directors were in office from the beginning of the financial year until the date of this report, except where indicated otherwise.

Details of Directors, their experience and any special responsibilities, are set out in the Online Annual Report, which is available from our website at www.peopleschoicecu.com.au.

Certain Directors have associations with other organisations. Some of these organisations conduct business with the Credit Union. This business is conducted on standard terms and conditions.

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors during the financial year is shown in the Corporate Governance Statement commencing on page 12.

Directors' Report (continued)

COMPANY SECRETARY

Ms Christine Manuel BMus, GradDipACG, DipCD, DipInvRel, FGIA, FCIS, MAICD, MAITD, AAIPM was appointed to the position of Company Secretary on 10 February 2015. Mr Peter Evers continued to act as an alternate Company Secretary until 25 September 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the provision of loans to members and customers, savings and investment facilities, the sale of insurance policies, Mutual Aid, financial planning and corporate superannuation services. There was no significant change in the nature of these activities during the year.

DIVIDENDS

The Credit Union's Constitution prohibits the payment of dividends on member shares.

REVIEW OF OPERATIONS

The Group recorded a profit after tax for the year ended 30 June 2016 of $35.948 million (2015: $25.659 million).

The total on balance sheet assets for the Group were $7.514 billion (2015: $6.895 billion), representing an increase of $0.619 billion (9%) from 30 June 2015. On balance sheet and third party lending settlements for the twelve months ended 30 June 2016 were $1,497 million (2015: $1,336 million), an increase of 12% and member retail deposits grew by $432 million (2015: $520 million) representing a portfolio increase of 10%. Total member loans and advances increased by 8.63% to $6.445 million during the year. For further analysis of the financial year performance refer to the Chair's and Chief Executive Officer's report commencing on page 4.

STATE OF AFFAIRS

In the opinion of the Directors, there have been no significant changes in the state of affairs of the Group that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

DIRECTORS' INTERESTS

None of the above Directors have declared any interest in existing or proposed contracts with the Credit Union during the financial year ended 30 June 2016 and to the date of this report.

EVENTS SUBSEQUENT TO THE REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Credit Union, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS

Further information as to likely developments in the operations of the Group and the expected results of those operations in subsequent financial years has not been included in this report because disclosure of such information is likely to result in unreasonable prejudice to the Group.

REGULATORY DISCLOSURES

Prudential Standard *APS 330 Public Disclosure* requires the Group to meet minimum requirements for the public disclosure of information on its risk profile, risk management, capital adequacy, capital instruments and remuneration practices to contribute to the transparency of the financial markets and to enhance market discipline. This information is published on the Credit Union's public website under Regulatory Disclosures.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Credit Union paid a premium in relation to a Directors' and Officers' liability insurance policy indemnifying the Directors and its Executives against certain liabilities.

The insurance contract prohibits the disclosure of the nature of the liabilities insured against and the premium paid in respect of that insurance.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT

The Lead Auditor's Independence Declaration is set out on page 11 and forms part of the Directors' Report for the year ended 30 June 2016.

ROUNDING

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that Rounding Instrument, amounts in the Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in Adelaide this 6th day of September, 2016
in accordance with a resolution of the Board of Directors of the Credit Union.

J. L. COSSONS
Chair

J. MCMAHON
Director

Lead Auditor's Independence Declaration

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

To: the directors of Australian Central Credit Union Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 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

John Evans
Partner

Adelaide

6 September 2016

Corporate Governance Statement

HOW WE DO BUSINESS

Australian Central Credit Union Ltd trades as People's Choice Credit Union ("People's Choice"). The People's Choice Board and Management are committed to acting responsibly, ethically and with the highest standards of integrity to ensure that People's Choice's activities are continually structured and delivered in a manner that allows us to meet the needs of our members.

A principles-based approach is taken to achieve sound corporate governance and business practices. To achieve this, policies have been adopted by the Board and cascaded throughout all levels of People's Choice. We strive to ensure that our governance "in action" is of the highest standard, consistent with our mutual underpinnings, while at the same time practical and transparent to our members. Further information can be found in the People's Choice Corporate Governance section on our website: www.peopleschoicecu.com.au

The Board has committed to following the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations, 3rd Edition" to the extent that they are applicable to People's Choice, as a mutual organisation. Further, the Board has carefully considered and implemented a "fit and proper" framework in accordance with relevant regulation which endeavours to ensure that Directors and senior management of People's Choice are appropriate persons to lead the credit union. The "fit and proper" framework deals with matters such as minimum competencies, Director development, independence, Director refreshment and renewal and performance.

ROLE OF THE BOARD

The Board comprises Non-Executive Directors who have extensive experience and bring accountability and judgement to the Board's deliberations to ensure optimum benefit to members, employees and the wider community. The role and responsibilities of the Board are set out in the Board Charter, a copy of which is published in the Corporate Governance section of our website.

In particular, the Board:

- Provides strategic direction to People's Choice;
- Provides leadership in terms of corporate governance;
- Appoints and manages the performance of the Chief Executive Officer;
- Reports to members and monitors compliance with regulatory requirements;
- Approves the remuneration of the Chief Executive Officer, Executive Managers and other designated persons in accordance with the Board Remuneration Policy and Australian Prudential Regulation Authority ("APRA") Prudential Standards;
- Oversees People's Choice's financial performance and position and monitors its business and affairs on behalf of all members;
- Oversees internal controls and processes for identifying areas of significant business risk;
- Makes decisions in relation to major expenditures, acquisitions or merger opportunities;
- Ensures that the People's Choice business is conducted ethically and transparently.

Responsibility for day-to-day activities in relation to the operation of People's Choice is delegated to the Chief Executive Officer by the Board.

The framework for delegations of authority to executive management is documented in People's Choice's policies and approved by the Board.

STRUCTURE OF THE BOARD

The size and composition of the Board is determined by the Board subject to the limits set out in People's Choice's Constitution, which requires a minimum of four member-elected Non-Executive Directors. The Constitution also allows for Board and merger-appointed Non-Executive Directors, or a Managing Director. At all times, member-elected Directors must constitute a majority of Directors, a requirement which protects our mutuality.

The Corporate Governance Committee reviews the independence of each Non-Executive Director on an annual basis. All Non-Executive Directors have been determined to be independent.

The Board currently comprises seven Non-Executive Directors, six of whom are member-elected and one who is a Board-appointed Director. All Directors are shareholding members of People's Choice. Board members are elected by the members or appointed in accordance with the Constitution. The Chair of the Board is a member-elected Non-Executive Director. Generally, all elected Directors are appointed for a maximum term of three years upon election. The above framework operates to ensure that the Board is able to function independently of Executive Management.

Directors who held office during or since the end of the financial year and the year in which each was appointed to the Board (including the Board of the pre-merged entities) are set out below:

Directors – Non-executive	Year First Elected/Appointed
R.H.S. Brooks	1995
J.L. Cossons (Chair)	1981
S.M. Day*	2006
V.S. Hickey	2014
E.T. McGuirk	1996
J. McMahon	1989
K.A. Skipper	2002
Directors – Executive	**Year First Appointed**
P.H.T. Evers (Managing Director)**	2003

* Board-appointed Director

** Mr Evers retired effective 25 September 2015.

Further details on the Directors can be found on page 8 of the Annual Report and on our website.

Minimum Competencies

Board policy sets out the minimum competencies regarding personal attributes, skills and knowledge that each Director will bring to People's Choice. The Nominations Committee in forming its view assesses all election nominees with regard to these minimum competencies. During the year the Board reviewed the Board skills matrix to refine the definition of the skills, experience and diversity required of the Board currently and in the future. The Board is mindful of the changing and competitive environment in which People's Choice operates and continues to monitor its current competencies in line with increasing regulatory requirements and consumer expectation, including in relation to new and emerging digital technologies.

As a behavioural principle, Directors are required to be independent in both judgement and action. Each Director is required to maintain and demonstrate this independence of thought and action at all times while acting in the role of Director. Board policy also addresses issues relating to Director benefits and conflicts of interest. Directors generally are not permitted to offer, seek or accept benefits in the performance of their duties and any unsolicited benefits received are to be disclosed at the following Board meeting. Where a Director has a material personal interest in a matter, that Director is required to disclose the interest and leave the meeting during the consideration of, or voting on, that matter.

STRUCTURE OF THE BOARD (Continued)

Director Development

Relevant Board policy outlines the knowledge requirements for Directors and provides the high level guidelines for new Director induction and new committee member induction, as well as the standards for ongoing Director development.

Refreshment and Renewal

The Board recognises the importance of refreshment and renewal of individual Directors as well as the Board as a whole and this is incorporated in the Board Charter.

Individual Directors are required on a regular basis to refresh and renew their knowledge generally and on matters specific to People's Choice and the environment in which it operates. Board policy requires that each Director must be able to demonstrate his/her personal refreshment and renewal process to the Board and relevant third parties as needed. Refreshment and renewal is included as part of an individual Director's performance assessment and is also tested externally as part of the Nominations Committee process when Directors offer themselves for re-election.

In accordance with Board policy the Corporate Governance Committee is required to undertake a review of the Board's refreshment and renewal where effective change in the composition of the Board has not occurred over a three year period. During the year, the Corporate Governance Committee and the Board considered refreshment and renewal matters.

Performance

The Board has established a policy for the conduct of a three-year cycle of annual Board reviews, comprising:

- Year 1: Internal self and peer assessment of the performance of the Board of Directors as a group, Board Committees, Individual Directors and Chair;
- Year 2: External review of the Board of Directors as a group, Board Committees, individual Directors and the Chair;
- Year 3: Internal short self-assessment questionnaire by Directors on the performance of the Board of Directors as a group and the key areas for focus in the next 12 months.

The internal assessments are conducted by the Chair and Corporate Secretary using a survey of relevant questions and the external assessments are conducted by an independent facilitator. Where applicable, assessment includes feedback from Executive Management. Whole of Board review findings are discussed by Directors and development plans formulated at a subsequent meeting, as are committee findings at the next committee meeting. Findings from individual Director surveys are discussed on a confidential basis between each Director and the Chair and findings from the Chair's review are discussed between the Chair and the Audit Committee Chair. An internal assessment corresponding to Year 3 of the Board performance assessment cycle was conducted in June 2015 and the results were addressed by the Board and Board Committees in the latter part of 2015. The Board has approved an externally facilitated review to be conducted in 2016.

COMMITTEES OF THE BOARD

The Board has established three standing committees as described below to consider detailed matters. Generally, committees consider the various matters and make recommendations to the Board; however some decisions, within the parameters of Board policy, have been delegated to committees. Each committee's authority and responsibilities are set out in their individual terms of reference, as approved by the Board. Other committees may be established from time to time to consider matters of particular importance. Committee members are chosen for the skills, experience and other relevant qualities they bring to the committee.

The committees generally meet to consider and make recommendations or decisions on matters within their terms of reference. Committee Chairs give verbal reports to the Board at the next Board meeting, and minutes of all committee meetings are reviewed by the Board. All information prepared for the consideration of committees is also available to the Board.

Standing Committees

Standing committees in operation during or since the end of the financial year were the Audit, Corporate Governance and Risk Committees, details of which are provided below.

Audit Committee – the Audit Committee meets at least three times a year and assists the Board in fulfilling its responsibilities relating to: the audit, accounting, and reporting obligations; monitoring compliance with the established policies of People's Choice; and monitoring Internal and External Auditors (including the independence of the Internal and External Auditors). This committee has a number of particular requirements which include that the Chair of the committee cannot be the Chair of the Board and that the committee can and does meet with the Internal and/or External Auditors without the presence of Management.

Corporate Governance Committee – the Corporate Governance Committee meets at least three times a year and assists the Board in adopting and implementing good corporate governance in the areas of the appointment and performance monitoring of the Managing Director or Chief Executive Officer, Non-Executive Director appointment, remuneration, recommending to the Board management remuneration levels in accordance with the Board Remuneration Policy, Board performance reviews, oversight of the "fit and proper" framework, monitoring the size and composition of the Board and reviewing Executive and Director succession plans. The committee is also responsible for the oversight and conduct of the Director elections and the Annual General Meeting. A Nominations Committee is established in association with Director elections, and operates under the guidance of the Corporate Governance Committee. The Nominations Committee comprises the Chair of the Board (except when standing for re-election) and two external members with suitable skills and knowledge who are not Directors, staff or members of People's Choice. The Nominations Committee assists the Board to manage the process for nomination of Directors, including conducting interviews with nominees and preparing statements to assist Members to make an informed voting decision.

Risk Committee – the Risk Committee meets at least three times a year and ensures that People's Choice adopts an integrated approach to risk management including treasury risk management and capital management, dealing with all risks of the portfolio including those to do with the balance sheet and interest rates, credit risk, operational risk management including regulatory risk management as part of the day to day conduct of the business and alignment with prudential standards. The Risk Committee is also responsible for ensuring work health and safety risks are properly identified and effectively managed and that the work health and safety performance of People's Choice is monitored and the relevant policies reviewed regularly. This committee has a particular requirement that the Chair of the committee cannot be the Chair of the Board.

Special Purpose Committee

During the year, a Sub-Committee comprising Chairs of each of the standing Committees was formed for the purpose of the recruitment process for the Chief Executive Officer. Terms of reference were approved by the Board and a review of the process as overseen by the Sub-Committee was conducted and reported to the Board upon conclusion of the recruitment activities.

STANDARDS

The Board acknowledges the need for, and continued maintenance of the highest standards of corporate governance and therefore adopts practices including:

- A Code of Conduct that applies to all staff, management and Directors;
- An annual review of Board performance;
- Active participation by all Directors at all meetings and open access to information;
- Regular executive management presentations;
- The Chief Executive Officer, Chief Risk Officer and Chief Financial Officer provide an assurance statement on the accuracy and completeness of financial information and risk management processes, in accordance with relevant standards and regulatory legislation;
- The Chief Executive Officer and the other Executives provide assurance to the Board that the business of People's Choice has been conducted ethically and all dealings have been conducted transparently with the Board;
- Annual performance evaluations are undertaken for all executive management;

- The transparency of information to members through publication of regulatory notices on the People's Choice website;
- The gearing of Board Policies towards risk management to safeguard the assets and interests of People's Choice whilst maintaining a balanced view of its operating environment;
- Non-Executive Director remuneration is approved by members at the Annual General Meeting. The Board regularly undertakes benchmarking and/or seeks independent advice to determine recommended Non-Executive Director remuneration levels; and
- Allowing Non-Executive Directors to seek independent professional advice at the expense of People's Choice.

REMUNERATION REPORT

In accordance with APRA standard *APS 330 Public Disclosure*, the People's Choice remuneration report can be found under About Us in the Regulatory Disclosures section on our website, as part of the Prudential Disclosure Statement June 2016.

DIVERSITY

The Board is committed to diversity and the promotion of an environment conducive to the appointment of well-qualified employees, executive management and Directors. A diversity policy has been developed and is in place to assist People's Choice to maintain a workplace which values and respects individual differences. This policy recognises the diversity of People's Choice's workforce and has established measurable targets that support achieving diversity in the workplace. These targets will be reported to, and monitored by the Board on an annual basis.

People's Choice has achieved gender diversity at all levels. The gender breakdown at People's Choice is as follows:

	Male	%	Female	%	Total
Board Members	3	43	4	57	7
Executive Managers	5	71	2	29	7
Other Managers	92	43	123	57	215
Other Employees	220	25	645	75	865
Total Workforce	320	29	774	71	1094

INTERNAL AUDIT

The People's Choice Internal Audit department assists the Board via the Audit Committee in reviewing, reporting and making recommendations on the existence, effectiveness and efficiency of internal controls and compliance with internal controls and regulatory requirements. The Audit Committee is responsible for approving the program and scope of Internal and External Audit activities each financial year.

INTERNAL AND EXTERNAL AUDIT INDEPENDENCE

The Audit Committee oversees, and makes recommendations to the Board on the appointment of People's Choice's External Auditors. In addition, the appointment or dismissal of the head of Internal Audit is subject to endorsement by the Audit Committee Chair.

The External Auditors were appointed in 1997. The current lead External Audit engagement partner was appointed in June 2015 as a result of the overseas transfer of the previous lead External Audit engagement partner. The Audit Committee oversees the procedure for rotation of the lead External Audit engagement partner.

The Audit Committee closely monitors the independence of the External Auditors and regularly reviews the independence safeguards put in place by the External Auditors.

During the course of the financial year the Audit Committee meets with the Internal Auditor without the External Auditors or members of management being present and with the External Auditors without the Internal Auditor or members of management being present.

REMUNERATION OF THE BOARD

The Corporate Governance Committee assists the Board in determining the aggregate level of remuneration of Non-Executive Directors to be recommended for approval by members at the Annual General Meeting following benchmarking and/or receipt of independent advice.

BOARD POLICIES

People's Choice maintains policies relating to its operational, compliance, legal and regulatory reporting requirements which are reviewed on a regular basis. These policies are supported by procedures to ensure compliance and effective monitoring of People's Choice's business. Further details can be found on the Corporate Governance Section of our website.

MEETINGS OF THE BOARD AND BOARD COMMITTEES

The membership and details of attendances at meetings of the People's Choice Board and Committees are outlined below:

Director	**Director Type**	**Board**		**Audit**		**Corporate Governance**		**Risk**		**CEO Recruitment Board Sub-Committee**	
		A [(1)]	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
J.L. Cossons (Chair)	M	10	10			7	7			7	7
P.H.T. Evers (Managing Director)	E	2	2								
Dr R.H.S. Brooks	M	10	10					5	5		
S.M. Day	D	10	10					5	5	7	7
V.S. Hickey	M	10	9[(2)]	4	4	7	7				
E.T. McGuirk	M	10	9	4	4			5	5		
J. McMahon	M	10	9[(2)]	4	4					7	7
K.A. Skipper	M	10	9[(2)]			7	6				

[(1)] *Eight scheduled Board meetings and two ad hoc meetings were held during the year.*
[(2)] *Meeting not attended during pre-approved leave of absence.*
[(3)] *Mr Evers retired as Managing Director effective 25 September 2015.*

A The number of meetings held during the period the Director was a member of the Board or Board Committee.
B The number of meetings attended by the Director.

M Member elected Directors
E Executive Directors
D Board-appointed Directors

Independent Auditor's Report

Independent auditor's report to the members of Australian Central Credit Union Ltd

We have audited the accompanying financial report of Australian Central Credit Union Ltd (the Credit Union), which comprises the Statements of Financial position as at 30 June 2016, and Statements of Profit or Loss and Other Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Credit Union and the Group comprising the Credit Union and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Credit Union are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Credit Union's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

a) the financial report of Australian Central Credit Union Ltd is in accordance with the *Corporations Act 2001*, including:

    i. giving a true and fair view of the Credit Union and the Group's financial position as at 30 June 2016 and of their performance for the year ended on that date; and

    ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

KPMG

KPMG

AEvans

John Evans
Partner

Adelaide

6 September 2016

Directors' Declaration

In the opinion of the Directors of the Credit Union:

a) the financial statements and notes of the Credit Union and of the Group, set out on pages 21 to 69 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 2016 and of their performance, for the financial year ended on that date;

ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

b) the financial statements also comply with the International Financial Reporting Standards as disclosed in Note 2;

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

Signed in Adelaide this 6th day of September, 2016
in accordance with a resolution of the Board of Directors of the Credit Union.

J. L. COSSONS
Chair

J. MCMAHON
Director

Statements of Profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated		Credit Union	
		2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Interest income	4	**332,728**	322,856	**363,126**	334,005
Interest expense	4	**(169,033)**	(170,654)	**(205,749)**	(184,981)
Net interest income		**163,695**	152,202	**157,377**	149,024
Net change in fair value of financial assets/liabilities at fair value through profit or loss		**79**	286	**79**	286
Share in net profit of associates	13	**1,676**	738	**-**	-
Other income	4	**72,768**	69,264	**76,502**	69,707
Non-interest income		**74,523**	70,288	**76,581**	69,993
Impairment losses on loans and advances	9	**(4,430)**	(4,719)	**(4,330)**	(4,719)
Other expenses	5	**(184,388)**	(181,208)	**(181,936)**	(179,317)
Profit before tax		**49,400**	36,563	**47,692**	34,981
Income tax expense	6	**(13,452)**	(10,904)	**(13,256)**	(10,109)
Profit for the year		**35,948**	25,659	**34,436**	24,872
Profit attributable to:					
Members of the parent		**35,948**	25,659	**34,436**	24,872
Other comprehensive income					
Cash flow hedges:					
Net change in fair value of cash flow hedges transferred to profit or loss		**1,165**	539	**1,165**	539
Effective portion of changes in fair value of cash flow hedges		**(1,168)**	(3,411)	**(1,168)**	(3,411)
Equity-accounting fair values		**-**	-	**-**	-
Changes in fair value of available for sale financial assets		**(629)**	10,100	**(629)**	10,100
Income tax on items of other comprehensive income		**190**	(2,168)	**190**	(2,168)
Other comprehensive income for the year, net of income tax		**(442)**	5,060	**(442)**	5,060
Total comprehensive income for the year		**35,506**	30,719	**33,994**	29,932

The Statements of Profit or Loss and Other Comprehensive Income are to be read in conjunction with the accompanying notes to the financial statements.

Statements of Financial Position

AS AT 30 JUNE 2016

	Note	Consolidated		Credit Union	
		2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Assets					
Cash and cash equivalents	7	**173,913**	137,143	**124,774**	94,283
Loans and advances	8	**6,445,498**	5,933,569	**6,445,498**	5,933,569
Available for sale investment securities	10	**775,905**	714,645	**768,535**	706,955
Other investments	10	**13,882**	10,618	**758,650**	631,510
Property, plant and equipment	11	**40,151**	33,431	**40,151**	33,431
Intangible assets	12	**10,801**	12,458	**2,466**	4,123
Investments in associates	13	**6,930**	5,380	**2,740**	1,492
Current tax receivable	6	**3,950**	-	**3,950**	-
Deferred tax assets	6	**14,797**	16,195	**16,841**	18,076
Derivative assets	29	**3,770**	1,258	**6,685**	6,570
Other assets	14	**24,711**	30,409	**24,784**	30,317
Total Assets		**7,514,308**	6,895,106	**8,195,074**	7,460,326
Liabilities					
Deposits	15	**5,501,037**	4,985,524	**5,501,218**	4,985,628
Derivative liabilities	29	**9,459**	6,742	**5,408**	5,645
Other payables	16	**64,701**	67,338	**69,166**	70,443
Borrowings	17	**1,383,349**	1,308,559	**2,073,650**	1,881,164
Current tax payable	6	**-**	2,166	**-**	1,355
Deferred tax liabilities	6	**4,635**	4,821	**5,468**	5,577
Provisions	18	**17,836**	22,170	**17,693**	22,036
Total Liabilities		**6,981,017**	6,397,320	**7,672,603**	6,971,848
Net Assets		**533,291**	497,786	**522,471**	488,478
Equity					
Reserves	19	**188,082**	184,936	**188,076**	184,930
Retained earnings		**345,209**	312,850	**334,395**	303,548
Total Equity		**533,291**	497,786	**522,471**	488,478

The Statements of Financial Position are to be read in conjunction with the accompanying notes to the financial statements.

Statements of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

Consolidated Entity	Note	Reserves $'000	Retained Earnings $'000	Total $'000
Opening balance at 1 July 2015		**184,936**	**312,850**	**497,786**
Profit for the year after tax		**-**	**35,948**	**35,948**
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes	19	**(819)**	**-**	**(819)**
Taken to profit or loss	19	**816**	**-**	**816**
Change in fair value of available for sale financial assets	19	**(440)**	**-**	**(440)**
Total comprehensive income for the period		**(443)**	**-**	**(443)**
Transactions recorded directly in equity				
Redeemed member shares	19	**37**	**(37)**	**-**
General reserve for credit losses	19	**3,552**	**(3,552)**	**-**
Total transfer to reserves		**3,589**	**(3,589)**	**-**
Closing balance at 30 June 2016		**188,082**	**345,209**	**533,291**
Opening balance at 1 July 2014		178,168	288,899	467,067
Profit for the year after tax		-	25,659	25,659
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes	19	377	-	377
Taken to profit or loss	19	(2,387)	-	(2,387)
Change in fair value of available for sale financial assets	19	7,070	-	7,070
Total comprehensive income for the period		5,060	-	5,060
Transactions recorded directly in equity				
Redeemed member shares	19	38	(38)	-
General reserve for credit losses	19	1,670	(1,670)	-
Total transfer to reserves		1,708	(1,708)	-
Closing balance at 30 June 2015		184,936	312,850	497,786

The Statements of Changes in Equity are to be read in conjunction with the accompanying notes to the financial statements.

Statements of Changes in Equity (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Credit Union	**Note**	**Reserves**	**Retained Earnings**	**Total**
		$'000	**$'000**	**$'000**
Opening balance at 1 July 2015		**184,930**	**303,548**	**488,478**
Profit for the year after tax		**-**	**34,436**	**34,436**
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes	19	**(819)**	**-**	**(819)**
Taken to profit or loss	19	**816**	**-**	**816**
Change in fair value of available for sale financial assets	19	**(440)**	**-**	**(440)**
Total comprehensive income for the period		**(443)**	**-**	**(443)**
Transactions recorded directly in equity				
Redeemed member shares	19	**37**	**(37)**	**-**
General reserve for credit losses	19	**3,552**	**(3,552)**	**-**
Total transfer to reserves		**3,589**	**(3,589)**	**-**
Closing balance at 30 June 2016		**188,076**	**334,395**	**522,471**
Opening balance at 1 July 2014		178,162	280,384	458,546
Profit for the year after tax		-	24,872	24,872
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes	19	377	-	377
Taken to profit or loss	19	(2,387)	-	(2,387)
Change in fair value of available for sale financial assets	19	7,070	-	7,070
Total comprehensive income for the period		5,060	-	5,060
Transactions recorded directly in equity				
Redeemed member shares	19	38	(38)	-
General reserve for credit losses	19	1,670	(1,670)	-
Total transfer to reserves		1,708	(1,708)	-
Closing balance at 30 June 2015		184,930	303,548	488,478

The Statements of Changes in Equity are to be read in conjunction with the accompanying notes to the financial statements.

Statements of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated		Credit Union	
		2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Cash from operating activities					
Interest received		**332,536**	322,531	**362,935**	326,939
Interest paid		**(169,124)**	(171,447)	**(204,924)**	(181,849)
Fee and commission received		**51,254**	32,140	**48,270**	31,124
Other income received		**24,618**	27,634	**29,937**	30,350
Net increase in loans and advances		**(516,361)**	(295,692)	**(516,259)**	(295,692)
Net increase in deposits and withdrawable share capital		**515,514**	484,462	**515,591**	483,921
Payments to employees and suppliers		**(178,485)**	(168,352)	**(176,439)**	(168,680)
Income taxes paid		**(18,355)**	(12,864)	**(17,436)**	(12,407)
Net cash from operating activities	20	**41,597**	218,412	**41,675**	213,706
Cash from investing activities					
Net decrease/(increase) in available for sale investment securities		**(60,900)**	(51,520)	**(62,021)**	(54,710)
Acquisition of non-tradeable investments		**(4,512)**	(24,678)	**(128,244)**	(606,591)
Proceeds from sale of non-tradeable investments		**-**	1	**-**	1
Acquisition of property plant and equipment		**(16,764)**	(19,562)	**(16,764)**	(19,562)
Proceeds from sale of property, plant and equipment		**34**	2	**34**	2
Dividends from equity accounted investees		**1,375**	541	**-**	-
Dividends and distributions received		**1,949**	1,567	**3,324**	2,439
Payments for expenses directly atributable to business combination		**-**	(485)	**-**	(485)
Acquisition through business combination, net of cash acquired		**-**	(423,832)	**-**	(423,832)
Net cash from investing activities		**(78,818)**	(517,966)	**(203,671)**	(1,102,738)
Cash from financing activities					
New borrowings		**-**	40,000	**287,680**	1,219,670
Proceeds from residential backed securities issue		**839,487**	782,485	**-**	-
Repayment of borrowings		**(95,192)**	(354,413)	**(95,193)**	(354,413)
Payment to Noteholders		**(670,304)**	(161,387)	**-**	-
Net cash from financing activities		**73,991**	306,685	**192,487**	865,257
Net increase/(decrease) in cash and cash equivalents		**36,770**	7,131	**30,491**	(23,775)
Cash and cash equivalents at 1 July		**137,143**	130,012	**94,283**	118,058
Cash and cash equivalents at 30 June	7	**173,913**	137,143	**124,774**	94,283

The Statements of Cash Flows are to be read in conjunction with the accompanying notes to the financial statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

The financial report of Australian Central Credit Union Ltd (trading as People's Choice Credit Union) (the "Credit Union"), and its controlled entities (together referred to as the "Group") for the year ended 30 June 2016 was authorised for issue in accordance with a resolution by the Directors on 6th September 2016.

The Credit Union is a for-profit entity and domiciled in Australia.

The Group is primarily involved in the provision of loans to members and customers, savings and investment facilities, the sale of insurance policies, Mutual Aid, financial planning and corporate superannuation services. There was no significant change in the nature of these activities during the year.

The controlling entity of the Group is Australian Central Credit Union Ltd. The registered office and principal place of business until 28 December 2015 was 60 Light Square, Adelaide SA, Australia 5000. The registered office and principal place of business from 29 December 2015 is 50 Flinders St, Adelaide, SA, Australia 5000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied by each entity in the Group.

2.1 Basis of preparation

a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial reports of the Group and of the Credit Union comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

b) Basis of measurement

The financial report has been prepared in accordance with the historical cost convention, except for derivative financial assets and liabilities and available for sale financial investments which are measured at their fair value. Loans and advances and financial liabilities are carried at amortised cost.

The financial report has been prepared on a going concern basis.

c) Functional and presentation currency

The financial report is presented in Australian dollars and all values have been rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (continued)

d) Use of judgements and estimates

The preparation of a financial report in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable when making the judgement about the carrying values of assets and liabilities that are not readily apparent from other sources.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 2.3 b) and 9 Provision for impairment of loans and advances
- Note 12 Measurement of the recoverable amounts of cash generating units
- Note 30 Fair value of financial instruments

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2.2 Basis of consolidation

Controlled entities

The Credit Union controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the controlled entity. The financial statements of controlled entities are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

In the financial report, investments in controlled entities are carried at cost. Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial report. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Special purpose entities

The Group has established a number of special purpose entities ("SPEs") for the purpose of issuing of Residential Mortgage Backed Securities ("RMBS"). The SPE's are entities controlled by the Group. The Group controls an entity when it 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 over the entity. The financial statements of SPEs are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the Profit or Loss and Other Comprehensive Income of equity-accounted investees, until the date on which significant influence ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation (continued)

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date on which control is transferred to the Group. The identifiable assets and liabilities of the acquiree are recognised at their fair value at acquisition date.

Goodwill is recognised if, and to the extent that, the consideration transferred exceeds the fair value of the acquiree’s identifiable assets acquired and liabilities assumed.

Transaction costs that the Group incurs in connection with a business combination are expensed as incurred.

2.3 Financial assets and liabilities

a) Cash and cash equivalents

Cash and cash equivalents comprise notes and coins on hand and deposits at call with Authorised Deposit-Taking Institutions (“ADIs”) and are stated at the gross value of the outstanding balance. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows.

b) Loans and advances

Loans and advances comprise term and revolving credit facilities provided to members and members' overdrawn savings accounts. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest rate method, less impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan or advance to the carrying amount of the loan or advance. When estimating the future cash flows, the Credit Union considers all contractual terms of the loan or advance excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract.

Impairment of loans and advances

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

Impairment of loans and advances is recognised when objective evidence is available that a loss event has occurred.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

Impairment losses are recognised in profit or loss.

(i) Specific Provision

Loans and advances that meet significant delinquency and loan size criteria are individually assessed for impairment to estimate the likely loss on the loan.

(ii) Collective Provision

Loans and advances that do not meet significant delinquency criteria are not individually assessed but are placed into portfolios of assets with similar risk profiles and a collective assessment of impairment is performed based on objective evidence from historical experience.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets and liabilities (continued)

b) Loans and advances (continued)

(ii) Collective Provision (continued)

The evaluation process is subject to a series of estimates and judgements. In the risk rated exposure, the risk rating system, including the frequency of default and loss given default rates, loss history, and the size, structure and diversity of individual borrowers are considered. Current developments in portfolios (industry, geographic and term) are reviewed.

In the statistically managed retail exposures, the history of defaults and losses, and the size, structure and diversity of portfolios are considered.

In addition, management considers overall indicators of portfolio performance, quality and economic conditions. Changes in these estimates could have a direct impact on the level of provision determined.

The amount required to bring the collective provision to the level assessed is recognised in the Statements of Profit or Loss and Other Comprehensive Income as set out in Note 9.

(iii) General Reserve for Credit Losses

The difference between the impairment provisions calculated under IFRS and those required by APRA is represented by a General Reserve for Credit Losses within equity. Transfers to and from the General Reserve for Credit Losses are made as an appropriation of retained earnings.

Loans and advances are reviewed and graded according to the assessed level of credit risk. Classifications adopted are as follows:

- **Past-due loans** - are loans and advances where the borrower has failed to make a repayment when contractually due.
- **Restructured loans** - arise when the borrower is granted concessional terms or conditions due to difficulties in meeting the original contractual terms, and the revised terms are more favourable than comparable new facilities.
- **Impaired loans** - are loans and advances where the full recovery of outstanding principal and interest is considered doubtful.
- **Assets acquired through the enforcement of security** - are assets (usually residential property or motor vehicles) acquired in full or partial settlement of an advance through the enforcement of security arrangements. The recoverable value of such assets forms part of the net value of loans and advances as part of the estimated future cash flows.

c) Financial instruments - non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets and liabilities (continued)

c) Financial instruments - non-derivative financial instruments (continued)

(i) Available for sale investment securities

Financial instruments held by the Group classified as being available for sale are non-derivative financial assets and are stated at fair value. Any resultant gain or loss is recognised in other comprehensive income and presented within equity in the fair value reserve, except for impairment losses. Where the financial instruments are derecognised, the cumulative gain or loss previously recognised in other comprehensive income, and presented in the fair value reserve in equity, is transferred to profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest rate method is recognised in profit or loss.

The fair value of financial instruments classified as available for sale is estimated using discounted cash flow analysis, based on current market rates for similar arrangements. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. If the relevant market is not considered active (or the securities are unlisted), the Group establishes fair value by using recent arm's length transactions.

Financial instruments classified as available for sale investment securities are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

(ii) Liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

Investments in controlled entities are carried at cost.

d) Interest-bearing borrowings

Interest-bearing borrowings (inclusive of member deposits) are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using an effective interest rate method.

e) Financial instruments - derivative financial instruments

The Group uses interest rate swaps to hedge its exposure to interest rate risks arising from operational and financing activities. In accordance with Group Risk Appetite and Board policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivatives that do not qualify for hedge accounting are accounted for at fair value through profit and loss.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (refer Note 2.3 e) (i)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets and liabilities (continued)

e) Financial instruments - derivative financial instruments (continued)

The fair value of interest rate swaps is the present value of the future cash flows that the Group would receive or pay to terminate the swap at the balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Where a financial asset does not qualify for derecognition the associated basis swaps are recognised on an accrual basis in accordance with AASB 139 *Financial Instruments Recognition and Measurement*.

Further details of derivative financial instruments are disclosed in Note 29.

Sale of a security with a total return swap

The Group sells debt securities that are subject to a concurrent total return swap. In all cases, the Group retains substantially all of the risks and rewards of ownership resulting in the Group continuing to recognise the transferred securities in its Statements of Financial Position. The cash received is recognised as a financial asset and a corresponding liability is recognised.

The Group does not separately recognise the total return swap that prevents derecognition of the security as a derivative because doing so would result in recognising the same rights and obligations twice. Because the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

(i) Hedging

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period as designated.

(ii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. When the forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated cumulative gain or loss is removed from other comprehensive income and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, then the associated gains or losses that were recognised directly in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects the Statements of Profit or Loss and Other Comprehensive Income (i.e. when the interest income is recognised).

Effectiveness tests are performed on derivative financial instruments to determine if they are still providing the protection originally intended when entered into by the Group. Where a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria, any gain or loss on the instrument previously recognised in other comprehensive income is reversed through profit or loss with all subsequent gains or losses recognised through profit or loss.

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes to its fair value are recognised directly in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets and liabilities (continued)

f) Other receivables

Other assets include non-interest bearing receivables that are stated at cost less impairment losses (see Note 2.5).

g) Other payables

Other payables are non-interest bearing, are normally settled on thirty day terms and are stated at amortised cost.

2.4 Non-financial assets and liabilities

a) Acquisition of assets

All assets acquired, including property, plant and equipment and intangibles (other than goodwill), are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the Group if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

The costs of assets constructed or internally generated by the Group (other than goodwill), include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

Expenditure, including that on internally generated assets (other than research and development costs), is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Owned assets

Property, plant and equipment

Property, plant and equipment is measured at cost, less any accumulated depreciation and impairment losses.

Depreciation

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

Leasehold and freehold improvements	**5 – 10 years**
Furniture, equipment and technology	**2 – 13 1/3 years**

The expected useful life of an asset and the depreciation method applied is reassessed at least annually.

Leased assets

Leases of plant and equipment which the Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases and not recognised in the Group's Statements of Financial Position. The Group does not currently hold any finance leases.

Payments made under operating leases are expensed over the term of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Non-financial assets and liabilities (continued)

b) Assets held for sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through the sale or distribution rather than their continuing use in the next twelve months.

Assets classified as held-for-sale are measured at the lower of their carrying amount and fair value less cost to sell, unless the nature of the asset requires it to be measured in line with another accounting standard.

Once classified as held-for-sale, assets held for sale are no longer amortised or depreciated.

c) Intangible assets

(i) Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (refer Note 12).

Negative goodwill arising on acquisition is recognised directly in profit or loss.

(ii) Acquired Contractual Rights

The amount relating to acquired contractual rights to future cash flows is measured at cost less accumulated amortisation and accumulated impairment losses. Acquired contractual rights are amortised to profit or loss over the expected useful life of the asset.

(iii) Software

Software assets that are not integral to the operation of hardware are recognised as intangible assets with a finite life. Where the expenditure is of a significant amount and there are related benefits which are expected to be realised over the medium to long term, it is deferred and amortised on a straight line basis over the period in which the benefits are expected to be realised.

(iv) Core deposit intangible

A core deposit intangible asset was recognised following the merger with Savings & Loans Credit Union (S.A.) Limited and represents the value of having a deposit base from customer and business transaction accounts, savings accounts and term deposits, providing a more favourable source of funding than alternative sources of funding such as in wholesale and securitisation markets. The core deposit intangible is amortised over a period of nine years and is stated at cost less accumulated amortisation and accumulated impairment losses. The amortisation period is based on the underlying expected life of the deposit portfolio. The core deposit intangible is assessed for any indication of impairment at each reporting date.

(v) Amortisation

Intangible assets are amortised over their expected useful lives. The amortisation rates used for each class of intangible asset in the current and comparative periods are as follows:

Acquired contractual rights	**5 years**
Software	**2 – 7 years**
Core deposit intangibles	**9 years**

Amortisation methods, useful lives and residual values are reviewed at least annually and adjusted where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Non-financial assets and liabilities (continued)

c) Intangible assets (continued)

(vi) Impairment

For goodwill and other intangible assets that have an indefinite life, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset (either in its own right or as part of a cash generating unit) exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised in profit or loss.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

d) Provisions

Employee entitlements

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

All employees, upon satisfying eligibility tests, may participate in an accumulation superannuation scheme. The Group's contributions to defined contribution plans are recognised as an expense in profit or loss as incurred. The Group has no legal obligation to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

Make good

A provision is made for the anticipated costs of restoring leased premises to their original condition at the end of the lease term in current dollar values. The provision is assessed at each balance date for expired leases.

Onerous contracts

The group is a lessee in a number of non-cancellable contracts for leased sites that are no longer utilised. The obligation for the discounted future lease payments has been provided for.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Impairment

The carrying amount of the Group's assets, other than deferred tax assets (see Note 2.8) and loans and advances (see Note 2.3 b), are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated for signs of objective evidence indicating that impairment may have occurred. Where objective evidence of impairment exists the asset's recoverable amount is determined.

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with details in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

When a decline in the fair value of an available for sale financial asset has been recognised in other comprehensive income, and presented in the fair value reserve in equity, and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is transferred to profit or loss, even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

The recoverable amount of a financial asset is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short-term duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Impairment (continued)

(i) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if a subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the reversal recognised in profit or loss.

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss no longer exist, and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss in respect of goodwill is not reversed.

2.6 Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

a) the right to receive cash flows from the asset has expired;

b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them without material delay to a third party; or

c) the Group has transferred its rights to receive cash flows from the asset and either:

   (i) has transferred substantially all the risks and rewards of the asset; or

   (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

2.7 Revenue recognition

(i) Interest revenue

Interest on loans and advances is recognised as it accrues using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the loan or advance to the net carrying amount of the loan or advance. When estimating the future cash flows the Group considers all contractual terms of the loan or advance excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract. All interest is recognised on an accruals basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Revenue recognition (continued)

(ii) Revenue from services rendered

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or the costs incurred or to be incurred cannot be measured reliably.

(iii) Dividends

Dividends from other investments are recognised when the right to receive the dividend has been established.

(iv) Fees and commissions

Revenue is recognised on an accruals basis upon the provision of services from acting in the capacity of an agent rather than as the principal in a transaction.

(v) Other non-interest income

Mutual Aid income is recognised over the average life of the associated loans.

2.8 Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Tax consolidation

The Credit Union and its Australian wholly-owned controlled entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the consolidated group is Australian Central Credit Union Ltd, trading as People's Choice Credit Union.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group. This is applied using the separate taxpayer within group approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Franking account

The Group has generated franking credits through paying income tax, including credits which will arise from the payment of income tax provided for in the financial statements.

The ability to use these franking credits is restricted by the Constitution of the Credit Union which does not currently permit dividend payments. The balance of the franking account is adjusted for franking credits that the Credit Union is currently prevented from distributing in the subsequent financial year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the ATO, is included as an asset or liability in the Statements of Financial Position.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to the ATO, are classified as operating cash flows.

2.10 Deferred borrowing costs

Deferred borrowing costs include costs associated with the establishment of a number of separate securitisation facilities. These costs are amortised over the expected life of the facilities.

2.11 Securitisation

The Credit Union through its loan securitisation program securitises mortgage loans to SPEs, which in turn issue securities to investors. Fees are received for various services provided to the SPEs on an arms-length basis, including servicing fees and management fees and are reported in profit or loss. The Credit Union also provides arms-length interest rate swaps and loan facilities to the SPEs.

Costs incurred in the establishment of a securitisation issue are amortised over the expected life of the issue.

Details of the transfer of financial assets to third parties and/or SPEs during the year are disclosed in Note 23.

3. COMPLIANCE WITH IFRS

a) Recently issued or amended standards not yet effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2016, but have not been applied in preparing this financial report:

Reference	Title	Nature of change to accounting policy	Impact to the Group	Application date of Standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets.	The preliminary assessment indicates that the application of AASB 9 will result in an increase to the provision for impairment, however the potential impacts have not been fully assessed.	1 January 2018	1 July 2018
AASB 15	Revenue	AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	The amendments are not expected to have a material impact on the Group however the potential impacts have not been fully assessed.	1 January 2018	1 July 2018
AASB 16	Leases	AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.	The preliminary assessment indicates that the application of AASB 16 will result in an increase to assets and liabilities, however the potential impacts have not been fully assessed.	1 January 2019	1 July 2019
A number of other AASB standards are also available for early adoption, but have not been applied by the Group in these financial statements. These relate to standards that have limited / no application to the Group.					

	Consolidated		Credit Union	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
4. REVENUE				
Interest income				
Cash and cash equivalents	2,733	3,072	1,717	2,658
Loans and advances	311,484	298,563	311,482	298,556
Available for sale investment securities	18,471	21,177	18,351	20,975
Interest rate derivatives	-	-	10,683	5,057
Other investments	40	44	20,893	6,759
Total interest income	332,728	322,856	363,126	334,005
Interest expense				
Deposits	121,142	124,477	121,142	124,477
Borrowings	44,124	42,652	84,607	60,504
Interest rate derivatives	3,767	3,525	-	-
Total interest expense	169,033	170,654	205,749	184,981
Net interest income	163,695	152,202	157,377	149,024
Other income				
Loan fee income	5,245	4,602	5,245	4,602
Transactional fee income	12,380	12,458	12,380	12,458
Insurance fees and commissions	14,742	14,300	14,742	14,300
Financial planning fees and commissions	13,799	13,087	10,842	9,942
Other fee income	13,116	11,680	18,432	14,396
Bad debts recovered	1,536	1,313	1,536	1,313
Dividends received	1,949	1,567	3,324	2,439
Mutual Aid income	9,847	10,233	9,847	10,233
Gain on sale of property, plant and equipment	34	2	34	2
Other income	120	22	120	22
Total other income	72,768	69,264	76,502	69,707
5. EXPENSES				
Salary and wages	85,136	82,280	84,206	81,365
Superannuation	7,064	6,763	6,971	6,678
Administrative expenses	16,196	19,535	14,913	18,793
Depreciation on property, plant and equipment	8,942	7,375	8,942	7,375
Amortisation on intangible computer software	2,197	2,282	2,197	2,282
Amortisation on acquired intangible assets	563	572	563	572
Marketing costs	8,863	9,999	8,958	10,098
Rental operating leases	15,161	14,836	15,004	14,668
Other occupancy expenses	4,927	4,535	4,845	4,463
Distribution channel costs	19,860	19,054	19,860	19,054
Information technology costs	15,479	13,977	15,477	13,969
Total other expenses	184,388	181,208	181,936	179,317

Notes to the Financial Statements

	Consolidated		Credit Union	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
6. INCOME TAX				
Profit before tax	**49,400**	36,563	**47,692**	34,981
Tax at the tax rate of 30% (2015: 30%)	**14,820**	10,969	**14,308**	10,494
Adjust for tax effect of:				
Fully franked dividends received	**(585)**	(459)	**(997)**	(621)
Deferred tax on equity accounted associate	**(412)**	-	**-**	-
Deferred tax on business combination	**-**	294	**-**	294
Sundry items	**19**	32	**19**	32
(Over)/under provision in prior years	**(390)**	68	**(74)**	(90)
Income tax expense	**13,452**	10,904	**13,256**	10,109
The components of tax expense comprise:				
Current tax	**12,051**	11,737	**11,942**	11,018
Deferred tax	**1,401**	(833)	**1,314**	(909)
	13,452	10,904	**13,256**	10,109
Income tax recognised in other comprehensive income				
Net gain/(loss) on cash flow hedges	**(1)**	(862)	**(1)**	(862)
Net gain/(loss) on available for sale investment securities	**(189)**	3,030	**(189)**	3,030
	(190)	2,168	**(190)**	2,168
Current tax receivable/(payable)	**3,950**	(2,166)	**3,950**	(1,355)
Deferred tax assets comprise:				
Amounts recognised in profit or loss				
Loans and advances impairment	**1,254**	1,298	**1,254**	1,298
Accrued superannuation	**218**	196	**216**	194
Unearned fee income	**3,796**	3,635	**3,796**	3,635
Depreciation	**2,273**	2,560	**2,273**	2,560
Provisions	**5,532**	6,733	**5,488**	6,693
Derivative liabilities at fair value through profit or loss	**8**	32	**2,098**	1,955
Other items	**102**	80	**102**	80
	13,183	14,534	**15,227**	16,415
Amounts recognised directly in Equity				
Cash flow hedges	**1,614**	1,661	**1,614**	1,661
Total deferred tax assets	**14,797**	16,195	**16,841**	18,076
Deferred tax liabilities comprise:				
Amounts recognised in profit or loss				
Prepayments	**-**	152	**-**	152
Intangibles	**375**	262	**374**	262
Equity accounted associates	**1,256**	1,167	**-**	-
Derivative assets at fair value through profit or loss	**-**	-	**2,090**	1,923
	1,631	1,581	**2,464**	2,337
Amounts recognised directly in Equity				
Cash flow hedges	**-**	48	**-**	48
Fair value reserve - available for sale investment securities	**3,004**	3,192	**3,004**	3,192
Total deferred tax liabilities	**4,635**	4,821	**5,468**	5,577
Franking Account balance (tax provision basis)	**145,090**	124,810		

	Consolidated		Credit Union	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
7. CASH AND CASH EQUIVALENTS				
Cash on hand and at bank	**20,839**	30,969	**20,838**	30,969
Deposits at call	**153,074**	106,174	**103,936**	63,314
	173,913	137,143	**124,774**	94,283
8. LOANS AND ADVANCES				
Revolving credit facilities	**355,338**	380,003	**355,338**	380,003
Term loans	**6,095,482**	5,560,169	**6,095,482**	5,560,169
Gross loans and advances	**6,450,820**	5,940,172	**6,450,820**	5,940,172
Provision for impairment (Note 9)	**(4,181)**	(4,327)	**(4,181)**	(4,327)
Loan origination and processing costs	**3,200**	2,506	**3,200**	2,506
Unearned income	**(4,341)**	(4,782)	**(4,341)**	(4,782)
Net loans and advances	**6,445,498**	5,933,569	**6,445,498**	5,933,569

The loan portfolio of the Group does not include any loans or groups of related loans which represent 10% or more of capital (2015: $Nil).

	Consolidated 2016 $'000	Consolidated 2015 $'000	Credit Union 2016 $'000	Credit Union 2015 $'000
9. IMPAIRMENT OF LOANS AND ADVANCES				
Specific provision:				
Balance at beginning of year	**1,615**	1,502	**1,615**	1,502
Acquisition through business combination	**-**	144	**-**	144
Decrease in provision	**(190)**	(31)	**(190)**	(31)
Balance at end of year	**1,425**	1,615	**1,425**	1,615
Collective provision:				
Balance at beginning of year	**2,712**	2,158	**2,712**	2,158
Acquisition through business combination	**-**	364	**-**	364
Increase in provision	**44**	190	**44**	190
Balance at end of year	**2,756**	2,712	**2,756**	2,712
Total provision for impairment	**4,181**	4,327	**4,181**	4,327
Charge to profit or loss comprises:				
Provision for loan impairment	**(146)**	159	**(146)**	159
Loans written off during the year as uncollectible	**4,576**	4,560	**4,476**	4,560
Total charge to profit or loss	**4,430**	4,719	**4,330**	4,719
Impaired Loans				
Gross impaired loans	**2,407**	2,871	**2,407**	2,871
Specific provision for impairment	**(1,425)**	(1,615)	**(1,425)**	(1,615)
Total impaired loans net of specific provisions	**982**	1,256	**982**	1,256
Restructured loans	**6,174**	7,119	**6,174**	7,119
Assets acquired through the enforcement of security	**3,260**	4,193	**3,260**	4,193

10. INVESTMENTS

	Consolidated		Credit Union	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
a) Available for sale investment securities				
Interest-bearing deposits	**7,388**	11,393	**18**	3,704
Negotiable certificates of deposit	**449,723**	423,919	**449,723**	423,918
Floating rate notes	**286,747**	252,678	**286,747**	252,678
Shares in unlisted entities	**32,047**	26,655	**32,047**	26,655
Total available for sale investment securities	**775,905**	714,645	**768,535**	706,955
b) Other investments				
Capital notes	**-**	-	**751,704**	615,914
Other investments	**13,882**	10,618	**1,958**	10,608
Shares in controlled entities	**-**	-	**4,988**	4,988
Total other investments	**13,882**	10,618	**758,650**	631,510
Total Investments	**789,787**	725,263	**1,527,185**	1,338,465

c) Shares in controlled entities

			% held by Holding Entity	
	2016	2015	**2016**	2015
	$	$	**%**	%
Australian Central Credit Union Ltd (trading as People's Choice Credit Union)				
Controlled entities				
Australian Central Services Pty Ltd	**-**	-	**100**	100
Financial Solutions Australasia Pty Ltd	**4,987,973**	4,987,973	**100**	100
People's Choice Community Foundation Limited	**-**	-	**100**	100
	4,987,973	4,987,973		

Special purpose entities

Light Trust No. 1
Light Trust No. 2
Light Trust No. 3
Light Trust No. 4
Light Trust No. 5R
Light Trust No. 6 [1]
Light Trust Warehouse No. 1
Light Trust Warehouse No. 2

[1] Began trading 26 August 2015.

11. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Furniture and Equipment $'000	Leasehold and Freehold Improvements $'000	Technology $'000	Capital Works in Progress (WIP) $'000	Total $'000
At 1 July 2015, net of accumulated depreciation	**2,170**	**8,290**	**10,855**	**12,116**	**33,431**
Additions	**2,218**	**17,480**	**6,485**	**-**	**26,183**
Disposals	**-**	**-**	**-**	**-**	**-**
Net movement in WIP	**-**	**-**	**-**	**(10,521)**	**(10,521)**
Depreciation expense	**(925)**	**(3,315)**	**(4,702)**	**-**	**(8,942)**
Balance at 30 June 2016	**3,463**	**22,455**	**12,638**	**1,595**	**40,151**
At 30 June 2016					
Cost	**8,366**	**38,254**	**31,756**	**1,595**	**79,971**
Accumulated depreciation	**(4,903)**	**(15,799)**	**(19,118)**	**-**	**(39,820)**
Net carrying amount	**3,463**	**22,455**	**12,638**	**1,595**	**40,151**
At 1 July 2014, net of accumulated depreciation	2,756	9,686	8,258	2,726	23,426
Additions	510	1,599	5,881	-	7,990
Disposals	-	-	-	-	-
Net movement in WIP	-	-	-	9,390	9,390
Depreciation expense	(1,096)	(2,995)	(3,284)	-	(7,375)
Balance at 30 June 2015	2,170	8,290	10,855	12,116	33,431
At 30 June 2015					
Cost	12,860	35,392	43,874	12,116	104,242
Accumulated depreciation	(10,690)	(27,102)	(33,019)	-	(70,811)
Net carrying amount	2,170	8,290	10,855	12,116	33,431
Credit Union					
At 1 July 2015, net of accumulated depreciation	**2,170**	**8,290**	**10,855**	**12,116**	**33,431**
Additions	**2,218**	**17,480**	**6,485**	**-**	**26,183**
Disposals	**-**	**-**	**-**	**-**	**-**
Net movement in WIP	**-**	**-**	**-**	**(10,521)**	**(10,521)**
Depreciation expense	**(925)**	**(3,315)**	**(4,702)**	**-**	**(8,942)**
Balance at 30 June 2016	**3,463**	**22,455**	**12,638**	**1,595**	**40,151**
At 30 June 2016					
Cost	**7,663**	**38,248**	**31,516**	**1,595**	**79,022**
Accumulated depreciation	**(4,200)**	**(15,793)**	**(18,878)**	**-**	**(38,871)**
Net carrying amount	**3,463**	**22,455**	**12,638**	**1,595**	**40,151**
At 1 July 2014, net of accumulated depreciation	2,756	9,686	8,258	2,726	23,426
Additions	510	1,599	5,881	-	7,990
Disposals	-	-	-	-	-
Net movement in WIP	-	-	-	9,390	9,390
Depreciation expense	(1,096)	(2,995)	(3,284)	-	(7,375)
Balance at 30 June 2015	2,170	8,290	10,855	12,116	33,431
At 30 June 2015					
Cost	12,157	35,385	43,635	12,116	103,293
Accumulated depreciation	(9,987)	(27,095)	(32,780)	-	(69,862)
Net carrying amount	2,170	8,290	10,855	12,116	33,431

12. INTANGIBLE ASSETS

Consolidated	Goodwill $'000	Computer Software $'000	Core Deposit Intangible $'000	Acquired Contractual Rights $'000	Total $'000
At 1 July 2015, net of accumulated amortisation	**8,477**	**3,064**	**179**	**738**	**12,458**
Additions	**-**	**1,103**	**-**	**-**	**1,103**
Amortisation	**-**	**(2,197)**	**(179)**	**(384)**	**(2,760)**
Balance at 30 June 2016	**8,477**	**1,970**	**-**	**354**	**10,801**
At 30 June 2016					
Cost	**9,174**	**15,163**	**6,884**	**2,161**	**33,382**
Accumulated amortisation	**(697)**	**(13,193)**	**(6,884)**	**(1,807)**	**(22,581)**
Net carrying amount	**8,477**	**1,970**	**-**	**354**	**10,801**
At 1 July 2014, net of accumulated amortisation	8,477	3,164	531	163	12,335
Additions	-	2,182	-	794	2,976
Amortisation	-	(2,282)	(352)	(219)	(2,853)
Balance at 30 June 2015	8,477	3,064	179	738	12,458
At 30 June 2015					
Cost	9,174	29,482	6,884	2,161	47,701
Accumulated amortisation	(697)	(26,418)	(6,705)	(1,423)	(35,243)
Net carrying amount	8,477	3,064	179	738	12,458

Credit Union	Goodwill $'000	Computer Software $'000	Core Deposit Intangible $'000	Acquired Contractual Rights $'000	Total $'000
At 1 July 2015, net of accumulated amortisation	**142**	**3,064**	**179**	**738**	**4,123**
Additions	**-**	**1,103**	**-**	**-**	**1,103**
Amortisation	**-**	**(2,197)**	**(179)**	**(384)**	**(2,760)**
Balance at 30 June 2016	**142**	**1,970**	**-**	**354**	**2,466**
At 30 June 2016					
Cost	**202**	**15,163**	**6,884**	**2,161**	**24,410**
Accumulated amortisation	**(60)**	**(13,193)**	**(6,884)**	**(1,807)**	**(21,944)**
Net carrying amount	**142**	**1,970**	**-**	**354**	**2,466**
At 1 July 2014, net of accumulated amortisation	142	3,164	531	163	4,000
Additions	-	2,182	-	794	2,976
Amortisation	-	(2,282)	(352)	(219)	(2,853)
Balance at 30 June 2015	142	3,064	179	738	4,123
At 30 June 2015					
Cost	202	29,482	6,884	2,161	38,729
Accumulated amortisation	(60)	(26,418)	(6,705)	(1,423)	(34,606)
Net carrying amount	142	3,064	179	738	4,123

Notes to the Financial Statements

12. INTANGIBLE ASSETS (Continued)

Measurement of the recoverable amounts of cash generating units

Goodwill is allocated to the Group's Cash Generating Units ("CGUs") identified according to business segment.

A segment level summary of the goodwill allocation is:

	Consolidated	
	2016	2015
	$'000	$'000
Financial planning	**8,477**	8,477

The recoverable amount has been calculated in accordance with Note 2.5, with no impairment having been identified.

Key assumptions used in Value in Use

The recoverable amount of a CGU is determined on either a "fair value less costs to sell" or a "value in use" methodology. The Net Present Value ("NPV") of the relevant CGU's anticipated cash flows is used as a basis for determining whether any impairment exists.

- Cash flows were projected using the budgeted operating results for the next financial year as a base level, with cash flows extrapolated over a further two years applying primarily a revenue growth rate of 8% (equating to expected market growth), an overhead growth rate of 3% and a final terminal value calculation with no further growth rate

- A pre-tax discount rate of 12.827% was applied in determining the recoverable amounts for the CGUs. The discount rate was estimated based on the weighted average cost of debt and capital allocated by the Group to this CGU, reflecting the market assessment of any risks specific to a financial planning business.

- Management has undertaken sensitivity analysis and believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGUs to exceed their recoverable amount.

13. INVESTMENTS IN ASSOCIATES

The Group has an interest in Data Action Pty Ltd ("Data Action") and owns 27.5% (2015: 24.67%) of the equity interests and holds 27.5% (2015: 24.67%) of the voting rights. The Group has determined that it exercises significant influence over Data Action and accordingly, the investment is classified as an associate and accounted for under the equity method.

The following table analyses, in aggregate, the carrying amount and share of profit and other comprehensive income of this associate:

	Consolidated		Credit Union	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Carrying amount of investment in associates	**6,930**	5,380	**2,740**	1,492
Share of associate's equity				
Paid up share capital	**3,809**	1,493		
Retained earnings	**3,121**	3,887		
	6,930	5,380		
Share of associate's opening balance sheet				
Current assets	**4,743**	4,647		
Non-current assets	**1,640**	1,740		
Current liabilities	**1,065**	1,003		
Non-current liabilities	**109**	200		
Share of net assets	**5,209**	5,184		
Share of associate's profit or loss				
Revenue	**11,511**	8,544		
Expenses	**(9,300)**	(7,548)		
Profit/(loss) before income tax	**2,211**	996		
Income tax expense	**(535)**	(258)		
Profit/(loss) after income tax	**1,676**	738		
Dividend received	**1,375**	541		

	Consolidated		Credit Union	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
14. OTHER ASSETS				
Accrued interest receivable	1,476	1,286	1,471	1,281
Deferred borrowing costs	2,151	1,102	2,152	1,102
Prepayments	3,901	2,879	3,897	2,871
Other receivables	17,183	25,142	17,264	25,063
	24,711	30,409	24,784	30,317
15. DEPOSITS				
Retail deposits	4,935,666	4,504,033	4,935,847	4,504,137
Non-retail deposits	564,697	480,820	564,697	480,820
Withdrawable shares (issued and paid up at $2.00 per share)	674	671	674	671
	5,501,037	4,985,524	5,501,218	4,985,628

The deposit portfolio of the Group does not include any deposits or groups of related deposits which represent 10% or more of liabilities (2015: $Nil).

	Consolidated		Credit Union	
	2016	2015	2016	2015
16. OTHER PAYABLES				
Accounts payable and other payables	47,914	51,227	49,410	52,837
Accrued interest payable	16,787	16,111	19,756	17,606
	64,701	67,338	69,166	70,443
17. BORROWINGS				
Wholesale funding facilities	14,868	110,061	14,868	110,061
Loans payable to securitisation trusts	-	-	2,058,782	1,771,103
Notes payable	1,368,481	1,198,498	-	-
	1,383,349	1,308,559	2,073,650	1,881,164
Wholesale funding facility utilisation				
Wholesale funding facilities - utilised	14,868	110,061	14,868	110,061
Wholesale funding facilities - unutilised	-	10,129	-	10,129
Wholesale funding approved limits	14,868	120,190	14,868	120,190
Securitisation warehouse funding facility utilisation				
Securitisation warehouse funding facilities - utilised	647,385	771,861	647,385	771,861
Securitisation warehouse funding facilities - unutilised	202,615	108,139	202,615	108,139
Securitisation warehouse funding approved limits	850,000	880,000	850,000	880,000
18. PROVISIONS				
Provision for make good	340	2,136	340	2,136
Provision for annual leave	5,699	6,005	5,637	5,944
Provision for long service leave	11,390	11,664	11,309	11,592
Provision for rostered days off	161	176	161	175
Provision for onerous contracts	246	2,189	246	2,189
	17,836	22,170	17,693	22,036

	Consolidated		Credit Union	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
19. RESERVES				
Redeemed member shares	**715**	678	**715**	678
Fair value reserve - available for sale financial assets	**7,009**	7,449	**7,009**	7,449
General reserve for credit losses	**12,373**	8,821	**12,373**	8,821
Hedging reserve - cash flow hedges	**(3,766)**	(3,763)	**(3,766)**	(3,763)
Asset revaluation reserve	**6**	6	**-**	-
Other equity reserves	**171,745**	171,745	**171,745**	171,745
	188,082	184,936	**188,076**	184,930

Redeemed member shares

Nature and purpose:
Under the Corporations Act 2001 (s254K), redeemable preference shares (Members $2 Shares) may only be redeemed out of the Credit Union's profit or through a 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 preference share capital account. The value of members' shares for existing members is disclosed in Note 15.

Opening balance 1 July	**678**	640	**678**	640
Transfers from retained earnings	**37**	38	**37**	38
Balance	**715**	678	**715**	678

Fair value reserve - available for sale financial assets

Nature and purpose:
The fair value reserve is the difference in the carrying amount and the fair value of the available for sale financial assets held by the Group.

Opening balance 1 July	**7,449**	379	**7,449**	379
Net unrealised gains/(losses)	**(440)**	7,070	**(440)**	7,070
Balance	**7,009**	7,449	**7,009**	7,449

General reserve for credit losses

Nature and purpose:
APRA requires ADI's to maintain a prescribed level of provision for regulatory purposes. The difference between the impairment provisions calculated under IFRS and those required by APRA is represented by the general reserve for credit losses. The reserve has been appropriated from retained earnings.

Opening balance 1 July	**8,821**	7,151	**8,821**	7,151
Increase/(decrease) in general reserve for credit losses	**3,552**	1,670	**3,552**	1,670
Balance	**12,373**	8,821	**12,373**	8,821

	Consolidated		Credit Union	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
19. RESERVES (Continued)				
Hedging reserve - cash flow hedges				
Nature and purpose: The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred.				
Opening balance 1 July	**(3,763)**	(1,753)	**(3,763)**	(1,753)
Effective portion of changes in fair values	**(819)**	377	**(819)**	377
Net change in fair value taken to profit or loss	**816**	(2,387)	**816**	(2,387)
Balance	**(3,766)**	(3,763)	**(3,766)**	(3,763)
Asset revaluation reserve				
Nature and purpose: The asset revaluation reserve relates to property, plant and equipment, measured at fair value in accordance with applicable AASB's.				
Balance	**6**	6	**-**	-
Other equity reserves				
Nature and purpose: The other equity reserves represents the retained earnings of Savings & Loans Credit Union (S.A.) Limited recognised upon the merger with the Credit Union.				
Balance	**171,745**	171,745	**171,745**	171,745

	Consolidated		Credit Union	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
20. NOTES TO THE STATEMENTS OF CASH FLOW				
Reconciliation of profit after income tax to net cash from operating activities				
Profit for the period	**35,948**	25,659	**34,436**	24,872
Adjustments for:				
Depreciation and amortisation	**11,702**	10,229	**11,702**	10,229
Increase in provision for impairment	**(146)**	159	**(146)**	159
Net change in fair value of financial assets/liabilities at fair value through profit or loss	**(79)**	(286)	**(79)**	(286)
Bad debts written off	**4,576**	4,560	**4,330**	4,560
Dividend income classified as investing cash flow	**(1,949)**	(1,567)	**(3,324)**	(2,439)
Net (profit)/loss on sale of property, plant & equipment	**(34)**	(2)	**(34)**	(2)
Share of profit of equity accounted investees	**(1,676)**	(738)	**-**	-
Business combination costs classified as cash flows from investing activities	**-**	485	**-**	485
Change in assets and liabilities:				
Net identifiable assets/liabilities acquired through business combination classified as investing activities	**-**	442,392	**-**	442,392
Increase/(decrease) in provisions	**(4,334)**	2,832	**(4,345)**	2,869
Increase/(decrease) in provision for income tax	**(6,116)**	(3,409)	**(5,305)**	(3,674)
Increase/(decrease) in deferred tax assets and liabilities	**1,212**	1,334	**1,126**	1,258
Increase/(decrease in interest payable	**676**	(1,339)	**2,150**	(102)
Increase/(decrease) in other payables	**(3,313)**	11,964	**(3,427)**	9,635
Increase in gross loans and advances	**(516,361)**	(913,977)	**(516,259)**	(913,977)
Increase in deposits and withdrawable share capital	**515,513**	649,689	**515,590**	649,148
(Increase)/decrease in interest receivable	**(190)**	(340)	**(190)**	(345)
Increase/(decrease) in derivative assets/liabilities	**280**	118	**(274)**	(3,930)
(Increase)/decrease in other assets	**5,888**	(9,351)	**5,724**	(7,146)
Net cash from operating activities	**41,597**	218,412	**41,675**	213,706

21. COMMITMENTS

Capital expenditure commitments

At 30 June 2016, the Group has no further commitments (2015: $16.239 million) relating to the integrated fit out works for the Group's head office building in Flinders Street, Adelaide.

	Consolidated	
	2016	2015
Lease expenditure commitments	**$'000**	$'000
Non-cancellable operating leases:		
not later than 1 year	**15,306**	18,242
later than 1 and not later than 2 years	**17,441**	15,996
later than 2 and not later than 5 years	**42,555**	44,300
later than 5 years	**53,275**	57,022
Aggregate lease expenditure contracted for at 30 June	**128,577**	135,560

The Group leases motor vehicles, office and branch premises under non-cancellable operating leases expiring within one to 13 years. The leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.

Credit commitments

The Group has the following credit commitments:

	Consolidated	
	2016	2015
	$'000	$'000
Loans approved not settled	**57,079**	73,128
Members unused credit facility	**451,373**	460,347
	508,452	533,475

22. CONTINGENT ASSETS AND LIABILITIES

	Consolidated	
Guarantees	**2016**	2015
	$'000	$'000
The Group has issued guarantees as follows:		
Guarantee issued for members	**1,623**	1,913

As the probability and value of guarantees may be called upon is unpredictable, it is not practical to state the timing of any payment.

CUFSS Limited

With effect from 1 July 1999, the Credit Union is a party to an Industry Support Contract (“ISC”) administered by CUFSS Limited (“CUFSS”). The ISC is certified by APRA under Section 11CB of the Banking Act 1959 (Cth) and is a voluntary financial support scheme whose members are Credit Unions, Mutual Banks and Cuscal Limited. CUFSS is a company limited by guarantee, each member’s guarantee being $100. As a member of CUFSS, the Credit Union:

- May be required to advance funds (excluding permanent loans) of up to 3% of total assets to another CUFSS member requiring financial support;
- May be required to advance permanent loans of up to 0.2% of total assets per financial year to another CUFSS member requiring financial support; and
- Agrees, in conjunction with other members, to fund the operating costs of CUFSS.

23. SECURITISATION

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets to third parties or special purpose entities (SPE's) on an arm's length basis.

The Credit Union transferred loans totalling $698.350 million (2015: $1,246.145 million) during the financial year as part of its ongoing securitisation program. The loan transfers made to SPE's comprise of either warehouse funding facilities $364.231 million (2015: $610.413 million), term securitisation issues $64.352 million (2015: $Nil) and the internal securitisation issue $269.767 million (2015: $549.999 million). During the financial year, all third party warehouse funding facilities were closed and no additional loans were transferred into these facilities (2015: $85.733 million). The total value of transferred loans as at 30 June 2016 was $2,073.650 million (2015: $1,881.164 million). The Group has not transferred substantially all of the risks and rewards associated with these loans and accordingly these loans are carried on the Group's balance sheet.

Refer to Note 28. Related Parties for more information on loan balances and net distributions to unitholders.

24. STANDBY BORROWING FACILITIES

	Credit Union	
	2016	2015
	$'000	$'000
The Credit Union has the following borrowing facilities:		
Overdraft facility		
Gross facility amount	**5,000**	5,000
Less: current borrowing	**-**	-
Net available	**5,000**	5,000

25. SIGNIFICANT ALLIANCES

The Credit Union has a significant alliance with the following suppliers of services:

Cuscal Limited

This company provides the Credit Union with the rights to, and the production of member's cheques, ATM management services, Redicards and Visa cards, provides finance facilities, settlement with bankers, electronic funds deposit and central banking. In addition, this company operates the switching system that links rediATM's, other approved EFT suppliers, Visa acquirers and merchants to the Credit Union's computer systems.

Fiserv (aspac) Pte. Ltd

This company is a member of an international group which owns the core banking system software which the Credit Union operates.

Data Action Pty Ltd

This company operates a computer bureau which provides the Credit Union with a range of computing services.

26. AUDITOR'S REMUNERATION

	Consolidated		Credit Union	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Amounts paid or payable to the external auditors - KPMG				
Auditing the financial report	**260**	283	**216**	216
Other regulatory activities and assurance services	**183**	130	**183**	128
Taxation services	**213**	156	**148**	134
Other services	**41**	144	**41**	144
	697	713	**588**	622

27. KEY MANAGEMENT PERSONNEL

a) Directors

The following were Directors of the Group from the beginning of the financial year to the date of this report.

J.L. Cossons (Chair)
P.H.T. Evers (Managing Director) (Retired effective 25 September 2015)
Dr. R. H. S. Brooks
S. M. Day
E. T. McGuirk
J. McMahon
K. A. Skipper AM
V. S. Hickey

b) Other key management personnel

The following persons, employed by the Credit Union, also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

S. Laidlaw	Chief Executive Officer (Appointed 11 January 2016)
	Formerly Executive General Manager Corporate Services (Ceased 10 January 2016)
D. Lewis	Acting Chief Sales Officer (Appointed 22 February 2016)
H. Gale	Acting Chief Financial Officer (Appointed 11 January 2016)
D. Mattiske-Wood	Deputy CEO, Chief Strategy, Members & People Officer (Appointed 11 January 2016)
	Formerly Acting Chief Executive Officer (Appointed 25 September 2015, ceased 10 January 2016)
	Formerly Executive General Manager Organisational Development (Ceased 24 September 2015)
R. Ward	Acting Chief Marketing Officer (Appointed 22 February 2016)
P. Corolis	Chief Risk Officer (Appointed 26 April 2016)
D. Bateman	Executive General Manager Sales and Distribution (Resigned 23 February 2016)
A. Hamilton	Executive General Manager Marketing and Product Management (Ceased 22 February 2016)
S. Cocks	Executive General Manager Risk (Ceased 29 February 2016)
C. McLaughlin	Acting Chief Risk Officer (Appointed 1 March 2016, resigned 25 April 2016)

27. KEY MANAGEMENT PERSONNEL (Continued)

c) Key management personnel compensation

Directors and other key management personnel compensation for the Group comprised:

	Short-term Employee Benefits $'000	Post-employment Benefits - Superannuation $'000	Long Term- Other Benefits $'000	Termination Benefits $'000	Total $'000
2016	**3,883**	**265**	**747**	**276**	**5,171**
2015	3,730	209	140	120	4,199

d) Loans

Loans to Directors and other key management personnel are either unsecured or secured by registered mortgage over eligible security in accordance with standard lending policies.

	2016 $'000	2015 $'000
Total aggregate loans as at the reporting date (30 June)	**3,274**	3,835
Total aggregate interest charged during the reporting period	**116**	151

All loans to Directors and other key management personnel are made on normal staff terms and conditions that are applicable to normal staff benefit packages.

The Directors and key management personnel who held loan accounts with the Credit Union during the year were J.L. Cossons, P.H.T. Evers, S.M. Day, K.A. Skipper AM, V.S. Hickey, D. Bateman, S. Cocks, E.T. McGuirk, A. Hamilton, H. Gale, R. Ward and D. Lewis.

Other transactions with key management personnel

Apart from the details under this disclosure, no Director or other key management personnel have entered into a material contract with the Credit Union or the Group since the end of the previous year and there were no material contracts involving key management personnel interests existing at year end.

Financial transactions (including loans disclosed within this report) of Directors occur in the ordinary course of business on an arms length basis. For other key management personnel, financial transactions are made on normal staff terms and conditions that are applicable to normal staff benefit packages. Disclosure of financial transactions regularly made as part of normal banking operations is limited to disclosure of such transactions with key management personnel and entities controlled or significantly influenced by them. All such financial transactions that have occurred between entities within the Group and their key management personnel were in the nature of normal personal banking.

As they are required to be a member of the Credit Union, each Director and all key management personnel hold one $2 share.

28. RELATED PARTIES

Controlled entities

The Credit Union entered into transactions with its Controlled Entities. These transactions were all carried out under normal commercial terms and are eliminated on consolidation in the financial reports. The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

	Aggregate amounts included in the accounts of the Credit Union Income/(expense)		Amounts included in the accounts of the Credit Union Payable/(receivable)		Deposits with the Credit Union	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Financial Solutions Australasia Pty Ltd	**358**	221	**4,494**	4,185	**-**	-
Australian Central Services Pty Ltd	**59**	78	**231**	177	**-**	-
People's Choice Community Foundation Limited	**(408)**	(428)	**(120)**	12	**181**	104

	Residual Unitholder Net Distribution		Net Interest Rate Swap Expense	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Light Trust No. 1	**316**	492	**881**	1,128
Light Trust No. 2	**135**	176	**451**	538
Light Trust No. 3	**595**	793	**1,318**	1,447
Light Trust No. 4	**850**	1,417	**954**	1,158
Light Trust No. 5R	**1,478**	(2,278)	**4,313**	1,616
Light Trust No. 6 [1]	**1,467**	-	**1,896**	-
Light Trust Warehouse No. 1	**1,522**	638	**1,380**	207
Light Trust Warehouse No. 2	**1,326**	(853)	**3,258**	2,488

	Capital Notes held by the Credit Union		Loan	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Light Trust No. 1	**-**	-	**37,803**	51,327
Light Trust No. 2	**6,853**	8,959	**34,354**	44,801
Light Trust No. 3	**5,084**	6,493	**111,553**	142,895
Light Trust No. 4	**9,718**	12,799	**148,552**	203,970
Light Trust No. 5R	**684,101**	532,758	**656,664**	519,999
Light Trust No. 6 [1]	**-**	-	**391,160**	-
Light Trust Warehouse No. 1	**23,536**	28,649	**308,285**	374,378
Light Trust Warehouse No. 2	**22,412**	26,257	**370,412**	433,732

[1] Began trading on 26 August 2015

Equity accounted associates

Data Action Pty Ltd provides a range of services, which includes computing services, stationary and communication, and received $9.158 million (2015: $7.078 million) for services provided. Some of these services are discounted for shareholder customers.

29. RISK MANAGEMENT

a) Financial risk management objectives

The Group is exposed to a range of risks as part of its daily operations. These risks are managed using an enterprise wide approach in line with sound business practice, Australian risk management standards, prudential requirements and the Board's approved risk appetite, providing the Board with a comprehensive view of its risk profile.

As part of the risk management framework, a risk management strategy is maintained which includes policies and plans which detail the Group's approach to the management of risk exposures. The risk management strategy includes systems for the identification, analysis, evaluation, treatment, monitoring and reporting of risk, is subject to regular review and is responsive to the changing regulatory and operating environments.

The Board ensures a sound risk management culture is maintained and embedded in the Group's values and behaviours and the conduct of business. The material financial risks faced by the Group include liquidity risk, credit risk and market risk (incorporating interest rate risk).

b) Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Group has in place information systems and a structured process to monitor and manage liquidity risk. The management process incorporates specific liquidity management strategies and liquidity contingency plans that manage liquidity on a daily basis under normal situations and assumed adverse scenarios. The liquidity strategy requires the holding of surplus funds in liquid assets which meet APRA's criteria for classification as eligible Minimum Liquidity Holdings ("MLH"), the availability of appropriate standby lines of funding, maintenance of reliable sources of funding (retail and wholesale) and daily liquidity projections.

APRA Prudential Standards place specific management and reporting requirements on ADIs in relation to liquidity risk. The Prudential Standards provide that liquidity strategies and liquidity holdings can be based on either a scenario analysis or on an MLH basis. APRA has approved the Credit Union to adopt an MLH approach, whereby the Credit Union is required to maintain a minimum holding in specified eligible assets at all times.

The Credit Union's liquidity ratio as at the reporting date (30 June) is provided below:

	Credit Union	
	2016	2015
	%	%
Liquidity ratio	**13.08**	12.14

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Group's and the Credit Union's financial liabilities as at 30 June 2016 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice is given immediately. However, the Group and the Credit Union expect that many members will not request repayment on the earliest date the Group or the Credit Union could be required to pay and the tables do not reflect the cash flows indicated by the Group's or the Credit Union's deposit retention history. Derivatives designated are based on their contractual maturity. The amounts represent principal and interest cash flows and may differ when compared to the carrying amounts reported on the Statements of Financial Position.

29. RISK MANAGEMENT (Continued)

b) Liquidity risk management (continued)

	Contractual cash flows						
Consolidated Entity	**At call $'000**	**3 Months or less $'000**	**3 to 12 months $'000**	**1 to 5 years $'000**	**Greater than 5 years $'000**	**Total $'000**	**Carrying amount $'000**
2016							
Financial Liabilities							
Deposits	**3,278,507**	**981,610**	**1,133,036**	**139,638**	**7**	**5,532,798**	**5,501,037**
Other payables	**-**	**64,701**	**-**	**-**	**-**	**64,701**	**64,701**
Borrowings	**-**	**25,893**	**90,517**	**396,326**	**1,863,386**	**2,376,122**	**1,383,349**
Derivative Financial Instruments							
Interest rate swaps (assets)/liabilities	**-**	**1,054**	**2,668**	**1,888**	**-**	**5,610**	**5,689**
Total cash flows	**3,278,507**	**1,073,258**	**1,226,221**	**537,852**	**1,863,393**	**7,979,231**	**6,954,776**
2015							
Financial Liabilities							
Deposits	3,067,121	845,395	979,632	129,209	-	5,021,357	4,985,524
Other payables	-	67,338	-	-	-	67,338	67,338
Borrowings	-	112,750	87,075	345,123	1,639,814	2,184,762	1,308,559
Derivative Financial Instruments							
Interest rate swaps (assets)/liabilities	-	1,238	3,120	1,374	-	5,732	5,484
Total cash flows	3,067,121	1,026,721	1,069,827	475,706	1,639,814	7,279,189	6,366,905
Credit Union							
2016							
Financial Liabilities							
Deposits	**3,278,507**	**981,791**	**1,133,036**	**139,638**	**7**	**5,532,979**	**5,501,218**
Other payables	**-**	**69,166**	**-**	**-**	**-**	**69,166**	**69,166**
Borrowings	**-**	**37,120**	**124,198**	**575,613**	**2,770,690**	**3,507,621**	**2,073,650**
Derivative Financial Instruments							
Interest rate swaps (assets)/liabilities	**-**	**317**	**(469)**	**(2,483)**	**-**	**(2,635)**	**(1,277)**
Total cash flows	**3,278,507**	**1,088,394**	**1,256,765**	**712,768**	**2,770,697**	**9,107,131**	**7,642,757**
2015							
Financial Liabilities							
Deposits	3,067,121	845,499	979,632	129,209	-	5,021,461	4,985,628
Other payables	-	70,443	-	-	-	70,443	70,443
Borrowings	-	122,687	116,885	503,786	2,460,855	3,204,213	1,881,164
Derivative Financial Instruments							
Interest rate swaps (assets)/liabilities	-	(216)	(524)	(2,529)	-	(3,269)	(925)
Total cash flows	3,067,121	1,038,413	1,095,993	630,466	2,460,855	8,292,848	6,936,310

29. RISK MANAGEMENT (Continued)

c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statements of Financial Position. The maximum credit exposure does not take into account the value of any collateral or other security held in the event other entities/parties fail to perform their obligations under the financial instruments in question. The value of collateral held against individual exposures is generally only assessed at the time of borrowing or when a specific review of that exposure is undertaken in accordance with policy.

The Group holds collateral against loans and advances to members in the form of mortgage interests over real property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

The maximum exposure to credit risk at the reporting date (30 June) was:

	Consolidated		Credit Union	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Deposits at call	**153,074**	106,174	**103,936**	63,314
Other assets	**24,711**	30,409	**24,784**	30,317
Available for sale investment securities	**743,858**	687,990	**736,488**	680,300
Derivative assets	**3,770**	1,258	**6,685**	6,570
Financial assets other than loans and advances	**925,413**	825,831	**871,893**	780,501
Loans and advances	**6,450,820**	5,940,172	**6,450,820**	5,940,172
Total Financial assets	**7,376,233**	6,766,003	**7,322,713**	6,720,673
Credit commitments	**508,452**	533,475	**508,452**	533,475
Total potential exposure to credit risk	**7,884,685**	7,299,478	**7,831,165**	7,254,148
Distribution of financial assets				
Neither past due nor impaired				
Financial assets other than loans and advances	**925,413**	825,831	**871,893**	780,501
Loans and advances	**6,259,378**	5,733,737	**6,259,378**	5,733,737
Past due but not impaired				
Loans and advances	**189,035**	203,564	**189,035**	203,564
Impaired				
Loans and advances	**2,407**	2,871	**2,407**	2,871
	7,376,233	6,766,003	**7,322,713**	6,720,673
Gross loans and advances which are past due but not impaired				
1 - 30 days	**140,513**	142,356	**140,513**	142,356
31 - 60 days	**20,995**	27,757	**20,995**	27,757
61 - 90 days	**9,676**	16,222	**9,676**	16,222
> 90 days	**17,851**	17,229	**17,851**	17,229
Total	**189,035**	203,564	**189,035**	203,564

29. RISK MANAGEMENT (Continued)

c) Credit risk management (continued)

	Consolidated		Credit Union	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Geographic concentration of credit risk for gross loans and advances				
South Australia	**4,192,250**	3,945,316	**4,192,250**	3,945,316
Northern Territory	**1,347,298**	1,233,298	**1,347,298**	1,233,298
Victoria	**518,063**	394,498	**518,063**	394,498
New South Wales	**139,388**	137,474	**139,388**	137,474
Western Australia	**99,945**	98,668	**99,945**	98,668
Queensland	**109,023**	94,617	**109,023**	94,617
Australian Capital Territory	**34,049**	27,561	**34,049**	27,561
Tasmania	**10,804**	8,740	**10,804**	8,740
	6,450,820	5,940,172	**6,450,820**	5,940,172

d) Capital adequacy

The management of the capital of a financial institution is a fundamental part of its risk management process as an essential element of capital is its availability to absorb future, unexpected and unidentified losses.

APRA Prudential Standards require ADI's to maintain at all times a minimum ratio of capital to risk weighted assets. As part of its risk management process, the Credit Union has developed a methodology with financial modelling to assist in determining the optimum level of capital that is consistent with assessed risk exposure and business activity. The optimum capital is managed within a range well above the minimum required by APRA and incorporates an assessment of the combined risk exposure for operations, market, credit and strategic risk.

The Credit Union's capital management plan ensures capital holdings are maintained in proportion to its risk exposure from its activities. The Credit Union and the Group have complied with all the APRA capital adequacy requirements throughout the year.

The Group's capital adequacy ratio as at the end of the reporting date (30 June) and the comparative are as follows:

	Consolidated	
	2016	2015
	$'000	$'000
Capital Adequacy Ratio	**14.22%**	13.86%
Qualifying capital		
Tier 1	**464,463**	436,576
Tier 2	**12,373**	8,821
Total qualifying capital	**476,836**	445,397
Risk Weighted Assets	**3,352,570**	3,213,555

For further detail on the Group's capital adequacy please refer to our public disclosures under *APS 330 Public Disclosure*, which is located on the Credit Union's website under Regulatory Disclosures.

29. RISK MANAGEMENT (Continued)

e) Market risk management

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Group as part of its normal trading activities. As the Group does not deal in foreign exchange contracts or commodities, market risk for the Group consists solely of interest rate risk.

f) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate risk volatility of net interest income and market value of equity exposures. Positions are monitored regularly and approved hedging strategies are executed to ensure sensitivities and exposures are maintained within the established limits.

The sensitivity in the Statements of Profit or Loss and Other Comprehensive Income is the effect of assumed changes in interest rates on the net interest for one year, based on the floating rate financial assets and financial liabilities held at 30 June 2016, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate of loans and advances, available for sale financial assets (including the effect of any associated hedges), and interest rate swaps designated as cash flow hedges, at 30 June 2016 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or interest rate swap, with sensitivity based on the assumption that there are parallel shifts in the yield curve.

Monitoring of adherence to policies, limits and procedures is controlled through the Management Asset and Liability Committee ("MALCO") and the Board Risk Committee.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, on the Group's income statement and in equity with all other variables held constant.

	Equity Sensitivity		Net Revenue Sensitivity	
	2016	2015	**2016**	2015
Consolidated	**%**	%	**$'000**	$'000
25 bp rise	**(0.32)**	(0.25)	**1,151**	1,336
25 bp fall	**0.32**	0.25	**(1,229)**	(1,137)
50 bp rise	**(0.64)**	(0.50)	**2,299**	2,685
50 bp fall	**0.64**	0.50	**(2,486)**	(2,269)

29. RISK MANAGEMENT (Continued)

f) Interest rate risk (continued)

The Group's exposure to interest rate risk at balance date is shown in the following table and does not differ materially from that of the Credit Union.

Consolidated		**Fixed interest rate maturing:**				
	Floating interest rate	**<1 yrs**	**1-5 yrs**	**> 5 yrs**	**Non-interest bearing**	**Total**
2016	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets						
Cash and cash equivalents	**153,074**	**-**	**-**	**-**	**20,839**	**173,913**
Loans and advances	**4,004,230**	**1,110,485**	**1,330,434**	**349**	**-**	**6,445,498**
Available for sale investment securities	**-**	**743,858**	**-**	**-**	**32,047**	**775,905**
Other investments	**13,882**	**-**	**-**	**-**	**-**	**13,882**
	4,171,186	**1,854,343**	**1,330,434**	**349**	**52,886**	**7,409,198**
Financial Liabilities						
Deposits	**3,278,874**	**2,088,282**	**133,203**	**7**	**671**	**5,501,037**
Borrowings	**-**	**1,383,349**	**-**	**-**	**-**	**1,383,349**
	3,278,874	**3,471,631**	**133,203**	**7**	**671**	**6,884,386**
Interest rate swaps - assets/(liabilities)	**837,000**	**(272,000)**	**(565,000)**	**-**	**-**	**-**
2015						
Financial Assets						
Cash and cash equivalents	118,576	-	-	-	18,567	137,143
Loans and advances	3,777,611	650,046	1,497,738	8,174	-	5,933,569
Available for sale investment securities	-	506,685	181,305	-	26,655	714,645
Other investments	10,618	-	-	-	-	10,618
	3,906,805	1,156,731	1,679,043	8,174	45,222	6,795,975
Financial Liabilities						
Deposits	3,246,246	1,613,179	125,428	-	671	4,985,524
Borrowings	-	1,308,559	-	-	-	1,308,559
	3,246,246	2,921,738	125,428	-	671	6,294,083
Interest rate swaps - Assets/(liabilities)	657,000	(240,000)	(417,000)	-	-	-

29. RISK MANAGEMENT (Continued)

g) Interest rate swap contracts

The Group uses interest rate swap contracts in managing interest rate exposure. For interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates. The Group enters into interest rate swap contracts for the sole purpose of managing interest rate exposures in the Statements of Financial Position and not for speculative purposes.

	2016			2015		
		Fair Value			Fair Value	
	Notional Amount	Asset	Liability	Notional Amount	Asset	Liability
	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated						
Derivatives at fair value through profit and loss						
Interest rate swaps	**489,236**	**3,770**	**(4,079)**	133,143	1,097	(1,204)
Derivatives held as cash flow hedges						
Interest rate swaps	**835,000**	**-**	**(5,380)**	655,000	161	(5,538)
	1,324,236	**3,770**	**(9,459)**	788,143	1,258	(6,742)
Credit Union						
Derivatives at fair value through profit and loss						
Interest rate swaps	**496,853**	**6,685**	**(28)**	453,866	6,409	(107)
Derivatives held as cash flow hedges						
Interest rate swaps	**835,000**	**-**	**(5,380)**	655,000	161	(5,538)
	1,331,853	**6,685**	**(5,408)**	1,108,866	6,570	(5,646)

29. RISK MANAGEMENT (Continued)

g) Interest rate swap contracts (continued)

The following table details the Group's net fair values and notional principal amounts at the remaining terms of interest rate swap contracts outstanding as at the reporting date:

	Net Fair Value		Notional Principal Amount	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Less than 1 year	**(3,772)**	(4,219)	**453,351**	282,414
1 to 2 years	**(1,672)**	(1,381)	**573,860**	300,467
2 to 5 years	**(245)**	113	**294,765**	197,234
> 5 years	**-**	3	**2,260**	8,028
	(5,689)	(5,484)	**1,324,236**	788,143

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group does not have a legally enforceable right to set-off any interest rate swap agreements.

Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on the International Swaps and Derivatives Association ("ISDA") Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As neither the Group nor the Credit Union presently have a legally enforceable right of set-off, these amounts have not been offset in the Statements of Financial Position and accordingly derivative assets and derivative liabilities are shown on a gross basis in the Statements of Financial Position.

If under the ISDA Master Agreement there was a legally enforceable right of set-off, there would be a reduction in both the derivative asset and derivative liability of the Credit Union and the Group of $3.770 million as at 30 June 2016 ($1.097 million at 30 June 2015).

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value methodologies

Disclosed below is the estimated fair value of the Group's financial instruments presented in accordance with the requirements of Accounting Standard AASB 7 *Financial Instruments: Disclosures.*

A financial instrument is defined by AASB 132 *Financial Instruments: Presentation* as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial liability is a contractual obligation either to deliver cash or another financial asset to another entity, or, to exchange financial instruments with another entity under conditions that are potentially unfavourable.

The methodologies and assumptions used in measuring fair value depend on the terms and risk characteristics of the various instruments and include the following:

Cash and cash equivalents

Being cash on hand and at call deposits, the carrying amount is the net fair value.

Loans and advances

The net fair value of loans has been estimated using discounted cash flow analysis, based on current rates offered by the Group for loans with similar terms. The net fair value of impaired loans has been estimated as their carrying amount net of the aggregate provision for impairment.

Available for sale investment securities

Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

Other investments

Other investments represent both capital notes and shares in unlisted companies. The fair value of capital notes is estimated using discounted cash flow analysis, based on current market rates for similar arrangements. With the exception of shares held in Cuscal Limited, the fair value and carrying value of unlisted shares is their original cost because their fair value cannot be reliably measured as no active market exists for these assets.

As at 30 June 2016 Cuscal Limited shares are held at a price per share of $1.28. The price represents the best estimate of the fair value of the shares as at the reporting date determined with reference shares purchased by the Group during the current financial year and the net assets of Cuscal Limited. There are no current intentions to dispose of these investments.

Derivative financial instruments

Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

Other assets

This includes items such as sundry debtors, which are short-term by nature and the carrying amount is therefore a reasonable estimate of fair value.

Deposits

The net fair value of deposits has been estimated using discounted cash flow analysis, based on current rates offered by the Group for deposits with similar terms.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

a) Fair value methodologies (continued)

Other payables

The carrying amount approximates net fair value because of the short term of the settlement of the amounts due.

Borrowings

Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

The following table provides comparison of carrying amounts and net fair values for financial instruments:

	Carrying value		Fair value	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Consolidated				
Financial Assets				
Cash and cash equivalents	**173,913**	137,143	**173,913**	137,143
Loans and advances	**6,445,498**	5,933,569	**6,467,691**	5,954,366
Available for sale investment securities	**775,905**	714,645	**775,905**	714,645
Other investments	**13,882**	10,618	**13,882**	10,618
Derivative assets	**3,770**	1,258	**3,770**	1,258
Other assets	**24,711**	30,409	**24,711**	30,409
	7,437,679	6,827,642	**7,459,872**	6,848,439
Financial Liabilities				
Deposits	**5,501,037**	4,985,524	**5,502,768**	4,986,219
Other payables	**64,701**	67,338	**64,701**	67,338
Borrowings	**1,383,349**	1,308,559	**1,385,051**	1,310,221
Derivative liabilities	**9,459**	6,742	**9,459**	6,742
	6,958,546	6,368,163	**6,961,979**	6,370,520
Credit Union				
Financial Assets				
Cash and cash equivalents	**124,774**	94,283	**124,774**	94,283
Loans and advances	**6,445,498**	5,933,569	**6,467,691**	5,954,366
Available for sale investment securities	**768,535**	706,955	**768,535**	706,955
Other investments	**758,650**	631,510	**758,650**	631,510
Derivative assets	**6,685**	6,570	**6,685**	6,570
Other assets	**24,784**	30,317	**24,784**	30,317
	8,128,926	7,403,204	**8,151,119**	7,424,001
Financial Liabilities				
Deposits	**5,501,218**	4,985,628	**5,502,949**	4,986,323
Other payables	**69,166**	70,443	**69,166**	70,443
Borrowings	**2,073,650**	1,881,164	**2,075,352**	1,883,549
Derivative liabilities	**5,408**	5,645	**5,408**	5,645
	7,649,442	6,942,880	**7,652,875**	6,945,960

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

b) Fair value hierarchy - financial instruments measured at fair value

The following table sets out the fair value of financial instruments that are measured at fair value and analyses them by the level in the fair value hierarchy into which the fair value measurement is categorised:

- **- Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **- Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **- Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Consolidated Entity				
2016				
Financial Assets				
Financial assets available for sale	-	775,905	-	775,905
Derivative assets	-	3,770	-	3,770
	-	779,675	-	779,675
Financial Liabilities				
Derivative financial liabilities	-	9,459	-	9,459
	-	9,459	-	9,459
2015				
Financial Assets				
Financial assets available for sale	-	714,645	-	714,645
Derivative assets	-	1,258	-	1,258
	-	715,903	-	715,903
Financial Liabilities				
Derivative financial liabilities	-	(6,742)	-	(6,742)
	-	(6,742)	-	(6,742)
Credit Union				
2016				
Financial Assets				
Financial assets available for sale	-	768,535	-	768,535
Derivative assets	-	6,685	-	6,685
	-	775,220	-	775,220
Financial Liabilities				
Derivative financial liabilities	-	5,408	-	5,408
	-	5,408	-	5,408
2015				
Financial Assets				
Financial assets available for sale	-	706,955	-	706,955
Derivative assets	-	6,570	-	6,570
	-	713,525	-	713,525
Financial Liabilities				
Derivative financial liabilities	-	(5,645)	-	(5,645)
	-	(5,645)	-	(5,645)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

c) Fair value hierarchy - financial instruments not measured at fair value

The following table sets out the fair value of financial instruments that are not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair Values $'000	Carrying Amount $'000
Consolidated Entity					
2016					
Financial Assets					
Cash and cash equivalents	**173,913**	**-**	**-**	**173,913**	**173,913**
Loans and advances	**-**	**-**	**6,467,691**	**6,467,691**	**6,445,498**
Other investments	**-**	**13,882**	**-**	**13,882**	**13,882**
Other assets	**24,711**	**-**	**-**	**24,711**	**24,711**
	198,624	**13,882**	**6,467,691**	**6,680,197**	**6,658,004**
Financial Liabilities					
Deposits	**-**	**-**	**5,502,768**	**5,502,768**	**5,501,037**
Borrowings	**-**	**-**	**1,385,051**	**1,385,051**	**1,383,349**
Other payables	**64,701**	**-**	**-**	**64,701**	**64,701**
	64,701	**-**	**6,887,819**	**6,952,520**	**6,949,087**
2015					
Financial Assets					
Cash and cash equivalents	137,143	-	-	137,143	137,143
Loans and advances	-	-	5,954,366	5,954,366	5,933,569
Other investments	-	10,618	-	10,618	10,618
Other assets	30,409	-	-	30,409	30,409
	167,552	10,618	5,954,366	6,132,536	6,111,739
Financial Liabilities					
Deposits	-	-	4,986,219	4,986,219	4,985,524
Borrowings	-	-	1,310,221	1,310,221	1,308,559
Other payables	67,338	-	-	67,338	67,378
	67,338	-	6,296,440	6,363,778	6,361,461

Fair value hierarchy levels have not been disclosed for some financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

c) Fair value hierarchy - financial instruments not measured at fair value (continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair Values $'000	Carrying Amount $'000
Credit Union					
2016					
Financial Assets					
Cash and cash equivalents	124,774	-	-	124,774	124,774
Loans and advances	-	-	6,467,691	6,467,691	6,445,498
Other investments	-	758,650	-	758,650	758,650
Other assets	24,784	-	-	24,784	24,784
	149,558	758,650	6,467,691	7,375,899	7,353,706
Financial Liabilities					
Deposits	-	-	5,502,949	5,502,949	5,501,218
Borrowings	-	-	2,075,352	2,075,352	2,073,650
Other payables	69,166	-	-	69,166	69,166
	69,166	-	7,578,301	7,647,467	7,644,034
2015					
Financial Assets					
Cash and cash equivalents	94,283	-	-	94,283	94,283
Loans and advances	-	-	5,954,366	5,954,366	5,933,569
Other investments	-	631,510	-	631,510	631,510
Other assets	30,317	-	-	30,317	30,317
	124,600	631,510	5,954,366	6,710,476	6,689,679
Financial Liabilities					
Deposits	-	-	4,986,323	4,986,323	4,985,628
Borrowings	-	-	1,883,549	1,883,549	1,881,164
Other payables	72,633	-	-	72,633	72,633
	-	-	6,869,872	6,942,505	6,939,425

Fair value hierarchy levels have not been disclosed for some financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

31. SUPERANNUATION COMMITMENTS

The Group has established a superannuation fund for employees of the Group, which existed for the full financial year. The benefit is the provision of retirement lump sums via accumulation type funds. The basis of contributions to the fund is by way of employer and employee contributions. The obligation to contribute to the fund is to ensure compliance with the superannuation guarantee charge.

32. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Credit Union, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Registered Office

Australian Central Credit Union Ltd
ABN 11 087 651 125

AFSL/ACL 244310

50 Flinders Street
Adelaide SA 5000

Telephone

13 11 82

Website

www.peopleschoicecu.com.au

Email

general@peopleschoicecu.com.au

Annual General Meeting

Thursday, 27 October 2016
Commencing 11.00am, Central Daylight Saving Time
Crowne Plaza Adelaide, 16 Hindmarsh Square Adelaide

Bankers

Cuscal Ltd
National Australia Bank Limited
Westpac Banking Corporation

Auditors

KPMG

Tax Agent

KPMG