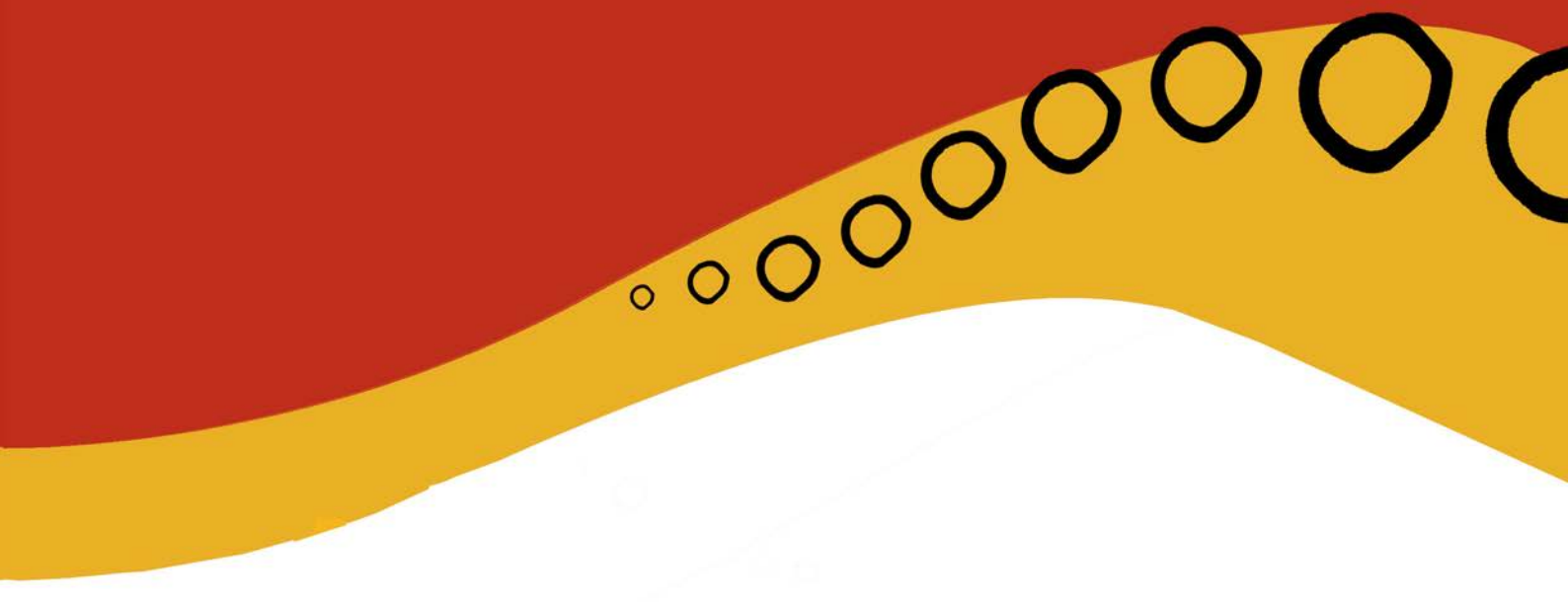


Traditional Credit Union Limited

Financial Statements

For the year ended 30 June 2018



Contents

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Statement of Comprehensive Income

For the year ended 30 June 2018

| | Note | 2018 \$ | 2017 \$ |
|---|------|------------------|------------------|
| Interest income | | 183,782 | 169,989 |
| Interest expense | | (54,190) | (36,131) |
| Net interest income | | 129,592 | 133,858 |
| Non-interest income | 3 | 6,522,316 | 6,928,048 |
| Net income before expenses | | 6,651,908 | 7,061,906 |
| Bad debt recovery | 4(a) | (114) | (32,956) |
| Depreciation and amortisation expense | 4(b) | 262,459 | 303,858 |
| Salaries and related expenses | 4(c) | 2,792,689 | 2,849,514 |
| Other expenses | 4(d) | 2,932,104 | 2,936,137 |
| Total expenses | | 5,987,138 | 6,056,553 |
| Profit before income tax | | 664,770 | 1,005,353 |
| Income tax expense | 5 | (181,796) | (328,347) |
| Profit for the year | | 482,974 | 677,006 |
| Other comprehensive income | | - | - |
| Total comprehensive income attributed to members | | 482,974 | 677,006 |

Statement of Financial Position

For the year ended 30 June 2018

| | Note | 2018 \$ | 2017 \$ |
|-------------------------------------|------|-------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | 7 | 2,188,824 | 2,596,284 |
| Trade and other receivables | 8 | 40,868 | 30,881 |
| Investments | 9 | 8,521,983 | 6,419,143 |
| Loans and advances | 10 | 72,690 | 47,151 |
| Current tax receivable | 6(a) | 73,433 | 65,115 |
| Deferred tax assets | 6(b) | 323,302 | 391,638 |
| Property, plant and equipment | 11 | 215,694 | 353,858 |
| Intangible assets | 12 | 164,527 | 208,792 |
| Other assets | 13 | 149,569 | 292,441 |
| Total assets | | 11,750,890 | 10,405,303 |
| LIABILITIES | | | |
| Trade and other payables | 14 | 400,144 | 401,497 |
| Deposits | 15 | 6,179,895 | 4,474,021 |
| Provisions | 16 | 211,587 | 303,887 |
| Other liabilities | 17 | 334,631 | 1,084,239 |
| Total liabilities | | 7,126,257 | 6,263,644 |
| Net assets | | 4,624,633 | 4,141,659 |
| EQUITY | | | |
| Redeemable preference share reserve | 18 | 35,910 | 32,674 |
| Reserves | 19 | 575,000 | 575,000 |
| Retained earnings | | 4,013,723 | 3,533,985 |
| Total equity | | 4,624,633 | 4,141,659 |

Statement of Changes in Equity

For the year ended 30 June 2018

| | Redeemable Preference Share Reserve \$ | Retained Earnings \$ | Capital Reserve \$ | Total \$ |
|--|--|----------------------------|--------------------------|------------------|
| Opening balance at 1 July 2017 | 32,674 | 3,533,985 | 575,000 | 4,141,659 |
| Profit attributable to members of the entity | - | 482,974 | - | 482,974 |
| Transfer from retained earnings to reserves | 3,236 | (3,236) | - | - |
| Closing balance at 30 June 2018 | 35,910 | 4,013,723 | 575,000 | 4,624,633 |

| | | | | |
|--|---------------|------------------|----------------|------------------|
| Opening balance at 1 July 2016 | 29,620 | 2,860,033 | 575,000 | 3,464,653 |
| Profit attributable to members of the entity | - | 677,006 | - | 677,006 |
| Transfer from retained earnings to reserves | 3,054 | (3,054) | - | - |
| Closing balance at 30 June 2017 | 32,674 | 3,533,985 | 575,000 | 4,141,659 |

Statement of Cash Flows

For the year ended 30 June 2018

| | Note | 2018 \$ | 2017 \$ |
|---|------|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Fees received | | 5,168,639 | 5,119,454 |
| Grants received | | 335,742 | 660,900 |
| Other income received | | 262,431 | 463,389 |
| Interest received | | 168,829 | 175,607 |
| Dividends received | | 3,270 | - |
| Net increase in on-call deposits and withdrawable members' shares | | 1,703,490 | 633,527 |
| Net (increase) / decrease in loans and advances | | (17,833) | 87,822 |
| Payment to employee and suppliers | | (5,681,989) | (6,038,584) |
| Interest paid | | (53,671) | (36,282) |
| Income tax paid | | (121,778) | (316,078) |
| Net cash provided by operating activities | 20 | 1,767,130 | 749,755 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net increase in held-to-maturity investment | | (4,250,061) | (22,395) |
| Acquisition of property, plant and equipment and intangibles | | (100,634) | (170,670) |
| Proceeds from sale of property plant and equipment | | 26,500 | - |
| Net cash used in investing activities | | (4,324,195) | (193,065) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net increase / (decrease) in term deposits | | 2,384 | (8,936) |
| Net cash provided by / (used in) financing activities | | 2,384 | (8,936) |
| Net (decrease) / increase in cash and cash equivalents held | | (2,554,681) | 547,754 |
| Cash and cash equivalents at beginning of year | | 7,393,505 | 6,845,751 |
| Cash and cash equivalents at end of financial year | 7 | 4,838,824 | 7,393,505 |

Notes to the Financial Statements

1 GENERAL INFORMATION

The financial statements of Traditional Credit Union Limited (the "Credit Union") for the year ended 30 June 2018 were authorised for issue on 3 October 2018 in accordance with a resolution of the directors.

The Credit Union is domiciled in Australia.

The Credit Union is primarily involved in the provision of a range of financial products and services to members. There was no significant change in the nature of these activities during the year.

The registered office and principal place of business is 9 Rowling Street, Casuarina, Northern Territory, Australia 0810.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied by the Credit Union unless otherwise stated.

2.1 Basis of preparation

(a) Statement of compliance

The financial statements are general purpose financial statements which has been prepared in accordance with Australian Accounting Standards ("AAS"), including Australian Accounting Interpretations, adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial statements and notes of the Credit Union comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

(b) Basis of measurement

The financial statements have been prepared in accordance with the historical cost convention, except for derivative financial assets and liabilities which are measured at their fair value.

The financial statements have been prepared on a going concern basis.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars and all values have been rounded to the nearest dollar.

(d) Comparative figures

Certain items have been reclassified from the Credit Union's prior year financial report to conform to the current period's presentations.

(e) Use of judgements and estimates

The preparation of the Credit Union's financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of income, expenses, assets and liabilities. The estimates and associated assumptions are based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Credit Union.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(e) Use of judgements and estimates (continued)

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 2.5 (a) Deferred tax assets
- Note 2.7 (b) (i) Impairment of loans and receivables
- Note 2.8 Property, plant and equipment
- Note 2.12 Provisions

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 New accounting standards and interpretations

(a) Standards and interpretations adopted during the year ended

The Credit Union applied for the first time certain standards and amendments which are effective for annual periods beginning 1 July 2017. The Credit Union has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The list primarily includes those standards and interpretations that are of relevance to the Credit Union:

- AASB 2016-2 amendments to AAS – disclosure initiative: amendments to AASB 107

This amendment requires the Credit Union to provide disclosures about changes in its liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). Adoption of this amended standard has no impact in the financial report of the Credit Union.

Other new, revised, interpretations or amending standards issued prior to the sign-off date applicable to the current reporting period did not have a financial impact and are not expected to have any future financial implications on the Credit Union.

(b) Standards and interpretations on issue but not yet adopted

A number of new, amendments and interpretations to standards are effective for annual periods beginning after 1 July 2018, and have not been applied in preparing these financial statements.

The table below summarises the standards and interpretations that have already been issued but are not applicable until a later date. However, some standards and interpretations are available for voluntary early adoption. The Credit Union has not opted to adopt any standards and interpretations early. The list below primarily includes those standards and interpretations that are of relevance to the Credit Union. The financial impact of adopting these standards / interpretations is not yet determinable at this stage.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting standards and interpretations (continued)

(b) Standards and interpretations on issue but not yet adopted (continued)

| Standard | Nature of Change | Date of Application and Adoption |
|--|---|---|
| AASB 9 Financial Instruments; relevant amending standards | Addresses the classification, measurement and de-recognition of financial assets and liabilities, and introduces new rules for hedge accounting and loan provisioning. | Mandatory for annual periods beginning on or after 1 January 2018. The Credit Union does not plan to early adopt AASB 9. Adoption of this new standard will require Credit Union additional disclosure with respect to its credit risk and expected credit losses. |
| AASB 15 Revenue from Contracts with Customers | Replaces AASB 118 Revenue which covers revenue arising from the sale of goods and rendering of services and AASB 111 Construction Contracts. The new standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. | Mandatory for annual periods beginning on or after 1 January 2018 and will be effective to the Credit Union on 1 July 2018. The Credit Union does not plan to early adopt AASB 15. The Credit Union acts in the capacity of an agent for certain transactions, as detailed in Note 2.3 (c). The assessment will be based on whether control is over specific goods before transferring to the end customer, rather than whether it has exposure to significant risk and rewards associated with the sale of goods. No change is expected in the recognition or measurement of fees and commission revenue. Note fees include transaction fee income which are recognised as and when performance obligations are satisfied. The methodology for accounting for fees is not expected to change under AASB 15. Accordingly, adoption of this new standard will not have a financial impact to the Credit Union. |
| AASB 16 Leases | Introduces a single lessee accounting model that 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. | Mandatory for annual periods beginning on or after 1 January 2019. The Credit Union does not plan to early adopt AASB 16. The Credit Union is not engaging with any lease terms greater than 12 months. When the adoption of this standard is taken there will be no agreements greater than 12 months. Accordingly, adoption of this new standard will not have a financial impact to the Credit Union. |

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Revenue recognition

The Credit Union recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Credit Union. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

(a) Interest revenue

Interest is recognised as it accrues using the effective interest rate (“EIR”) method. The EIR is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

(b) Dividend revenue

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

(c) Fees and commissions

Revenue is recognised on an accruals basis when control of a right to be compensated for services is attained, this is usually upon provision of services.

(d) Government grants

Grant revenue is recognised when control of the grant is obtained, it is probable that the economic benefits gained from the grant will flow to the Credit Union, and the amount of the grant can be measured reliably.

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as revenue over the periods necessary to match the grant to the expenses which they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis. Any unexpended grants are recognised as liability in the Statement of Financial Position.

2.4 Operating leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. The lease is not recognised in the Statement of Financial Position.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Income taxes and other taxes

(a) Income taxes

The income tax expense comprises current and deferred tax.

Current income tax expense charged to the Statement of Comprehensive Income is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities / (assets) are therefore measured at the amounts expected to be paid to / (recovered from) the relevant taxation authority.

Deferred income tax expense reflects the movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense / (income) is charged or credited directly to equity instead of the Statement of Comprehensive Income when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting year. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(b) Goods and services tax

Revenue, 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 inclusive of the amount GST included. The net amount of GST recoverable from, or payable to the ATO, is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are classified as operating cash flows.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and deposits held at call with Approved Deposit Taking Institutions ("ADIs") which are readily converted to cash and which are subject to an insignificant risk of change in value. All other investments with future maturity date and readily converted to cash are included in the classification of Investments – held to maturity. Cash and cash equivalents are stated at the gross value of the outstanding balance.

For the purposes of the Statement of Cash Flows the cash and cash equivalents consist of cash and cash equivalents as defined above.

2.7 Financial assets

(a) Initial recognition and measurement

Financial assets are recognised when the Credit Union becomes a party to the contractual provisions of the instrument. For financial assets this is the equivalent to the date that the Credit Union commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial assets are initially recognised at fair value plus directly attributable transactions costs, with the exception of financial assets at fair value through Statement of Comprehensive Income.

(b) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through Statement of Comprehensive Income
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale ("AFS") financial assets

The Credit Union does not have financial assets at fair value through profit and loss or derivative financial instruments.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise of deposits held with other ADIs, term loans to members, members' overdrawn savings accounts and sundry debtors.

Loans and receivables are subsequently measured at amortised cost using the EIR method, less impairment losses.

The EIR method is used to allocate interest income or expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees and other transaction costs) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in Statement of Comprehensive Income.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(b) Subsequent measurement (continued)

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and its intention is to hold these investments to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the EIR method. Gains or losses are recognised in Statement of Comprehensive Income through the amortisation process and when the financial asset is derecognised. Held-to-maturity investments of the Credit Union include term deposits, refer to Note 9.

If during the period the Credit Union sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as AFS.

(iii) AFS financial assets

AFS financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. AFS investments of the Credit Union consist of investment securities, which is set out in Note 9.

AFS financial assets are subsequently measured at fair value with changes in such fair value recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is transferred to Statement of Comprehensive Income.

(c) Impairment of financial assets

At the end of the reporting period the Credit Union assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets at amortised cost

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 the estimated future cash flows discounted at the financial assets original EIR.

(i) Loans and receivables

Impairment on loans and receivables is reduced through the use of provision accounts, all other impairment losses on financial assets at amortised cost are taken directly to the Statement of Comprehensive Income.

Specific Provision

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

Collective Provision

Loans and receivables that do not meet 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.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(c) Impairment of financial assets (continued)

(ii) AFS financial assets

A significant or prolonged decline in value of an AFS asset below its cost is objective evidence of impairment; in this case, the cumulative loss that has been recognised in the Statement of Comprehensive Income is reclassified from equity to Statement of Comprehensive Income as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to the Statement of Comprehensive Income.

(d) Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Credit Union no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in Statement of Comprehensive Income.

2.8 Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated, less any accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the asset.

Fixed assets are measured at cost less accumulated depreciation and impairment losses.

Depreciation

The depreciable amount of all fixed assets including any buildings and capitalised leased assets, but excluding any freehold land, is depreciated predominantly on a straight-line basis over the asset's useful life to the Credit Union commencing from the time the asset is held ready for use. However, certain assets have been depreciated on a diminishing value method over the assets useful lives. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The estimated useful lives used for each class of depreciable asset are shown below:

- | | |
|------------------------------------|------------------|
| • ATM equipment | 3 years |
| • Computer equipment | 3 – 10 years |
| • Furniture, fixtures and fittings | 3 – 20 years |
| • Leasehold improvements | 'the lease term' |
| • Motor vehicles | 5 – 8 years |

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There has been no change in useful lives used from the previous year.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the Statement of Comprehensive Income.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangibles

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Credit Union. All intangible assets are recorded at cost. The intangibles held by the Credit Union have finite lives and are carried at cost less any accumulated amortisation and impairment losses. All have estimated useful lives of three years. Intangible assets of the Credit Union consist of computer software.

Amortisation

Amortisation is based on the cost of an asset less its residual value. Amortisation of computer software is recognised in Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted where appropriate.

2.10 Impairment of non-financial assets

At the end of each reporting period the Credit Union determines whether there is any evidence of an impairment indicator for property, plant and equipment and intangibles. If any indication exists, or when annual impairment testing for an asset is required, the Credit Union estimates the asset's recoverable amount. The recoverable amount of an asset or cash-generating unit ("CGU") is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. Where assets do not operate independently of other assets, the recoverable amount of the relevant CGU is estimated.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in Statement of Comprehensive Income. Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

2.11 Financial liabilities

Financial liabilities are recognised initially on the trade date at which the Credit Union becomes party to the contractual provision of the instrument. Non-derivative financial liabilities are recognised initially at fair value plus directly attributable transaction costs. Financial liabilities of the Credit Union consist of trade and other payables, deposits and Members' shares.

Subsequent to initial recognition, these liabilities are measured at amortised cost using the EIR method. The Credit Union derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. Gains or losses are recognised in Statement of Comprehensive Income through the amortisation process and when the financial liability is derecognised.

Financial liabilities are classified as current liabilities unless the Credit Union has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

(a) Deposits

Interest on deposits is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on deposits is calculated on an accrual basis. The amount of accrual is shown as a part of trade and other payables.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial liabilities (continued)

(b) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Credit Union during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within thirty days of recognition of the liability.

(c) Members' share deposits

Share deposits are classified as liabilities and shown under 'Deposit' as they can be converted from withdrawable shares into cash at any time when the member has discharged all their obligations to the Credit Union.

2.12 Provisions

Provisions are recognised when the Credit Union has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.13 Employee benefits

(a) Short-term employee benefits

Liabilities for wages and salaries and accumulated leave entitlements which are expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. The benefit is measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the amounts expected to be paid when the liabilities are settled.

Employee benefits are presented as current liabilities in the Statement of Financial Position if the Credit Union does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date regardless of the classification of the liability for measurement purposes under AASB 119.

(b) Long-term employee benefits

Employee benefits expected to be settled more than twelve months after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cashflows are discounted using market yields on corporate bonds with terms to maturity that match the expected timing of cashflows. Changes in the measurement of the liability are recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements

2018 2017
\$ \$

3 NON-INTEREST INCOME

Grant received

| | | |
|---|------------------|------------------|
| Commonwealth - Aboriginals Benefit Account expansion | 1,069,756 | 1,257,310 |
| Commonwealth - Aboriginals Benefit Account visa debit cards | - | 16,544 |
| NT Government - user choice program | 15,594 | 39,064 |
| Total | 1,085,350 | 1,312,918 |

Other non-interest income

| | | |
|--------------------------------------|------------------|------------------|
| Revenue from fees and commission | 5,168,639 | 5,119,454 |
| Recoveries of bad and doubtful debts | 7,592 | 26,938 |
| Other operating revenue | 260,735 | 468,738 |
| Total | 5,436,966 | 5,615,130 |

Total non-interest income

6,522,316 **6,928,048**

4 EXPENDITURE

(a) Bad debt (recovery) / expense

| | | |
|------------------------------------|--------------|-----------------|
| Bad debts – loans | (160) | 642 |
| Doubtful debt expense / (recovery) | 46 | (33,598) |
| Total | (114) | (32,956) |

(b) Depreciation and amortisation

| | | |
|--------------|----------------|----------------|
| Depreciation | 170,540 | 213,952 |
| Amortisation | 91,919 | 89,906 |
| Total | 262,459 | 303,858 |

(c) Salaries and related expenses

| | | |
|--------------------------------|------------------|------------------|
| Salaries and wages | 2,368,291 | 2,451,428 |
| Superannuation | 252,875 | 251,753 |
| Other | 82,296 | 57,143 |
| Total employee benefits | 2,703,462 | 2,760,324 |

| | | |
|--------------------------------|------------------|------------------|
| Payroll tax | 80,647 | 80,517 |
| Workers compensation insurance | 8,580 | 8,673 |
| Total | 2,792,689 | 2,849,514 |

Notes to the Financial Statements

| | 2018 | 2017 |
|--|------|------|
| | \$ | \$ |

4 EXPENDITURE

(d) Other expenses

| | | |
|---------------------------|------------------|------------------|
| Administration | 387,029 | 350,657 |
| Audit fees | 116,145 | 103,204 |
| Business development | 27,075 | 104,032 |
| Computer costs | 535,794 | 455,895 |
| Fees and commission | 689,002 | 747,055 |
| Insurance | 139,839 | 133,653 |
| Other occupancy costs | 287,792 | 187,393 |
| Rental - operating leases | 474,584 | 524,773 |
| Travel and accommodation | 242,094 | 292,153 |
| Other | 32,750 | 37,322 |
| Total | 2,932,104 | 2,936,137 |

5 INCOME TAX EXPENSES

(a) The components of tax expenses comprise:

| | | |
|--|----------------|----------------|
| Current income tax expense | 105,764 | 97,476 |
| Adjustment for income tax expense of previous years | 7,696 | - |
| Deferred tax relating to origination and reversal of temporary differences | 68,336 | 178,996 |
| Effect of change in income tax rate | - | 51,875 |
| Total income tax expense | 181,796 | 328,347 |

(b) Reconciliation of income tax to accounting profit

A reconciliation of income tax expense to prima facie tax payable are as follows:

| | | |
|---|----------------|----------------|
| Profit before tax | 664,770 | 1,005,353 |
| Tax at the tax rate of 27.5% (2017: 27.5%) | 182,812 | 276,472 |
| <i>Adjust for tax effect of:</i> | | |
| Effect of changes in income tax rate | - | 51,875 |
| Non-refundable non-carry forward tax offset | (1,401) | - |
| Rebates from fully franked dividends | 385 | - |
| Income tax expense | 181,796 | 328,347 |

Notes to the Financial Statements

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6 CURRENT AND DEFERRED TAX

(a) Current tax assets

| | | |
|-------------------------|--------|--------|
| Current tax receivables | 73,433 | 65,115 |
|-------------------------|--------|--------|

(b) Deferred tax assets

The movement in deferred tax assets for each temporary difference is as follows:

Payables and accruals

| | | |
|--|----------|----------|
| Opening balance | 215,666 | 277,006 |
| Change in income tax rate | - | (23,084) |
| Debited from the Statement of Comprehensive Income | (70,705) | (38,256) |
| Closing balance | 144,961 | 215,666 |

Doubtful debts

| | | |
|--|--------|---------|
| Opening balance | 18,743 | 30,526 |
| Change in income tax rate | - | (2,544) |
| Credited to / (debited from) the Statement of Comprehensive Income | 13 | (9,239) |
| Closing balance | 18,756 | 18,743 |

Employee entitlements

| | | |
|--|----------|---------|
| Opening balance | 83,570 | 85,440 |
| Change in income tax rate | - | (7,120) |
| (Debited from) / credited to the Statement of Comprehensive Income | (25,383) | 5,250 |
| Closing balance | 58,187 | 83,570 |

Accelerated capital allowance for tax purposes

| | | |
|--|---------|-----------|
| Opening balance | 73,659 | 229,537 |
| Change in income tax rate | - | (19,127) |
| Prior year under provision | 7,696 | - |
| Credited to / (debited from) the Statement of Comprehensive Income | 20,043 | (136,751) |
| Closing balance | 101,398 | 73,659 |

Total deferred tax assets

| | |
|---------|---------|
| 323,302 | 391,638 |
|---------|---------|

Notes to the Financial Statements

| | Note | 2018 \$ | 2017 \$ |
|--|------|------------|------------|
| 7 CASH AND CASH EQUIVALENTS | | | |
| Cash on hand | | 1,014,003 | 1,487,740 |
| Deposits at call | | 1,174,821 | 1,108,544 |
| Total | | 2,188,824 | 2,596,284 |
| (a) Reconciliation of cash | | | |
| Cash and liquid assets | | 2,188,824 | 2,596,284 |
| Held-to-maturity investments – short term | 9(b) | 2,650,000 | 4,797,221 |
| Balance as per Statement of Cash Flows | | 4,838,824 | 7,393,505 |
| 8 TRADE AND OTHER RECEIVABLES | | | |
| Interest receivable | | 35,991 | 21,038 |
| Other receivables | | 4,877 | 9,843 |
| Total | | 40,868 | 30,881 |
| All trade and other receivables balance are currently within accepted trading terms. | | | |
| 9 INVESTMENTS | | | |
| (a) Investments | | | |
| Held-to-maturity investments | | 8,476,983 | 6,374,143 |
| Shares in Indue Ltd | | 45,000 | 45,000 |
| Total | | 8,521,983 | 6,419,143 |
| Held-to-maturity investments are held with Australian Banks and an Australian registered ADI. | | | |
| The Credit Union is required to hold share capital in Indue Ltd as Special Services Provider. These shares are not quoted on any stock exchange and therefore do not have a recognised market value. The shares are redeemable at par subject to the rules of Indue Ltd. | | | |
| (b) Maturity analysis | | | |
| Not longer than 3 months | | 2,650,000 | 4,797,221 |
| Longer than 3 months and not longer than 6 months | | 2,897,800 | 1,000,000 |
| Longer than 6 months | | 2,929,183 | 576,922 |
| No maturity specified | | 45,000 | 45,000 |
| Total | | 8,521,983 | 6,419,143 |
| 10 LOANS AND ADVANCES | | | |
| (a) Details | | | |
| Term loans to third parties | | 28,216 | 25,486 |
| Overdrawn accounts | | 112,675 | 89,820 |
| | | 140,891 | 115,306 |
| Provision for impairment | | (68,201) | (68,155) |
| Total | | 72,690 | 47,151 |

Notes to the Financial Statements

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10 LOANS AND ADVANCES (continued)

(b) Term loans maturity analysis

The following details the Credit Union's loans and advances exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled with the terms and conditions agreed with the customer or counter party to the transaction. Loans and advances that are past due are assessed for impairment by ascertaining solvency of the members and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Credit Union.

| | | |
|---|----------------|----------------|
| Not longer than 3 months | 119,695 | 98,502 |
| Longer than 3 months and not longer than 6 months | 5,477 | 4,490 |
| Longer than 6 months not longer than 1 year | 8,671 | 5,918 |
| Longer than 1 year and not longer than 5 years | 7,048 | 6,396 |
| Total | 140,891 | 115,306 |

(c) Ageing of loans and advances

| | | |
|--------------|----------------|----------------|
| 0 - 30 days | 72,609 | 47,151 |
| 31 - 60 days | - | - |
| 61 - 90 days | 32,202 | 24,485 |
| Over 90 days | 35,999 | 43,670 |
| Total | 140,891 | 115,306 |

All over 60 days overdue accounts were provided with provision for impairment.

(d) Provision for impairment

| | | |
|--------------------------|---------------|---------------|
| Past due loans | 275 | 3,853 |
| Overdue savings accounts | 67,926 | 64,302 |
| Total | 68,201 | 68,155 |

(e) Movements in provision for impairment

| | | |
|--|--------|----------|
| Opening balance | 68,155 | 101,753 |
| Bad debts provided for / (recovered) during the year | 46 | (33,598) |
| Closing Balance | 68,201 | 68,155 |

(f) Concentration of risk

The Credit Union has no significant concentration of credit risk with respect to any single counterparty or group of counterparties. The class of assets described as 'loans and advances' is considered to be the main source of credit risk. The Credit Union has credit risk exposures in Darwin and remote regional Australia.

The following credit risk for term loans to third parties in the regions are:

| | | |
|--------------|---------------|---------------|
| Borrooloola | 502 | - |
| Darwin | 8,819 | 10,678 |
| Gapuwiyak | 5,675 | 5,434 |
| Minyerri | 4,329 | 1,052 |
| Ramingining | 4,462 | 1,722 |
| Wadeye | 217 | 1,688 |
| Warruwi | 589 | 3,267 |
| Wurrumiyanga | 3,623 | 1,645 |
| Total | 28,216 | 25,486 |

Notes to the Financial Statements

| | |
|------|------|
| 2018 | 2017 |
| \$ | \$ |

11 PROPERTY, PLANT AND EQUIPMENT

Furniture, fixtures and fittings

| | | |
|---------------------------|---------------|---------------|
| At cost | 487,473 | 475,785 |
| Accumulated depreciation | (461,918) | (430,430) |
| Net carrying value | 25,555 | 45,355 |

Motor vehicles

| | | |
|---------------------------|---------------|----------------|
| At cost | 90,085 | 173,971 |
| Accumulated depreciation | (22,521) | (64,000) |
| Net carrying value | 67,564 | 109,971 |

Computer equipment

| | | |
|---------------------------|---------------|---------------|
| At cost | 528,442 | 520,851 |
| Accumulated depreciation | (505,861) | (485,294) |
| Net carrying value | 22,581 | 35,557 |

ATM equipment

| | | |
|---------------------------|---------------|----------------|
| At cost | 439,526 | 413,551 |
| Accumulated depreciation | (347,794) | (275,862) |
| Net carrying value | 91,732 | 137,689 |

Leasehold improvements

| | | |
|---------------------------|--------------|---------------|
| At cost | 727,658 | 715,141 |
| Accumulated depreciation | (719,396) | (689,855) |
| Net carrying value | 8,262 | 25,286 |

Total property, plant and equipment

| | |
|----------------|----------------|
| 215,694 | 353,858 |
|----------------|----------------|

(a) Movements in carrying amounts of property, plant and equipment

| | Furniture, Fixtures and Fittings \$ | Motor Vehicles \$ | Computer Equipment \$ | ATM Equipment \$ | Improvements \$ | Total \$ |
|--------------------------------|--|-------------------------|-----------------------------|------------------------|--------------------|----------------|
| Balance at 1 July 2017 | 45,355 | 109,971 | 35,557 | 137,689 | 25,286 | 353,858 |
| Additions | 6,899 | - | 7,590 | 25,975 | 12,516 | 52,980 |
| Disposals | - | (20,604) | - | - | - | (20,604) |
| Depreciation expense | (26,699) | (21,803) | (20,566) | (71,932) | (29,540) | (170,540) |
| Balance at 30 June 2018 | 25,555 | 67,564 | 22,581 | 91,732 | 8,262 | 215,694 |

| | | | | | | |
|--------------------------------|---------------|----------------|---------------|----------------|---------------|----------------|
| Balance at 1 July 2016 | 79,044 | 134,703 | 45,400 | 121,940 | 87,356 | 468,443 |
| Additions | 10,819 | - | 11,492 | 71,222 | 8,942 | 102,475 |
| Disposals | (3,108) | - | - | - | - | (3,108) |
| Depreciation expense | (41,400) | (24,732) | (21,335) | (55,473) | (71,012) | (213,952) |
| Balance at 30 June 2017 | 45,355 | 109,971 | 35,557 | 137,689 | 25,286 | 353,858 |

Notes to the Financial Statements

2018 2017
\$ \$

12 INTANGIBLE ASSETS

Computer software

| | | |
|---|---------------|---------------|
| Cost | 360,498 | 360,498 |
| Accumulated amortisation and impairment | (332,591) | (300,089) |
| Net carrying value | 27,907 | 60,409 |

Internet banking system

| | | |
|---|----------|----------|
| Cost | 14,399 | 14,399 |
| Accumulated amortisation and impairment | (14,399) | (14,399) |
| Net carrying value | - | - |

Telephone banking system

| | | |
|---|----------|----------|
| Cost | 63,550 | 63,550 |
| Accumulated amortisation and impairment | (63,550) | (63,550) |
| Net carrying value | - | - |

Digital banking system

| | | |
|---|---------------|---------------|
| Cost | 197,586 | 139,586 |
| Accumulated amortisation and impairment | (118,815) | (59,398) |
| Net carrying value | 78,771 | 80,188 |

Visa debit card licence

| | | |
|---|----------|----------|
| Cost | 64,822 | 64,822 |
| Accumulated amortisation and impairment | (64,822) | (64,822) |
| Net carrying value | - | - |

BPAY licence

| | | |
|---|----------|----------|
| Cost | 18,597 | 18,597 |
| Accumulated amortisation and impairment | (18,597) | (18,597) |
| Net carrying value | - | - |

Work-in progress

| | | |
|---------------------------|---------------|---------------|
| Cost | 57,849 | 68,195 |
| Net carrying value | 57,849 | 68,195 |

Total Intangibles

164,527 208,792

Notes to the Financial Statements

12 INTANGIBLE ASSETS (continued)

(a) Intangible reconciliation

| | Computer software \$ | Telephone banking system \$ | Digital banking system \$ | Work-in Progress \$ | Total \$ |
|--------------------------------|----------------------------|-----------------------------------|---------------------------------|---------------------------|----------------|
| Balance at 1 July 2017 | 60,409 | - | 80,188 | 68,195 | 208,792 |
| Additions | - | - | - | 47,654 | 47,654 |
| Transfers | - | - | 58,000 | (58,000) | - |
| Amortisation | (32,502) | - | (59,417) | - | (91,919) |
| Balance at 30 June 2018 | 27,907 | - | 78,771 | 57,849 | 164,527 |
| Balance at 1 July 2016 | 98,060 | 5,960 | 66,425 | 60,058 | 230,503 |
| Additions | - | - | - | 68,195 | 68,195 |
| Transfers | - | - | 60,058 | (60,058) | - |
| Amortisation | (37,651) | (5,960) | (46,295) | - | (89,906) |
| Balance at 30 June 2017 | 60,409 | - | 80,188 | 68,195 | 208,792 |

Intangible assets (other than goodwill) have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the Statement of Comprehensive Income

| | 2018 \$ | 2017 \$ |
|--|------------|------------|
|--|------------|------------|

13 OTHER ASSETS

| | | |
|-------------------------|----------------|----------------|
| GST | 23,371 | 125,940 |
| Prepayments | 117,560 | 123,677 |
| Leasehold property bond | 8,638 | 20,324 |
| Other | - | 22,500 |
| Total | 149,569 | 292,441 |

14 TRADE AND OTHER PAYABLES

| | | |
|--------------------------|----------------|----------------|
| Other payables | 399,290 | 401,162 |
| Accrued interest payable | 854 | 335 |
| Total | 400,144 | 401,497 |

Notes to the Financial Statements

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\$

15 DEPOSITS

| | | |
|-----------------|------------------|------------------|
| Term deposits | 126,381 | 123,997 |
| Call deposits | 6,033,952 | 4,330,368 |
| Members' shares | 19,562 | 19,656 |
| Total | 6,179,895 | 4,474,021 |

(a) Maturity analysis

| | | |
|---|------------------|------------------|
| On call | 6,053,514 | 4,350,024 |
| Not longer than 3 months | - | 46,846 |
| Longer than 3 months not longer than 6 months | 47,398 | - |
| 6 months or longer | 78,983 | 77,151 |
| Total | 6,179,895 | 4,474,021 |

(b) Concentration of deposits (including overdrawn accounts in Note 10)

| | | |
|---------------|------------------|------------------|
| Alice Springs | 21,683 | 19,737 |
| Barunga | 220 | 2,591 |
| Beswick | 76 | 838 |
| Borrooloola | 12,590 | 26,661 |
| Darwin | 1,288,875 | 1,223,846 |
| Galiwinku | 209,003 | 187,068 |
| Gapuwiyak | 29,636 | 84,840 |
| Gunbalanya | 9,895 | 11,070 |
| Hermannsburg | 3,345 | 881 |
| Katherine | 71,867 | 39,721 |
| Lajamanu | 988 | 2,034 |
| Maningrida | 51,164 | 80,447 |
| Milingimbi | 60,806 | 66,657 |
| Minyerri | 13,945 | 10,712 |
| Ngukurr | 33,524 | 27,443 |
| Numbulwar | 137,453 | 4,773 |
| Ramingining | 54,753 | 54,134 |
| Tennant Creek | 43,293 | 34,798 |
| Wurrumiyanga | 12,582 | 16,827 |
| Wadeye | 3,997,158 | 2,475,019 |
| Warruwi | 14,112 | 14,122 |
| Yuendumu | 252 | (18) |
| Total | 6,067,220 | 4,384,201 |

16 PROVISIONS

| | | |
|-----------------------|----------------|----------------|
| Employee entitlements | 211,587 | 303,887 |
| Total | 211,587 | 303,887 |

Analysis of total provisions

| | | |
|-------------------------------------|----------------|----------------|
| Current – employee entitlements | 142,883 | 259,018 |
| Non-current – employee entitlements | 68,704 | 44,869 |
| Total | 211,587 | 303,887 |

Notes to the Financial Statements

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17 OTHER LIABILITIES

| | | |
|-------------------|----------------|------------------|
| Unexpended grants | 334,631 | 1,084,239 |
| Total | 334,631 | 1,084,239 |

18 REDEEMABLE PREFERENCE SHARE RESERVE

| | | |
|---|---------------|---------------|
| At the beginning of the reporting period | 32,674 | 29,620 |
| Transfer from retained earnings on share redemption | 3,236 | 3,054 |
| At the end of the reporting period | 35,910 | 32,674 |

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 has transferred the value of members shares redeemed since 1 July 2005 from retained earnings to the redeemable preference share reserve. The value of member shares for existing members is disclosed as a liability in Note 15.

19 RESERVES

| | | |
|----------------------------------|----------------|----------------|
| Capital reserves opening balance | 575,000 | 575,000 |
| Total | 575,000 | 575,000 |

The balance held in the capital reserve represents capital contributed on the establishment of the Credit Union.

20 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit after income tax to net cash from operating activities

| | | |
|--|------------------|----------------|
| Profit for the period | 482,974 | 677,006 |
| Adjustments for (non-cash flows in profit): | | |
| Amortisation | 91,919 | 89,906 |
| Depreciation | 170,540 | 213,952 |
| Net (gain) / loss on sale of property, plant and equipment | (5,896) | 3,108 |
| Change in assets and liabilities: | | |
| (Increase) / decrease in trade and other receivables | (9,987) | 269 |
| (Increase) / decrease in loans and advances | (25,539) | 27,928 |
| Decrease / (increase) in other assets | 142,872 | (102,282) |
| Increase in deferred tax assets | 68,336 | 230,871 |
| Decrease in trade and other payables | (1,353) | (173,000) |
| Increase in income taxes receivable | (8,318) | (218,602) |
| Increase in deposits | 1,703,490 | 633,527 |
| (Decrease) / increase in provision for employee benefits | (92,300) | 19,090 |
| Decrease in other liabilities | (749,608) | (652,018) |
| Net cash from operating activities | 1,767,130 | 749,755 |

Notes to the Financial Statements

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21 LEASE COMMITMENTS

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements.

Minimum lease payments payable:

| | | |
|-----------------------|----------------|----------------|
| Not later than 1 year | 124,451 | 415,424 |
| Between 1 - 5 years | 4,509 | 33,211 |
| Total | 128,960 | 448,635 |

22 FINANCIAL RISK MANAGEMENT

Financial risk management policies

The Credit Union's daily operations are exposed to a range of risks. To manage these risk exposures the Credit Union has a framework to: identify risks, quantify the risk exposure, implement procedures to control and mitigate the risks, report risks, and provide ongoing oversight. The Board has a designated Chief Risk Officer and a Board Risk Committee to manage and oversee the risk management framework supported by risk management policies and strategies, internal controls and procedures. A risk register is maintained as part of the risk management framework which enables structured and logical assessment and reporting of identified risks, including their consequences and likelihood and the assessment of risk mitigation controls.

Capital adequacy

The management of the Credit Union's capital 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. As part of its risk management process the Credit Union incorporates an assessment of the combined risk exposure for operational, market, credit and strategic risk. Mitigation strategies for specific risks faced are described below:

(a) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of their contractual obligations that could lead to a financial loss to the Credit Union. The Credit Union manages credit risk by having credit worthy investment counterparties and setting limits on the amount of risk it is willing to accept for individuals and related counterparties.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the Statement of Financial Position.

The Credit Union recognises it has a significant concentration of credit risk in relation to deposit with banks and authorised deposit-taking institutions, which are detailed in Notes 7 and 9. Loans and advances that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 10

Notes to the Financial Statements

22 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

Liquidity risk arises from the possibility that the Credit Union might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Credit Union has in place information systems and a structured process to monitor and manage liquidity risk. The management process incorporates specific liquidity management policies and processes, and liquidity contingency plans that manage liquidity on a daily basis under normal situations and assumed adverse scenarios. The liquidity management policy requires the holding of surplus funds in high quality liquid assets and the daily calculation of liquid holdings.

The Australian Prudential Regulation Authority's prudential standards place specific management and reporting requirements on the Credit Union in relation to liquidity risk. The prudential standards require the Credit Union to have a defined minimum liquidity holding. The Credit Union exceeded the minimum requirements at all times during the financial year.

The available funds to the Credit Union are disclosed in Note 7.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that they will be rolled forward. The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances may not equal the balances in the Statement of Financial Position.

Financial liability maturity analysis:

| Financial liabilities due for payment | Within 1 year | | Over 1 year | | Total | |
|--|------------------|------------------|-------------|----------|------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Deposits | 6,179,895 | 4,474,021 | - | - | 6,179,895 | 4,474,021 |
| Trade and other payables | 308,713 | 277,130 | - | - | 308,713 | 277,130 |
| Total contractual outflows | 6,488,608 | 4,751,151 | - | - | 6,488,608 | 4,751,151 |

The timing of expected outflows is not expected to be materially different from contracted cashflows.

Financial assets pledged as collateral

No financial assets have been pledged as security for any financial liability.

Notes to the Financial Statements

22 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Credit Union does not deal in foreign exchange contracts or commodities, thus market risk consists solely of interest rate risk.

Interest rate risk

Exposure to interest rate risk arises on financial assets and liabilities recognised at year end, whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Credit Union is exposed to earnings volatility on floating rate instruments. Interest rate risk is managed by maintaining largely variable rate deposit and loan products. The weighted average interest rates of the Credit Union's interest bearing financial assets is:

| | 2018 % | 2017 % |
|------------------------------|--------|--------|
| Financial assets | | |
| Cash and cash equivalents | 1.59 | 0.96 |
| Short-term investments: | | |
| Held-to-maturity investments | 2.23 | 2.72 |
| Loans receivable | 10.87 | 13.69 |

Sensitivity analysis

The information below shows the Credit Union's sensitivity to interest rates utilising Earnings at Risk sensitivity calculation (+/-1% change). This analysis assumes that other variables are held constant.

| | Equity \$ | | Profit or loss \$ | |
|----------------------------------|-----------------|-----------------|-------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Financial assets + 1% | | | | |
| Cash in bank | 8,517 | 8,037 | 8,517 | 8,037 |
| Loans and advances | 527 | 342 | 527 | 342 |
| Investments held to maturity | 61,784 | 46,538 | 61,784 | 46,538 |
| Financial liabilities | | | | |
| Deposits | (44,804) | (32,437) | (44,804) | (32,437) |
| Post tax earnings at risk | 26,024 | 22,480 | 26,024 | 22,480 |
| Financial assets - 1% | | | | |
| Cash in bank | (8,517) | (8,037) | (8,517) | (8,037) |
| Loans and advances | (527) | (342) | (527) | (342) |
| Investments held to maturity | (61,784) | (46,538) | (61,784) | (46,538) |
| Financial liabilities | | | | |
| Deposits | 44,804 | 32,437 | 44,804 | 32,437 |
| Post tax earnings at risk | (26,024) | (22,480) | (26,024) | (22,480) |

The post-tax earnings at risk at the end of the reporting period is a measure of the change in the Credit Union's earnings over a full year due to a 1% increase or decrease in interest rates assuming assets, liabilities and capital remain constant over the period. The interest rates on the major proportion of these assets and liabilities can be adjusted in the short-term to minimise any significant impact. The sensitivity analysis is performed on the same basis as the prior period.

Notes to the Financial Statements

22 FINANCIAL RISK MANAGEMENT (continued)

Fair market value measurement / fair value estimation

The fair value of the financial assets and liabilities is presented as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The table below provides an analysis of the Credit Union' assets grouped into Levels 1 to 3. The levels are based on the degree to which the fair value is observable and can be compared to their carrying values as presented in the Statement of Financial Position. The fair value for each level is:

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

There are no transfers between levels in financial year 2017 and 2018.

| | Note | Carrying amount \$ | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|------------------------------------|------|-----------------------|---------------|------------------|----------------|-------------------|
| Balance at 30 June 2018 | | | | | | |
| Loans and advances | 10 | 72,690 | - | - | 72,690 | 72,690 |
| Held to maturity investments | 9 | 8,521,983 | - | 8,521,983 | - | 8,521,983 |
| Total financial assets | | 8,594,673 | - | 8,521,983 | 72,690 | 8,594,673 |
| Term deposits | 15 | 126,381 | - | - | 126,381 | 126,381 |
| Call deposits | 15 | 6,033,952 | - | 6,033,952 | - | 6,033,952 |
| Total financial liabilities | | 6,160,333 | - | 6,033,952 | 126,381 | 10,614,698 |
| Balance at 30 June 2017 | | | | | | |
| Loans and advances | 10 | 47,151 | - | - | 47,151 | 47,151 |
| Held to maturity investments | 9 | 6,419,143 | - | 6,419,143 | - | 6,419,143 |
| Total financial assets | | 6,466,294 | - | 6,419,143 | 47,151 | 6,466,294 |
| Term deposits | 15 | 123,997 | - | - | 123,997 | 123,997 |
| Call deposits | 15 | 4,330,368 | - | 4,330,368 | - | 4,330,368 |
| Total financial liabilities | | 4,454,365 | - | 4,330,368 | 123,997 | 4,454,365 |

The carrying value of loans is net of provision for impairment. All loans have variable rates, therefore the carrying amount at the Statement of Financial Position date bears an interest rate that is within range of normal interest rates on similar loan products in the market and consequently fair value approximates the carrying amount.

The Credit Union assumes that the carrying values approximates the fair value of held-to-maturity investments, as these investments have maturity of less than a year. This assumption is also applied to term deposit liabilities and call deposit liabilities.

Notes to the Financial Statements

23 RELATED PARTY TRANSACTIONS

The related parties of the Credit Union include:

- the key management personnel ("KMP") because they have authority and responsibility for planning, directing and controlling the activities of the Credit Union directly;
- spouses, children and dependants who are close family members of the KMP; and
- any entities controlled or jointly controlled by KMP's or controlled or jointly controlled by their close family members.

KMP

KMP of the Credit Union are those persons having authority and responsibility for planning, directing and controlling the activities of Credit Union. These include the directors and executives as listed below.

(a) Directors

The following were directors of the Credit Union from the beginning of the financial year to the date of this report.

- | | | |
|-------------------|---------------------|-----------------------------|
| • Bunug Galaminda | • David Marpiyawuy | • Micky Wunungmurra (Chair) |
| • David Djalangi | • Elsbeth Torelli * | • Richard Bandalil |
| • David Knights * | • Iain Summers * | • Sharyn Innes * |

* The following directors elected to not receive remuneration.

(b) Other KMP

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

- | | |
|-------------------|---|
| • Anthony Hampton | Chief Executive Officer (Appointed on 30 April 2018) |
| • John Appleby | General Manager Operations (Ongoing) Joint-Acting Chief Executive Officer (5 March to 27 April 2018) |
| • Cathy Hunt | Chief Executive Officer (Ceased 2 March 2018) |
| • Cheurleen Lim | Corporate Service Manager (1 February to 30 June 2018) Joint-Acting Chief Executive Officer (5 March to 27 April 2018) |

(c) KMP remuneration

The total remuneration paid to the KMP of the Credit Union during the financial year is as follows:

| | 2018 | 2017 |
|---|----------------|----------------|
| | \$ | \$ |
| Short-term employee benefits – salaries and director fees | 323,542 | 267,776 |
| Long-term benefits – long service leave | (10,413) | (10,686) |
| Post-employment benefits – superannuation | 27,123 | 24,955 |
| Total | 340,252 | 282,045 |

Apart for the transactions identified above, no other related party transactions have occurred during the year.

Notes to the Financial Statements

2018 2017
\$ \$

24 AUDITORS' REMUNERATION

Amounts paid or payable to the external auditors – Merit Partners

| | | |
|--|---------------|---------------|
| Auditing the financial statements | 25,000 | 25,000 |
| Audit of Australian Financial Services Licence | 6,500 | 6,500 |
| Audit of Aboriginals Benefit Account acquittal reports | 1,000 | 1,000 |
| Audit of prudential reports | 12,500 | 12,500 |
| Total | 45,000 | 45,000 |

25 EVENTS OCCURRING AFTER THE REPORTING DATE

No events have arisen between the end of the financial year and the date of this report that require adjustment to or disclosure in these financial statements.

26 BRANCH LOCATIONS

The Credit Union has operational branches in the following urban centres and remote communities in the Northern Territory:

- Alice Springs
- Borroloola
- Darwin
- Galiwinku
- Gapuwiyak
- Gunbalanya
- Katherine
- Lajamanu
- Maningrida
- Milingimbi
- Minyerri
- Ngukurr
- Numbulwar
- Ramingining
- Wurrumiyanga
- Wadeye
- Warruwi

Directors' Declaration

The Directors of the Credit Union declare that:

1. The Financial Statements and Notes of the Credit Union for the year ended 30 June 2018 are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards; and
 - b. give a true and fair view of the financial position and performance of the Credit Union;
2. In the Directors' opinion, 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 Darwin this 3rd day of October, 2018

in accordance with a resolution of the Board of Directors of the Credit Union.



Micky Wunungmurra
Chair



Iain Summers
Director

Independent audit report to members of Traditional Credit Union Limited

Report on the Audit of the Financial Report

We have audited the accompanying general purpose financial report of Traditional Credit Union Limited ("the Credit Union"), which comprises the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

In our opinion, the financial report of Traditional Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the financial position of Traditional Credit Union Limited at 30 June 2018 and of the Credit Union's performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

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

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

The Responsibility of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

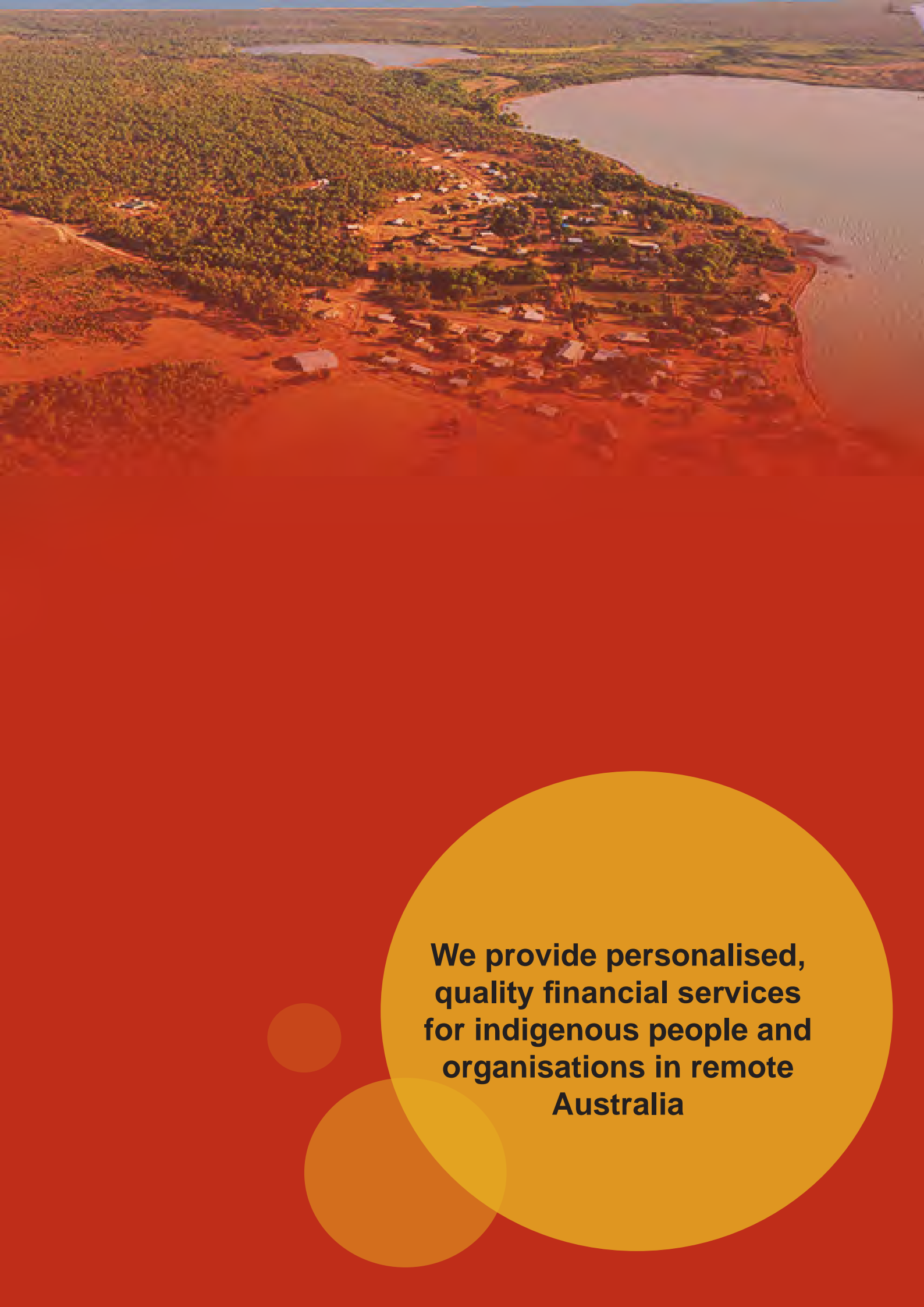


Merit Partners



Matthew Kennon
Partner

DARWIN
3 October 2018



**We provide personalised,
quality financial services
for indigenous people and
organisations in remote
Australia**



Traditional Credit Union

Address: 9 Rowling St, Casuarina NT 0810

Phone: (08) 8999 0777

A large, abstract Indigenous artwork in the bottom right corner of the page. It features bold, flowing shapes in black, red, and yellow. The design includes several yellow circles of varying sizes, some of which are outlined in black, set against the red and yellow background. The overall style is reminiscent of traditional Indigenous dot painting and symbolic art.