ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2021

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

Registered Office:
288-292 Summer Street
Orange NSW 2800

Postal Address:
PO Box 992
Orange NSW 2800

Email: ocu@orangecu.com.au
Website: www.orangecu.com.au

Company Secretary:
Mr A. E. de Graaff

Management:
Mr A. E. de Graaff – Chief Executive Officer
Mrs S. L. Woodward – Finance & Administration Manager
Mr G. Tracey – Head of Growth Initiatives and Credit Risk

Auditor:
Intentus Chartered Accountants

Internal Auditor:
Step Ahead Business Solutions

Solicitors:
Baldock, Stacy & Niven, Orange

Bankers:
CUSCAL Limited

Australian Financial Services Licence Number: 240768

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ABN 34 087 650 477

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ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

DIRECTORS' REPORT

Your Directors submit the financial report of the Credit Union for the year ended 30 June 2021.

DIRECTORS

The names of the Directors in office at the date of this report, or who held office during the course of the financial year, are:

Mr Gary Bargwanna
Ms Michelle Catlin
Mr Tim Edmonstone
Mr Michael Kemp
Mr Andrew Kent
Mrs Amanda Mooney
Mrs Sarah Ryan

Unless otherwise stated, the Directors have been in office since the start of the financial year to the date of this report.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Andrew de Graaff - Master of Management (Monash University). Mr de Graaff has worked in the Banking industry across a range of management and executive leadership roles in Australia and overseas for over 28 years. Mr de Graaff was appointed Company Secretary on 8 July 2019.

PRINCIPAL BUSINESS ACTIVITIES

The principal business activities of the Credit Union during the year were the provision of financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution. There were no significant changes in the nature of the Credit Union's activities during the year.

OPERATING RESULTS

The amount of profit of the Credit Union for the financial year after providing for income tax was $220,161 (2020: $241,549).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During 2020-21, Australia remained in the grip of the COVID-19 pandemic which created some operational challenges. The Credit Union responded to the pandemic by following the government's health advice and adhering to the government's restrictions. The Reserve Bank of Australia (RBA), the NSW Government and the Commonwealth Government responded to the pandemic by providing various programs designed to support and stimulate the economy. When the pandemic first emerged in 2019-20 the RBA cut interest rates to a record low of 0.25%. In November 2020 the RBA cut rates again to a new low of 0.10%. Ultra-low interest rates combined with Government stimulus was largely successful in supporting the economy. Real estate prices responded positively which supported lending growth. The relatively buoyant economy also meant expected credit losses were not as severe as expected. Nevertheless, very low rates continue to place significant pressure on the Credit Union's interest margins. This has necessitated an increased focus on cost control.

Orange Credit Union will continue to support local businesses by promoting them wherever possible.

During 2020-21 the Credit Union signed a Memorandum of Understanding with the Macquarie Credit Union (MCU) in Dubbo to explore the opportunity of merging. Both the Credit Union and MCU continue to conduct due diligence to assess whether a merger is in the best interests of members of both organisations.

Apart from the impacts of COVID-19 and the potential merger with Macquarie Credit Union there were no other significant changes in the state of the affairs of the Credit Union for the year.

REVIEW OF OPERATIONS

Profit for the year totalled $220,161 compared to $241,549 in 2019-20. Interest revenue decreased by $1,249,255 to $6,500,735 of which interest on members' loans decreased by $691,405 to $5,725,435.

Operating expenses decreased by $379,863 to $6,660,454. Employee compensation and benefits decreased by $290,314 to $2,737,729. Other significant areas of expenditure are administration expenses of $2,545,087 and information technology expenses of $963,953.

Gross loans to members increased by $18,746,000 to $164,798,007. The principal area of increase was for residential loans which increased by $18,301,558 to $150,633,353. During the 2018 financial year, the Board decided to invest in peer-to-peer lending, where the Credit Union offers finance to another financial service provider who lends these funds to borrowers. At 30 June 2021, the balances of these loans totalled $174,256.

REVIEW OF OPERATIONS cont'd

Members' savings and deposits increased by $33,710,927 to $235,226,678.

REGULATORY DISCLOSURES

The Credit Union is required by APRA to publicly disclose certain information on its risk profile, risk management, capital adequacy, capital instruments and remuneration practices to contribute to the transparency of financial markets and to enhance market discipline. These disclosures can be found on the Credit Union's website under the *About Us* tab; *Financial Statements* or via the following link: https://www.orangecu.com.au/annual-reports.

EVENTS OCCURRING AFTER BALANCE DATE

Other than the aforementioned COVID-19 pandemic continuing, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Credit Union in subsequent financial years.

LIKELY DEVELOPMENTS AND RESULTS

The Credit Union will continue to pursue its strategic plan (business plan) of increasing the profitability and market share of its business during the next financial year.

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICE HOLDERS

During the year, a premium was paid in respect of a contract insuring directors and officers of the company against liability. The officers of the Credit Union covered by the insurance contract include the Directors, Executive Officers, Secretary, and Employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract and the nature of liabilities covered is prohibited by a confidentiality clause in the contract. No insurance cover has been provided for the benefit of the auditors of the Credit Union.

DIRECTORS' REPORT
(continued)

ENVIRONMENTAL ISSUES

Orange Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or State.

PROCEEDINGS ON BEHALF OF CREDIT UNION

No person has applied for leave of the Court to bring proceedings on behalf of the Credit Union or intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings.

The Credit Union was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE

The auditors have provided a declaration of independence to the Board of Directors (the Board) prescribed by the *Corporations Act 2001* (Cwlth) as set out on page 9.

INFORMATION ON DIRECTORS

The Directors in office at the date of this report, or who held office during the course of the financial year, are:

Gary Bargwanna

Current Occupation	Franchise Owner
Credit Union Experience	Director of Orange Credit Union for 21 years Former Member Representative of the Electrolux Superannuation Board Former Trustee of the Email Superannuation Board
Current Board Positions	Member of Audit Committee Member of Risk Committee Member of Executive Committee
Interest in Shares	1 Member Share

DIRECTORS' REPORT
(continued)

INFORMATION ON DIRECTORS cont'd

Michelle Catlin

Current Occupation	Principal Risk Advisor TAFE NSW
Credit Union Experience	Director of Orange Credit Union for 5 years Associate Director from 28.01.15 to 29.11.16 Member of the Australian Institute of Company Directors
Current Board Position	Chair of Corporate Governance Committee Member of Executive Committee
Interest in Shares	1 Member Share

Tim Edmonstone

Current Occupation	Manager, Industry Analysis, NSW Department of Primary Industries
Credit Union Experience	Director of Orange Credit Union for 2 years. Associate Director from 26.7.17 to 30.07.19
Current Board Position	Chair of Audit Committee Member of Risk Committee Member of Executive Committee
Interest in Shares	1 Member Share

Michael Kemp

Current Occupation	Farmer
Credit Union Experience	Director of Orange Credit Union for 7 years Associate Director from 31.07.13 to 25.11.14
Current Board Positions	Chair of Risk Committee Member of Risk Committee Member of Executive Committee
Interest in Shares	1 Member Share

Andrew Kent

Current Occupation	Business Manager, Taree Christian School
Credit Union Experience	Director of Orange Credit Union for 10 years Associate Director from 01.07.10 to 22.03.11 Member of the Australian Institute of Company Directors
Current Board Positions	Member of Corporate Governance Committee Member of Executive Committee
Interest in Shares	1 Member Share

DIRECTORS' REPORT

(continued)

INFORMATION ON DIRECTORS (continued)

Amanda Mooney

Current Occupation	Business Manager, James Sheahan Catholic High School
Credit Union Experience	Director of Orange Credit Union for 8 years Associate Director from 10.11.11 to 31.07.13
Current Board Positions	Chair of the Board of Directors Member of Executive Committee Member of Audit Committee Member of Risk Committee
Interest in Shares	1 Member Share

Sarah Ryan

Current Occupation	Associate Solicitor
Credit Union Experience	Director of Orange Credit Union for 8 years Associate Director from 10.11.11 to 31.07.13 Member of the Australian Institute of Company Directors
Current Board Positions	Vice-Chair of the Board of Directors Member of Executive Committee Member of Corporate Governance Committee
Interest in Shares	1 Member Share

DIRECTORS' REPORT
(continued)

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of Committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

	Board	Special Board	Audit Committee	Risk Committee	Corporate Governance	Director Only Meeting
No. of meetings held	6	1	5	5	5	6
No. of meetings attended:						
G Bargwanna	6	1	5	5	-	6
M Catlin	6	1	-	-	5	6
M Kemp	6	1	5	5	-	6
A Kent	6	1	-	-	5	6
A Mooney	6	1	5	5	-	6
S Ryan	6	1	-	-	5	5
T Edmonstone	6	1	5	5	-	6

All Directors were eligible to attend all meetings for the Committees which they were a member of. The Board positions are not elected at the commencement of each financial year. Consequently, Directors may not be eligible to attend all of the Committee meetings held during the financial year, despite being Committee members at year end.

Attendance details marked (-) denotes non-membership of the Committee.

DIRECTORS' BENEFITS

All Directors of the Credit Union have received or become entitled to receive a benefit for their duties and responsibilities as Directors. These benefits are detailed in the notes attached to these financial reports.

Signed in accordance with a resolution of the Board of Directors and is signed at Orange on the 13th day of October 2021.

Amanda Maree Mooney	Timothy Francis Edmonstone
Director	Director
Chair of Board of Directors	Chair of Audit Committee

intentus
CHARTERED ACCOUNTANTS

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* (CWLTH)
TO THE DIRECTORS OF ORANGE CREDIT UNION LIMITED

I declare that to the best of my knowledge and belief, during the year ended 30 June 2021, there have been:

(i) No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* (Cwlth) in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

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Intentus

23 Sale Street
Orange
Dated: 14 October 2021

J O'Malley

John O'Malley
Director

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

ORANGE CREDIT UNION LIMITED
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STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 $	2020 $
Interest revenue	4.1	6,500,735	7,749,990
Interest expense	4.2	(686,383)	(1,574,098)
Net interest income		5,814,352	6,175,892
Fees, commissions and other income	5	1,121,570	1,193,999
Total interest and fee income		6,935,922	7,369,891
Non-interest expenses:			
Impairment losses on loans receivable from members	6.1	(16,628)	(235,764)
General administration:			
- Employees compensation and benefit	6.2	(2,737,729)	(3,028,043)
- Depreciation and amortisation	6.2	(232,501)	(274,673)
- Information technology	6.2	(963,953)	(995,311)
- Occupancy expenses	6.2	(164,557)	(150,932)
- Other administration	6.2	(2,545,086)	(2,355,594)
Total non-interest expenses		(6,660,454)	(7,040,317)
Profit for the year before income tax		275,468	329,574
Income tax expense	8	(55,307)	(88,025)
Profit for the year after income tax		**220,161**	**241,549**
Other comprehensive income, net of income tax			
Movement in reserve for investments at Fair Value through Other Comprehensive Income (FVOCI)	19	22,502	(115,259)
Total other comprehensive income for the period		**22,502**	**(115,259)**
Total comprehensive income for the year		**242,663**	**126,290**

This statement should be read in conjunction with the notes to the financial statements.

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2021

	Retained Earnings $	Reserve for Credit Losses $	FVOCI Reserve $	Total $
Balance at 1 July 2018	23,743,262	2,229,319	294,868	26,267,449
Profit for the year after income tax	648,681	-	-	648,681
Transfer from retained earnings to reserve for credit losses	(238,418)	238,418	-	-
As at 30 June 2019	24,153,525	2,467,737	294,868	26,916,130
Profit for the year after income tax	241,549	-	-	241,549
Movement in FVOCI reserve on revaluation of investment	-	-	(115,259)	(115,259)
Transfer from retained earnings to reserve for credit losses	(310,103)	310,103	-	-
As at 30 June 2020	24,084,971	2,777,840	179,609	27,042,420
Profit for the year after income tax	220,161	-	-	220,161
Movement in FVOCI reserve on revaluation of investment	-	-	22,502	22,502
Transfer from retained earnings to reserve for credit losses	(295,076)	295,076	-	-
As at 30 June 2021	24,010,056	3,072,916	202,111	27,285,083

ORANGE CREDIT UNION LIMITED
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STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	Notes	2021 $	2020 $
Assets:			
Cash and liquid assets	9	30,571,821	31,698,191
Receivables	10	1,465,151	711,361
Loans and advances to members	11	164,515,720	145,709,083
Investment securities	12	66,898,802	50,729,112
Property, plant and equipment	13	327,361	359,551
Current tax assets	17.3	15,706	126,371
Deferred tax assets	17.2	358,559	337,364
Intangibles	14	558,994	352,827
Total Assets		264,712,114	230,023,860
Liabilities:			
Deposits from members	15	235,226,678	201,515,751
Payables and other liabilities	16	1,804,428	1,091,791
Provisions	18	323,674	309,147
Taxation liabilities	17.1	72,251	64,751
Total Liabilities		237,427,031	202,981,440
Net Assets		**27,285,083**	**27,042,420**
Members' Equity:			
FVOCI Reserve	19	202,111	179,609
Reserve for credit losses		3,072,916	2,777,840
Retained earnings		24,010,056	24,084,971
Total Members' Equity		**27,285,083**	**27,042,420**

This statement should be read in conjunction with the notes to the financial statements.

ORANGE CREDIT UNION LIMITED
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 $	2020 $
Cash flows from operating activities:			
Revenue inflows:			
Interest received on loans		5,725,435	6,416,839
Interest received on investments		363,662	1,752,662
Dividends received		18,075	46,641
Fees and commissions received		968,746	994,914
Other income		134,749	152,444
Revenue outflows:			
Interest paid on members' savings		(801,750)	(1,645,012)
Interest paid on borrowings		(1,403)	(3,301)
Payments to suppliers and employees		(6,332,285)	(6,712,241)
Income taxes received / (paid)		41,663	(145,338)
Net cash flows from revenue activities	31.3	116,892	857,608
Members' loan repayments		40,199,176	29,999,952
Members' loan fundings		(58,997,441)	(43,408,069)
Net increase in member deposits and shares		33,710,927	16,119,628
Net increase in members' clearing accounts		427,030	146,549
Net decrease / (increase) in deposits to other financial institutions		(15,164,687)	6,719,563
Net cash provided by operating activities		291,897	10,435,231
Cash flows from investing activities:			
Consideration for investments		(1,007,501)	-
Consideration received on sale of property, plant and equipment		16,818	11,875
Payment for property, plant and equipment		(34,161)	(35,515)
Payment for intangibles		(393,423)	(254,799)
Net cash used in investing activities		(1,418,267)	(278,439)
Net increase / decrease in cash held		(1,126,370)	10,156,792
Cash held at the beginning of the year		31,698,191	21,541,399
Cash held at the end of the year	31.2	**30,571,821**	**31,698,191**

This statement should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 June 2021

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

Reporting Entity

These financial statements are prepared for Orange Credit Union Limited (the Credit Union) as a single credit union, for the year ended 30 June 2021. The Credit Union is a company, limited by shares, incorporated and domiciled in Australia. The statements were authorised for issue on 30 September 2021 in accordance with a resolution of the Board.

Statement of Compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cwlth). The entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial statements are presented in Australian dollars.

Comparatives are consistent with prior years.

2. CHANGES IN ACCOUNTING POLICIES

The new pronouncements applicable as of June 30, 2021, did not have any impact to the financial statements of the Credit Union.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Loans to members

(i) Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any material difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the loans using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board.

APRA has mandated that interest is not recognised as revenue after contractually obligated payments have not been made for more than 90 days for a loan facility.

(ii) Interest earned

Term Loans – The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Overdraft – The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Non-Accrual Loan Interest – while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member is deceased, or where a loan is impaired.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Loans impairment

(i) Provision for impairment

AASB 9's impairment requirements use more forward-looking information to recognise ECL. Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments.

Orange Credit Union considers a broad range of information when assessing credit risk and measuring ECLs, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

The Credit Union measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12 months ECL.

- Debt investment securities that are determined to have a low credit risk in considering their credit risk rating (refer Note 21); and
- Other financial instruments on which credit risk has not significantly increased since initial recognition.

The Credit Union considers credit risk to have increased significantly when a loan is 30 days or more in arrears.

Forward-looking approach

The approach to determining the ECL includes forward-looking information.

The Credit Union has performed historical analysis and identified the key economic variables impacting credit risk and ECLs for each portfolio segment. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Loan impairment (continued)

(i) Provision for impairment (continued)

Forward-looking approach (continued)

The Credit Union has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are deemed to have a material impact and therefore an adjustment has been made to the ECL for such factors. The Credit Union considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. Periodically the Credit Union carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (underperforming loans) ('Stage 2').
- Stage 3' would cover financial assets that have objective evidence of impairment (loans in default/non-performing) at the reporting date.

Additional information regarding the estimation of the ECL provision at reporting date is contained in Note 11.

Measurement of ECL

Measurement of the ECL is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Credit Union expects to receive).

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Loan impairment (continued)

(i) Provision for impairment (continued)

Measurement of ECL (continued)

Credit risk categorisation

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

Stage 1: no significant increase in credit risk since initial recognition

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. ECLs for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

Stage 2: significant increase in credit risk

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union uses the criteria of 30 days past due or loans under credit watch as the criteria to identify whether there has been a significant increase in credit risk.

Stage 3: credit impaired (or defaulted) loans

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- significant financial difficulty of the borrower or issuer;
- a breach of contract as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Loan impairment (continued)

(i) Provision for impairment (continued)

Measurement of ECL (continued)

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition is different.

Interest income on stage 3 credit impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest.

Transfers between stages
Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above. For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met.

(ii) Reserve for credit losses

In addition to the above specific provision, APRA requires the establishment of a general reserve under APS220 Credit Quality, for credit losses to cover future expected losses not yet identified, which are inherent in its lending activities.

(iii) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Loan impairment (continued)

(iii) Restructured financial assets (continued)

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

(iv) Credit-impaired financial assets

At each reporting date, the Credit Union assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Loan impairment (continued)

(v) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

(vi) Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

3.3 Bad debts written off

Bad debts are written off from time to time as determined by management and the Board when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for impairment previously recognised. If no provision had been recognised, the write offs are recognised as expenses in the Statement of Comprehensive Income.

3.4 Property, plant and equipment

(i) Determination of carrying values

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

(ii) Depreciation

The depreciable amount of all fixed assets including building assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Credit Union commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Property	2.5-10%
Office furniture and equipment	10 - 20%
EDP equipment	25%
Motor Vehicles	20%

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Property, plant and equipment (continued)

(ii) Depreciation (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

Assets with a cost less than $1,000 are not capitalised.

3.5 Intangible assets

Capitalised software costs that are not an integral part of the associated hardware are classified as intangible assets and are amortised over the useful life of the asset and assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation of the intangible asset is recognised as an expense in the Statement of Comprehensive Income.

Computer software is amortised over the expected useful life of the software being 4 years (25%).

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments

(i) Initial recognition and measurement

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

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

(ii) Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over 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 amount with a consequential recognition of an income or expense item in profit or loss.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including arm's length transactions, reference to similar instruments and option pricing models.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets are classified into the following categories upon initial recognition:

- Amortised cost;
- Fair value through profit or loss (FVPL); or
- Fair value through other comprehensive income (FVOCI).

Subsequent measurement of financial assets

Financial assets at amortised costs

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Orange Credit Union's cash and cash equivalents, loans and advances to members and trade receivables fall into this category of financial instruments as well as negotiable certificates of deposits (NCDs), floating rate notes (FRNs) and term deposits.

Financial assets at Fair Value through Profit or Loss (FVPL)

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Fair Value through Other Comprehensive Income (FVOCI)

Investments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities – CUSCAL Ltd and TAS and units in the Society One Personal Loans Trust.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

(iii) Impairment

AASB 9 requires the use of forward-looking information to recognise ECLs - the 'expected credit loss model' (ECL). Instruments within the scope of the requirements comprise all financial assets measured at amortised cost and investment debt securities measured at FVOCI. These include cash, receivables, loans and advances to members and investment securities.

The Credit Union considers a broader range of information when assessing credit risk and measuring ECLs, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial asset.

(iv) Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity 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 the Statement of Comprehensive Income.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Members' deposits

(i) Basis for measurement

Member savings and term investments are recognised on the date at which they originated and are initially measured at fair value plus incremental direct transaction costs. Member deposits are stated at the aggregate amount of moneys owing to depositors as at balance date. Member's deposits are subsequently measured at their amortised cost using the effective interest method.

(ii) Interest payable

Interest on savings is calculated on the daily balance or minimum monthly balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of payables in the Statement of Financial Position.

3.8 Employee benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the Credit Union does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period. Annual leave liability is still presented as current liability for presentation purposes under AASB 101 Presentation of Financial Statements.

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using corporate bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Credit Union based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at the reporting date.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to profit or loss as incurred.

3.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three (3) months or less, and bank overdrafts.

3.10 Income tax

The income tax expense shown in the Statement of Comprehensive Income is based on the operating profit before income tax adjusted for any non-tax-deductible or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 25%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Credit Union will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Goods and services tax

As a financial institution, the Credit Union is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to goods and services tax (GST) collection, and the GST on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax 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 a current asset or current liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. 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.

3.12 Revenue and expense recognition

Net Interest Income

Interest revenue and interest expense are recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in the income statement over the expected life of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of EIR does not include ECL. Interest income for financial assets that have become credit impaired subsequent to initial recognition is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying amount after deducting the impairment loss).

3.12 Revenue and expense recognition (continued)

Fees and commissions

Fees and commission income include fees other than those that are an integral part of EIR.

Fee income relating to deposit or loan accounts is either:

- transaction based and therefore recognised at a point in time when the transaction takes place, or
- related to performance obligations carried out over a period of time and therefore recognised on a systematic basis over the life of the agreement as the services are provided.

Transaction fees and provision of services are defined within product terms and conditions.

Insurance commission

Upfront commission – revenue in the form of a commission generated on successful placement of an insurance application is recognised at a point in time on inception of the policy.

Renewal commission – Commission income for renewals is recognised on receipt as there is insufficient detail readily available to estimate the most likely amount of income without a high probability of a significant reversal in a subsequent period. The receipt of renewal commission income is outside the control of the Credit Union, and is a key judgement area.

Dividend income

Dividends are brought to account in profit or loss when the right to receive income is established.

3.13 Impairment of non-financial assets

At each reporting date the Credit Union assesses whether there is any indication that individual non-financial assets are impaired. Where impairment indicators exist, recoverable amount is determined, and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount.

3.14 Accounting estimates and judgements

Management has been involved in the development, selection and disclosure of the Credit Union's critical accounting policies and estimates and the application of these policies and estimates. In particular, information about areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Accounting estimates and judgements (continued)

- Note 3.2 and Note 11- Impairment of loans and advances with regards to the ECL modelling and judgements, including:
    - Determining criteria for significant increase in credit risk: An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Credit Union takes into account qualitative and quantitative reasonable and supportable forward-looking information;
    - Choosing appropriate models and assumptions for the measurement of ECL; and
    - Establishing groups of similar financial assets for the purposes of measuring ECL: When ECL is measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.
- Note 3.6 and Note 12 - Fair value assumptions used investment securities;
- Note 3.13, Note 13 and Note 14 – impairment and estimated useful lives of property, plant and equipment and intangible assets

Judgement has been exercised in considering the impacts that the Coronavirus (COVID- 19) pandemic has had, or may have, on the Credit Union based on known information. The consideration extends to the nature of the products and service offered, customers, staffing and geographic regions in which the Credit Union operates. The key estimates and judgements associated with COVID-19 are detailed in Note 11.5 (regarding ECL on loans to members).

3.15 Measurement of fair values

A number of the Credit Union's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Credit Union uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Measurement of fair values (continued)

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Credit Union recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The fair value of the Credit Union's investment in unlisted equity securities, is based on consideration of sales in a limited market and the investee's net tangible assets.

3.16 New standards applicable for the current year

The Credit Union has adopted all applicable standards which became effective for the first time at 1 July 2020, refer to Note 2 for details of the changes due to standards adopted.

3.17 New accounting standards for application in future periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Credit Union has decided not to early adopt these Standards. The Credit Union's assessment of the impact of these new standards and new interpretation is that these are not significant and not likely to impact the financial report of the Credit Union and as such have not been reported on.

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021
(continued)

4. INTEREST REVENUE AND INTEREST EXPENSE

4.1 Interest revenue

	2021 $	2020 $
Interest revenue on assets carried at amortised cost:		
Receivables from financial institutions	775,301	1,333,151
Loans to members	5,725,434	6,416,839
Total interest revenue	6,500,735	7,749,990

4.2 Interest expense

	2021 $	2020 $
Interest expense on liabilities carried at amortised cost:		
Members savings deposits	218,732	595,507
Term deposits	466,248	975,290
External borrowings	1,403	3,301
Total interest expense	686,383	1,574,098

5 FEES, COMMISSIONS AND OTHER INCOME

	2021 $	2020 $
Fees and commissions revenue		
Fee income on loans	121,725	117,990
Fee income from member deposits	2,463	1,243
Other fee income	699,736	703,558
Insurance commissions	125,418	123,121
Other commissions	19,404	49,002
Total fee and commission revenue	968,746	994,914
Other income		
Dividends received on available for sale assets	18,075	46,641
Bad debts recovered	17,223	26,550
Miscellaneous revenue	117,526	125,894
Total other income	152,824	199,085
Total fees, commissions and other income	1,121,570	1,193,999

6 NON-INTEREST EXPENSES

6.1 Impairment losses

Loans and advances

	2021 $	2020 $
Increase / (decrease) in provision for impairment	(35,637)	156,193
Bad debts written off	52,265	79,571
Total impairment expense	16,628	235,764

6.2 Individually significant items of expenditure

The following items of expense are shown as part of *General Administration* expenses in the Statement of Comprehensive Income and are considered to be significant to the understanding of the financial performance:

	2021 $	2020 $
Depreciation and amortisation		
Depreciation	45,245	111,534
Amortisation of intangible assets	187,256	163,139
Total depreciation and amortisation	232,501	274,673
Information technology	963,953	995,311
Property expenses	164,557	150,932
Employee benefits expenses		
Salaries	2,159,538	2,144,335
Superannuation contributions	270,126	323,810
Annual leave	48,650	155,688
Long service leave	8,289	16,203
Fringe benefits expense	26,072	70,648
Other	225,054	317,359
Total employee benefits expenses	2,737,729	3,028,043
Other administrative expenses		
Card and payment costs	1,176,730	1,028,601
Board costs	230,147	215,983
Consultancy	105,790	117,456
Loans administration	39,623	38,328
Marketing and promotion	255,020	248,941
Member chequing	8,680	9,434
Member protection	423,509	368,403
Office administration	305,587	328,448
Total other administrative expenses	2,545,086	2,355,594

7. AUDITOR'S REMUNERATION

Amounts received or due and receivable by the auditors of the Credit Union for:

	2021 $	2020 $
Audit of the financial statements	55,687	55,772
Other services	16,661	10,446
	72,348	66,218

8. INCOME TAX

8.1 Current tax expense

	2021 $	2020 $
The components of tax expense comprise:		
Current income tax payable	76,502	68,156
Decrease / (Increase) in deferred tax asset	(21,195)	30,369
Movement due to change in tax rates	-	(10,500)
Total tax expense	55,307	88,025

8.2 Reconciliation of current year tax payable to income tax expense

	2021 $	2020 $
Prima facie tax on profit before income tax at 26% (2020: 27.5%)	71,622	90,633
Plus / (Less) tax effect of:		
- Non-deductible entertainment expenses	1,040	2,398
- Dividend rebate	(5,275)	(14,492)
- Government COVID rebate (Non Assessable Non Exempt Income)	(13,000)	(13,750)
- Movement due to changes in tax rates	-	23,236
- Other movements	920	-
	55,307	88,025

8.3 Franking Credits

	2021	2020
Franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	7,685,010	7,673,913
	7,685,010	7,673,913

9. CASH AND LIQUID ASSETS

	2021	2020
	$	$
Cash on hand	1,012,236	871,205
Imprest and bank accounts	4,971,536	990,969
Short term deposits and deposits at call	24,588,049	29,836,017
	30,571,821	31,698,191

10. RECEIVABLES

	2021	2020
Sundry debtors and clearing accounts	834,977	492,827
Interest receivable on receivables from other financial institutions	154,536	218,534
Capitalisation Costs – FRN's	475,638	-
	1,465,151	711,361

11. LOANS AND ADVANCES TO MEMBERS

	2021	2020
Overdrafts and revolving credit	18,683	28,798
Term loans	164,779,324	146,023,209
	164,798,007	146,052,007
Less: Provision for impaired loans	(282,287)	(342,924)
	164,515,720	145,709,083

11.1 Credit quality – security held against loans

	2021	2020
Secured by mortgage over real estate	152,189,321	133,874,435
Partly secured by goods mortgage	10,006,855	8,979,017
Wholly unsecured	2,601,831	3,198,555
	164,798,007	146,052,007

11. LOANS AND ADVANCES TO MEMBERS (continued)

11.1 Credit quality – security held against loans (continued)

It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the mortgage security on a portfolio basis is as follows:

	2021 $	2020 $
Security held as mortgages against real estate:		
- Loan to valuation ratio of less than 80%	137,882,066	121,737,917
- Loan to valuation ratio of more than 80% but mortgage insured	12,020,045	11,718,526
- Loan to valuation ratio of more than 80% but not mortgage insured	2,287,210	417,992
	152,189,321	133,874,435

11.2 Concentration of loans

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

		2021	2020
(i)	Loans to individuals or related groups of members which exceed 5% of capital – aggregate value	8,633,979	6,541,100

(ii) Loans to members are mainly concentrated in Central Western New South Wales. All loans are within Australia.

		2021	2020
(iii)	Loans by type were:		
	- Residential loans and facilities	150,633,353	132,331,795
	- Personal loans and facilities	12,620,100	11,998,043
	- Business loans and facilities	1,544,554	1,722,169
		164,798,007	146,052,007

11.3 Movement in the provision for impairment

	2021	2020
Opening balance	342,924	186,731
Bad debts written off against provision	(52,265)	(79,571)
Loans provided for during the year	(8,372)	235,764
	282,287	342,924

11. LOANS AND ADVANCES TO MEMBERS (continued)

11.4 Impaired loans written off

	2021 $	2020 $
Amounts written off against the provisions	52,265	79,571
Bad debts expense	(60,637)	156,193
Bad debts recovered in the period	17,223	26,550

11.5 Amounts arising from Expected Credit Losses (ECL)

The loss allowance as of the year end by class of exposure/asset are summarised in the table below. Comparative amounts for 2020 represent allowance account for credit losses and reflect measurement basis under AASB 139.

	2021 Gross Value	2021 ECL Allowance	2021 Carrying Value	2020 Gross Value	2020 ECL Allowance	2020 Carrying Value
	$	$	$	$	$	$
Loans to members						
Mortgage	150,633,353	(3,363)	150,629,990	132,331,795	(22,172)	132,309,623
Commercial	1,544,554	-	1,544,554	1,722,169	-	1,722,169
Personal	12,601,417	(265,053)	12,336,364	11,969,245	(311,951)	11,657,294
Overdrafts	18,683	(13,871)	4,812	28,798	(8,801)	19,997
Total	164,798,007	(282,287)	164,515,720	146,052,007	(342,924)	145,709,083

11. LOANS AND ADVANCES TO MEMBERS (continued)

11.5 Amounts arising from Expected Credit Losses (ECL) (continued)

The analysis of the Credit Union's credit risk exposure per class of financial asset and "stage" without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables.

2021

Loans to members	Stage 1 12 Month ECL $	Stage 2 Lifetime ECL 2021 $	Stage 3 Lifetime ECL 2021 $	Carrying Value 2021 $
Mortgage	3,230	133	-	3,363
Commercial	-	-	-	-
Personal	30,412	11,398	202,216	244,026
Society One	26,690	286	3,951	30,927
Overdrafts	-	2,452	1,519	3,971
ECL Allowance	60,331	14,269	207,686	282,287

2020

Loans to members	Stage 1 12 Month ECL 2020 $	Stage 2 Lifetime ECL 2020 $	Stage 3 Lifetime ECL 2020 $	Carrying Value 2020 $
Mortgage	22,119	53	-	22,172
Commercial	-	-	-	-
Personal	15,037	14,303	134,958	164,298
Society One	135,701	4,304	7,648	147,653
Overdrafts	-	31	8,770	8,801
ECL Allowance	172,857	18,691	151,376	342,924

The Credit Union have performed an analysis of the ECL allowance and have determined, based on internal analysis, management judgements and other historical data, that the entire allowance for 2020 is classified as Stage 2.

The tables below represent the reconciliation from the opening balance to the closing balance of the ECL allowance for loans and advances to customers for which impairment requirements under AASB 9 apply, for the current and previous financial years.

11 LOANS AND ADVANCES TO MEMBERS (continued)

11.5 Amounts arising from Expected Credit Losses (ECL) (continued)

2021

	Stage 1 Collective provision 12-month ECL $'000	Stage 2 Collective provision Lifetime ECL Not credit-impaired $'000	Stage 3 Collective provision Lifetime ECL Credit impaired $'000	Stage 3 Specific provision Lifetime ECL Credit impaired	Total $'000
Balance at 1 July 2020-	172,857	18,691	151,376		342,924
Transfers during the period to:					
- Stage 1	(31,848)				(31,848)
- Stage 2		(3,815)			(3,815)
- Stage 3			107,291		107,291
Net re-measurement of ECL					
Write-backs	(80,000)				(80,000)
Write-offs	(678)	(606)	(50,981)		(52,265)
Balance at 30 June 2021	60,331	14,270	207,686		282,287

2020

	Stage 1 Collective provision 12-month ECL $'000	Stage 2 Collective provision Lifetime ECL Not credit-impaired $'000	Stage 3 Collective provision Lifetime ECL Credit impaired $'000	Stage 3 Specific provision Lifetime ECL Credit impaired	Total $'000
Balance at 1 July 2019	-	8,859	177,872		186,731
Transfers during the period to:					
- Stage 1	178,168				178,168
- Stage 2		10,326			10,327
- Stage 3			47,269		47,269
Net re-measurement of ECL					
Write-backs					
Write-offs	(5,311)	(494)	(73,765)		(79,571)
Balance at 30 June 2020	172,857	18,691	151,376		342,924

11. LOANS AND ADVANCES TO MEMBERS (continued)

11.6 Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding

	2021 Carrying Value $	2021 Provisions $	2020 Carrying Value $	2020 Provisions $
0 to 90 days in arrears	3,074,531	124,554	1,862,167	191,550
90 to 180 days in arrears	412,523	54,092	364,710	80,443
180 to 270 days in arrears	53,386	36,574	14,370	22,160
270 to 365 days in arrears	561	455	33,367	26,998
Over 365 days in arrears	79,453	64,155	84,061	12,972
Over limit facilities	2,456	2,457	9,093	8,801
Total	3,622,910	282,287	2,367,768	342,924

Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

11.7 Loans with repayments past due but not regarded as impaired

There are loans with a value of $3,074,531 past due which are not considered to be impaired, due to the very short number of days past due. Of these, loans totalling $2,755,082 are secured by residential property valued in excess of the loan due. It is not practicable to identify the security over all loans past due.

11.8 Assets acquired via enforcement of security

	2021 $	2020 $
Motor vehicles	4,000	20,500
Real estate	125,000	-

It is the policy of the Credit Union is to sell the assets at the earliest opportunity after all other measures to assist the members to repay the debts have been exhausted.

12. INVESTMENT SECURITIES

	2021 $	2020 $
Investment securities at amortised cost		
Negotiable Certificate of Deposits	-	992,626
Floating Rate Notes	34,870,000	20,120,000
FRD	5,000,000	-
Term Deposits	25,407,313	29,000,000
Investment securities designated as FVOCI		
Cuscal	636,835	606,832
TAS	9,654	9,654
Society One Unit Trust	975,000	-
Total Value of Investment Securities	66,898,802	50,729,112

Investment securities accounted for at FVOCI are held in unlisted companies.
The basis on which fair value is determined is outlined in note 3.16 and is categorised as Level 2 in the fair value hierarchy.

13. PROPERTY, PLANT AND EQUIPMENT

	2021 $	2020 $
Land	200,400	200,400
Buildings – at cost	824,247	798,087
Less: provision for depreciation	(723,848)	(706,222)
	100,399	91,865
Plant and equipment – at cost	1,273,168	1,467,338
Less: provision for depreciation	(1,260,603)	(1,441,453)
	12,565	25,885
Motor vehicles – at cost	41,990	70,131
Less: provision for depreciation	(27,993)	(28,730)
	13,997	41,401
Total property, plant and equipment	327,361	359,551

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The movements in the carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year is shown below:

	Beginning balance $	Additions $	Disposals WDV $	Depreciation expense $	Carrying amount at year end $
Land and buildings	292,265	26,161	-	(17,627)	300,799
Plant and equipment	25,885	8,000	-	(21,320)	12,565
Motor vehicles	41,401	-	(21,106)	(6,298)	13,997
Totals	359,551	34,161	(21,106)	(45,245)	327,361

14. INTANGIBLES

	2021 $	2020 $
Work in progress – IT projects	116,535	72,830
Computer software	1,597,644	1,247,926
Less: accumulated amortisation	(1,155,185)	(967,929)
Total intangible assets	558,994	352,827

The movement in the carrying amounts for the member transaction system software between the beginning and end of the current financial year is shown below:

	Beginning balance $	Additions $	Disposals WDV $	Amortisation expense $	Carrying amount at year end $
Computer software	352,827	393,423	-	(187,256)	558,994

15. DEPOSITS FROM MEMBERS

	2021 $	2020 $
Member deposits:		
- At call	178,477,970	146,557,191
- At term	56,632,786	54,835,318
Member withdrawable shares	115,922	123,242
	235,226,678	201,515,751

15. DEPOSITS FROM MEMBERS

15.1 Concentration of member deposits

There are no members who individually have deposits which represent 10% or more of Tier 1 capital (2020: Nil).

16. PAYABLES AND OTHER LIABILITIES

	2021 $	2020 $
Payables and accrued expenses	402,836	316,303
Accrued interest payable	74,100	190,870
Members' clearing accounts	1,322,492	579,618
Sick leave	5,000	5,000
	1,804,428	1,091,791

17. TAXATION ASSETS AND LIABILITIES

17.1 Taxation liabilities

Deferred tax	72,251	64,751
	72,251	64,751

17.2 Deferred tax assets

Loans	70,572	85,731
Plant and equipment	139,363	140,967
Creditors	43,620	29,718
Provisions	82,168	78,537
Investments	6,250	-
Intangibles	16,586	2,411
	358,559	337,364

17.3 Current Tax Assets

Income Tax	15,706	126,371

17. TAXATION ASSETS AND LIABILITIES (Continued)

17.4 Reconciliation of deferred taxation balances

(i) Gross movements

The overall movement in the deferred tax account is as follows:

Opening balance	272,613	254,063
Charge to Statement of Comprehensive Income	13,695	18,550
Closing balance	286,308	272,613

(ii) Deferred tax assets

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

	2021 $	2020 $
Property, plant and equipment		
Opening balance	140,967	154,851
Charge to Statement of Comprehensive Income	(1,604)	(13,884)
Closing balance	139,363	140,967
Provision for impaired loans		
Opening balance	85,731	51,351
Charge to Statement of Comprehensive Income	(15,159)	34,380
Closing balance	70,572	85,731
Employee leave entitlements		
Opening balance	78,537	124,906
Charge to Statement of Comprehensive Income	3,631	(46,369)
Closing balance	82,168	78,537
Other		
Opening balance	29,718	36,625
Charge to Statement of Comprehensive Income	13,902	(6,907)
Closing balance	43,620	29,718
Intangibles		
Opening balance	2,411	-
Charge to Statement of Comprehensive Income	14,175	2,411
Closing balance	16,586	2,411

17. TAXATION ASSETS AND LIABILITIES (continued)

17.4 Reconciliation of deferred taxation balances (continued)

Investments

	2021 $	2020 $
Opening balance	-	-
Charge to Statement of Comprehensive Income	6,250	-
Closing balance	6,250	-

(iii) Deferred tax liabilities

	2021	2020
Available for sale financial assets		
Opening balance	64,751	113,670
Adjustment to tax rates (from 27.5% to 25%)	-	(10,500)
Tax due on assets held at fair value investments held in equity (due to initial adoption of AASB 9)	7,500	(38,419)
Closing balance	72,251	64,751

18. PROVISIONS

	2021 $	2020 $
Annual leave	182,968	162,796
Long service leave	140,706	146,351
	323,674	309,147

18.1 Reconciliation of provision balances

The movement in each provision category during the year is as follows:

	2021	2020
Annual leave		
Opening balance	162,796	183,505
Additional provision raised during the year	48,650	155,688
Amounts used	(28,478)	(176,397)
Closing balance	182,968	162,796
Long service leave		
Opening balance	146,351	265,700
Additional provision raised during the year	8,289	16,203
Amounts used	(13,934)	(135,552)
Closing balance	140,706	146,351

19. FVOCI Reserve

FVOCI Reserve

Balance at the beginning of year	179,609	294,868
Add: increase(decrease) in revaluation of investment	30,002	(153,678)
Less: deferred tax thereon	(7,500)	38,419
Closing balance	202,111	179,609

The Credit Union elected to recognise changes in fair value of certain investments in equity securities in Other Comprehensive Income. These changes are accumulated within the FVOCI reserve within equity. The Credit Union transfers amounts from this reserve to retained earning when the relevant equity securities are derecognised.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

20.1.1 Introduction

The Credit Union views effective risk management as key to achieving and maintaining its operational and strategic objectives.

The Credit Union has systems for identifying, measuring, evaluating, monitoring, reporting, and controlling material risks that may affect its ability to meet its obligations to members and other stakeholders. These systems, together with the structures, policies, processes, and people supporting them, comprise the Credit Union's Risk Management Framework.

The Risk Management Framework is consistent with the Credit Union's strategic objectives, business plan, risk appetite statement and tolerances.

The Board is responsible for setting and approving the Credit Union's Risk Management strategy and framework. The active identification of risks and implementation of mitigation measures is the responsibility of Management.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1.1 Introduction (continued)

To assist the Board in discharging its responsibility in relation to risk management, the Board has delegated certain activities to the Risk and Audit Committees.

The Board has also delegated relevant authority to the Chief Executive Officer and the Chief Risk Officer (CRO) to enable the setting and implementing certain risk management policies and procedures.

In accordance with CPS 220 the Board and Chief Executive Officer ensures that the Credit Union meets its prudential and statutory requirements and has management practices to limit risks to prudential levels. The Board attests to the risk management functions in the annual declaration to APRA.

20.1.2 Risk Governance

The Credit Union is committed to a three lines-of-defence risk governance model:-

The first line of defence comprises the business management who assume ownership of the risks and who are responsible for the day-to-day risk management decision-making.

The second line of defence comprises the CRO and is functionally independent from the first line-of-defence. The second line-of-defence supports the Board by:

a) developing risk management policies, systems and processes to facilitate a consistent approach to the identification, assessment and management of risks;
b) providing specialist advice and training to Board and first line-of-defence on risk related matters;
c) providing objective review and challenge to the information provided; and
d) providing oversight of the risk profile and its reporting and escalation to the Board.

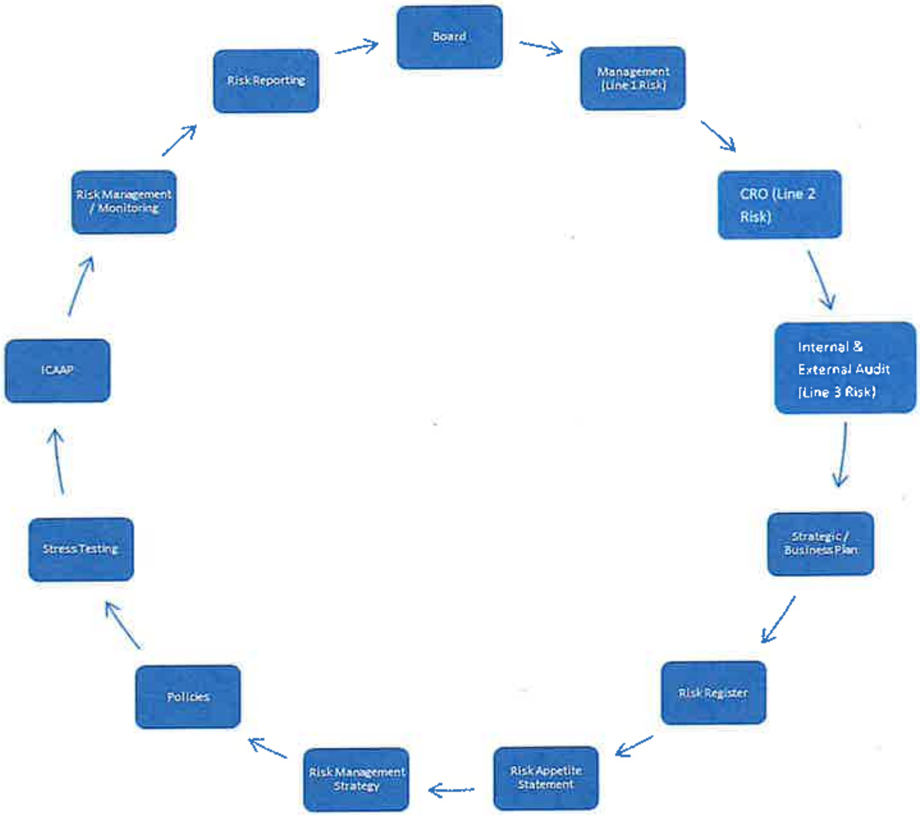
The third line-of-defence comprises the independent Audit functions who provides assurance to the Board and its Committees that:

a) the risk management framework has been complied with and is operating effectively; and
b) at least every three years, a comprehensive review of the appropriateness, effectiveness and adequacy of the risk management framework is performed.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1.2 Risk Governance (continued)

The components of Orange Credit Union's risk management framework are summarised in the following diagram:



20.1.3 Roles and Responsibilities

The Board is ultimately responsible for the Risk Management functions of the Credit Union.

The Board has delegated certain Risk Management authorities to the Audit and Risk Committees, and to the Chief Executive Officer.

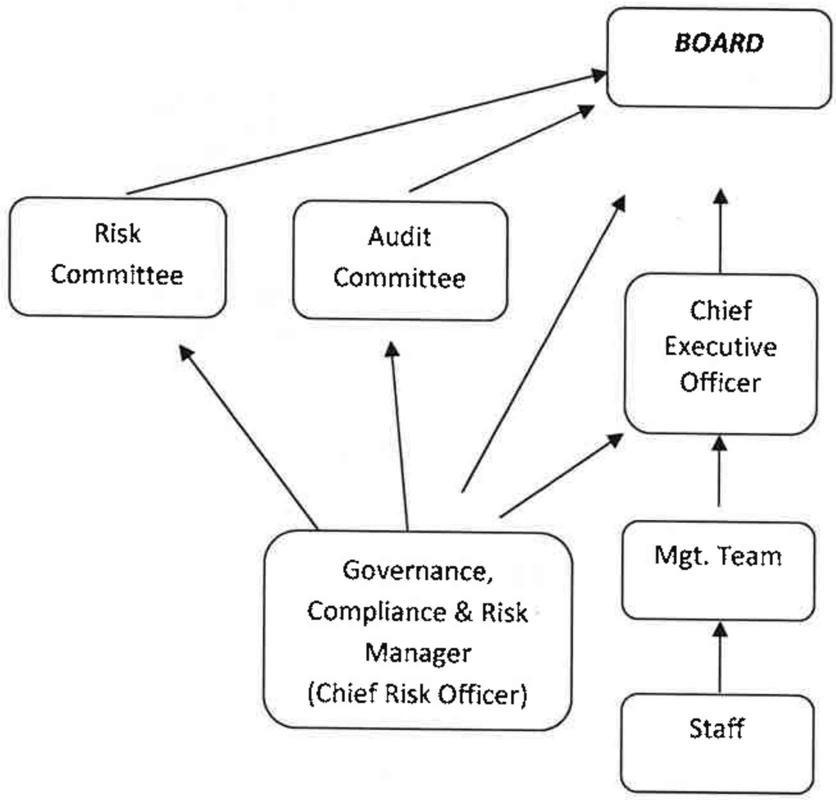
The Chief Executive Officer is totally responsible for those Risk Management Functions delegated to Management by the Board. The Chief Executive Officer delegates certain authorities to other members of the Management Team and staff to ensure the efficiency of the Risk Management Framework.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1.3 Roles and Responsibilities (continued)

All delegated authorities are authorised and reviewed annually by the Board.

The following diagram shows an overview of this structure:



Risk Committee

The Board Risk Committee shall:-

- assist the Board by providing an objective oversight of the implementation and operation of the risk management framework;
- advise the Board on the current and future risk appetite and the risk management strategy;
- oversee the implementation of the risk management strategy;
- review and challenge Management's decisions relating to material risk items;
- set objectives and review performance of the CRO; and
- engage the CRO in relevant sections of Risk Committee meetings.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1.3 Roles and Responsibilities (continued)

Audit Committee

The Board Audit Committee shall:-

- assist the Board by providing an objective review of the financial reporting and risk management;
- oversee financial accounting and reporting, and APRA statutory reporting.
- oversee internal and external Audit;
- review audit findings and ensure issues are addressed in a timely manner; and
- provide assurance to the Board that the risk management system is performing as intended.

Chief Executive Officer

The Chief Executive Officer is responsible for management of the Credit Union's operations in accordance with Board approved criteria, appetite and policy.

This includes management of the Credit Union compliance frameworks in accordance with Board approved criteria and policy and responsibility for implementing Board approved risk management strategy, developing policies, controls, processes and procedures for identifying and managing risks in all the Credit Union's activities.

Governance, Compliance & Risk Manager (CRO)

The Governance, Compliance & Risk Manager is independent from business lines, other revenue-generating responsibilities, and the finance function. The Governance, Compliance & Risk Manager is responsible for the establishment, monitoring, and maintenance of the organisation's risk management framework. The Governance, Compliance & Risk Manager shall review and challenge Management's decisions relating to material risk items.

Internal Audit

Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2 Key risk management policies

Key risk management policies encompassed in the overall risk management framework include:

- Market risk;
- Credit risk management;
- Liquidity management; and
- Operational risk management including data risk management.

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments.

20.2.1 Market risk

The objective of the Credit Union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is not exposed to currency risk and other significant price risks. The Credit Union does not trade in the financial instruments it holds on its books.

The Credit Union is exposed only to interest rate risk arising from changes in market interest rates.

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates. The policy of the Credit Union to manage interest rate risk is to maintain a balanced 'on book' strategy by ensuring that the cumulative sensitivity between assets and liabilities is not excessive. The Credit Union's policy is not to undertake derivatives to match the interest rate risks.

The Credit Union's exposure to interest rate risk is set out in Note 24 which details the contractual interest change profile.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.1 Market Risk (continued)

The Credit Union's exposure to market risk is measured and monitored using various interest rate sensitivity models. In these models, the following assumptions are used:

- the interest rate change would be applied equally over the loan products and term deposits;
- the rate change would be as at the beginning of the twelve-month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at maturity, or be replaced by deposits with similar terms and rates applicable;
- savings deposits would reprice to the new interest rate, using the assumption that the sticky deposits are allocated to the twelve-month bucket, and non-sticky deposits are allocated to the one-month bucket.
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate within 28 days;
- personal loans would all reprice to the new interest rate within 28 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

The Credit Union uses Duration Sensitivity Analysis to limit the overall sensitivity of its financial instrument portfolio to 5% of its capital base for a 1% change in interest rates, using the assumption that members savings are allocated evenly across 12 months. This analysis is done monthly by management and reported to the Board. At 30 June 2021, the Credit Union had $950,936 (3.96%) of its capital at risk for a 1% change in interest rates.

Value at Risk (VaR) is used to measure the expected loss to the Credit Union's financial instrument portfolio, given a confidence level of 99%. This is calculated on a six-monthly basis by an independent consultant, Visual Risk Pty Limited and is reported to the Board. The Credit Union aims to limit its value at risk to 5% of capital, given a 1 year holding period. At 30 June 2021, the risk was assessed at $782,264 (3.26%).

The Credit Union also engages Visual Risk Pty Limited to assess the Net Present Value (NPV) variance as a percentage of capital and considers the impact for a 2% parallel shift in the yield curve. This is also calculated on a six-monthly basis and is reported to the Board. The Credit Union aims to limit this to 5% of capital. At 30 June 2021, the worst-case impact was assessed at $1,190,193 (4.96%).

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 Credit risk

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets.

(i) Credit risk – loans

The analysis of the Credit Union's loans by class is as follows:

Loan class	2021 Carrying value $	2021 Undrawn facilities $	2021 Maximum exposure $	2020 Carrying value $	2020 Undrawn facilities $	2020 Maximum exposure $
Housing	150,633,353	14,909,106	165,542,459	132,331,795	12,131,681	144,463,476
Personal	12,620,100	1,050,273	13,670,373	11,998,043	934,509	12,932,552
Commercial	1,544,554	143,111	1,687,665	1,722,169	287,348	2,009,517
Total	164,798,007	16,102,490	180,900,497	146,052,007	13,353,538	159,405,545

Carrying value is the value in the Statement of Financial Position. Maximum exposure is the value in the Statement of Financial Position plus the undrawn facilities (loans approved not advanced, redraw facilities and undrawn overdrafts).

All loans and facilities are within Australia and are mainly concentrated in Central Western New South Wales.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close, monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 Credit risk (continued)

The Credit Union has established policies over the:

- credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- limits of acceptable exposure over the value to individual borrowers, non-mortgage secured loans and commercial lending;
- reassessing and review of the credit exposures on loans and facilities;
- establishing appropriate provisions to recognise the impairment of loans and facilities;
- debt recovery procedures; and
- review of compliance with the above policies.

A regular review of compliance with these policies is conducted as part of the internal audit scope.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Loan repayments are reviewed each day to detect delays in repayments. Recovery action is undertaken after 5 days. For loans where repayments are doubtful, external consultants may be engaged to conduct recovery action once the loans are over 60 days in arrears. The exposures to losses arise predominantly in personal loans and facilities not secured by registered mortgages over real estate.

If such evidence exists, the estimated recoverable amount of that asset is determined and any ECL is recognised in the Statement of Comprehensive Income. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 Credit risk (continued)

In addition to specific provisions against individually significant financial assets, the Credit Union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Provisions in the Statement of Financial Position are maintained at a level that management deems sufficient to absorb ECLs in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for ECLs is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered.

The provisions for impaired and past due exposures relate to the loans to members.

Past due value is the 'on statement of financial position' loan balances which are past due by 90 days or more.

Details of past due and impaired loans are as set out in Note 11.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write-offs are on a case-by-case basis and must be approved by the Board, taking account of the exposure at the date of the write off.

On secured loans, the write-off takes place upon the ultimate realisation of collateral value or from claims on any related mortgage insurance.

A reconciliation of the movement of both past due and impaired exposure provisions is provided in Note 11.

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed to risks in the reduction of the loan to value (LVR) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 Credit risk (continued)

Concentration risk – individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10%) a large exposure is considered to exist. No capital is required to be held against these exposures but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable.

The aggregate value of large exposure loans is set out in Note 11. The Credit Union currently holds $8,633,979 in significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5% of the capital base.

Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of customers dispersed in various areas of employment.

The Credit Union has a concentration in the retail lending for members who reside in the Central-West of NSW. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members and the employment concentration in the area is not exclusive. Should members leave the area, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

(ii) Credit risk – liquid investments

The Board has established policies to manage liquidity risks with respect of investment receivables. These policies were regularly reviewed during the year. Under the Board's current policy, the Credit Union may:

- invest in unrated authorised deposit-taking institutions (ADIs), for an amount up to 10% of tier one capital or $3million cap, provided the ADI is registered for the government guarantee; the Credit Union will only invest in those ADI's that have a capital adequacy ratio above 14%, of which 80% of capital is Tier 1.
- invest funds with ADI's that have a Standard & Poors (S&P) short term rating of B or better for an amount up to 15% of tier one capital or $4 million cap.
- With the exception of Cuscal, invest funds with ADI's that have a S&P short term rating of A or better for an amount up to 25% of tier one capital or higher with APRA's approval.
- for Cuscal the maximum exposure limit is 200% of tier one Capital.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.2 Credit risk (continued)

In addition, under the Commonwealth Government's Financial Claims Scheme, deposit balances up to and including $250,000 per institution is guaranteed.

During the year, the Credit Union has spread its investment portfolio over a range of ADIs and considers the risk of loss of liquid investments to be minimal.

The Credit Union uses the ratings of S&P to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA Prudential Guidance Note AGN 112. The credit quality assessment scale within this standard has been complied with.

The Credit Union may invest up to 40% of the total HQLA portfolio in HQLA Bonds that are included on the RBA list of repo-eligible securities.

The investment exposure values associated with each credit quality step are as follows:

	2021 Carrying value $	2021 Past due value $	2021 Provision $	2020 Carrying value $	2020 Past due value $	2020 Provision $
CUSCAL (AA)	14,091,536	-	-	15,710,969	-	-
ADIs – A1	24,722,970	-	-	15,583,867	-	-
ADIs – A2	27,115,079	-	-	16,902,151	-	-
ADIs – A3	500,000	-	-	500,000	-	-
ADIs – BBB	8,000,000	-	-	9,742,626	-	-
Unrated	20,407,313	-	-	22,500,000	-	-
Total	94,836,898	-	-	80,939,613	-	-

(iii) Credit risk – guarantees

The Credit Union does not have any third party guarantees in place.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.3 Liquidity risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments (e.g. borrowing repayments or member withdrawal demands).

It is the policy of the Board that the Credit Union maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- continuously monitoring actual daily cash flows;
- monitoring the maturity profiles of financial assets and liabilities;
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- monitoring the prudential liquidity ratio daily.

The Credit Union has a longstanding arrangement with the industry liquidity support provider Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should it be necessary at short notice.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union policy is to maintain at least 10% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. This ratio is checked daily. Should the liquidity ratio fall below this level, the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits or available borrowing facilities. Note 27 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profiles of the financial liabilities, based on the contractual repayment terms, are set out in the Note 24. The ratio of liquid funds over the past year is set out on the next page.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.3 Liquidity risk (continued)

	2021 $	2020 $	2021 (%)	2020 (%)
Total minimum liquidity holdings				
As at 30 June	60,926,176	46,775,338		
Total adjusted liabilities				
As at 30 June	237,359,619	213,902,373	24.52	21.87
Average for the year	237,490,325	204,854,724	23.88	16.04
Minimum during the year	230,956,294	200,404,697	21.89	13.24

20.2.4 Operational risk

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud, and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of polices and systems to monitor the likelihood of the events and minimise the impact.

Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- implementation of whistleblowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses; and
- contingency plans for dealing with the loss of functionality of systems, premises or staff.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2.4 Operational risk (continued)

Fraud

Fraud can arise from member cards, PINs and internet passwords being compromised where not protected adequately by the member. It can also arise from other systems failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud is potentially a real cost to the Credit Union.

IT systems

The worst-case scenario would be the failure of the Credit Union's core banking and IT network suppliers to meet customer obligations and service requirements.

The Credit Union has outsourced the IT systems management to an independent data processing centre (IDPC) which is owned by a collection of credit unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Credit Union by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM, Visa, and BPAY.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

20.3.1 Capital management

Part of the risk management framework is the Internal Capital Adequacy Assessment Process (ICAAP). This process ensures that the Credit Union has adequate systems and procedures in place to identify, manage, measure, and monitor the risks of the Credit Union so as to ensure that the Credit Union maintains sufficient capital consistent with its risk profile. It also includes a capital management plan for managing the Credit Union's capital levels on an ongoing basis.

The ICAAP is reviewed annually or whenever there is a material change in the Credit Union's risk profile. The Board will assess the amount of capital required if there is a change in the Credit Union's forecasts for asset growth or unforeseen circumstances.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3.1 Capital management (continued)

The capital levels are prescribed by APRA. Under the APRA prudential standards, capital is determined in three components:

- Credit risk;
- Market risk (trading book); and
- Operational risk.

The market risk component is not required as the Credit Union is not engaged in a trading book for financial instruments.

Regulatory capital

Regulatory Tier 1 and Tier 2 Capital are defined under APS 111 *Capital Adequacy: Measurement of*

Tier 1 Capital

For the Credit Union, Tier 1 Capital comprises of:

- Retained earnings;
- Regulatory adjustments (equity holding in CUSCAL Ltd, net DTA/DTL position and intangible assets); and
- FVOCI Reserve.

Tier 2 Capital

For the Credit Union, Tier 2 Capital comprises of:

- General Reserve for credit losses.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3.1 Capital Management (continued)

	2021 $	2020 $
Common Equity Tier 1 Capital		
Retained earnings	24,010,056	24,084,971
Add: FVOCI Reserve	202,111	179,609
Less: regulatory adjustments	(1,482,137)	(1,232,272)
Net Tier 1 Capital	22,730,030	23,032,308
Tier 2 Capital		
Reserve for credit losses	1,265,793	1,141,601
	1,265,793	1,141,601
Total Capital	23,995,823	24,173,909

Risk weighted assets

The Credit Union has determined to maintain a minimum capital level of 14.25% as compared to the risk weighted assets at any given time. The risk weightings attached to each asset are based on the weights prescribed by APRA in its Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk. The risk weightings are applied according to the level of the underlying security.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3.1 Capital Management (continued)

	Risk weighting	Carrying value $	Risk weighted value $
Cash	0%	1,012,236	-
Funds with Australian Government & State	0%	1,015,706	-
Deposits in highly rated ADIs	20-50%	96,451,427	26,435,299
Standard loans secured against eligible residential mortgages up to 80% LVR	35-50%	125,053,376	43,646,016
Standard loans secured against eligible residential mortgages over 80% LVR	35-50%	13,956,778	6,143,221
Non–standard and Other loans	0-100%	26,797,519	21,163,841
Other assets	0-100%	1,182,501	1,183,410
Equity holding in Transaction Solutions Ltd	400%	9,654	38,616
Total		264,479,197	98,610,403

Capital adequacy ratio

The capital ratio as at the end of the financial year over the past 5 years is as follows:

2021	2020	2019	2018	2017
20.85%	23.18%	22.75%	23.89%	24.15%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the Credit Union's capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and APRA if the capital ratio falls below 16%.

Pillar 2 capital on operational risk

This capital component was introduced as from 1 January 2009 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Credit Union uses the standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The operational risk capital requirement is calculated by mapping the Credit Union's three-year average net interest income and net non-interest income from these streams.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3.1 Capital Management (continued)

Based on this approach, the Credit Union's operational risk requirements are $13,818,764 (2020 $12,802,632).

21. CATEGORIES OF FINANCIAL INSTRUMENTS

	Note	2021 $	2020 $
Financial assets – carried at amortised cost			
Cash and liquid assets	9	30,571,821	31,698,191
Investment Securities	12	65,277,313	50,112,626
Accrued receivables	10	1,465,151	711,361
Loans to members	11	164,515,720	145,709,083
Total financial assets carried at amortised cost		261,830,005	228,231,261
FVOCI Investments	12	1,621,489	616,486
TOTAL FINANCIAL ASSETS		263,451,494	228,847,747
Financial liabilities – carried at amortised cost			
Deposits from members	15	235,226,678	201,515,751
Payables and other liabilities	16	1,799,428	1,086,791
TOTAL FINANCIAL LIABILITIES		237,026,106	202,602,542

22. MATURITY PROFILE OF FINANCIAL INSTRUMENTS

Monetary assets and liabilities have differing maturity profiles depending on the contractual term. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding and interest will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be paid or received). Accordingly, these values will not agree to the Statement of Financial Position.

22. MATURITY PROFILE OF FINANCIAL INSTRUMENTS (continued)

2021	Carrying Amount $	0 to 3 months $	3 to 12 months $	1 to 5 years $	5+ years $	No maturity $	Total $
Financial assets							
Cash on hand	1,012,236	-	-	-	-	1,012,236	1,012,236
Cash at bank and investments	94,836,898	16,178,652	21,557,309	28,064,316	2,091,277	28,059,587	95,951,141
Loans to members	164,515,720	2,142,781	8,354,881	37,820,940	150,159,969	-	198,478,571
Other assets (non-interest bearing)	1,471,812	834,977	-	-	-	636,835	1,471,812
Total financial assets	261,836,666	19,156,410	29,912,190	65,885,256	152,251,246	29,708,658	296,913,760
Financial Liabilities							
Trade payables and other liabilities	1,725,328	1,725,328	-	-	-	-	1,725,328
Lease liabilities	-	-	-	-	-	-	-
Deposits from members	235,386,711	28,024,397	26,046,317	2,722,105	-	178,593,892	235,386,711
Total financial liabilities	237,112,038	29,749,725	26,046,317	2,722,105	-	178,593,892	237,112,039

2020	Carrying Amount $	0 to 3 months $	3 to 12 months $	1 to 5 years $	5+ years $	No maturity $	Total $
Financial assets							
Cash on hand	871,205	-	-	-	-	871,205	871,205
Cash at bank and investments	80,939,612	18,120,962	21,269,356	16,772,095	-	25,826,992	81,989,405
Loans to members	145,709,083	3,591,490	13,958,360	61,278,324	212,739,345	-	291,567,519
Other assets (non-interest bearing)	1,099,659	492,827	-	-	-	606,832	1,099,659
Total financial assets	228,619,559	22,205,279	35,227,716	78,050,419	212,739,345	27,305,029	375,527,788
Financial Liabilities							
Trade payables and other liabilities	895,921	895,921	-	-	-	-	895,921
Lease liabilities	-	-	-	-	-	-	-
Deposits from members	201,837,138	31,146,076	21,669,789	2,340,840	-	146,680,433	201,837,138
Total financial liabilities	202,733,059	32,041,997	21,669,789	2,340,840	-	146,680,433	202,733,059

23. INTEREST RATE CHANGE PROFILE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date or maturity date.

2021	Within 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Non-interest rate sensitive $	Total $
Financial assets						
Cash and liquid assets	29,059,585	500,000	-	-	1,012,236	30,571,821
Receivables due from other financial institutions	4,620,000	10,000,000	21,407,313	29,250,000	-	65,277,313
Accrued receivables	-	-	-	-	1,465,151	1,465,151
Loans to members	17,747,028	1,206,146	3,988,896	141,855,970	-	164,798,007
FVOCI equity investments	-	-	-	-	1,621,489	1,621,489
Total financial assets	51,426,613	11,706,146	25,396,176	171,105,970	4,098,876	263,733,781
Financial Liabilities						
Trade payables and other liabilities	-	-	-	-	1,799,428	1,799,428
Lease liabilities	-	-	-	-	-	-
Deposits from members	191,936,976	14,553,345	25,963,426	2,657,009	115,922	235,226,678
Total financial liabilities	191,936,976	14,553,345	25,963,426	2,657,009	1,915,350	237,026,106

2020	Within 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Non-interest rate sensitive $	Total $
Financial assets						
Cash and liquid assets	25,826,986	5,000,000	-	-	871,205	31,698,191
Receivables due from other financial institutions	4,992,626	8,000,000	21,000,000	16,120,000	-	50,112,626
Accrued receivables	-	-	-	-	711,361	711,361
Loans to members	88,862,331	1,189,498	3,936,989	52,063,189	-	146,052,007
FVOCI equity investments	-	-	-	-	616,486	616,486
Total financial assets	119,681,943	14,189,498	24,936,989	68,183,189	2,199,052	229,190,671
Financial Liabilities						
Trade payables and other liabilities	-	-	-	-	1,086,791	1,086,791
Lease liabilities	-	-	-	-	-	-
Deposits from members	159,601,897	16,593,966	22,937,909	2,258,737	123,242	201,515,751
Total financial liabilities	159,601,897	16,593,966	22,937,909	2,258,737	1,210,033	202,602,542

24. FINANCIAL COMMITMENTS

	2021 $	2020 $
Loan commitments		
Loans approved, but not funded	2,926,723	4,376,726
Loan redraw facilities available	13,113,052	9,163,512
	16,039,775	13,540,238
Overdraft facility commitments		
Unused member overdraft facilities	62,715	75,775
	16,102,490	13,616,013

25. EXPENDITURE COMMITMENTS

26.1 Future capital commitments

At 30 June 2021, the Credit Union has future capital commitments totalling $553,869 (2020: $607,000).

26.2 Other expenditure commitments

In the normal course of business, the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of the members. The Credit Union applies the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

26. STANDBY BORROWING FACILITIES

The Credit Union has the following credit facilities with CUSCAL:

	2021 $	2020 $
Overdraft facility		
Gross	1,000,000	1,000,000
Current borrowings	-	-
Net available	1,000,000	1,000,000

There are no restrictions as to withdrawal of these funds subject to the availability of funds to CUSCAL at the time of draw down.

The borrowing facilities are secured by a deposit held with CUSCAL.

27. CONTINGENT LIABILITIES

The Credit Union is a member of CUFSS Ltd, a company established to provide financial support to member Mutual ADIs in the event of a liquidity or capital problem arising. As a member, the Credit Union is committed to maintaining an amount equivalent to 3.0% of total assets as deposits with CUSCAL and / or CUFFS approved ADI. The maximum call for each member ADI would be 3.0% of the Credit Union's total assets. The Credit Union has the ability under certain circumstances to draw on this scheme.

28. KEY MANAGEMENT PERSONNEL DISCLOSURES

28.1 Remuneration of key management personnel

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly including any Director. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

KMP have been taken to comprise of the Directors and the three members of the executive management team during the financial year, responsible for the day-to-day financial and operational management of the Credit Union.

28. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

28.1 Remuneration of key management personnel (continued)

	Year ended 30 June 2021			Year ended 30 June 2020		
	Directors	Other KMP	Total	Directors	Other KMP	Total
Short-term benefits	188,949	467,177	656,126	170,916	531,519	702,435
Post-employment benefits	25,350	45,065	70,415	26,987	75,270	102,257
Other long-term benefits	-	-	-	-	-	-
Termination benefits	-	71,893	71,893	-	121,671	121,671
Total	214,299	584,155	799,125	197,903	728,460	926,363

Compensation includes all employee benefits as defined in AASB 119 *Employee Benefits*. Employee benefits are all forms of consideration paid, payable or provided by the Credit Union, or on behalf of the Credit Union, in exchange for services rendered to the Credit Union.

Compensation includes:

(i) short-term employee benefits, such as wages, salaries, paid annual leave, paid sick leave, and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as salary packaged) for current employees;
(ii) post-employment benefits such as pensions, and other retirement benefits;
(iii) other long-term employee benefits, including long-service leave or other long-service benefits, and, if they are not payable wholly within twelve months after the end of the period, bonuses; and
(iv) termination benefits.

29.2 Loans to key management personnel and their close members of family

	Year ended 30 June 2021			Year ended 30 June 2020		
	Directors	Other KMP	Family	Directors	Other KMP	Family
Opening balance	9,205	231,006	225,155	10,480	379,396	821,182
Loans Funded	40,974	2,332,482	4,989	-	-	-
Interest charged	1,229	32,052	6,506	931	4,563	9,024
Write-off	-	-	-	-	-	-
Closing Balance	41,633	2,549,079	226,758	9,205	231,006	225,155

28. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

28.2 Loans to key management personnel and their close members of family (continued)

Loans provided to Other KMP or staff / spouse jointly for any purpose are provided at 85% of the rate of interest on offer to members for a similar loan /overdraft facility. Other KMP are required to pay any Fringe Benefits Tax arising from these discounted interest rates. Loans to Directors are at the rate of interest on offer to members for a similar loan / overdraft facility. Loans provided to close members of family of KMP are on conditions no more favourable than those extended to members generally. Security has been obtained for these loans in accordance with the Credit Union's lending policy.

There is no provision for impairment in relation to any loan extended to KMP or their close members of family. No loan impairment expense in relation to these loans has been recognised during the period.

29. 3 Other transactions

There were no other transactions during the financial year between the Credit Union and members of the Board.

29.4 KMP and their close members of family saving, term deposit and revolving credit facility accounts

	Year ended 30 June 2021			Year ended 30 June 2020		
	Directors	Other KMP	Family	Directors	Other KMP	Family
Opening balance	47,690	141,837	337,045	22,068	198,092	221,551
Interest paid	1	39	3,142	6	39	3,101
Closing balance	28,987	165,501	361,206	47,690	141,837	377,045
Numbers in group	7	3	15	7	5	11

Directors and related parties have received interest on deposits with the Credit Union during the financial year. Interest has been paid on terms and conditions no more favourable to those available on similar transactions to members of the Credit Union.

29. ECONOMIC DEPENDENCY

The Credit Union has an economic dependency on the following suppliers of services:

(i) CUSCAL Limited – This entity provides central banking facilities as well as facilitating some member services such as members' cheques and Redicards. In addition, CUSCAL operates the switching computer used to link Redicards and Visa cards operated through Reditellers, and other approved ATM suppliers and merchants, to the Credit Union EDP systems.

(ii) TransAction Solutions Limited (TAS) – this company operates the computer facility on behalf of the Credit Union, in conjunction with other Credit Unions. The Credit Union has a management contract with TAS to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with relevant prudential standards.

(iii) Credit Union Financial Support System Limited (CUFSS) – this entity provides emergency liquidity support to the Credit Union.

(iv) Ultradata Australia Pty Ltd – this company supplies and maintains the application software utilised by the Credit Union.

30. SEGMENTAL REPORTING

The Credit Union operates exclusively in the retail financial services industry within Australia.

31. STATEMENT OF CASH FLOWS

32.1 Cash flows presented on a net basis

Cash arising from the following activities are presented on a net basis in the Statement of Cash Flows:

(i) member deposits to and withdrawals from savings, money market and other deposit accounts;

(ii) sales and purchases of maturing certificates of deposit;

(iii) provision of member loans and the repayment of such loans.

31. STATEMENT OF CASH FLOWS (continued)

31.2 Reconciliation of cash

Cash arising from the following activities are presented on a net basis in the Statement of Cash Flows.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at call with other financial institutions. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2021 $	2020 $
Cash balance comprises:		
- Cash on hand	1,012,236	871,205
- Imprest accounts	4,971,536	990,969
- Deposits at call less than 90 days	24,588,049	29,836,017
	30,571,821	31,698,191

31.3 Reconciliation of net cash flows from revenue activities to profit for the year after income tax

	2021 $	2020 $
Profit for the year after income tax	220,161	241,549
Non-cash items		
Loan impairment loss	16,628	235,764
Depreciation and amortisation	232,501	274,673
Loss on sale of property, plant and equipment	4,288	5,542
Tax rate adjustment	-	(10,500)
Movements in assets and liabilities		
Deferred income tax asset	(21,196)	30,369
Deferred income tax liability	7,501	-
Provision for income tax	110,665	(77,182)
Accrued interest receivable	(411,640)	419,511
Accrued interest payable	(116,770)	(74,215)
Provision for employee entitlements	14,527	(140,058)
Creditors and accruals	82,637	27,263
Prepayments	(22,410)	(75,108)
Net cash flows from revenue activities	116,892	857,608

32. CORPORATE INFORMATION

The Credit Union is a company limited by shares, and is registered under the *Corporations Act 2001* (Cwlth).

The address of the registered office is:	Orange Credit Union Limited 288-292 Summer Street Orange NSW 2800
The address the principal place of business is:	288-292 Summer Street Orange NSW 2800

The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Credit Union.

33. CORPORATE GOVERNANCE DISCLOSURES

Board

The Credit Union Board has responsibility for the overall management and strategic direction of the Credit Union.

Board members are independent of management and have been elected by members on a rotation of every 3 years.

Each Director must be eligible to act under the constitution as a member of the Credit Union and *Corporations Act 2001* (Cwlth) criteria. Directors need to also satisfy the fit and proper criteria set down by APRA.

The Board has established policies to govern conduct of the Board meetings, director conflicts of interest and training so as to maintain director awareness of emerging issues and to satisfy all governance requirements.

34. CORPORATE GOVERNANCE DISCLOSURES (continued)

Board (continued)

The Board is responsible for:

- Monitoring matters of risk management and APRA reporting obligations;
- Monitoring compliance with applicable laws;
- Chief Executive Officer remuneration and benefits;
- Staff remuneration policies;
- Financial budgets and performance criteria;
- Approval of large loans or commercial loans; and
- The acknowledgement of management approved interest rate changes.

Board remuneration

The Board receives remuneration from the Credit Union in the form of Director fees approved by members and reimbursement of out of pocket expenses. There are no other benefits received from the Credit Union by the Directors.

Audit Committee

An Audit Committee has been formed to assist the Board in relevant matters of financial prudence. The Committee is comprised of a number of directors and has senior management participation.

The Audit Committee oversees the financial reporting and audit process. Its role includes:

- The oversight of all statutory reporting requirements;
- Monitoring audit reports received from internal and external auditors and management's responses thereto;
- Liaising with the auditors (internal and external) on the scope and results of their work;
- Ensuring the external auditors remain independent in the areas of work conducted;
- The oversight of the Credit Union's compliance function.

34. CORPORATE GOVERNANCE DISCLOSURES (continued)

Risk Committee

A Risk Committee has been formed to assist the Board in managing the risk framework of the Credit Union. The Committee is comprised of a number of directors and has senior management participation.

Its role includes:

- The oversight of management's responsibilities to assess and manage the Credit Union's credit risk, market risk, liquidity risk, insurance risk, operational risk, capital risk and strategic and business risk; and
- Reviewing issues raised by the Internal and External Auditors that impact the Credit Union's risk management framework.

Management Remuneration

All management are remunerated by salary packages. Bonus benefits are available to management, provided certain criteria are met.

Governance, Compliance & Risk Officer

The Credit Union has a Governance, Compliance & Risk Officer, who is responsible for the establishment, monitoring, and maintenance of the Credit Union's risk management framework. The officer is independent from business lines, other revenue-generating responsibilities, and the finance function.

In addition, the Governance, Compliance & Risk Officer is responsible for maintaining the awareness of staff for all changes in compliance legislation and responding to staff inquiries on compliance matters. The officer also monitors the Financial Services Reform (FSR) licence obligations.

External audit

Audit is performed by the Intentus Chartered Accountants. Through their prior history with Morse Group, Intentus has been auditing credit unions for 37 years and audits 4 credit unions in NSW. Intentus utilises computer assisted audit software to supplement the compliance testing.

The work performed by the external auditors is examined by the Audit Committee to ensure that it is consistent with the current external audit reporting role and does not impair their independence.

34. CORPORATE GOVERNANCE DISCLOSURES (continued)

Internal audit

An internal audit function has been established using the services of Step Ahead Business Solutions to deal with the areas of internal control compliance and regulatory compliance.

Regulation

The Credit Union is regulated by:

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of the Credit Union.
- Australian Securities and Investments Commission (ASIC) for adherence to *Corporations Act 2001* (Cwlth), Accounting Standards disclosures in the financial statements and FSR requirements and for compliance with the National Consumer Credit Protection Act.

The FSR legislation requires the Credit Union to disclose details of products and services, maintain training for all staff that deal with the members and provide an effective and independent complaints handling process. Under the FSR licensing arrangements all staff which deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Both ASIC and APRA conduct periodic inspections and the auditors report to both regulators annually on compliance with respective requirements. The external auditors also report to both ASIC on the FSR compliance and APRA on the prudential policy compliance.

Work Health & Safety (WHS)

The nature of the finance industry is such that the risk of injury to staff and the public are less apparent than in other high-risk industries. Nevertheless, the Credit Union's two most valuable assets are staff and members and steps need to be taken to maintain their security and safety when circumstances warrant.

WHS policies have been established for the protection of both members and staff and are reviewed at least annually for relevance and effectiveness.

34. CORPORATE GOVERNANCE DISCLOSURES (continued)

Work Health & Safety (WHS) (continued)

Staff are trained in robbery procedures and offices are designed to detract from such acts by:

- Little or no cash being held in accessible areas
- Cameras and monitoring equipment visible throughout the office

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs to the public and staff. Independent security consultants report regularly on the areas of improvement which may be considered.

The Credit Union has established a WHS checklist that is completed monthly by staff. Any concerns raised are actioned in a prompt manner. Secure cash handling policies are in place and injury from lifting heavy weights and RSI are managed by proper techniques to minimise the risk of damage.

All staff have access to trauma counsellors where required following an incident which may impair their feeling of safety in the work place.

ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

DIRECTORS' DECLARATION

The Directors of Orange Credit Union Limited declare that:

(a) The financial statements and notes set out on pages 9 to 80:

(i) comply with Accounting Standards and the *Corporations Act 2001* (Cwlth); and

(ii) give a true and fair view of the financial position as at 30 June 2021 and performance for the year ended on that date of the Credit Union.

(b) 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.

This declaration is made in accordance with a resolution of the Board of Directors and is signed at Orange on the 13th day of October 2021 for and on behalf of the Directors by:

Amanda Mooney	Tim Edmonstone
Director	Director
Chair of Board of Directors	Chair of Audit Committee

intentus
CHARTERED ACCOUNTANTS

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF ORANGE CREDIT UNION LIMITED
ABN 34 087 650 477

Audit Opinion

We have audited the accompanying financial report of Orange Credit Union Limited, which comprises the Statement of Financial Position as at 30 June 2021, 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 and other explanatory notes and the director's declaration.

In our opinion:

(a) the financial report of the Orange Credit Union Limited is in accordance with the *Corporations Act 2001* (Cwlth), including:

   (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* (Cwlth)

(b) The financial report also complies with International Financial Reporting Standards as discussed in Note 1.

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 Company in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 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 confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report

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

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* (Cwlth). This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf . This description forms part of our auditor's report.

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23 Sale Street
Orange
Dated: 14 October 2021

J O'Malley

John O'Malley
Director